




Board of Trustees
15 Estabrooke Drive
Orono, ME 04469

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

October 20, 2017

TO: Members of the Audit Committee
Members of the Finance/Facilities/Technology Committee

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

RE: **November 1, 2017 Joint Session with the Audit Committee and the Finance/Facilities/Technology Committee**

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

The Joint Session with Audit Committee and the Finance/Facilities/Technology Committee will be from **8:15 am to 10:30 am on November 1, 2017**. The meeting will be held at the University Maine System Executive Offices, Rudman Conference Room, 253 Estabrooke Hall, 15 Estabrooke Drive in Orono. In addition to the meeting location at Estabrooke Hall, the following Polycom sites will also be available:

- UMA – Alumni Center Conference Room, President’s Boardroom
- UMFK – Alumni Conference Room, Nadeau Hall
- UMPI – Executive Conference Room, Preble Hall
- USM – 327 Wishcamper, Portland

The meeting materials will be posted to the Diligent Board Portal as well as the Board of Trustees website at: (<http://www.maine.edu/about-the-system/board-of-trustees/meeting-agendas/audit-committee/>) & (<http://www.maine.edu/about-the-system/board-of-trustees/meeting-agendas/finance-facilities-committee/>).

Following the Joint Session and after a 15 minute break, the Finance/Facilities/Technology Committee will meet from 10:30 am to 12:30 pm. Refreshments will be provided at the UMS and the USM locations.

If you have questions about the meeting materials please call me at 581-5840. If you have any questions or desire additional information about the agenda items, please call Tracy Elliott at 581-5492.

Encl.

- cc: James Page, Chancellor
Trustees who are not members of the Audit and FFT Committees
Presidents
Ryan Low
Tracy Elliott
Darla Reynolds
Chip Gavin

Board of Trustees

**Audit Committee & Finance/Facilities/Technology Committee
Joint Session**

November 1, 2017
8:15 am – 10:30 am

University of Maine
Rudman Conference Room
253 Estabrooke Hall, 15 Estabrooke Drive, Orono

AGENDA

8:15 am

TAB 1 [UM Department of Athletics Agreed-Upon Procedures Report](#)

8:30 am

TAB 2 [Annual Financial Report – Fiscal Year 2017](#)
Note: The Annual Financial Report will be presented to the Board of Trustees for approval at its November 20th meeting.

9:30 am

TAB 3 [Auditor Communications to the Audit Committee](#)

10:15 am

TAB 4 [External Audit Services for FY2018 - Berry Dunn McNeil and Parker, LLC.](#)

Action items within the Committee purview are noted in green.

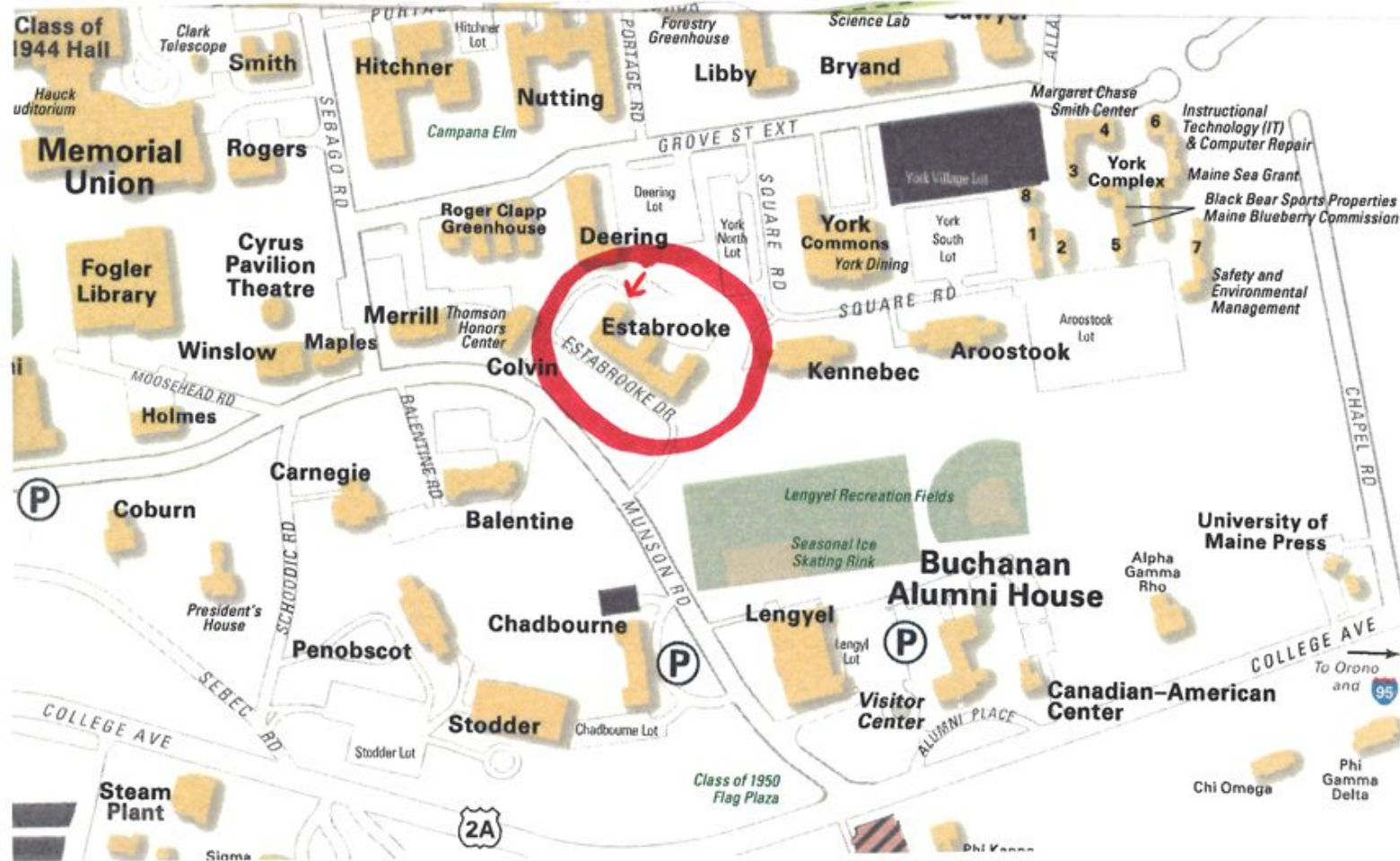
Items for Committee decisions and recommendations are noted in red.

Note: An item may be brought up earlier or the order of items changed for effective deliberation of matters before the Committee.

University of Maine System

15 Estabrooke Drive, Orono

Rudman Conference Room
253 Estabrooke Hall, 2nd Floor
15 Estabrooke Drive, Orono



Directions to the UMS located on the UMaine Campus

From the South on I-95: take exit 191 to Kelly Road and turn right. Continue on Kelly Road for 1 mile until you reach the traffic light, then turn left onto Route 2 and go through downtown Orono. Cross the river. Turn left at the lights onto College Avenue. Buchanan Alumni House will be the first campus-related building on your right. Right after the Buchanan Alumni House, take a right onto Muson Road. Estabrooke Hall is the building on the right after Lengyel.

From the North on I-95: take exit 191 to Kelly Road and turn left. Continue on Kelly Road for 1 mile until you reach the traffic light, then turn left onto Route 2 and go through downtown Orono. Cross the river. Turn left at the lights onto College Avenue. Buchanan Alumni House will be the first campus-related building on your right. Right after the Buchanan Alumni House, take a right onto Muson Road. Estabrooke Hall is the building on the right after Lengyel.

The UMS is located on the 2nd floor of Estabrooke Hall. Enter Estabrooke Hall from the back of the building, the entrance closes to Deering Hall.



AGENDA ITEM SUMMARY

1. **NAME OF ITEM:** UM Department of Athletics Agreed-Upon Procedures Report
2. **INITIATED BY:** M. Michelle Hood, Chair
3. **BOARD INFORMATION:** X **BOARD ACTION:**
4. **OUTCOME:** Enhance fiscal positioning **BOARD POLICY:** Bylaws – Section 3
5. **BACKGROUND:**

Claire Strickland, Chief Business Officer for the University of Maine, will provide a brief overview regarding the enclosed Department of Athletics Agreed-Upon Procedures Report for Academic Year 2016-2017 which was performed by O'Connor & Drew.

UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS

AGREED-UPON PROCEDURES REPORT

**PURSUANT TO THE ASSOCIATION OF COLLEGE & UNIVERSITY
AUDITORS NATIONAL COLLEGIATE ATHLETIC ASSOCIATION
DIVISION I COMPLIANCE AUDIT GUIDE**

Academic Year 2016-2017



**UNIVERSITY OF MAINE
DEPARTMENT OF ATHLETICS**

Agreed-Upon Procedures Report

**Pursuant to the Association of College & University Auditors National
Collegiate Athletic Association Division I Compliance Audit Guide**

Academic Year 2016-2017

C O N T E N T S

Independent Accountants' Agreed-Upon Procedures Report	1
Background	2
Schedule of Findings	3-4
General Recommendations	5-6



INDEPENDENT ACCOUNTANTS' AGREED-UPON PROCEDURES REPORT

Mr. Karlton Creech, Director of Athletics
 University of Maine
 Orono, Maine

We have performed the procedures enumerated in the following sections of the Association of College & University Auditors (“ACUA”) National Collegiate Athletic Association (“NCAA”) Division I Compliance Audit Guide (“Audit Guide”) for the University of Maine (the "University") Department of Athletics (the "Department"), which were agreed to by the University, related to management’s assertion about the University’s compliance with the requirements enumerated below for the 2016-2017 academic year:

- Initial Eligibility Certification
- Financial Aid Administration
- Extra Benefits- Athletic Apparel and Equipment
- Extra Benefits- Representatives of the University’s Athletic Interests
- Student-Athlete Employment

The University’s Management is responsible for the compliance with those specified requirements. The sufficiency of these procedures is solely the responsibility of the specified parties. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on compliance with the specified requirements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Mr. Karlton Creech, Director of Athletics, the board of trustees and management of the University, and it is not intended to be, and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report if this report is a matter of public record.

O'Connor and Drew, P.C.

**Certified Public Accountants
 Braintree, Massachusetts**

August 11, 2017

25 Braintree Hill Office Park • Suite 102 • Braintree, MA 02184 • P:617.471.1120 • F:617.472.7560
 27 Church Street • Winchester, MA 01890 • P:781.729.4949 • F:781.729.5247

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UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS

Background

For the Academic Year 2016-2017

The University is a member of the National Collegiate Athletic Association Division I and competes in the Hockey East Conference for hockey, Colonial Athletic Association Conference for football and America East Conference for all other sports.

The NCAA requires the evaluation of the compliance program of a Division I athletic program at least every four years by an authority independent of the Institution's Athletic Department. To meet this requirement, the University has established a policy in which on a rolling basis over a four-year period, the areas listed in the Audit Guide are reviewed for compliance with the related requirements.

NCAA compliance is a shared responsibility of all members of the University who are involved in the recruitment and education of student athletes. The Compliance Office within the Athletics Department is responsible for monitoring NCAA compliance. The Compliance Office accumulates information on student athletes, educates other University personnel regarding the NCAA requirements, and monitors compliance with the regulations.

The Compliance Office maintains a compliance manual documenting the policies and procedures of the department. This manual addresses all NCAA compliance areas and is managed by the Director of Compliance, who is responsible for assuring, through review of applicable changes in NCAA compliance regulations, that the manual remains in conformity with regulations.

The Compliance Office educates coaches on NCAA regulations primarily by conducting seminars and by reviewing, training, and enforcing the coaches section of the University's Compliance Manual. Members of the Compliance Office obtain their NCAA regulation knowledge by attending NCAA related seminars and guidelines from conference representatives.

UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS

Findings

For the Academic Year 2016-2017

Overview:

We have performed all of the applicable procedures enumerated in the previously stated sections of the Association of College & University Auditors (“ACUA”) National Collegiate Athletic Association (“NCAA”) Division I Compliance Audit Guide (“Audit Guide”), for the University of Maine (the “University”) Department of Athletics (the “Department”), in evaluating management’s assertion about the University’s compliance with the requirements for the 2016-2017 academic year and findings, if any, are described on the below:

Finding (F17-01):

Extra Benefits – Athletic Apparel and Equipment
Bylaw 12.5.4 (b) states:

The student-athlete’s institution’s official uniform (including numbered racing bibs and warm-ups) and all other items of apparel (e.g., socks, head bands, T-shirts, wrist bands, visors or hats, swim caps and towels) shall bear only a single manufacturer’s or distributor’s normal label or trademark (regardless of the visibility of the label or trademark), not to exceed 2-1/4 square inches in area (rectangle, square, parallelogram) including any additional material (e.g., patch) surrounding the normal trademark or logo. The student-athlete’s institution’s official uniform and all other items of apparel shall not bear a design element similar to the manufacturer’s trademark/logo that is in addition to another trademark/logo that is contrary to the size restriction.

As part of our testing, we tested the apparel of ten of the University’s athletic teams and noted that the manufacturer’s logos on the jerseys used by the women’s basketball team exceeded the maximum allowed by NCAA regulations. A similar issue was noted on some, but not all, of the women’s ice hockey jerseys.

A similar finding was noted in our report dated October 22, 2014 that covered the 2012-2013 academic year and our report dated August 18, 2011 that covered the 2009-2010 academic year. In each instance the finding was related to a different team than the two noted above.

Recommendation:

The University should review its agreements with the manufacturer to ensure future adherence to this regulation and take the appropriate measures to effectively rectify the matter. We also

UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS

Findings

For the Academic Year 2016-2017

suggest that the Compliance Office establish a procedure whereby new equipment is examined for compliance with applicable NCAA requirements.

Management's Response:

Management agrees with the recommendation. The Compliance Office met with the Head Equipment Manager and has confirmed that the jerseys cited in this finding have been corrected. The Equipment Room has either replaced the jerseys (as part of the department's normal policy related to equipment replacement), or has made the necessary adjustments to the jerseys to make them compliant with NCAA requirements. Staff will continue to measure all manufacturer logos on new jerseys to ensure the correct size.

UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS

General Recommendations

For the Academic Year 2016-2017

Overview:

We have provided the enclosed “general recommendations” for the purposes of providing general best practices for the University. Although these recommendations do not specifically correspond to NCAA compliance bylaws, they have been found to aid in developing a solid foundation of documentation and rules compliance.

General Recommendation (GR17-01):

Extra Benefits – Athletic Equipment and Apparel

We reviewed the policies and procedures surrounding equipment and apparel. We were informed that the University does not currently inventory the equipment and apparel given to the student-athletes nor do they monitor the issuance and subsequent return, thereof.

Recommendation:

We recommend that management implement a system to track all apparel and equipment, including items that are not required to be returned, given to a student-athlete at the beginning of each year. This system should be created in a computer program and allow management to track the equipment and apparel given to each student to ensure it is properly returned. Management should also perform an annual physical inventory at the end of each academic year.

Management’s Response:

The Compliance Office is developing firm policies and procedures related to the issuance and retrieval of athletic apparel and equipment. The Compliance Office will work with the Equipment Room staff to implement and enforce these policies which will be in place by the end of calendar year 2017. An Excel worksheet will be developed to track issuance of equipment by sport, with names, type of equipment, date of issue and date returned. When funds become available, a software program will be purchased to enhance the inventory system currently in place.

General Recommendation (GR17-02):

Extra Benefits – Representatives of the University’s Athletics Interests

As part of our testing we selected a sample of boosters to inquire whether they considered themselves boosters and if they received education regarding the NCAA rules and regulations pertaining to boosters. Thirty percent of the boosters sampled responded that they either were not boosters or were not educated on the NCAA rules and regulations.

Recommendation:

We recommend that the Compliance Department create a master booster list and use this to send educational information to all boosters. Compliance should create and send a form with the

UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS

General Recommendations

For the Academic Year 2016-2017

educational information to all boosters that states the individual is a representative of the University's athletic interests and affirm that they were educated on the NCAA rules pertaining to them.

Management's Response:

The Compliance Office has obtained from the University of Maine Foundation and the Umaine Alumni Association a complete list of representatives of athletics interests or boosters. Educational material has been provided to all individuals. The list will continue to be updated annually, and educational information will be disbursed to each individual twice per year.

Additionally, the Athletic Department is developing a formal procedure for educating its new Alford Ambassadors, the department's new centralized boosters group. This procedure will require individuals to submit basic information (i.e. name, contact information, etc.) as well as programs and events of interest to them. The Ambassadors will also receive NCAA educational material twice per year.

General Recommendation (GR17-03):

Extra Benefits – Representatives of the University's Athletics Interests

As part of our testing process, we inquired about the University's policies concerning sideline and locker room access before, during, or after a competition. In addition, we inquired if representatives have access to student-athletes at these locations and if monitoring exists to ensure violations of NCAA legislation did not occur. Per discussion with Dan Morrissey, Director of Compliance, the Athletic Development Office is responsible for reviewing and granting requests for sideline for contests, and that locker room access is not available. However, the University does not maintain an official, documented policy concerning these areas.

Recommendation:

We recommend that the University create an official policy that outlines the University's rules and regulations regarding sideline and locker room access. Ensure that this policy contains activities that educate sideline-permitted representatives about the NCAA legislation regarding extra benefits and other interactions with student-athletes, and that is readily available electronically or physically.

Management's Response:

The Compliance Office, in conjunction with other Athletic Department staff, is researching and drafting policies related to sideline and locker room access. The Compliance Office has reached out to other conference institutions to help formulate similar policies at Umaine. Policy language, to be developed by the end of calendar year 2017, will restrict locker room access to athletic department personnel, coaches and student-athletes as well as provide enhanced

**UNIVERSITY OF MAINE
DEPARTMENT OF ATHLETICS**

General Recommendations

For the Academic Year 2016-2017

supervision over sideline access for representatives of athletics interests and prospective student-athletes.



AGENDA ITEM SUMMARY

1. **NAME OF ITEM:** Annual Financial Report – Fiscal Year 2017
2. **INITIATED BY:** M. Michelle Hood, Chair
3. **BOARD INFORMATION:** X **BOARD ACTION:**
4. **OUTCOME:** Enhance fiscal positioning **BOARD POLICY:**
Bylaws – Section 3
5. **BACKGROUND:**

The University of Maine System’s (UMS) Fiscal Year 2017 (FY17) draft Annual Financial Report is presented for the Audit Committee’s review. Tracy Elliott, UMS Director of Finance and Controller, will provide an overview of the results at the November 1, 2017 Committee meeting. The report will be presented to the Board of Trustees for approval at its meeting on November 20th.

