

Board of Trustees  
**Audit Committee Meeting**

October 27, 2021 at 12:00pm  
Zoom Meeting – No Physical Location Available

The public is invited to view the meeting on YouTube. The link to the Board of Trustees YouTube page can be found the Board website: <https://www.maine.edu/board-of-trustees/>

**AGENDA**

**Audit Committee**

- 12:00 pm  
TAB 1      [UM Department of Athletics Agreed-Upon Procedures Report](#)
- 12:10 pm  
TAB 2      [Audit Committee FY2022 Work Plan](#)
- 12:15 pm  
TAB 3      [Other Postemployment Benefits \(OPEB\) Plan Presentation](#)
- 12:35 pm  
**TAB 4**      [Annual Financial Report – FY2021](#)
- 1:00 pm  
TAB 5      [Auditor Communications to the Audit Committee](#)
- 1:25 pm  
TAB 6      [Covid-19 Update](#)
- 1:35 pm  
TAB 7      [Enterprise Risk Management Update](#)
- 1:45 pm      **EXECUTIVE SESSION**  
The Audit Committee will enter Executive Session under the provision of:  
1 MRSA Section 405 6-A.

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  
Board of Trustees

**AGENDA ITEM SUMMARY**

**NAME OF ITEM:** UM Department of Athletics Agreed-Upon Procedures Report

**INITIATED BY:** David M. MacMahon, Chair

**BOARD INFORMATION:** X

**BOARD ACTION:**

**BOARD POLICY:**

Bylaws – Section 3

**UNIFIED ACCREDITATION CONNECTION:**

N/A

**BACKGROUND:**

Ken Ralph, Director of Athletics and Samantha Hegmann, Associate Athletic Director for Compliance for the University of Maine, will provide a brief overview regarding the enclosed Department of Athletics Agree-Upon Procedures Report for Academic Year 2020-2021, performed by O'Connor & Drew.

10/15/2021



September 30, 2021

Mr. Ken Ralph, Director of Athletics  
University of Maine  
5747 Memorial Gym  
Orono, Maine 04469

Dear Mr. Ralph:

Enclosed please find three copies of the University of Maine Department of Athletics agreed-upon procedures report.

If you would like to meet to discuss this report, please contact us.

Very truly yours,

A handwritten signature in cursive script that reads 'O'Connor &amp; Drew, P.C.'.

O'Connor & Drew, P.C.

FOB/ps  
Enclosures

# **UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS**

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## **AGREED-UPON PROCEDURES REPORT**

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

**Academic Year 2020-2021**

# **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**

#### **C O N T E N T S**

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| <b>Independent Accountants' Agreed-Upon Procedures Report</b> | 1-2 |
| Background  | 3   |
| Findings  | 4   |
| General Recommendations                                       | 5-7 |



## **INDEPENDENT ACCOUNTANTS' AGREED-UPON PROCEDURES REPORT**

Mr. Ken Ralph, 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"), related to management's assertion about the University's compliance with the requirements related to the areas listed below for the 2020-2021 academic year. The University's Management is responsible for the compliance with those specified requirements.

- Initial Eligibility Certification
- Continuing-Eligibility Certification
- Extra Benefits- Athletic Apparel and Equipment
- Extra Benefits- Representatives of the University's Athletics Interests
- Student Athlete Employment

The University of Maine has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of determining compliance with the specified requirements. The sufficiency of these procedures is solely the responsibility of Mr. Ken Ralph, Director of Athletics, the board of trustees and management of the University. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

We were engaged by the University of Maine to perform this agreed-upon procedures engagement and conducted our engagement 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 engagement, 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.

We are required to be independent of the University of Maine and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of Mr. Ken Ralph, 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.



**Certified Public Accountants  
Braintree