For ease of reference, major sections and page numbers of the draft Annual Financial Report are:

- Independent Auditor’s Report [pages 6-8]
- Management's Discussion and Analysis (MD&A) [pages 9 – 34]
- The basic financial statements for the UMS and its component unit [pages 35 – 40]
- Notes to the Financial Statements [pages 41 – 83]
- Required Supplemental Information – Retirement Plans [pages 84 – 89]
- Supplemental Information Required by the State of Maine [page 90]
- 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 [pages 91-92]

As shown on page 37 of the Annual Financial Report, the UMS ended FY2017 with *Income Before Other Changes in Net Position* of \$4 million and *Total Other Changes in Net Position* of \$17 million, for a *Change in Net Position* for FY2017 of \$21 million.

As shown on page 35, *Total Net Position* at June 30, 2017 was \$888 million increasing \$21 million from FY2016. Changes in each *Net Position* category were:

Net Position Category:	<u>Increase (Decrease)</u>
• <i>Net Investment in Capital Assets</i>	\$(1) million
• <i>Restricted Nonexpendable</i>	\$1 million
• <i>Restricted Expendable</i>	\$6 million
• <i>Unrestricted</i>	<u>\$15 million</u>
<i>Change in Net Position</i>	<u>\$21 million</u>



Annual Financial Report

Year Ended June 30, 2017



2017

- 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 STATEMENT

The University of Maine System does not discriminate on the grounds of race, color, religion, sex, sexual orientation, including transgender status and gender expression, national origin, citizenship status, age, disability, genetic information or veterans' status in employment, education, and all other programs and activities. Please contact the following with questions and concerns: Director of Equal Opportunity, 101 N. Stevens Hall, Orono, ME 04469, Voice (207) 581-1226, TTY 711 (Maine Relay System).

TABLE OF CONTENTS

I. Chancellor’s Letter	Page 4
II. Board of Trustees and Management	Page 5
III. Independent Auditor’s Report	Page 6
IV. Management’s Discussion and Analysis	Page 9
V. Financial Statements	Page 35
VI. Notes to Financial Statements	Page 41
VII. Required Supplemental Information – Retirement Plans	Page 84
VIII. Supplemental Information Required by the State of Maine	Page 90
IX. 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	Page 91



Office of the Chancellor
15 Estabrooke Drive
Orono, ME 04469

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

November 2017

Dear Friend:

Maine’s public universities and our partners across Maine have advanced on a number of fronts over the last year that are important to both our enterprise and the many stakeholders we serve. It is a pleasure to share some of this news with you.

The University of Maine

Understanding the undeniable link between our fiscal stability and our capacity for service, scholarship, and job-creating economic research, Maine’s universities and its leaders remain fully committed to maintaining the hard-earned gains in our institutions’ financial standing. Furthermore, we continue to make good progress on the implementation of our unified budget reforms that improve transparency, expedite decision making, and forge new opportunities for collaboration.

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

Last November we reported the first enrollment growth in the University of Maine System in more than a decade. The achievement, which comes despite a continuing decline in the number of students graduating from Maine high schools, is a testament to our work to maintain affordability, expand access, and deliver a quality education capable of attracting talent and resources to Maine.

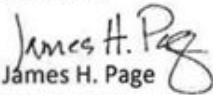
S&P Global Ratings revised its outlook to stable from negative for the University of Maine System and affirmed the System’s AA- long-term rating in a rationale released on April 26, 2017.

We are also able to report that the budgets of each our campuses were balanced within existing institutional resources at the start of the current fiscal year while allowing for an 11 percent increase in campus-based financial aid, the largest increase in the history of the University of Maine System.

The Maine economy needs 158,000 new workers with a postsecondary credential or degree by 2025 to replace the aging adults who will soon be retiring and to take advantage of growth in sectors requiring advanced technical training and professional education. The fiscal stability and the capacity for collaboration we have built as part of the One University initiative is being deployed to meet these needs.

Thank you for your interest in our work and progress.

Sincerely,


James H. Page
Chancellor

**UNIVERSITY OF MAINE SYSTEM
BOARD OF TRUSTEES AND MANAGEMENT
AS OF JUNE 30, 2017**

BOARD OF TRUSTEES:

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 James O. Donnelly
 Lisa Marchese Eames
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 Theresa A. Sutton
 Karl W. Turner, *Vice Chair*
 Robert G. Hasson, *ex officio*

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James H. Page

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University of Maine

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University of Maine at Augusta

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Raymond J. Rice
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University of Southern Maine

**MANAGEMENT SUPPORT TO THE
CHANCELLOR AND BOARD OF TRUSTEES:**

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Clerk to the Board of Trustees

Lynda Dec
Chief Human Resources Officer

Daniel C. Demeritt
Executive Director of Public Affairs

Tracy E. Elliott
Director of Finance and Controller

MF Chip Gavin
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Director of Government and Community Relations

Rebecca M. Wyke
Vice Chancellor for Finance and Administration

DRAFT 10/11/2017



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, which consist of the System's statements of net position and financial position as of June 30, 2017 and 2016, the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, the related statement of activities for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the System's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of 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 of 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.

**The Board of Trustees
University of Maine System**

REPORT DATE

Page 2 of 3

Opinions

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, 2017 and 2016, 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.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 9 through 34, Schedules of Funding Progress on page 84 and the supplementary information related to the System's retirement plans on pages 85 through 89, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, 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 on page 90 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.

Report on Summarized Comparative Information

We have previously audited the System's June 30, 2016 financial statements, and we expressed unmodified opinions on those audited financial statements in our report dated November 14, 2016. In our opinion, the summarized comparative information presented herein for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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.

Bangor, ME • Portland, ME • Manchester, NH • Charleston, WV
www.berrydunn.com

**The Board of Trustees
University of Maine System**

REPORT DATE

Page 3 of 3

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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, 2017 AND 2016 (UNAUDITED)**

The University of Maine System (“the System” or UMS) management has prepared the following unaudited Management’s Discussion and Analysis (MD&A) to provide users with a narrative and analysis of the financial position and activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the financial condition and results of activities of the System for the fiscal years ended June 30, 2017 and prior years. This presentation includes highly summarized information and should be read in conjunction with the accompanying basic financial statements and related notes.

Mission

Established in 1968 by the Maine State Legislature, the University of Maine 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 University of Maine System features seven universities —some with multiple campuses—located across the state, as well as eight University College outreach centers, a law school, an additional 31 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.

University of Maine System Universities, Campuses, and Centers

The System is a comprehensive public institution of higher education with just under 30,000 enrolled students, supported by the efforts of 1,172 regular full-time faculty, 60 regular part-time faculty, 2,999 regular full-time staff, and 286 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 University of Maine System, 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, and with University College centers around the state, 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.

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)



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 University of Maine at Augusta – Bangor is a campus of UMA. The Hutchinson Center in Belfast is a campus of UM. University College is the UMS’ distant education organization and offers access to courses and programs from the 7 universities at more than 40 locations and online.

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

Student Enrollment

As shown in Chart 1, throughout the System, 29,465 students were enrolled on a headcount basis for the Fall 2016 semester, up 1.6% from Fall 2015 and down 5.0% since Fall 2012. For Fall 2016, 64% of the student population was enrolled full-time.

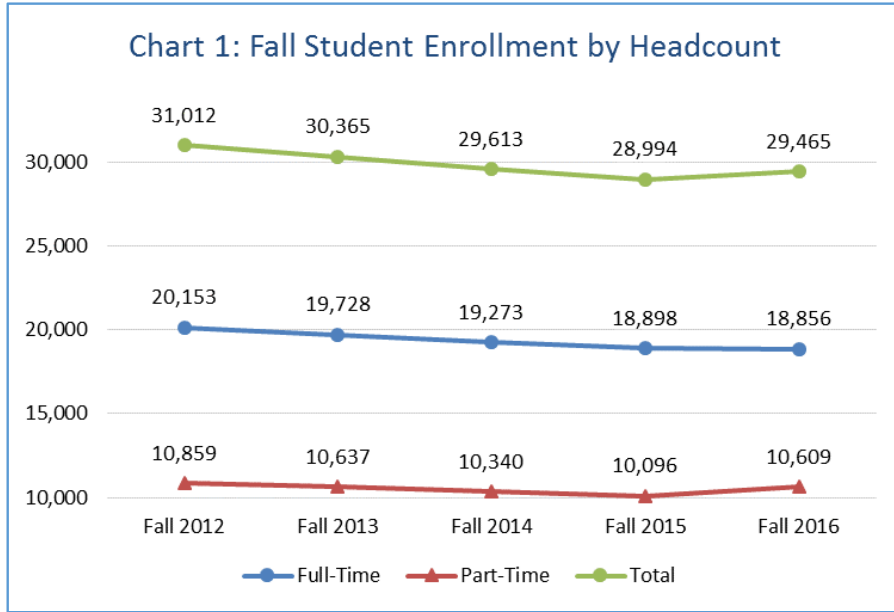
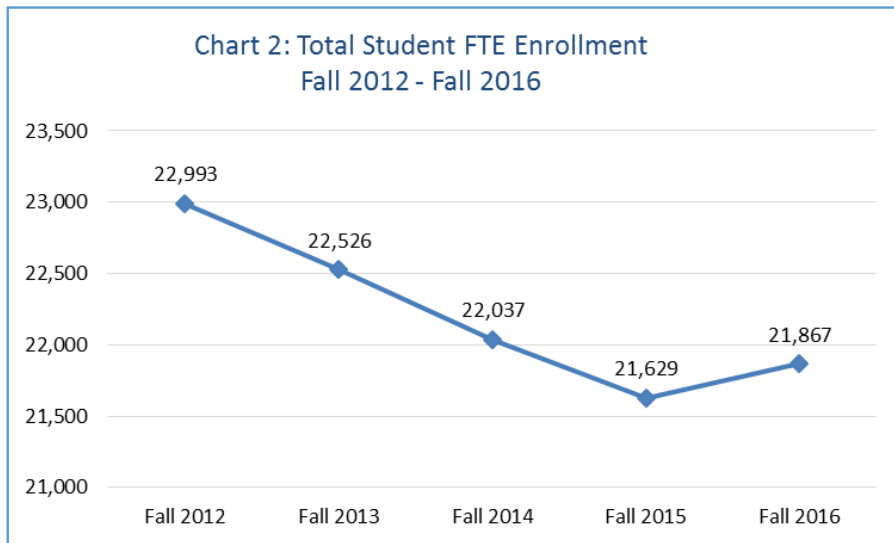


Chart 2 and Table 1 show student enrollment on a full-time equivalent (FTE) basis with 21,867 students enrolled for the Fall 2016 semester, up 1.1% from Fall 2015, and representing the first enrollment increase since Fall 2012. FTE enrollments were down 1.9% from Fall 2014 to Fall 2015. Since Fall 2012, enrollments declined by a net 1,126 students, or 4.9%. For Fall 2016 and Fall 2015, 79% and 80%, respectively, of FTE enrollments were Maine residents.



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Table 1: Fall Student FTE Enrollment

	% Change Fall 2012 to 2016	Fall 2016	% Change	Fall 2015	% Change	Fall 2014	% Change	Fall 2013	% Change	Fall 2012	% Change
UM	6.1%	9,594	2.4%	9,371	-1.5%	9,512	1.7%	9,356	3.5%	9,040	-0.9%
UMA	-15.4%	2,422	-7.8%	2,626	0.4%	2,615	-3.6%	2,713	-5.2%	2,862	1.4%
UMF	-9.9%	1,709	-0.9%	1,724	1.7%	1,695	-6.2%	1,807	-4.7%	1,896	-4.4%
UMFK	35.0%	1,052	15.5%	911	8.7%	838	4.1%	805	3.3%	779	11.0%
UMM	-13.8%	492	-0.2%	493	-4.5%	516	-4.8%	542	-5.1%	571	6.3%
UMPI	-9.1%	885	7.5%	823	5.6%	779	-7.6%	843	-13.4%	974	-2.3%
USM	-16.9%	5,713	0.6%	5,681	-6.6%	6,082	-5.9%	6,460	-6.0%	6,871	1.6%
Total	-4.9%	21,867	1.1%	21,629	-1.9%	22,037	-2.2%	22,526	-2.0%	22,993	0.3%

Student Comprehensive Cost of Education

Net student fee revenue, totaling \$245 million in FY17 and \$237 million in FY16, is the System's greatest source of revenue, contributing 36% of Total Operating and Net Nonoperating Revenues for the past five years. Net student fees are impacted by enrollment levels; tuition, room and board, and fees; and the amount of scholarship allowances provided to students.

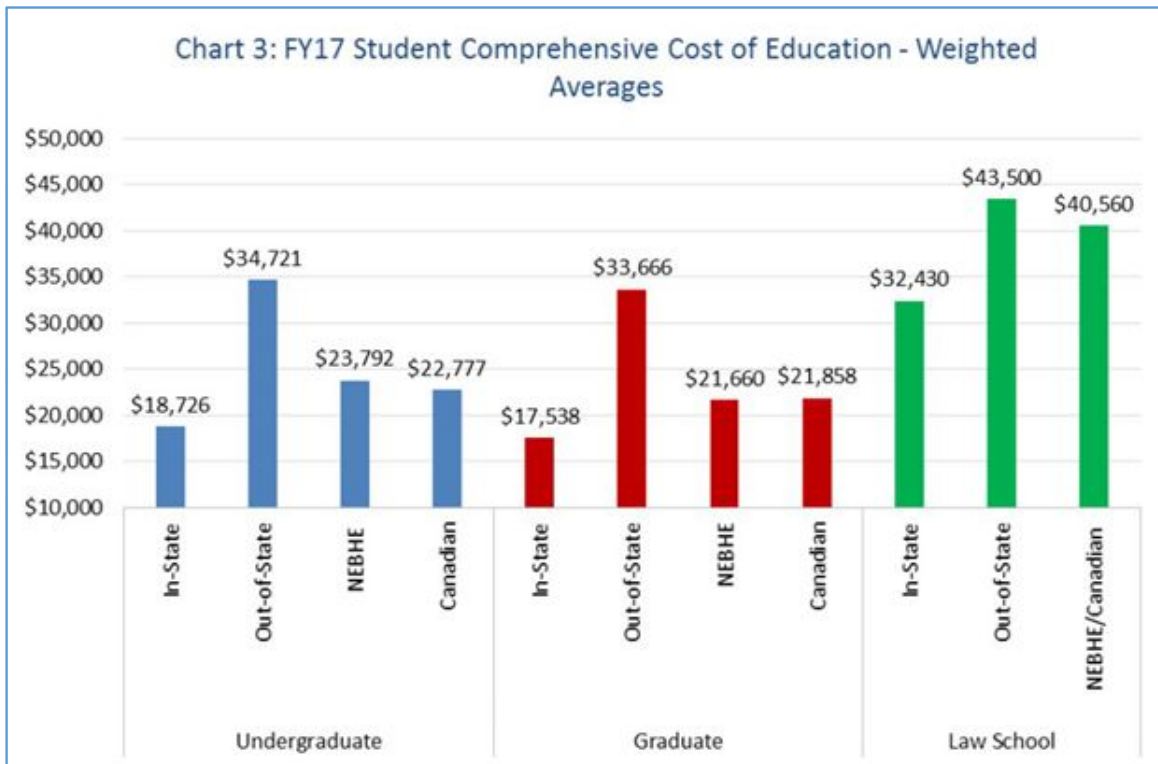
The weighted average comprehensive cost of education for UMS undergraduate, graduate, and Law School students is shown in Table 2 and Chart 3. The modest increases in the student cost of education reflect the System's continued commitment to providing affordable higher education. Even with a 5.5% increase in FY17 Noncapital State of Maine Appropriations, containing increases in tuition and fees rates continues to be challenging given cost pressures. Noncapital Appropriations were the System's second largest source of revenues contributing \$212 million (or 31%) in FY17 and \$201 million (or 31%) in FY16.

As shown in Table 2, the modest increases in the cost of education continues to demonstrate the System's commitment to providing affordable educational opportunities. The weighted average comprehensive cost of education percentage changes in FY17 range from an increase of 4.9% for Graduate New England Board of Higher Education (NEBHE) students to a decrease of 0.6% for In-State Law School students. Percentage changes in FY16 range from an increase of 2.6% for Undergraduate Canadian students to an increase of 0.5% for Graduate Canadian students.

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

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

	2017		2016		2015		2014		2013	
	Cost	% Change	Cost	% Change	Cost	% Change	Cost	% Change	Cost	% Change
Undergraduate:										
In-State	\$18,726	1.8%	\$18,396	1.3%	\$18,151	0.6%	\$18,035	1.3%	\$17,802	0.4%
Out-of-State	34,721	2.1%	33,998	1.6%	33,453	1.3%	33,022	2.4%	32,250	2.6%
NEBHE	23,792	3.1%	23,067	1.6%	22,707	0.5%	22,584	1.7%	22,213	-0.1%
Canadian	22,777	3.0%	22,119	2.6%	21,548	2.0%	21,116	1.9%	20,725	0.7%
Graduate:										
In-State	\$17,538	1.9%	\$17,217	1.4%	\$16,982	0.3%	\$16,937	1.3%	\$16,721	0.5%
Out-of-State	33,666	2.9%	32,733	2.4%	31,958	1.4%	31,517	2.5%	30,757	2.2%
NEBHE	21,660	4.9%	20,655	1.1%	20,438	-1.4%	20,735	0.9%	20,552	0.8%
Canadian	21,858	3.5%	21,123	0.5%	21,014	-0.4%	21,095	2.5%	20,572	0.4%
Law School:										
In-State	\$32,430	-0.6%	\$32,630	0.8%	\$32,380	0.6%	\$32,180	0.6%	\$31,989	0.4%
Out-of-State	43,500	-0.5%	43,700	0.6%	43,450	0.5%	43,250	0.4%	43,059	0.7%
NEBHE/Canadian	40,560	-0.5%	40,760	0.6%	40,510	0.5%	40,310	0.5%	40,119	0.6%



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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 University of Maine 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, liabilities, deferred inflows, and net position of the System. This statement is the primary statement used to report financial condition. Net position represents the residual interest in the System's assets and deferred outflows after liabilities and deferred inflows 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

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 FY14 beginning of year net position as previously reported declined over \$11 million while the FY14 effect on the Change in Net Position was an increase of almost \$4 million, resulting in a nearly \$8 million decline from the previously stated FY14 unrestricted net position.

Additionally, as noted in the FY14 financial statements, the FY13 financial statements were restated to reflect adoption of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The overall impact to the Condensed Statements of Net Position was that the beginning of year net position as previously reported declined \$2 million while the FY13 effect

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

on the Change in Net Position was a decline of \$1 million, resulting in a total \$3 million decline from the previously stated FY13 net position category of net investment in capital assets.

Overview of Condensed Statements of Net Position

Table 3 shows total assets and deferred outflows of \$1.23 billion at June 30, 2017, increased \$36 million, or 3%, from the prior year, and increased \$37 million, or 3%, since June 30, 2013. Assets 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. The major component of current assets is operating investments which totaled \$243 million at June 30, 2017 and \$231 million at June 30, 2016.

Noncurrent assets consist mainly of endowment investments and capital assets, net of depreciation. Endowment investments totaled \$147 million at June 30, 2017, an increase of \$11 million, or 8%, from the FY16 year-end balance of \$136 million and a \$14 million, or 11%, increase since June 30, 2013. Capital assets totaled \$700 million and \$707 million at June 30, 2017 and 2016, respectively.

Current liabilities of \$69 million and \$64 million at June 30, 2017 and 2016, 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, timing of the funding of the Other Postemployment Benefits (OPEB) Trust and budget constraints.

At \$263 million, total noncurrent liabilities increased \$5 million, or 2%, from June 30, 2016 to 2017. This increase is primarily the result of an increase of \$7 million in bonds and notes payable offset by a decrease in capital lease obligations of \$1 million and a decrease in other accrued liabilities of \$1 million. Total noncurrent liabilities decreased \$7 million, or 3%, from June 30, 2015 to 2016, primarily the result of an increase of \$3 million in accrued liabilities offset by a net decrease of \$10 million in bonds and notes payable as the System made debt payments.

Total net position at June 30, 2017 of \$888 million increased \$21 million, or 2%, from the June 30, 2016 balance. Additional information about net position is presented on page 22.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

	2017	% Change	2016	% Change	2015	2014	2013
Current Assets	\$304	4%	\$293	2%	\$288	\$300	\$307
Noncurrent Assets:							
Endowment investments	147	8%	136	-5%	143	150	133
Capital assets, net	700	-1%	707	1%	703	698	688
Other	66	47%	45	-25%	60	46	57
Total Assets	1,217	3%	1,181	-1%	1,194	1,194	1,185
Deferred Outflows of Resources	9	0%	9	13%	8	4	4
Total Assets & Deferred Outflows	\$1,226	3%	\$1,190	-1%	\$1,202	\$1,198	\$1,189
Current Liabilities	\$69	8%	\$64	-14%	\$74	\$64	\$71
Noncurrent Liabilities:							
Long-term debt	161	4%	155	-6%	165	158	173
Other	102	-1%	103	3%	100	106	95
Total Liabilities	332	3%	322	-5%	339	328	339
Deferred Inflows of Resources	6	500%	1	-50%	2		
Total Liabilities & Deferred Inflows	338	5%	323	-5%	341	328	339
Net investment in capital assets	544	0%	544	1%	541	532	511
Restricted:							
Nonexpendable	59	2%	58	0%	58	57	56
Expendable	114	6%	108	2%	106	109	100
Unrestricted	171	9%	157	1%	156	172	183
Total Net Position	888	2%	867	1%	861	870	850
Total Liabilities, Deferred Inflows & Net Position	\$1,226	3%	\$1,190	-1%	\$1,202	\$1,198	\$1,189

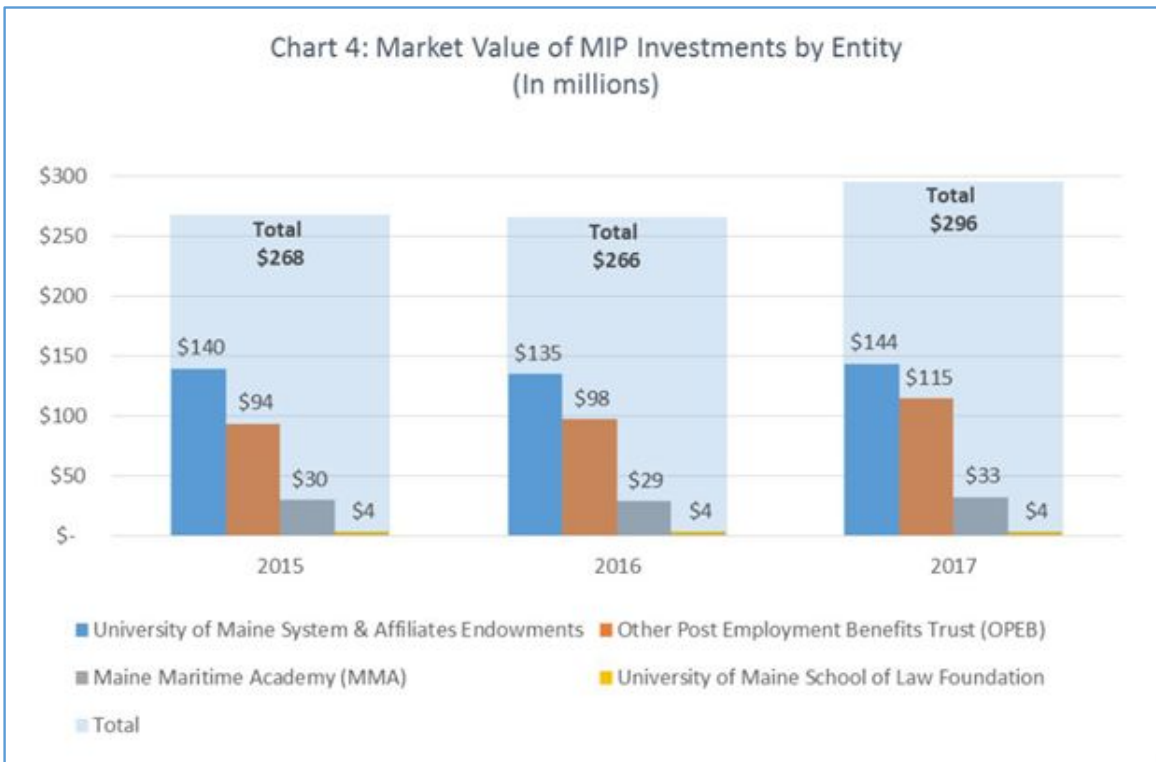
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

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, and the University of Maine School of Law Foundation.

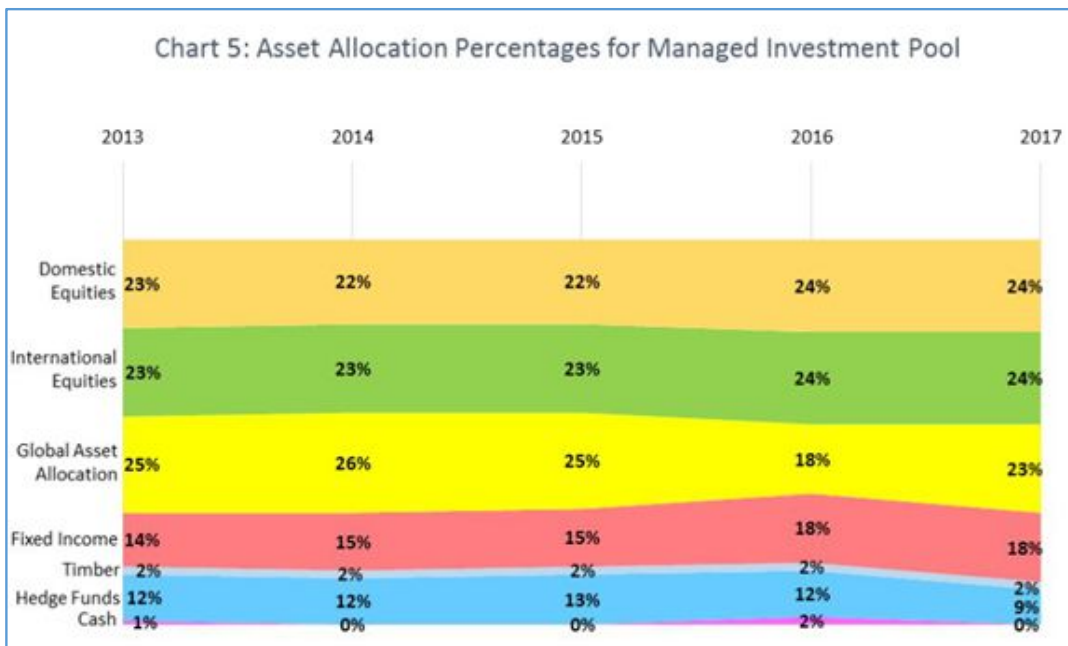
The accompanying Condensed Statements of Net Position report endowment investments that include the System’s and affiliates’ share of the MIP, along with separately invested UMS endowments. The liability for the affiliates’ share of those investments is also recognized on those Statements as funds held for others. The OPEB Trust, Maine Maritime Academy, and the University of Maine School of Law Foundation investments are not included in those Statements.

Chart 4 shows the June 30, 2015, 2016, and 2017 market values of the pooled investments, including the amounts held on behalf of each entity. These amounts exclude other separately held UMS endowment assets.

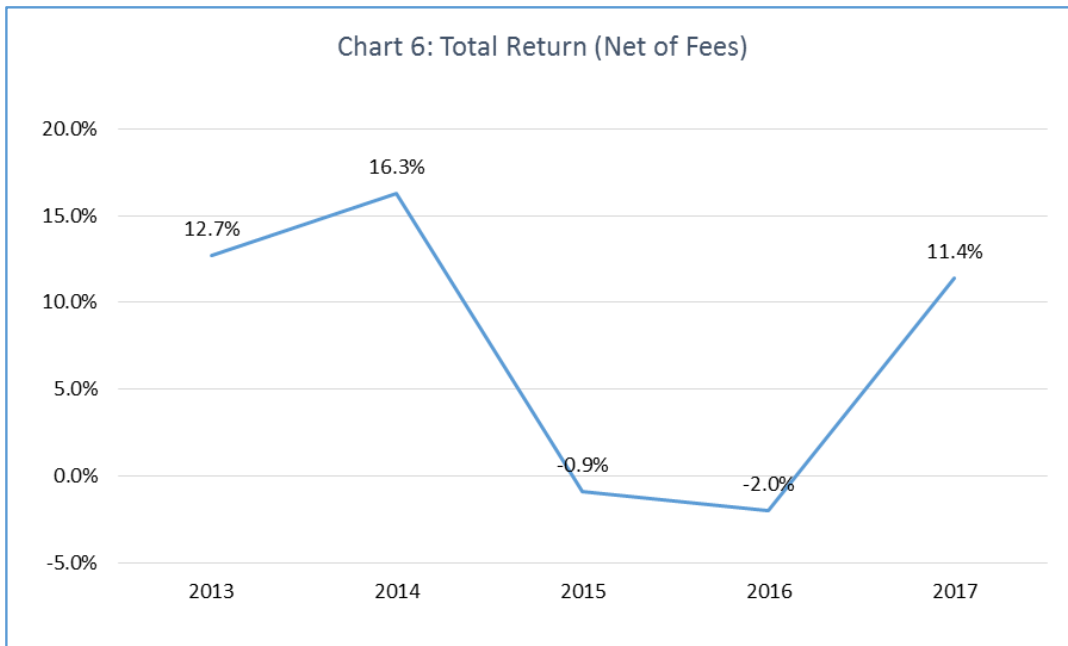


The MIP investments are diversified among a number of asset classes to minimize risk while optimizing return. Chart 5 illustrates the percentage of holdings in each asset class and how they changed over the past 5 years.

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)



As shown in Chart 6, financial markets rebounded in FY17 with the pool realizing a net of fees return of 11.4%, up from -2.0% in FY16 and -0.9% in FY15. The pooled investments have a 5-year annualized net of fees return of 7.2%.



MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

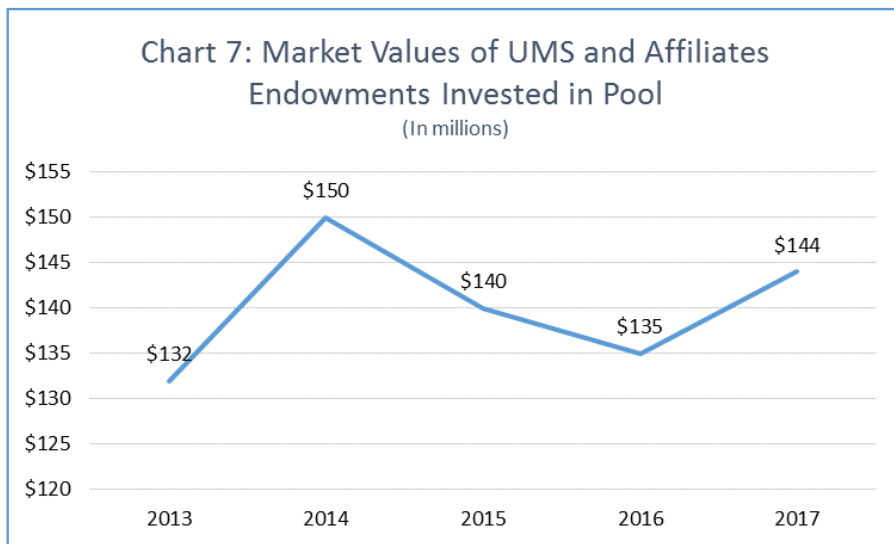
Endowments (Including Affiliates)

Endowments are generally created from gifts or bequests from donors with the funds invested for the purpose of creating 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 funds 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 continues to use 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, these pooled endowment investments had a market value of \$144 million at June 30, 2017, increasing \$9 million from the 2016 year end market value of \$135 million. This increase included endowment contributions of \$1 million plus \$14 million in positive net performance and \$6 million distributed for scholarships and other operating activities.

These pooled investments had a market value of \$135 million at June 30, 2016, decreasing \$5 million from the 2015 year end market value of \$140 million. This decline included endowment contributions of \$4 million less \$3 million in net negative performance, and \$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 FY13 thru FY17 was 4.5%.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Capital Assets and Debt Activities

Table 4 shows the status of major capital construction projects as of June 30, 2017 and the related budget approved by the Board of Trustees (BOT).

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 needs are funded with State bonds, gifts, grants, educational and general funds, and System revenue bonds.

During 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. In FY15, the System had capital asset additions of \$41 million which included \$33 million of construction in progress and \$8 million of equipment and software.

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, 2017 and 2016 was \$176 million and \$166 million, respectively. In FY17, the System issued \$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 inflows of resources of \$6 million at June 30, 2017 increased \$5 million from June 30, 2016, \$4 million of which is attributable to the unamortized portion of 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. Upon execution of the agreement, the System received a signing bonus of \$0.5 million and a commitment by Sodexo to provide equipment and facility improvements of up to \$4 million to the System's dining facilities during the first 2 years of the agreement. Over the life of the contract, including renewals, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Table 4: Major Capital Projects Completed During FY17 or In Progress at June 30, 2017
(In millions)

Project	Funding Source	Status	BOT Approved Budget
UMA			
•UMA Lewiston Hall Renovation	Educational & General	Complete	\$ 2
UMF			
None			
UMFK			
•Forestry Geographic Info Sys Tech Labs/Nursing Lab Renovation/Teleconference Center Upgrades	2013 State Bond	In Progress	1.20
UMM			
•Compressed Natural Gas Heating Conversion	2015 Revenue Bond	Complete	1.80
•Kimball Hall Demolition	2017 Revenue Bond	Complete	0.95
UM			
•Advanced Structures & Composites Ctr Expansion	Grant, 2010 State Energy Bond, Gift	Complete	10.40
•Cooperative Extension Diagnostic & Research Lab	2017 State Bond, Educational & General, Grants	In Progress	9.00
•Aquatic Animal Health Facility	Grants, Campus Funds	In Progress	2.30
•Barrow's Hall STEM Renovations	Educational & General	In Progress	1.90
•Memorial Union Bear's Den Renovations	Auxiliary Funds	In Progress	3.60
USM			
•Science Building Lab Upgrade	2013 State Bond	Complete	0.77
•Improvements to existing space for relocation of personnel from perimeter and lower density facilities	Educational & General	Complete	1.54
•Gorham Softball Field Improvements	Educational & General	Complete	2.39
•Wireless Infrastructure Upgrade	Educational & General	Complete	1.90
•Brooks Kitchen Exhaust Upgrade	Educational & General	In Progress	0.89
•Costello Field House Floor Replacement	Gifts & Endowments	In Progress	0.90
•Campus Card Access Install	Educational & General	In Progress	0.70
•Anderson Hall Renewal & Renovations	Educational & General	In Progress	1.25
UMPI			
None			
UMS			
•IT Infrastructure - Wireless and Classroom Technology Upgrades	2017 Revenue Bond	In Progress	19.00
•MaineStreet Upgrade	2017 Revenue Bond	In Progress	2.00
•Improvements to existing space for relocation of personnel from 16 Central Street, Bangor	Educational & General	Complete	1.00
TOTAL			\$ 65.49

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Net Position

Net investment in capital assets represents the historical cost of the System's capital assets reduced by total accumulated depreciation and outstanding principal balances on 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 \$544 million at June 30, 2017 and at June 30, 2016.

In FY17, there was a \$7 million net reduction in capital assets after annual depreciation (comprised of \$31 million in capital asset additions less \$38 million in depreciation) and a \$7 million decline in related debt which was largely from the refinancing of the 2007 revenue bonds.

For FY16, the \$3 million increase was primarily the result of \$4 million in net additions to capital assets after annual depreciation and a \$1 million decline in related debt.

The restricted-nonexpendable net position of \$59 million at June 30, 2017 increased by \$1 million over the prior year and represents the System's permanent endowment funds. Items that impact this category of net position include new endowment gifts and fair market value fluctuations for those endowments whose fair value has fallen below the endowment corpus. From FY13 to FY15, the balance increased \$1 million each year.

The restricted-expendable net position of \$114 million at June 30, 2017 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 FY17 net increase of \$6 million, or 6%, in restricted-expendable net position is primarily attributable to 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.

For FY16, the \$1 million net increase in restricted-expendable net position was primarily the result of a nearly \$5 million increase in gift balances; an increase of approximately \$1 million each in quasi endowment gifts, appropriation balances, and University student loan fund balances; and a decline of nearly \$7 million in endowment values due to negative investment performance and distributions for endowed spending.

The unrestricted net position of \$171 million at June 30, 2017 increased by \$14 million and by \$1 million in FY16. This 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, 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 University of Maine System, funds must be readily available to cover various situations including emergency

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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.

Restatement of Prior Years

As mentioned earlier on page 14, and as further described in the FY15 financial statements' Notes 1b and 17, FY14 was restated to reflect application of the change in accounting principle related to pensions resulting in a decrease to the FY14 beginning of year net position of over \$11 million while the effect on FY14 operating expense was a decrease of almost \$4 million. The change in net position for FY14 (as restated) therefore increased almost \$4 million and the impact on net position at June 30, 2014, was a decline of nearly \$8 million, from the amount previously reported.

As noted in the System's FY14 financial statements' Notes 1b and 16, FY13 was restated to reflect retroactive applications of the change in accounting principle, related to assets previously reported as assets and liabilities. This resulted in a change to the 2013 beginning of year net position of -\$2 million while the effect on 2013 operating expenses was an increase of \$1 million. The change in net position for FY13 (as restated) therefore declined \$1 million and the impact to net position at June 30, 2013, was a decline of \$3 million from the amount previously reported.

The System's total net position increased by \$21 million in FY17, increased by \$6 million in FY16, and decreased \$9 million in FY15.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

	2017	2016	2015	2014	2013
Net Student Fees	\$ 245	\$ 237	\$ 238	\$ 243	\$ 246
Grants, Contracts and Indirect Cost Recovery	150	148	146	156	161
Other Operating Revenues	53	52	52	54	56
Operating Revenues	448	437	436	453	463
Operating Expenses	(680)	(660)	(669)	(671)	(673)
Operating Loss	(232)	(223)	(233)	(218)	(210)
Nonoperating Revenues (Expenses)					
Noncapital State of Maine Appropriations	212	201	199	198	194
Gifts Currently Expendable	13	17	15	14	11
Endowment Return Used for Operations	6	6	6	5	5
Investment Income (Loss)	10	3	(1)	13	10
Interest Expense, Net	(5)	(5)	(5)	(6)	(7)
Net Nonoperating Revenues	236	222	214	224	213
Income (Loss) Before Other Changes in Net Position	4	(1)	(19)	6	3
Other Changes in Net Position					
State of Maine Capital Appropriation	5	13	11	2	6
Capital Grants and Gifts	3	3	4	7	8
Endow. Return, Net of Amt. Used for Operations	8	(8)	(6)	14	8
Other	1	(1)	1	1	2
Total Other Changes in Net Position	17	7	10	24	24
Change in Net Position	\$ 21	\$ 6	\$ (9)	\$ 30	\$ 27

Operating and Nonoperating Revenue

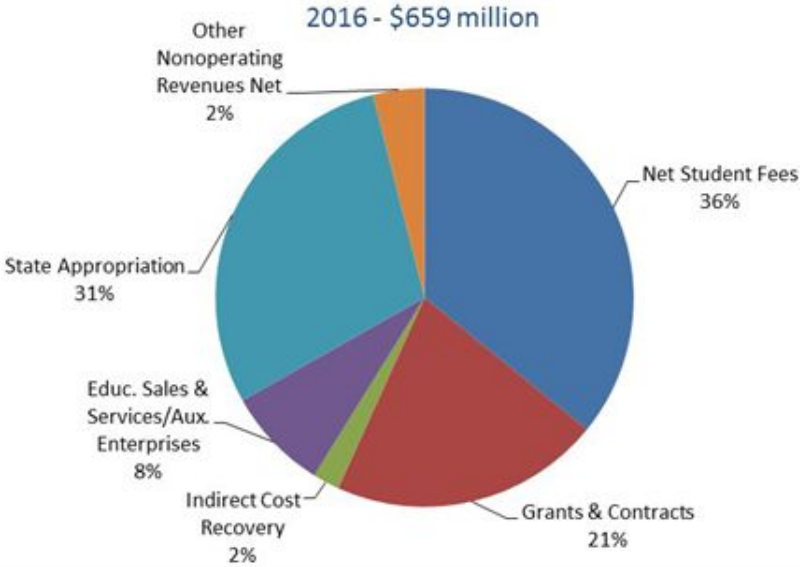
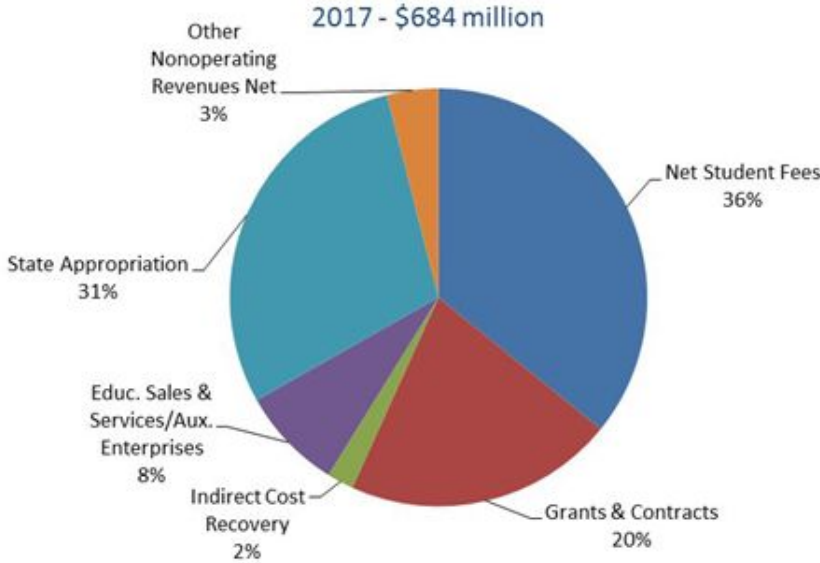
In addition to receiving tuition and fees, the System receives revenue from other sources such as governmental and privately funded grants and contracts; gifts from individuals, foundations, and corporations; state appropriations; and investment income.

UMS revenues and expenses are categorized as either operating or nonoperating. Certain significant recurring revenues and expenses are considered nonoperating including state 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 FY17 and FY16.

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

CHART 8: TOTAL OPERATING AND NET NONOPERATING REVENUE



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Net student fees of \$245 million for FY17 are the primary source of operating revenues. The portion of total operating and net nonoperating revenues funded by net student revenues has remained constant at 36% from FY13 through FY17.

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

- Tuition and fees totaled \$280 million in FY17, increasing \$10 million (or 4%) from the prior year. FY16 increased \$2 million (or almost 1%) and FY15 saw an increase of \$1 million (or almost 1%) compared to FY14.
- Residence and dining fees of \$62 million in FY17 were up \$1 million (or 2%) compared with FY16 which was up \$3 million (or 4%) from FY15, while such revenues were down \$2 million in FY15 (or 3%) from FY14.
- Scholarship allowances of \$97 million increased \$3 million (or 3%) in FY17, increased \$6 million (or 7%) in FY16, and increased \$4 million (or 5%) in FY15.

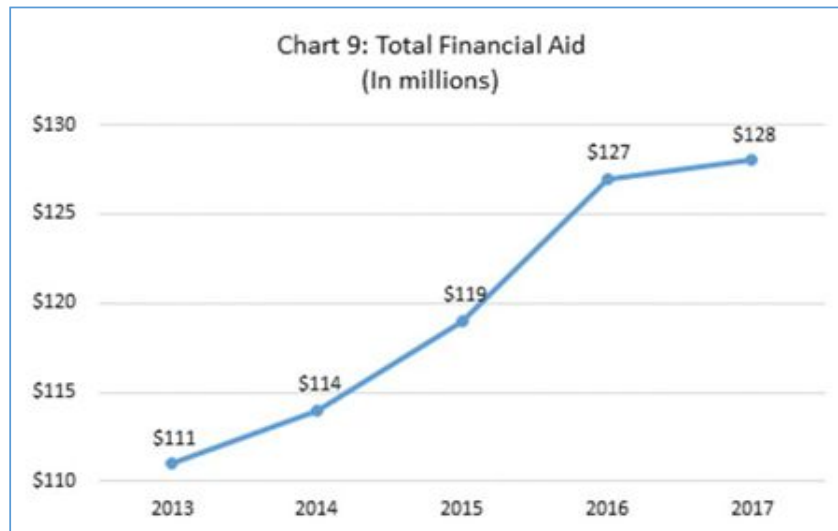
Student Financial Aid

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)



During 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.

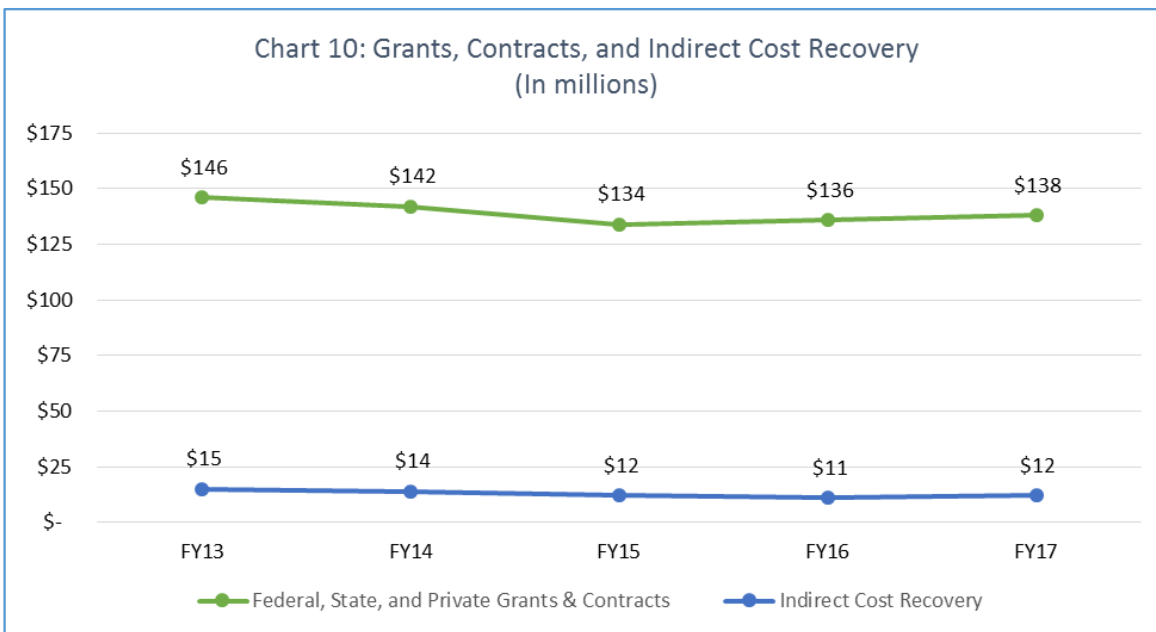
For FY16, total financial aid provided to students was \$127 million, increasing \$8 million, or 7%, over FY15 aid of \$119 million. The increase includes an increase of \$7 million in institutional unrestricted aid, an increase of \$2 million in State of Maine aid, and a decrease of \$1 million in aid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

In FY15, total financial aid provided to students was \$119 million, increasing \$5 million, or 4%, over FY14 aid of \$114 million. The increase includes a nearly \$1 million increase in institutional restricted aid, an increase of \$5 million in institutional unrestricted 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.

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)



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 (PUC). 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; thus, a decrease in Pell could be experienced in a year in which enrollment has increased.

Grants and contracts revenues totaled \$136 million in FY16, increasing \$2 million, or 2%, from FY15. This net increase is primarily due to a new multiple year grant that provided \$2 million in funding from the US Department of Education at UMF. Additionally, Federal student financial aid decreased \$1 million and State of Maine financial aid increased by \$2 million for FY16.

In addition to providing for direct costs, grants and contracts sponsors also 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 in FY17 increasing from \$11 million in FY16 and equal to \$12 million recovered in FY15.

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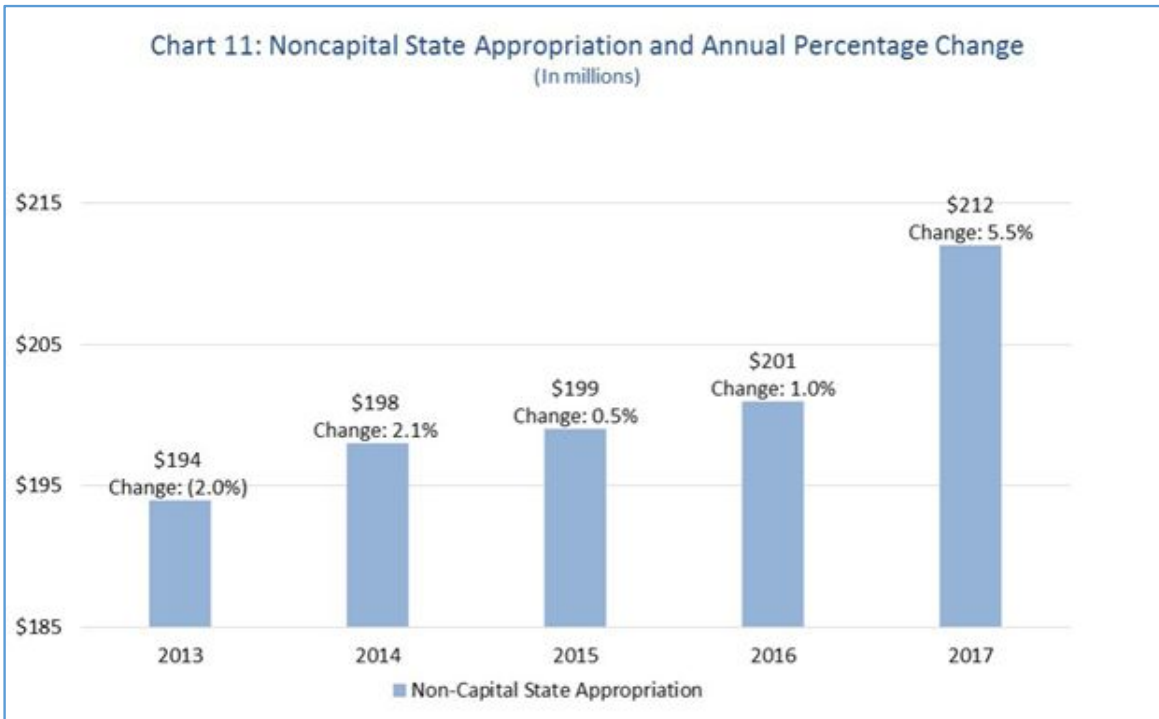
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

Noncapital State of Maine Appropriations

State noncapital appropriation revenue includes amounts for general operations as well as 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 \$212 million in noncapital State appropriation revenue during FY17, up \$11 million, or 5.5%, from FY16. The System received \$201 million in noncapital state appropriation revenue during FY16, up \$2 million, or 1.0%, from FY15.

At \$212 million, noncapital State appropriation covered 91% of the \$232 million operating loss in FY17, up from operating loss coverage levels of 90% and 85% in FY16 and FY15, respectively.

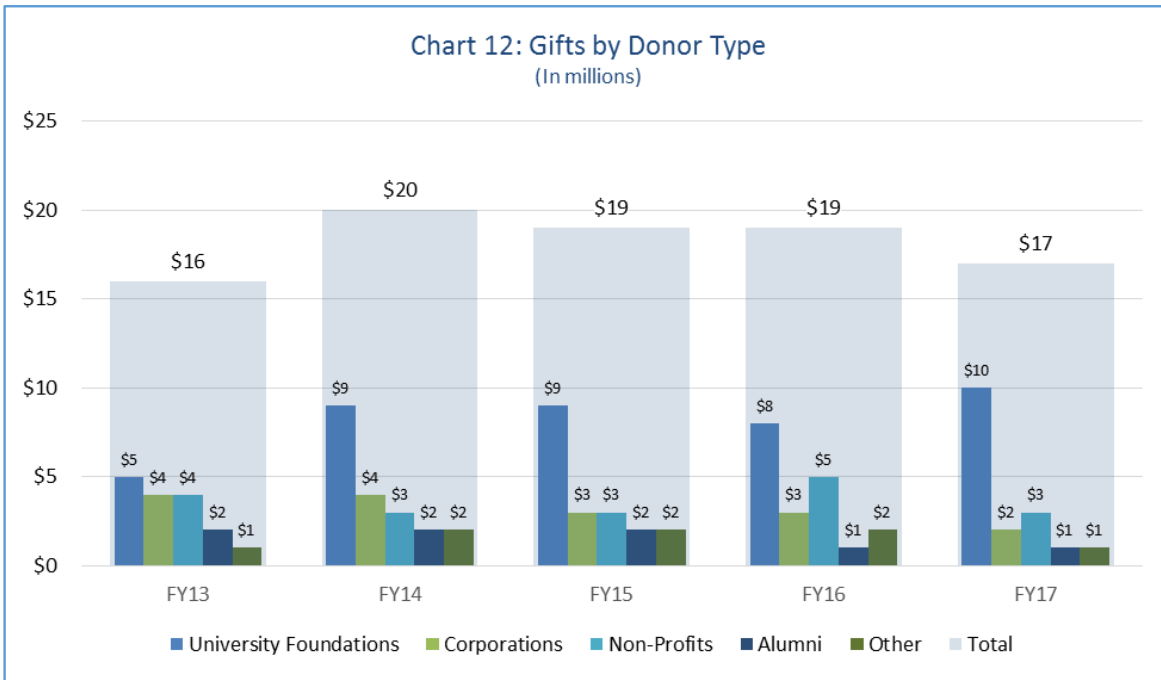


MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

Cash Gifts

As shown in Chart 12, total gifts of \$17 million received in FY17 were down \$2 million from the prior year. Although gifts from the University of Maine Foundation increased by \$2 million, gifts from non-profits decreased \$2 million and alumni and other donor gifts also decreased by \$1 million each. In FY16, gifts received were flat with the prior year and down by \$1 million from FY14.

Of the \$17 million in gifts received in FY17, 90% were restricted, 8% were endowed, and 2% were unrestricted. Of the \$19 million in gifts received in FY16, 89% were restricted, 6% were endowed, and 5% were unrestricted. Of the \$19 million in gifts received in FY15, 89% were restricted, 8% were endowed, and 3% were unrestricted. University Foundations consistently contribute the most gift dollars.



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Operating Expenses

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

Table 6: Operating Expenses, Classified by Function
For the Years Ended June 30
(In millions)

	2017		2016		2015		2014		2013	
Instruction	\$ 171	25%	\$ 168	25%	\$ 180	27%	\$ 181	27%	\$ 180	27%
Research	73	11%	66	10%	65	10%	72	11%	69	10%
Public service	60	9%	60	9%	61	9%	60	9%	60	9%
Academic support	71	10%	66	10%	70	10%	76	11%	77	12%
Student services	54	8%	54	8%	52	8%	49	7%	50	7%
Institutional support	67	10%	64	10%	58	9%	48	7%	54	8%
Operation and maintenance of plant	51	7%	49	7%	50	7%	51	8%	50	7%
Depreciation and amortization	38	6%	37	6%	35	5%	34	5%	32	5%
Student aid	31	4%	33	5%	31	5%	30	5%	32	5%
Auxiliary enterprises	64	10%	63	10%	67	10%	70	10%	69	10%
Total Operating Expenses	\$ 680	100%	\$ 660	100%	\$ 669	100%	\$ 671	100%	\$ 673	100%

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

	2017		2016		2015		2014		2013	
Operating:										
Compensation	\$ 302	44%	\$ 296	45%	\$ 306	46%	\$ 310	46%	\$ 308	45%
Benefits	128	19%	124	19%	130	19%	126	19%	125	18%
Utilities	31	5%	27	4%	30	4%	35	5%	34	5%
Supplies and Services	150	22%	143	21%	137	20%	136	20%	142	21%
Depreciation and Amortization	38	5%	37	5%	35	5%	34	5%	32	5%
Student Aid	31	4%	33	5%	31	5%	30	4%	32	5%
Total Operating Expenses	680	99%	660	99%	669	99%	671	99%	673	99%
Nonoperating:										
Interest	5	1%	5	1%	5	1%	6	1%	7	1%
Total Expenses	\$ 685	100%	\$ 665	100%	\$ 674	100%	\$ 677	100%	\$ 680	100%

Compensation and benefits expense totaled \$430 million in FY17, increasing \$10 million (2%) where FY16 saw a decrease of \$16 million (4%) compared with FY15.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

STATEMENTS OF CASH FLOWS

The Statements of Cash Flows examines the changes in cash position from a 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. This statement helps 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.

CURRENT AND FUTURE CONSIDERATIONS***The One University Promise***

The *One University for all of Maine* initiative was launched in 2015 with the objective 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. We continue to make progress toward this vision, aligning our universities in size and in structure with the times including being responsive to Maine's demographic challenges and workforce needs.

One University Progress – Partnerships

Aligning our resources to serve all Maine families, businesses and communities requires both internal and external partnerships, creating an expanded culture of teamwork and mutual success. Recent examples include:

- A new partnership that makes Maine's smallest university, the University of Maine at Machias, a regional campus of the land grant University of Maine - a change that allows both campuses to expand student opportunities in the context of their distinct missions while achieving overall economies of scale.
- Partnerships with Maine high schools that have increased the number of early college participants by more than 300% with a commitment to make early college opportunities available to every Maine high school junior and senior.
- A public/private partnership involving educational, governmental and health care systems/providers to address a critical nursing shortage estimated to grow to over 3,200 by 2025 – an effort being duplicated in the computer sciences, engineering, and other critical workforce areas.
- Creating new, multi-campus programs in areas such as cybersecurity to leverage expertise and capacity on a statewide basis.

The result of these and similar partnership efforts is that our public university system now has the first overall enrollment uptick in nine years.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Public Higher Education in an Aging State

Affordable, accessible, quality public education for all citizens is an essential component of any state plan for economic and social health. In addition, being mindful of the state's workforce needs and demographic changes enables the System to be responsive to the times. With just over 1.3 million people, Maine's population is the oldest in the nation and growing older, creating new demands for services and challenges for the state's workforce. Over the next 15 years, the number of Maine people in the prime work years of 25-64 is projected to decline by more than 100,000, or 15%. In addition, Maine's public elementary and secondary school enrollment is projected to decline by 12% from fall 2014 to fall 2026. In addition to the demographic shift, skill demands are changing. While job growth is expected in occupations that typically require a post-secondary education, with baby boomers retiring, the vast majority of job openings will be for replacement needs and not job growth. Most of those replacement openings are expected in occupations that require a high school diploma or less.

One University Progress – Finances

Comprehensive planning and hard choices have restored fiscal stability to the universities. Concrete steps and results include:

- \$82 million in annual savings achieved, approximately 15% of the System's FY18 budget;
- A unified financial management structure put in place for greater transparency and accountability, as well as for comprehensive multi-year strategic planning and resource allocation; and
- A nation-leading commitment to affordability tied to a six-year tuition freeze along with increased institutional financial aid.

Strategic Priorities – Primary and Secondary Outcomes

In May 2016, the Board of Trustees adopted a set of four primary outcomes: increase enrollment; improve student success and completion; enhance the fiscal positioning of the System; and support Maine through research and economic development. In addition, the Board 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 for the next five years.

Over the past year, a working group met with campus leadership to discuss the scope of work and strategies appropriate for each campus. The working group then identified preliminary recommendations, priorities and gaps, and developed a plan for strategic resource allocation. At its September 2017 meeting, the Board approved recommendations in three investment areas: (1) enrollment management for small campuses, (2) institutional research and reporting, and (3) a student success early warning tool. Work continues regarding determining areas for investment and identifying accountability metrics.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Excellence through our Promise, Values and Behaviors

As part of the above work, System leadership developed a *Service Promise*, to succinctly capture and align employees around a promise and commitment we are making to our students and other constituents we serve. Leadership also identified *Service Values*, which are the operating values that guide our employees' day-to-day service choices, actions and behaviors. This value set describes our purpose and guides our collective direction.

Every employee – from staff to faculty to senior leadership – is a leader at the University of Maine System. Our expectation is that every employee unflinchingly adheres to our *Promise* to “build futures and strengthen Maine.” The University of Maine System is intentional in living its values to “Empower, Enrich, Educate and Engage” individuals and lives. Translating that commitment into aligned actions and behaviors every day, brings the University’s commitment of excellence to life and will continue to differentiate us within the field of Higher Education.

Accounting Pronouncements with Potential Significant Impacts

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB No. 75) will be adopted in FY18. The new Standard will affect how the System measures, reports, and discloses information about its other postemployment benefits (OPEB) other than pensions. Adoption of GASB No. 75 will include retroactive application to FY17. Therefore, based on the actuarial valuation performed as of June 30, 2017, FY17 beginning net position will be restated by \$102 million as the System recognizes its full Unfunded Actuarial Accrued Liability.

The primary objective of this Statement is to improve accounting and financial reporting by providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

UNIVERSITY OF MAINE SYSTEM
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016 (IN THOUSANDS)

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 1,641	\$ 1,298
Operating investments (Note 3)	243,093	230,592
Accounts, grants, and pledges receivable, net (Note 4)	54,101	55,565
Inventories and prepaid expenses	5,391	5,352
Notes and lease receivable, net (Note 5)	63	63
Total Current Assets	304,289	292,870
Noncurrent Assets		
Deposits with bond trustees (Notes 3 and 6)	20,997	1,411
Accounts, grants and pledges receivable, net (Note 4)	3,193	2,696
Notes and leases receivable, net (Note 5)	41,288	40,802
Endowment investments (Note 3)	146,807	135,821
Capital assets, net (Note 6)	700,367	706,662
Total Noncurrent Assets	912,652	887,392
Total Assets	1,216,941	1,180,262
Deferred Outflows of Resources (Note 15)	8,830	9,370
Total Assets and Deferred Outflows	\$ 1,225,771	\$ 1,189,632
Liabilities		
Current Liabilities		
Accounts payable	\$ 16,703	\$ 14,742
Unearned revenue and deposits (Note 8)	10,861	10,692
Accrued liabilities - current portion (Notes 7, 11, 13 and 14)	25,042	24,896
Funds held for others - current portion	1,806	1,831
Long-term debt - current portion (Note 7)	14,931	11,411
Total Current Liabilities	69,343	63,572
Noncurrent Liabilities		
Accrued liabilities (Notes 7, 11 and 13)	52,415	55,123
Funds held for others (Note 3)	20,475	18,202
Long-term debt (Note 7)	160,871	154,874
Government advances refundable (Note 9)	29,464	29,768
Total Noncurrent Liabilities	263,225	257,967
Total Liabilities	332,568	321,539
Deferred Inflows of Resources (Note 15)	5,757	1,388
Net Position		
Net investment in capital assets (Note 10)	543,984	544,597
Restricted		
Nonexpendable (Note 10)	58,696	57,920
Expendable (Notes 3 and 10)	113,507	107,586
Unrestricted (Notes 3 and 10)	171,259	156,602
Commitments and contingencies (Notes 6, 7, and 11)	-	-
Total Net Position	887,446	866,705
Total Liabilities, Deferred Inflows and Net Position	\$ 1,225,771	\$ 1,189,632

See accompanying notes to the basic financial statements.

UNIVERSITY OF MAINE SYSTEM
STATEMENTS OF FINANCIAL POSITION – DISCRETELY PRESENTED COMPONENT UNIT
JUNE 30, 2017 AND 2016 (IN THOUSANDS)

	2017	Restated 2016
Assets		
Cash and cash equivalents	\$ 2,268	\$ 609
Other receivables	119	101
Promises to give, less allowance for uncollectible pledges of \$70 and \$125, respectively	1,397	1,413
Short-term investments	3,157	3,168
Cash surrender value of life insurance	157	148
Long-term investments, endowment	203,012	179,887
Long-term investments, life income plans	4,995	4,455
Notes receivable	227	375
Equity in Buchanan Alumni House	2,682	2,626
Investment real estate	5,767	6,000
Property and equipment, net of accumulated depreciation of \$213 and \$187, respectively	207	171
Other assets	439	609
Irrevocable trusts	8,515	8,573
Assets managed for Buchanan Alumni House	-	281
Net funding to be provided from Buchanan Alumni House	-	24
Total Assets	\$ 232,942	\$ 208,440
Liabilities		
Accounts payable	\$ 287	\$ 35
Distributions due income beneficiaries	1,902	1,798
Accrued expenses	589	558
Notes payable	99	523
Custodial accounts payable	3,066	2,835
Total Liabilities	5,943	5,749
Net Assets		
Unrestricted net assets	9,943	3,522
Temporarily restricted net assets	59,743	46,068
Permanently restricted net assets	157,313	153,101
Total Net Assets	226,999	202,691
Total Liabilities and Net Assets	\$ 232,942	\$ 208,440

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, 2017 AND 2016 (IN THOUSANDS)

	2017	2016
Operating Revenues		
Tuition and fees	\$ 280,611	\$ 270,193
Residence and dining fees	62,222	60,936
Less: scholarship allowances	(97,344)	(94,529)
Net student fees	245,489	236,600
Federal, state and private grants and contracts	137,529	136,103
Recovery of indirect costs	12,333	11,524
Educational sales and services and other revenues	34,345	34,977
Other auxiliary enterprises	18,476	17,693
Total Operating Revenues	448,172	436,897
Operating Expenses		
Instruction	170,901	168,415
Research	73,176	66,278
Public Service	59,950	59,603
Academic Support	71,100	66,291
Student Services	53,983	53,907
Institutional Support	67,173	63,710
Operation and maintenance of plant	50,638	48,986
Depreciation and amortization (Note 6)	37,914	37,051
Student Aid	31,007	33,069
Auxiliary enterprises	64,469	63,372
Total Operating Expenses	680,311	660,682
Operating Loss	(232,139)	(223,785)
Nonoperating Revenues (Expenses)		
Noncapital State of Maine appropriations	212,036	201,404
Gifts currently expendable	12,671	17,072
Endowment return used for operations (Note 3)	6,280	6,165
Investment income (Note 3)	9,455	2,561
Interest expense, net (Note 7)	(4,658)	(4,749)
Net Nonoperating Revenues	235,784	222,453
Income (Loss) Before Other Changes in Net Position	3,645	(1,332)
Other Changes in Net Position		
State of Maine capital appropriations	5,148	13,104
Capital grants and gifts	3,276	2,881
Endowment return (loss), net of amount used for operations (Note 3)	7,358	(7,946)
True and quasi endowment gifts	1,313	1,180
Gain (Loss) on disposal of capital assets	1	(1,813)
Total Other Changes in Net Position	17,096	7,406
Change in Net Position	20,741	6,074
Net Position - Beginning of the Year	866,705	860,631
Net Position - End of Year	\$ 887,446	\$ 866,705

See accompanying notes to the basic financial statements.

UNIVERSITY OF MAINE SYSTEM
STATEMENTS OF ACTIVITIES – DISCRETELY PRESENTED COMPONENT UNIT YEAR ENDED
JUNE 30, 2017 WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2016
(IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017	Restated Total 2016
Revenues, Gains, Losses, and Reclassification					
Contributions	\$ 2,649	\$ 3,909	\$ 3,804	\$ 10,362	\$ 10,816
Advancement services	4,649	-	-	4,649	1,240
Investment income and other revenue	5,890	17,185	408	23,483	(7,011)
Net assets released from restrictions	7,419	(7,419)	-	-	-
Total Revenues, Gains, Losses, and Reclassification	20,607	13,675	4,212	38,494	5,045
Expenses and Losses					
Program services	10,425	-	-	10,425	9,909
Management and general	1,300	-	-	1,300	819
Fundraising	2,461	-	-	2,461	1,536
Total Expenses	14,186	-	-	14,186	12,264
Change in Net Assets	6,421	13,675	4,212	24,308	(7,219)
Net Assets - Beginning of Year - Restated	3,522	46,068	153,101	202,691	209,910
Net Assets - End of Year	\$ 9,943	\$ 59,743	\$ 157,313	\$ 226,999	\$ 202,691

See accompanying notes to the basic financial statements.

UNIVERSITY OF MAINE SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016 (IN THOUSANDS)

	2017	2016
Cash Flows From Operating Activities		
Tuition, residence, dining, and other student fees	\$ 245,031	\$ 235,207
Grants and contracts	148,933	145,461
Educational sales and services and other auxiliary enterprise revenues	53,103	50,534
Payments to and on behalf of employees	(424,889)	(422,224)
Financial aid paid to students	(37,529)	(39,591)
Payments to suppliers	(178,971)	(167,535)
Loans issued to students	(6,599)	(6,324)
Collection of loans to students	5,571	5,929
Interest collected on loans to students	731	713
Net Cash Used for Operating Activities	(194,619)	(197,830)
Cash Flows From Noncapital Financing Activities		
State appropriations	212,036	201,404
Noncapital grants and gifts	13,589	17,519
Agency transactions	4,740	(10,402)
Net Cash Provided by Noncapital Financing Activities	230,365	208,521
Cash Flows From Capital and Related Financing Activities		
Proceeds from capital debt issuances	21,108	-
Capital appropriations	3,801	18,592
Capital grants and gifts	4,598	5,941
Proceeds from sale of capital assets	1	150
Acquisition and construction of capital assets	(27,933)	(46,029)
Principal paid on capital debt and leases	(10,007)	(9,737)
Interest paid on capital debt and leases	(6,564)	(6,627)
Net Cash Used for Capital and Related Financing Activities	(14,996)	(37,710)
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	673,488	417,266
Purchases of investments	(698,696)	(405,382)
Earnings from investments	4,801	10,259
Net Cash Provided by (Used for) Investing Activities	(20,407)	22,143
Net Increase (Decrease) in Cash and Cash Equivalents	343	(4,876)
Cash and Cash Equivalents - Beginning of Year	1,298	6,174
Cash and Cash Equivalents - End of Year	\$ 1,641	\$ 1,298

See accompanying notes to the basic financial statements.

UNIVERSITY OF MAINE SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016 (IN THOUSANDS)

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

	2017	2016
Operating	\$ (232,139)	\$(223,785)
Adjustments to reconcile net operating loss to net cash used for operating activities:		
Depreciation and amortization	37,914	37,051
Changes in assets and liabilities:		
Accounts and grants receivable, net	278	(3,902)
Inventories and prepaid expenses	(39)	601
Notes receivable, net	(549)	13
Deferred outflows related to pensions	196	(1,942)
Accounts payable	748	1,413
Unearned revenue and deposits	188	(170)
Accrued liabilities	(1,340)	(6,387)
Grants refundable	(304)	(501)
Deferred inflows related to pensions	319	(221)
Deferred inflows related to dining contract	109	-
Net Cash Used for Operating Activities	\$ (194,619)	\$(197,830)

Noncash investing, capital, and financing activities:

Capital asset additions included in accounts payable and accrued liabilities as of June 30	\$ 3,233	\$ 2,013
Capital asset additions acquired through deferred inflows	\$ 2,291	\$ -
Capital asset additions acquired through long-term debt	\$ -	\$ 1,527
Refunding of debt through new bond issuance	\$ 13,245	\$ -

See accompanying notes to the basic financial statements.

UNIVERSITY OF MAINE SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016 (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 non-operating activities in accordance with GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. These non-operating activities include the System's operating appropriations from the State of Maine, net investment income, gifts, and interest expense.

In FY16, the System adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The financial statements include certain prior-year summarized comparative information of a discretely presented component unit in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the System's June 30, 2016 financial statements, from which the summarized information was derived.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

c. Net Position

The System's net position (assets plus deferred outflows less liabilities and deferred inflows) 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. 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. Such net position includes the historical gift value of restricted true endowment funds.

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 statement of net position date 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 Board of Trustees Investment

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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 4.50% for FY17 and FY16. 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 UMS. 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).
- **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.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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, 2017 and 2016:

Equity securities	35-55%
Fixed income securities	13-23%
Other	27-47%
Cash	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.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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

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

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.

Interest costs on debt related to capital assets, net of investment income on unspent bond proceeds, are generally capitalized during the construction period.

j. 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).

k. 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 for such benefit. The System accounts for the vacation leave hours on a last-in, first-out basis. A portion of this liability is classified as current and represents the System's estimate of vacation time that will be paid during the next fiscal year to employees leaving the System.

l. Deferred Outflows and Deferred Inflows of Resources

Deferred outflows of resources are the consumption of assets or increase in liabilities that are 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.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

2. Assumption changes and investment losses that increase the pension liability. These amounts are to be recognized as a component of pension expense in future reporting periods.

Deferred inflows of resources are the acquisition of assets or reduction of liabilities that are 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 consist of:

1. Experience gains that reduce the pension liability to be recognized as a component of pension expense in future reporting periods and
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.

m. 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.

n. Tax Status

The System is exempt from income taxes under Section 115 of the Internal Revenue 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.

o. 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.

p. Reclassifications

Certain FY16 items in the accompanying financial statements have been reclassified, without effect on total net position, to conform to the FY17 presentation.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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 and uncollateralized 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, 2017 and 2016, bank balances with uninsured or uncollateralized operating cash deposits were \$1,587 and \$1,346, respectively.

3. INVESTMENTS***a. 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 these 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 (\$384 and \$302 at June 30, 2017 and 2016, 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, 2017 and 2016, respectively are \$20,475 and \$18,202, 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. Total endowment accumulated net income and appreciation available to the System for spending are as follows at June 30:

	2017	2016
Restricted - expendable	\$52,688	\$45,678
Unrestricted	14,825	13,858

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

Total available for spending \$67,513 \$59,536

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

The System’s investments are composed of the following at June 30, 2017:

	Fair Value	Credit Rating	Interest Rate Risk	
Operating Investments:				
Equities:				
Multi-strategy funds	\$ 57,836			
Fixed income funds:				
Bank loans	18,075	Not rated	.10 years	Duration
Bonds	116,854	Not rated	1.83-8.0 years	Duration
Money markets	45,139	Not rated	28-34 days	Weighted Average Maturity (WAM)
State pool	5,189	Not rated	.67 years	Duration
Total operating investments	\$243,093			
Deposits with Bond Trustees:				
Fixed income funds:				
Money markets	\$ 20,997	Not rated	28-34 days	WAM
Total deposits with bond trustees	\$ 20,997			
Endowment Investments:				
MIP investments:				
Equities:				
Equities	\$ 9,460			
Equity funds	132,595			
Multi-strategy funds	88,101	Not rated	Not rated	
Fixed income funds:				
Money markets	8,550	Not rated	24 days	WAM
Bank loans	14,470	Not rated	0.9 years	Duration
Bonds	37,538	Not rated	4.29-8.0 years	Duration
Real assets	5,125	Not rated	Not rated	
Total MIP investments	295,839			
Less portion held on behalf of outside entities	<u>(151,880)</u>			
Endowment portion of MIP investments	143,959			
Separately invested assets:				
Held in cash and cash equivalents pending investment	2,464			
Money funds, savings, CDs	68			
Equities	316			
Total endowment investments	\$146,807			

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

The System's investments were composed of the following at June 30, 2016:

	Fair Value	Credit Rating	Interest Rate Risk	
Operating Investments:				
Equities:				
Multi-strategy funds	\$ 65,352			
Fixed income funds:				
Bank loans	12,829	Not rated	.10 years	Duration
Bonds	112,876	Not rated	.48 - 5.8 years	Duration
Money markets	21,596	Not rated	6-28 days	WAM
State pool	17,939	Not rated	.58 years	Duration
Total operating investments	\$ 230,592			
Deposits with Bond Trustees:				
Fixed income funds:				
Bonds	\$ 22	Aaa-Moody's	35 days	WAM
Money markets	1,389	Not rated	6 days	WAM
Total deposits with bond trustees	\$ 1,411			
Endowment Investments:				
MIP investments:				
Equities:				
Equities	\$ 16,601			
Equity funds	122,851			
Multi-strategy funds	82,119			
Fixed income funds:				
Money markets	4,381	Not rated	4 days	WAM
Bonds	34,108	Not rated	4-8.4 years	Duration
Real assets	5,634			
Total MIP investments	265,694			
Less portion held on behalf of outside entities	(131,017)			
Endowment portion of MIP investments	134,677			
Separately invested assets:				
Held in cash and cash equivalents pending investment	842			
Money funds, savings, CDs	68			
Equities	234			
Total endowment investments	\$ 135,821			

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

b. Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurement and Application*, 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. The standard 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 liabilities, 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.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

Investments measured at fair value on a recurring basis at June 30, 2017 are summarized as follows:

	Total	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Operating Investments:				
Equities:				
Multi-strategy funds	\$ 44,393	\$ 30,473	\$ 13,920	\$ -
Fixed income funds:				
Bonds	116,854	39,804	77,050	-
Money markets	45,139	45,139	-	-
Total investments by fair value level	206,386	\$ 115,416	\$ 90,970	\$ -
Investments measured at the Net Asset Value (NAV)				
Equities: Multi-Strategy	13,443			
Bank loans	18,075			
Total investments measured at the NAV	31,518			
Total investments measured at fair value	237,904			
State pool measured at amortized costs	5,189			
Total operating investments	\$ 243,093			
Deposits with Bond Trustees:				
Bonds and money markets	\$ 20,997	\$ 20,997	\$ -	\$ -
Endowment Investments:				
MIP investments:				
Equities:				
Equities	\$ 9,460	\$ 9,460	\$ -	\$ -
Equity funds	132,595	132,595	-	-
Multi-strategy funds	64,416	64,416	-	-
Fixed income funds:				
Money markets	8,550	8,550	-	-
Bonds	37,538	22,722	14,816	-
Total MIP investments by fair value level	252,559	\$ 237,743	\$ 14,816	\$ -
MIP investments measured at the NAV				
Multi-strategy funds	23,685			
Real assets	5,125			
Bank Loans	14,470			
Total MIP investments measured at the NAV	43,280			
Total MIP investments measured at fair value	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)

Investments measured at the NAV at June 30, 2017:

	Fair Value	Unfunded Commitments	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 the NAV	\$31,518			
Endowment Investments:				
MIP investments measured at the NAV				
Multi-strategy funds ¹	\$ 23,685	\$ 2,629	Monthly, Quarterly	30, 45, 60, 90 days
Real assets ³	5,125			
Bank loans ²	14,470		Monthly	30 days
Total pooled investments measured at the NAV	43,280			
Less portion held on behalf of outside entities	(22,219)			
Total endowment investments measured at the NAV	\$21,061			

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

Investments measured at fair value on a recurring basis at June 30, 2016 are summarized as follows:

	Fair Value Measurements Using:			
	Total	Level 1	Level 2	Level 3
Operating Investments:				
Equities:				
Multi-strategy funds	\$ 58,275	\$ 58,275	\$ -	\$ -
Fixed income funds:				
Bonds	112,876	49,548	63,328	-
Money markets	21,596	21,596	-	-
Total investments by fair value level	192,747	\$129,419	\$63,328	\$ -
Investments measured at the NAV				
Multi-strategy funds	7,077			
Bank loans	12,829			
Total investments measured at the NAV	19,906			
Total investments measured at fair value	212,653			
State pool measured at amortized costs	17,939			
Total operating investments	\$230,592			
Deposits with Bond Trustees:				
Bonds and money markets	\$ 1,411	\$ 1,411	\$ -	\$ -
Endowment Investments:				
MIP investments:				
Equities:				
Equities	\$ 16,601	\$ 16,601	\$ -	\$ -
Equity funds	122,851	122,851	-	-
Multi-strategy funds	61,618	55,861	5,757	-
Fixed income funds:				
Money markets	4,381	4,381	-	-
Bonds	34,108	7,477	26,631	-
Total MIP investments by fair value level	239,559	\$207,171	\$32,388	\$ -
MIP investments measured at the NAV				
Multi-strategy funds	20,501			
Real assets	5,634			
Total MIP investments measured at the NAV	26,135			
Total MIP investments measured at fair value	265,694			
Less portion held on behalf of outside entities	(131,017)			
Endowment portion of MIP investments	134,677			
Separately Invested Assets	1,144	\$ 1,144	\$ -	\$ -
Total endowment investments measured at fair value	\$135,821			

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

Investments measured at the NAV at June 30, 2016:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Period Notice
Operating Investments:				
Equities: Multi-strategy ¹	\$ 7,077		Quarterly	60 days
Bank loans ²	12,829		Bi-monthly	15 days
Total operating investments measured at the NAV	\$19,906			
Endowment Investments:				
MIP investments measured at the NAV				
Equities: Multi-strategy ¹	\$20,501	\$ 3,268	Monthly, Quarterly	14, 15, 45 days
Real assets ³	5,634			
Total pooled investments measured at the NAV	26,135			
Less portion held on behalf of outside entities	(12,887)			
Total endowment investments measured at the NAV	\$13,248			

Additional information for investments measured at the NAV at June 30, 2017 and 2016 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.

³ Real Assets: Consists of equity and debt investments in commercial timberland property. Investments typically involve an active management strategy structured for realization of profits from the long-term appreciation of investments and moderate income from operations. The NAV per share is calculated based on the ownership interest in partners' capital and significant direct or indirect observable inputs or recent observable transaction information for similar investments.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

c. 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 6.02 years and 5.49 years at June 30, 2017 and 2016, respectively).

d. 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 \$13,918 and \$18,203 at June 30, 2017 and 2016, 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 \$48,773 and \$39,733 at June 30, 2017 and 2016, respectively.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

e. Investment Income (Loss)

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

	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				<u>\$ 13,638</u>
Reported as endowment return used for operations				\$ 6,280
Reported as endowment return, net of amount used for operations				7,358
System endowment income				<u>\$ 13,638</u>
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)	<u>\$ 5,114</u>	<u>\$ 5,392</u>	<u>\$ (1,051)</u>	<u>\$ 9,455</u>
	2016			
	Net Gains (Losses)	Interest and Dividends	Investment Fees	Net Income (Loss)
Endowment investment income and fees	\$ (4,351)	\$ 2,692	\$ (1,122)	\$ (2,781)
Net income allocated to affiliates				1,000
System endowment net loss				<u>\$ (1,781)</u>
Reported as endowment return used for operations				\$ 6,165
Reported as endowment loss, net of amount used for operations				(7,946)
System endowment loss				<u>\$ (1,781)</u>
Operating investments	\$ (1,395)	\$ 4,989	\$ (1,039)	\$ 2,555
Deposits with bond trustees	-	6	-	6
Total other investment income (loss)	<u>\$ (1,395)</u>	<u>\$ 4,995</u>	<u>\$ (1,039)</u>	<u>\$ 2,561</u>

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

4. ACCOUNTS, GRANTS, AND PLEDGES RECEIVABLE

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

	2017			2016		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Student and other accounts receivable	\$38,511	\$38,142	\$ 369	\$39,419	\$ 39,086	\$ 333
Grants receivable	23,632	21,570	2,062	21,813	21,098	715
Pledges receivable	1,979	1,160	819	2,994	1,263	1,731
Total gross receivables	64,122	60,872	3,250	64,226	61,447	2,779
Less allowance for doubtful accounts	(6,778)	(6,771)	(7)	(5,915)	(5,882)	(33)
Less discount on pledges receivable	(50)	-	(50)	(50)	-	(50)
Total receivables, net	\$57,294	\$54,101	\$ 3,193	\$58,261	\$ 55,565	\$ 2,696

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:

	2017			2016		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Perkins loans	\$30,257	\$ -	\$ 30,257	\$30,059	\$ -	\$ 30,059
Nursing loans	2,001	-	2,001	2,024	-	2,024
Institutional loans	9,960	-	9,960	9,480	-	9,480
Lease receivable (a)	751	63	688	813	63	750
Total notes and leases receivable	42,969	63	42,906	42,376	63	42,313
Less allowance for doubtful accounts	(1,618)	-	(1,618)	(1,511)	-	(1,511)
Total notes and leases receivable, net	\$41,351	\$ 63	\$ 41,288	\$40,865	\$ 63	\$ 40,802

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, 2017 is as follows:

	Beginning Balance	Additions	Reclasses	Retirements	Ending Balance
Land	\$ 17,895	\$ -	\$ -	\$ -	\$ 17,895
Library materials	25,686	-	-	-	25,686
Construction in progress	11,497	27,327	(19,894)	-	18,930
Total nondepreciable assets	55,078	27,327	(19,894)	-	62,511
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	35,287	1,939	-	-	37,226
Buildings & improvements	316,943	23,011	-	-	339,954
Equipment	80,573	10,258	-	-	90,831
Software	21,034	2,706	-	-	23,740
Total accumulated depreciation	453,837	37,914	-	-	491,751
Net depreciable assets	651,584	(33,622)	19,894	-	637,856
Total capital assets	\$ 706,662	\$ (6,295)	\$ -	\$ -	\$ 700,367

Capital asset activity for the year ended June 30, 2016 is as follows:

	Beginning Balance	Additions	Reclasses	Retirements	Ending Balance
Land	\$ 17,895	\$ -	\$ -	\$ -	\$ 17,895
Library materials	25,686	-	-	-	25,686
Construction in progress	14,322	38,188	(41,013)	-	11,497
Total nondepreciable assets	57,903	38,188	(41,013)	-	55,078
Land improvements	53,291	-	1,839	-	55,130
Buildings & improvements	855,806	-	36,173	(7,598)	884,381
Equipment	128,356	4,676	2,636	(2,326)	133,342
Software	32,203	-	365	-	32,568
Total depreciable assets	1,069,656	4,676	41,013	(9,924)	1,105,421
Less accumulated depreciation:					
Land improvements	33,369	1,918	-	-	35,287
Buildings & improvements	300,737	22,231	-	(6,025)	316,943
Equipment	72,440	10,069	-	(1,936)	80,573
Software	18,201	2,833	-	-	21,034
Total accumulated depreciation	424,747	37,051	-	(7,961)	453,837
Net depreciable assets	644,909	(32,375)	41,013	(1,963)	651,584
Total capital assets	\$ 702,812	\$ 5,813	\$ -	\$ (1,963)	\$ 706,662

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

Additions to capital assets for the years ended June 30, 2017 and 2016 include the following:

- Assets acquired through capital leases of \$0.
- Capitalized interest costs of \$0 and \$125, less interest earnings on unexpended bond proceeds of \$0 and \$5, respectively.

As of June 30, 2017 and 2016, \$20,974 and \$1,389, 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, 2017 is \$4,131 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 \$6,767 and \$10,768 at June 30, 2017 and 2016, respectively.

7. ACCRUED LIABILITIES AND LONG-TERM DEBT

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

	Beginning Balance	Additions	Reductions	Ending Balance	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)	682	14,970	(15,652)	-	-
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	\$ 80,019	\$ 151,097	\$ (153,659)	\$ 77,457	\$ 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

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

Changes in accrued liabilities and long-term debt during the year ended June 30, 2016 include the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued liabilities:					
Workers' compensation (Note 11)	\$ 4,182	\$ 1,644	\$ (1,520)	\$ 4,306	\$ 1,206
Health insurance (Note 11)	6,080	62,903	(62,859)	6,124	6,124
Postemployment health plan (Note 14)	1,137	14,911	(15,366)	682	682
Other employee benefit programs (Note 13)	55,415	58,027	(61,131)	52,311	4,417
Other	17,614	14,407	(15,425)	16,596	12,467
Total accrued liabilities	\$ 84,428	\$151,892	\$ (156,301)	\$ 80,019	\$24,896
Long-term debt:					
Capital lease obligations ^(a)	\$ 4,949	\$ -	\$ (743)	\$ 4,206	\$ 690
Bonds and notes payable ^(b)	171,145	1,527	(10,593)	162,079	10,721
Total long-term debt	\$176,094	\$ 1,527	\$ (11,336)	\$166,285	\$11,411

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, 2017 are as follows:

Year Ending June 30:	Capital Leases		Operating Leases	Total
	Principal	Interest		
2018	\$ 624	\$ 105	\$ 963	\$1,692
2019	622	91	868	1,581
2020	460	78	397	935
2021	362	71	270	703
2022	162	63	245	470
2023-2027	925	200	1,202	2,327
2028-2032	383	19	1,129	1,531
2033-2037	-	-	659	659
Total minimum lease payments	\$ 3,538	\$ 627	\$ 5,733	\$9,898

The rent expense related to operating leases amounted to \$1,142 for the year ended June 30, 2017 and \$1,109 for the year ended June 30, 2016.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

b. Bonds and Notes Payable

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

	2017	2016
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.	\$ 30,340	\$ -
Add: unamortized premium	3,898	-
Total 2017 Series A Bonds	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.	45,865	46,435
Add: unamortized premium	3,629	4,284
Total 2015 Series A Bonds	49,494	50,719
2013 Series A Revenue Bonds (original principal of \$65,255)		
Serial bonds, maturing from 2014 to 2033, 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.	51,715	54,700
3.5% Term Bonds due March 1, 2034	2,455	2,455
3.5% Term Bonds due March 1, 2035	2,540	2,540
Add: unamortized premium	4,978	5,975
Total 2013 Series A Bonds	61,688	65,670
2012 Series A Revenue Bonds (original principal of \$34,975)		
Serial bonds, maturing from 2013 to 2028, and 2031, with annual principal payments from \$1,070 to \$2,540 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.	18,435	20,880
3.0% Term Bonds due March 1, 2030	2,540	2,540
3.0% Term Bonds due March 1, 2033	2,620	2,620
Add: unamortized premium	890	1,116
Total 2012 Series A Bonds	24,485	27,156
2007 Series A Revenue Bonds (original principal of \$46,740)		
Serial bonds, maturing from 2008 to 2037, with annual principal payments from \$195 to \$3,380 and coupon interest rates from 4.5% to 5.0%. Issued to partially refund the 1998A and 2004A Series Revenue Bonds and to provide funding for capital projects.	-	15,675
Add: unamortized premium	-	142
Total 2007 Series A Bonds	-	15,817

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

	2017	2016
University of Maine Foundation		
Note payable, drawn against \$300 line of credit, unsecured, semi-annual payments of \$5, including interest at 2.75%, matures 2018	\$ 5	\$ 15
Note payable, secured by equipment, matures 2019, with annual payments of \$75, including interest at 3.94%.	83	172
Efficiency Maine Trust		
\$2,595 loan for biomass energy project, quarterly interest only payments at 1.5% during construction, quarterly principal payments of \$65 plus interest at 1.5% beginning in June, 2016 and continuing through March, 2026.	2,271	2,530
Total bonds and notes payable, net	\$ 172,264	\$ 162,079
Total par value of outstanding bonds and notes payable	\$ 158,869	\$ 150,562
Total unamortized premiums and discounts	13,395	11,517
Total bonds and notes payable, net	\$ 172,264	\$ 162,079

Costs associated 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 and notes payable for the next five years and in subsequent five-year periods are as follows at June 30, 2017:

Year Ending			
June 30:	Principal	Interest	Total
2018	\$ 11,708	\$ 6,422	\$ 18,130
2019	10,955	6,182	17,137
2020	11,750	5,680	17,430
2021	10,699	5,159	15,858
2022	11,169	4,687	15,856
2023-2027	49,803	15,875	65,678
2028-2032	39,430	6,602	46,032
2033-2037	13,355	926	14,281
Total Payments	\$158,869	\$51,533	\$210,402

Interest costs related to the revenue bonds for FY17 and FY16 were \$4,498 and \$4,689, 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 (\$43) and \$0 as of June 30, 2017 and 2016, respectively, is included in deferred outflows in the accompanying Statements of Net Position.

8. UNEARNED REVENUE AND DEPOSITS

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

	2017	2016
Unearned grant advances	\$ 3,527	\$ 3,550
Unearned summer session revenue	6,267	6,595
Other unearned revenue and deposits	1,067	547
Total unearned revenue and deposits	\$10,861	\$10,692

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, 2017 and 2016, the portion of outstanding awards excluded from the financial statements, totaled \$45,872 and \$48,347, 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, 2017 and 2016 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:

	2017	2016
Net investment in capital assets	\$ 543,984	\$ 544,597
Restricted - Nonexpendable:		
Endowment funds	58,696	57,920
Restricted - Expendable:		
Student financial aid	46,370	40,925
Capital assets and retirement of debt	2,835	3,164
Loans	16,026	15,724
Academic support	13,888	12,902
Research and public service	10,127	12,664
Library	3,083	2,894
Other	21,178	19,313
Total restricted - expendable	113,507	107,586
Unrestricted:		
Educational and general reserves	65,361	55,690
Risk management	2,503	2,331
Budget stabilization	11,453	10,667
Auxiliary enterprises	11,610	10,424
Benefit pool carryover	9,923	10,589
Information technology initiatives	25	3,268
Internally designated projects	17,700	17,442
Facility projects	34,718	31,698
Endowment earnings	14,825	13,858
Cost sharing and other	3,141	635
Total unrestricted	171,259	156,602
Total net position	\$ 887,446	\$ 866,705

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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, 2017 and 2016 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 worker's 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, 2017 and 2016 of \$3,235 and \$4,306, 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, 2017. As of June 30, 2017 and 2016, 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:

	2017	2016
Claims incurred but not reported	\$5,271	\$5,200
Reported claims	313	924
Total health insurance liability (Note 7)	\$5,584	\$6,124

12. PASS THROUGH GRANTS

During FY17 and FY16, the System distributed \$125,407 and \$129,284, 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:

	2017	2016
Faculty and Professional Employees:		
Contributory retirement plan	\$19,450	\$18,868
Incentive retirement plan	1,533	1,546
Hourly Employees:		
Basic retirement plan	3,299	3,326
Defined benefit plan	772	2,825
Total net pension expense	\$25,054	\$26,565

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

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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.

Employee contributions made to the Contributory Plan were \$7,774 in FY17 and \$7,545 in FY16.

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.

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

	2017	2016
Active plan participants	1,074	1,157

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 at the measurement date of June 30, 2017 and 2016 was \$22,312 and \$22,246, respectively. The fiduciary net position as a percentage of the total pension liability was 0.00% as this plan has no assets.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

The total pension liability was determined by an actuarial valuation as of July 1, 2017 and 2016, 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	3.58% as of June 30, 2017 2.85% as of June 30, 2016
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 requires projected benefit payments be discounted to their actuarial present value using a tax-exempt, high-quality municipal bond rate.

For the Incentive Retirement Plan, which does not hold assets, the total pension liability is based on the discount rate of 3.58% and 2.85% as of June 30, 2017 and 2016, respectively. The rates are based on the municipal bond rates as of the measurement dates. The municipal bond rates for 2017 and 2016 are based on the Bond Buyer 20-Bond General Obligation (GO) Index published on June 29, 2017 and June 30, 2016, respectively.

Sensitivity of the net pension liability to changes in the discount rate: The following presents the total pension liability as of June 30, 2017 calculated using the discount rate of 3.58%, as well as what the total pension liability would be if it were calculated using a discount rate 1-percentage point lower (2.58%) or 1-percentage point higher (4.58%) than the current rate:

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
Total pension liability	\$ 23,172	\$ 22,312	\$ 21,457

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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

Fiscal Year Ended June 30	2017	2016
Total pension liability – beginning	\$22,246	\$24,990
Changes for the year:		
Service cost	862	718
Interest	629	877
Differences between expected and actual experience	1,287	-
Changes of assumptions and other inputs	(628)	921
Benefit payments	(2,084)	(5,260)
Total pension liability – ending (a)	22,312	22,246
Fiduciary net position – beginning	-	-
Contributions – employer	2,084	5,260
Benefit payments	(2,084)	(5,260)
Administrative expenses	-	-
Fiduciary net position – ending (b)	-	-
Net pension liability – ending (a)-(b)	\$22,312	\$22,246
Plan fiduciary net position as a percentage of the total pension liability	0.00%	0.00%
Covered-employee payroll*	\$77,644	\$95,653
Net pension liability as a percentage of covered-employee payroll	28.74%	23.26%
Contributions as a percentage of covered-employee payroll	2.68%	5.50%
*Covered payroll for 2016 is the 2015 covered payroll, increased by payroll growth of 3.5%		

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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.

Employee contributions made to the Basic Plan were \$1,371 in FY17 and \$1,364 in FY16.

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:

	2017	2016
Inactive plan participants or beneficiaries currently receiving benefits	751	788
Inactive plan participants entitled to but not yet receiving benefits	310	343
Active plan participants	6	11
Total plan participants	1,067	1,142

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 \$695

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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.

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:

	2017	2016
Total pension liability	\$40,291	\$42,934
Fiduciary net position	(31,216)	(32,763)
Net pension liability	\$ 9,075	\$10,171
Fiduciary net position as a percentage of the total pension liability	77.48%	76.31%

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

The total pension liability was developed from a roll forward 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
Actuarial asset method	The actuarial value of assets is the market value of assets
Inflation	3%
Salary increases	3.5% for all years, including longevity
Investment rate of return	6.25% net of investment expenses, including inflation
Life expectancy	
Post-retirement	RP-2000 Mortality Table projected to FY28 with Scale AA
Post-retirement health	RP-2000 Mortality Table projected to FY20 with Scale AA
Post-retirement disabled	RP-2000 Mortality Table, no projection

The long-term expected rate of return on pension plan investments of 6.25% 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 pension plan's target asset allocation as of June 30, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Equity	8%	4.50%
Small/Mid Cap Equity	4%	4.75%
International Equity	7%	4.75%
Emerging Market Equity	3%	6.75%
Core Fixed Income	32%	1.00%
Global Asset Allocation	28%	3.71%
Real Estate	8%	3.50%
Alternative Investments	7%	2.37%
Cash	3%	0.00%
Total	100%	

Investment Returns:

Fiscal Year Ended June 30	2017	2016
Annual money-weighted rate of return, net of investment expenses	7.04%	0.64%

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, 2017 and 2016 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.

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability as of June 30, 2017 calculated using the discount rate of 6.25%, as well as

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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	\$ 11,982	\$ 9,075	\$ 6,517

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

Fiscal Year Ended June 30	2017	2016
Total pension liability – beginning	\$ 42,934	\$ 43,318
Changes for the year:		
Service cost	6	5
Interest	2,545	2,769
Differences between expected and actual experience	(759)	-
Changes of assumptions	-	1,427
Benefit payments	(4,435)	(4,585)
Total pension liability – ending (a)	40,291	42,934
Fiduciary net position – beginning	32,763	36,627
Contributions – employer	735	538
Net investment income	2,173	202
Benefit payments	(4,435)	(4,585)
Administrative expenses	(20)	(19)
Fiduciary net position – ending (b)	31,216	32,763
Net pension liability – ending (a)-(b)	\$ 9,075	\$ 10,171
Plan fiduciary net position as a percentage of the total pension liability	77.48%	76.31%
Covered-employee payroll*	\$ 168	\$ 312
Net pension liability as a percentage of covered employee payroll	5400.39%	3259.34%
Contributions as a percentage of covered employee payroll	437.48%	172.49%
Plan assets measured at fair value	\$ 31,216	\$ 32,763
*Covered payroll for 2016 is the 2015 covered payroll, increased by payroll growth of 3.5%		

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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 System follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which requires the System to account for other postemployment benefits (OPEB), primarily health care, on an accrual basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Revenues, Expenses, and Changes in Net Position when future retirees earn their postemployment benefits, rather than when they use their postemployment benefit. To the extent that an entity does not fund its actuarially required contribution, a postemployment benefit liability is recognized in the Statement of Net Position over time.

The Postemployment Health Plan (the Plan) is a defined benefit, single employer plan, administered by the System. The 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. As of June 30, 2017 and 2016, there were 6,433 and 6,640, persons, respectively, covered by the Plan.

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 subsidy consists of 100% of the cost for the retiree and 50% of the costs for eligible dependents; however, the subsidy for employees who retire on or after July 1, 2010 is reduced to 93%, 90%, or 85%, of the individual health premium, depending on the employee's years of System service; also, the subsidy consists of 80% of the cost for the retiree and 50% of the costs for eligible dependents for employees who retire on or after January 1, 2017. Former employees, beginning 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

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

premium subsidy. As of June 30, 2017 and 2016, there were 2,212 and 2,066 persons, respectively, receiving a subsidy from the System. With certain restrictions, dependents are eligible to continue coverage at the 50% rate after the death of a retiree meeting the above criteria.

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). As of June 30, 2017 and 2016, there were 27 and 34 persons, respectively, participating in the plan but not receiving a subsidy from the System.

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

The System’s annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Employer contributions made include both amounts paid to the Plan and actual medical claims paid throughout the year. The System’s management is committed to annually funding at a level such that employer contributions equal the ARC. The following table shows the components of the System’s annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the net OPEB obligation/(asset) for the years ended June 30:

Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Interest on OPEB Obligation	ARC Adjustment	Annual OPEB Cost	Employer Contributions Made	Percentage of Annual OPEB Cost Contributed	Change in Net OPEB Obligation	Net OPEB Obligation/(Asset) Balance
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	
				[(a)+(b)-(c)]		[(e)/(d)]	[(d)-(e)]	
2017	\$14,970	\$0	\$0	\$14,970	\$16,146	107.9%	(\$1,176)	(\$494)
2016	\$14,911	\$0	\$0	\$14,911	\$15,366	103.1%	(\$455)	\$682
2015	\$12,377	\$0	\$0	\$12,377	\$8,718	70.4%	\$3,659	\$1,137

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

Employer contributions made are comprised of the following:

	Pay-as-you-go	(OPEB) Irrevocable Trust	Total Employer
2017	\$ 10,364	\$ 5,782	\$ 16,146
2016	\$ 10,229	\$ 5,137	\$ 15,366
2015	\$ 8,718	\$ -	\$ 8,718

The net OPEB obligation/(asset) of (\$494) and \$682 as of June 30, 2017 and 2016, respectively, is included in the accompanying Statements of Net Position as a current asset or current accrued liability. The System's management is committed to funding the net obligation balance by December 31 on an annual basis. The OPEB Trust invests its assets in the System MIP and follows the investment guidelines described in Note 3 of these financial statements.

As of July 1, 2017, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$191,497 and the actuarial value of assets was \$114,883 resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$76,614 which results in a funded ratio of 60.0%. The covered payroll (annual payroll of active employees covered by the Plan) was \$214,956 for FY17 and the ratio of the UAAL to the covered payroll was 35.6%.

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as the actual results are compared with past expectation and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2017 actuarial valuations, the entry age normal actuarial cost method was used. The actuarial assumptions included a 7.5% investment rate of return/discount rate (net of expenses), which is the rate of the expected long-term investment returns on plan assets calculated based on the funded level of the plan at the valuation date, and an annual health care

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

cost trend rate of 8% initially, decreasing annually by 1% until an ultimate rate of 5% is reached. The actuarial value of assets is based on their fair value at July 1, 2017. The UAAL is being amortized on a level dollar amount per year over 30 years on a closed amortization period for development of the Actuarially Determined Contribution.

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:

	2017				2016		
	Pension Liability	Deferred amount on Debt Refunding	Service Concession Arrangement	Total	Pension Liability	Deferred amount on Debt Refunding	Total
Deferred outflows of resources	\$4,242	\$ 4,588	\$ -	\$8,830	\$4,438	\$ 4,932	\$9,370
Deferred inflows of resources	\$1,707	\$ -	\$ 4,050	\$5,757	\$1,388	\$ -	\$1,388

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

	2017		
	Incentive Retirement Plan	Defined Benefit Plan	Total
Deferred outflows of resources			
Changes of assumption or other inputs	\$ 1,019	\$ -	\$1,019
Difference between expected and actual experience	1,110	-	1,110
Net difference between projected and actual earnings on pension plan investments	-	2,113	2,113
Total deferred outflows of resources	2,129	2,113	4,242
Deferred inflows of resources			
Changes of assumption or other inputs	541	-	541
Difference between expected and actual experience	1,166	-	1,166
Total deferred inflows of resources	1,707	-	1,707
Net deferred outflows and (inflows)	\$ 422	\$2,113	\$2,535

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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

2016			
	Incentive Retirement Plan	Defined Benefit Plan	Total
Deferred outflows of resources			
Changes of assumption or other inputs	\$ 1,192	\$ -	\$1,192
Net difference between projected and actual earnings on pension plan investments	-	3,246	3,246
Total deferred outflows of resources	1,192	3,246	4,438
Deferred inflows of resources			
Difference between expected and actual experience	1,388	-	1,388
Total deferred inflows of resources	1,388	-	1,388
Net deferred outflows and (inflows)	\$ (196)	\$3,246	\$3,050

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

Year Ending June 30:	Incentive Retirement Plan	Classified Defined Benefit Plan	Total
2018	\$ 42	\$ 891	\$ 933
2019	42	891	933
2020	42	379	421
2021	42	(48)	(6)
2022	42	-	42
Thereafter	212	-	212
	\$ 422	\$ 2,113	\$ 2,535

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 for inclusion as a discretely presented component unit of the System.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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, 2017 and 2016, 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 \$3,804 for FY17 and \$4,828 for FY16.

The Foundation asset category, long-term investments, endowment, comprised 87% and 86% of the Foundation's total assets as of June 30, 2017 and 2016, 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 statement 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% and 8.3% in 2017 and 2016, respectively. 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, 2017 and 2016, the spending policy is 4.5% of the average market value for the five previous years ending December 31. For permanent endowments, spending is contingent upon a fund's market value exceeding principal balances.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

The Foundation follows a prudent expenditure policy for funds with a market value below principal. Unless the donor has explicitly stated the principal is not expendable under any circumstances, for the years ended June 30, 2017 and 2016, prudent expenditures of 2.25% will be distributed for funds less than ten percent below principal and 1% for funds ten percent or more below principal for that year. During the years ended June 30, 2017 and 2016, the Foundation distributed \$8,769 and \$8,577, respectively, to the System for both restricted and unrestricted purposes.

Prior period adjustment

The Foundation's financial statements for the year ended June 30, 2017 have been restated to reflect a reclassification of underwater endowments. Unrestricted net assets at June 30, 2016 were reduced by \$4,696 and temporarily restricted net assets were increased by \$4,696. This restatement had no effect on total net assets.

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:

2017					
	Level 1	Level 2	Level 3	Total	Liquidity
U.S. equities	\$ 54,789	\$ -	\$ -	\$ 54,789	Daily/Monthly
Non U.S. equities	71,089	-	-	71,089	Daily/Monthly/Quarterly
U.S. fixed income	21,155	-	-	21,155	Daily
Global fixed income	4,996	-	-	4,996	Monthly
Total Private Investments	-	-	1,367	1,367	Illiquid
Alternative investments	-	-	48,159	48,159	Daily/Monthly/Quarterly/Semi-Annually/Annually/Illiquid
Cash	1,457	-	-	1,457	Daily
Total long-term investments, endowment	\$ 153,486	\$ -	\$ 49,526	\$ 203,012	

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 entered into an agreement with Sodexo America LLC ("Sodexo") to provide food services for the System's students, faculty, staff and invited guests at all campuses except UM. 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 in various phases of completion as of June 30, 2017.

Due to the nature of this agreement, whereas Sodexo is the operator and the System is the transferor, it has been classified as a service concession arrangement. As of June 30, 2017, the equipment and improvements provided 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, 2017 the balance of the deferred inflows of resources related to the Sodexo service concession arrangement is \$4,050 (see Note 15). During FY17, amortization in the amount of \$450 has been recognized as auxiliary revenue.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

18. SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS

In June 2015, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB No. 75), was issued. The primary objective of this Statement is to improve accounting and financial reporting with the purpose of providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The new Standard will affect how the System measures, reports, and discloses information about its other postemployment benefits (OPEB) other than pensions. The System will be required to adopt GASB No. 75 for the fiscal year ending June 30, 2018. The effects of the adoption of GASB No. 75 will be the restatement of net position at June 30, 2016 by the Unfunded Actuarial Accrued Liability of \$101,831 which was determined by an actuarial valuation as of July 1, 2017 and 2015.

In March 2016, GASB Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB No. 81) was issued. The primary objective of this Statement is to improve accounting and financial reporting by establishing recognition and measurement requirements for irrevocable split-interest agreements for the purpose of providing decision-useful information and enhancing transparency by clearly identifying resources that are available. Irrevocable split-interest agreements are a specific type of giving arrangement used by donors to provide resources to two or more beneficiaries, including the System. The System will be required to adopt GASB No. 81 for the fiscal year ending June 30, 2018. Management is in the process of evaluating the implementation of this Statement, but does not expect any material effect to its financial position.

UNIVERSITY OF MAINE SYSTEM
REQUIRED SUPPLEMENTAL INFORMATION – RETIREMENT PLANS
YEAR ENDED JUNE 30, 2017 (UNAUDITED)
(IN THOUSANDS)

Schedules of Funding Progress						
Actuarial valuation (date as of July 1)	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/(c)
Postemployment Health Plan						
2017	\$ 114,883	\$ 191,497	\$ 76,614	60.0%	\$ 214,956	35.6%
2015	\$ 94,167	\$ 196,680	\$ 102,513	47.9%	\$ 220,629	46.5%
2013	\$ 73,042	\$ 163,893	\$ 90,851	44.6%	\$ 244,938	37.1%
2012	\$ 52,800	\$ 169,921	\$ 117,121	31.1%	\$ 234,720	49.9%
2011	\$ 50,170	\$ 160,336	\$ 110,166	31.3%	\$ 232,737	47.3%
2010	\$ 29,940	\$ 179,513	\$ 149,573	16.7%	\$ 221,170	67.6%
2009	\$ 18,870	\$ 163,799	\$ 144,929	11.5%	\$ 221,275	65.5%

REQUIRED SUPPLEMENTAL INFORMATION - RETIREMENT PLANS (UNAUDITED)

Incentive Retirement Plan:**Changes in Total Pension Liability and Related Ratios**

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

Schedule of Employer Contributions

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

REQUIRED SUPPLEMENTAL INFORMATION - RETIREMENT PLANS (UNAUDITED)

Incentive Retirement Plan – Continued:

Notes to Required Supplementary Information:

<i>Changes of benefit terms:</i>	None.
<i>Changes of assumptions and other inputs:</i>	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.
<i>Methods and assumptions used in calculations of actuarially determined contributions:</i>	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
<i>Assets:</i>	There are no assets accumulated in a trust that meets the criteria in paragraph 4 of Statement No. 73.

REQUIRED SUPPLEMENTAL INFORMATION - RETIREMENT PLANS (UNAUDITED)

Defined Benefit Plan:**Changes in Total Pension Liability and Related Ratios**

Fiscal Year Ended June 30	2017	2016	2015	2014**
Changes for the year:				
Service cost	\$ 6	\$ 5	\$ 40	\$
Interest	2,545	2,769	2,884	
Differences between expected and actual experience	(759)	-	12	
Changes of assumptions	-	1,427	-	
Benefit payments	(4,435)	(4,585)	(4,693)	
Net change in total pension liability	(2,643)	(384)	(1,757)	
Total pension liability – beginning	42,934	43,318	45,075	
Total pension liability – ending (a)	40,291	42,934	43,318	45,075
Contributions – employer	735	538	1,100	
Net investment income	2,173	202	27	
Benefit payments	(4,435)	(4,585)	(4,693)	
Administrative expenses	(20)	(19)	(8)	
Net change in plan fiduciary net position	(1,547)	(3,864)	(3,574)	
Fiduciary net position – beginning	32,763	36,627	40,201	
Fiduciary net position – ending (b)	31,216	32,763	36,627	40,201
Net pension liability – ending (a)-(b)	\$ 9,075	\$10,171	\$ 6,691	\$ 4,874
Plan fiduciary net position as a percentage of the total pension liability	77.48%	76.31%	84.56%	89.19%
Covered-employee payroll*	\$ 168	\$ 312	\$ 301	\$ 692
Net pension liability as a percentage of covered-employee payroll	5400.39%	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.

REQUIRED SUPPLEMENTAL INFORMATION - RETIREMENT PLANS (UNAUDITED)

Defined Benefit Plan – continued:**Schedule of Employer Contributions**

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

Notes to Required Supplementary Information:*Changes of benefit terms:*

None.

*Change of assumptions:**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, two years 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:

REQUIRED SUPPLEMENTAL INFORMATION - RETIREMENT PLANS (UNAUDITED)

Actuarial cost method	2015 to 2017: Entry age normal 2014: Projected Unit Credit
Asset valuation method	The actuarial value of assets is the market value of assets.
Inflation	2016 and 2017: 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 and 2017: 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.

Investment Returns:

Fiscal Year Ended June 30	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expenses	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.

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

Year Ended June 30, 2017						
Functions/Programs	Expenses	Charges for Services	Program Investment Gain	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue
University of Maine System	\$684,969	\$ 298,310	\$ 7,358	\$ 168,813	\$ 3,276	\$(207,212)
General Revenues:						
						9,455
						1,313
						212,036
						5,148
						1
						<u>227,953</u>
						20,741
						866,705
						<u>\$ 887,446</u>

Year Ended June 30, 2016						
Functions/Programs	Expenses	Charges for Services	Program Investment Loss	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue
University of Maine System	\$665,431	\$ 289,270	\$ (7,946)	\$ 170,864	\$ 2,881	\$(210,362)
General Revenues:						
						2,561
						1,180
						201,404
						13,104
						(1,813)
						<u>216,436</u>
						6,074
						860,631
						<u>\$ 866,705</u>



DRAFT 10/11/2017

**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, which comprise the statement of net position and the statement of financial position for its component unit as of June 30, 2017, the related statements of revenues, expenses and changes in net position and cash flows, and the statement of activities for its component unit, as of and for the year ended June 30, 2017, 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 for 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.

The Board of Trustees
University of Maine System

REPORT DATE

Page 2 of 2

DRAFT 10/11/2017

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.

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



AGENDA ITEM SUMMARY

1. **NAME OF ITEM:** Auditor Communications to the Audit Committee
2. **INITIATED BY:** M. Michelle Hood, Chair
3. **BOARD INFORMATION:** X **BOARD ACTION:**
4. **OUTCOME:** Enhance fiscal positioning **BOARD POLICY:** Bylaws – Section 3
5. **BACKGROUND:**

On November 1, 2017, Berry, Dunn, McNeil & Parker, LLC representatives Renee Bishop and Emily Parker will report to the Committee including discussion of the 2017 UMS financial statement audit and emerging accounting issues.

The following documents are included for reference:

- Draft Required Communications Letter
- PowerPoint - Auditor Communications to the Audit Committee



DRAFT 10/11/2017

3.1

Report Date

The Board of Trustees
University of Maine System
15 Estabrook Drive
Orono, ME 04469

Dear Board Members:

We have audited the financial statements of the business-type activities and the discretely presented component unit of the University of Maine System (the System) for the year ended June 30, 2017, and have issued our report thereon dated **Report Date**. Professional standards require that we communicate to you the following information related to our audit.

PART I – REQUIRED COMMUNICATIONS

Our Responsibility under U.S. Generally Accepted Auditing Standards, Government Auditing Standards, and Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)

As stated in our engagement letter dated June 9, 2017, our responsibility, as described by professional standards promulgated by the American Institute of Certified Public Accountants, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included in the discretely presented component unit, is based on the report of the other auditors.

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the System's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the System's compliance with those

requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the System's compliance with those requirements.

Our responsibility with respect to the Schedule of Expenditures of Federal Awards is described in the last paragraph of our Uniform Guidance reports.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the System are described in Note 1 to the financial statements.

There were no new accounting policies that were adopted and the application of existing policies was not changed during the year ended June 30, 2017. We noted no transactions entered into by the System during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were:

- The estimates used in the calculation of pension and other retirement benefit obligations, related deferred inflows and outflows, and disclosures, which are based on actuarial studies.
- The estimate of liabilities for self-insured health insurance, which is based on current experience and historical data.
- The allowances for uncollectible receivables, which are based on historical collection data.
- The calculation of depreciation expense, which is based on the expected lives of the related capital assets.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Note 3 – Investments
- Note 11 – Commitments and contingencies
- Note 13 – Pension plans
- Note 14 – Postemployment health plan
- Note 17 – Significant new accounting pronouncement

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no significant adjustments noted during the audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of this report.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the System's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the System's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, the Schedules of Funding Progress, and the supplementary information related to the System's retirement plans, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We have been engaged to report on the Schedules of Activities and the Schedule of Expenditures of Federal Awards, which accompany the financial statements but are not RSI. With respect to this supplementary information, we make certain inquiries of management and evaluate the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles or Uniform Guidance, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. Our procedures include comparing and reconciling the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

PART II – INTERNAL CONTROL MATTERS

In planning and performing our audit of the financial statements of the System as of and for the year ended June 30, 2017, in accordance with U.S. generally accepted auditing standards, we considered the System's internal control over financial reporting (internal control) as a basis for designing 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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. Given these limitations, during our audit we did not identify any deficiencies in internal

The Board of Trustees
University of Maine System
Report Date
Page 5

DRAFT 10/11/2017

3.1

control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Restriction on Use

This communication is intended solely for the information and use of the Board of Trustees and management of the System and is not intended to be, and should not be, used by anyone other than these specified parties.

Bangor, Maine
Report Date



Auditor Communications to the Audit Committee



Presented By
Renee Bishop, CPA
Emily Parker, CPA

November 1, 2017





Agenda

- Financial Statement Audit
- Federal Uniform Guidance Audit
- Required Auditor Communications
- Emerging Issues
- Higher Education Industry Outlook
- Eyes on Education



Financial Statement Audit

- Objective - To determine if the basic financial statements as a whole are materially fairly stated
- Performed on a test basis
- Unmodified opinion
- Significant Areas
 - Cash
 - Investments
 - Program service fees (tuition, room and board, etc.) and related receivables
 - Payroll and related liabilities, including pension and OPEB
 - Accounts payable, other liabilities, and related expenses
 - Capital assets and expenditures
 - Debt
 - Grants and similar programs



General Audit Procedures

- Internal Control Testing
 - Test of controls
 - Walkthroughs
- Substantive Audit Procedures
 - Confirmations
 - Validation
 - Inquiry
 - Observation
 - Other specific testing
- Analytical Audit Procedures
 - Develop an expectation
 - Current to prior
 - Current to budget
 - Predictive tests
- Investigation
- Evaluation



Surprise Procedures

- Procurement test for large projects
- Test of travel card controls
- Test of payroll paid to source documents
- Test of duplicate addresses
- Test of cash and receivable reconciliations at one location



Financial Statement Footnotes

- Key footnotes
 - Investments - Note 3
 - Capital Assets - Note 6
 - Debt - Note 7
 - Net Position - Note 10
 - Commitments - Note 11
 - Pensions - Note 13
 - Postemployment Health Plan - Note 14
 - Significant New Accounting Pronouncements - Note 17



Federal Funds (Uniform Guidance) Compliance Audit

- Major programs:
 - Student Financial Assistance Cluster
 - Research and Development Cluster

Required Communications

Our Responsibility

Our responsibility

- To express an opinion on the financial statements.
- We are not a level of internal control.

Management's responsibility

- The preparation and fair presentation of the financial statements is management's responsibility.

Planning and performing the audit

- We consider internal control, but do not express an opinion on it.
- We perform tests in key audit areas; those tests may change from year to year.

Required Communications

Qualitative Aspects of Accounting Policies

New standards

- None noted.

Management's judgements and estimates

- Valuation of pension and other retirement benefit obligations, and related deferred inflows and outflows.
- Estimate of the liability for self-insured health plan.
- Allowance for uncollectible receivables.
- Depreciation expense.

Accounting disclosures

- Disclosures were neutral, consistent, and clear.

Adjustments

- None.

Required Communications

Other Required Disclosures

Disagreements and difficulties

- No disagreements with management.
- No difficulties in performing the audit. Management was well prepared and proactive during the audit.

Management's representations

- As part of the audit, we obtain a signed letter from management attesting to certain representations made during the audit.

Consultations and other matters

- We are not aware of management having consultations with other accountants. If it were to be the case, standards require those auditors check with us to ensure they have all the relevant facts.
- We communicate with management throughout the year on a variety of matters prior to retention as the System's auditor. Those discussions were in the ordinary course of business and not a condition of our retention.



Emerging Issues

- *GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*
- *GASB 80 – Blending Requirements for Certain Component Units*
- *GASB 81 – Irrevocable Split-Interest Agreements*
- *GASB 83 – Certain Asset Retirement Obligations*
- *GASB 84 – Fiduciary Activities*
- *GASB 85 – Omnibus 2017*
- *GASB 86 – Certain Debt Extinguishments*
- *GASB 87 – Leases*
- Other GASB projects
 - Financial reporting model

Effective Dates and Impact for New Standards

GASB No.	Name	Effective Date	UMS Year	Impact
75	<i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions</i>	Fiscal years beginning after June 15, 2017	FY 2018	Based on the actuarial valuation performed as of June 30, 2017, the impact would be an increase in liabilities of \$77,000,000 and a restatement to beginning net position as of June 30, 2016 of \$102,000,000.
81	<i>Irrevocable Split-Interest Agreements</i>	Periods beginning after Dec 15, 2016	FY 2018	Increase in assets and restricted net position (management estimates between \$3 and \$4 million). The team is still working to identify all agreements that must be recorded under the this new standard.
83	<i>Certain Asset Retirement Obligations</i>	Periods beginning after June 15, 2018	FY 2019	No significant impact expected.
84	<i>Fiduciary Activities</i>	Periods beginning after December 15, 2018	FY 2020	Will require a significant amount of management resources to evaluate all fiduciary funds, and consider for inclusion in the financial statements of the System.
85	<i>Omnibus 2017</i>	Periods beginning after June 15, 2017	FY 2018	No significant impact expected.
86	<i>Certain Debt Extinguishment Issues</i>	Periods beginning after June 15, 2017	FY 2018	No significant impact expected.
87	<i>Leases</i>	Periods beginning after Dec 15, 2019	FY 2021	Increase in assets and liabilities for the System. Based on current operating leases, this is currently not expected to exceed \$1 million.

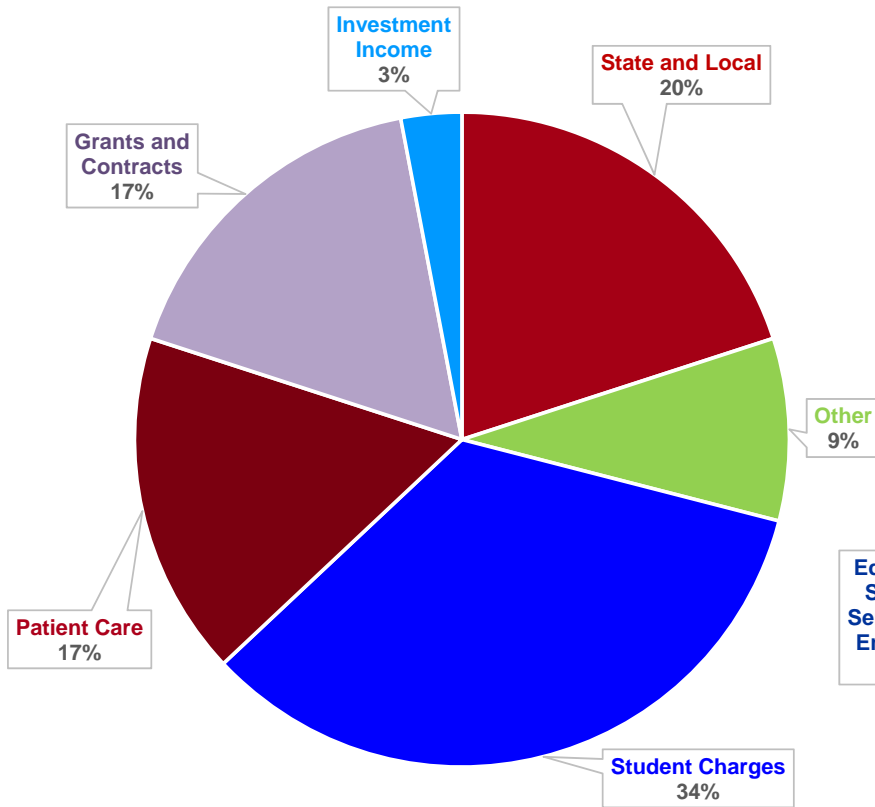
Moody's Higher Education Industry Outlook

Continued moderate revenue growth supports stable outlook

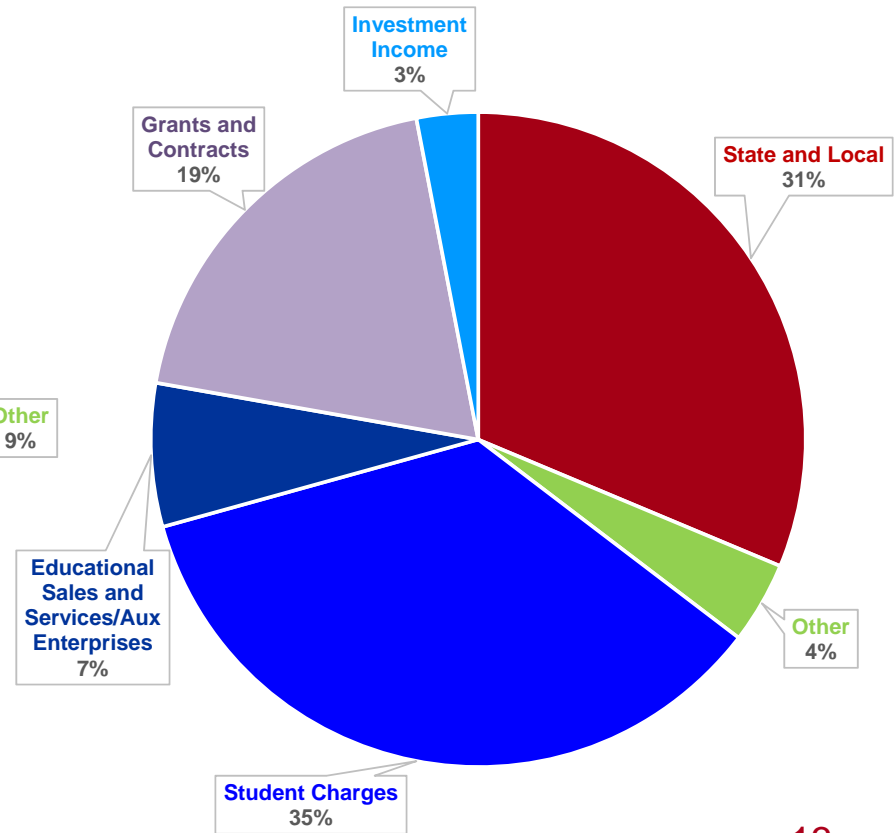
- Operating revenue will grow at around 3%.
- Tuition – Modest enrollment growth, net tuition growth 2.0% median for FY17 and FY18.
- State funding is expected to increase 3-4%, with slower growth of 1.5%-2.5% in 2018.
- Research funding expected to increase modestly by 2%-3%.
- Endowment income expected to be strong for 2017 with slowing for 2018.
- Gifts will increase in the 4%-5% range.
- Potential difficulties:
 - Immigration policies may discourage international students.
 - Increasing pension liabilities.
 - Increased labor costs.
 - Growing borrowing costs.
 - Federal funding uncertainties.
- Higher education's business model will continue to shift gradually:
 - Technology will allow access to new markets.
 - Ongoing execution of various types of consolidations and collaborations.
 - Commercialization of activities (licenses, patents, commercial partnerships).

Higher Education Industry Outlook – Revenue Sources

FUNDING SOURCES SECTOR OUTLOOK



FUNDING SOURCES UMS FY2017





Eyes on Education

- Federal funds - continuing regulation, threats to Funding
- Taxation threats
- Technology risks
- Sustainability
- Potential changes in the political landscape
- Repeal and replacement of Affordable Care Act
- NEASC financial reporting
- GLBA standards testing



Contact Us

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This communication is intended solely for the information and use of the Board of Trustees, Audit Committee, and management and is not intended to be, and should not be, used by anyone other than these specified parties.



Questions?

Glossary of Common Terms

- GASB – Governmental Accounting Standards Board

This board is responsible for establishing standards of accounting and financial reporting for U.S. state and local governments.

- FASB – Financial Accounting Standards Board

This board is responsible for establishing standards of accounting and financial reporting for U.S. nongovernmental organizations, including for-profit and not-for-profit organizations.

- GAAP – Generally Accepted Accounting Principles
- AICPA – American Institute of Certified Public Accountants
- The AICPA sets ethical standards for the CPA profession and sets U.S. auditing standards for private companies, nonprofit organizations, federal, state and local governments.
- NEASC – New England Association of Schools and Colleges
- GLBA – Gramm-Leach-Bliley Act



AGENDA ITEM SUMMARY

- 1. **NAME OF ITEM:** External Audit Services for FY2018 - Berry Dunn McNeil and Parker, LLC
- 2. **INITIATED BY:** M. Michelle Hood, Chair
- 3. **BOARD INFORMATION:** **BOARD ACTION:** X
- 4. **OUTCOME:** **BOARD POLICY:**
Enhance fiscal positioning Bylaws – Section 3
- 5. **BACKGROUND:**

Through a competitive procurement process, the University of Maine System (UMS) engaged Berry Dunn McNeil and Parker, LLC (BDMP) to perform audit services commencing with fiscal year ending June 30, 2012 (FY2012). The contract allowed for a set 5-year period with 2 1-year extensions. We are now approaching the final extension year under this contract. Management requests that the Audit Committee approve the engagement of BDMP for FY2018, after which UMS will begin a Request for Proposal (RFP) process.

This final-year extension would be based on the terms of the RFP issued in 2011 and BDMP’s pricing provided in 2012. The quoted fees for the FY2018 audits assume no significant changes in scope, requests from management or federal regulatory changes requiring significant auditing or reporting requirements and total \$255,400 as detailed below:

Financial Statement audit	\$189,900
Uniform Guidance (formerly A-133) audit	<u>65,500</u>
Total	<u>\$255,400</u>

The fees for the Uniform Guidance audit assume the major programs to be tested for compliance in FY2018 will be the Student Financial Aid Cluster, Research & Development Cluster, and one other program (depending on thresholds or other criteria). The fee will be adjusted if the additional program is not required to be audited or if additional programs must be audited. The estimated fee adjustment for each program would be calculated as originally quoted at approximately \$7,500 for FY2012 with inflation of 2-3% a year thereafter. If the auditor determines that an additional program(s) will need to be audited, such determination will be communicated to management in advance of commencing work, along with a set additional fee for the work to be performed.

6. TEXT OF PROPOSED RESOLUTION:

That the Board of Trustees, acting through the Audit Committee, approves the extension of Berry Dunn McNeil and Parker, LLCs appointment as the University of Maine System's external auditors for Fiscal Year 2018.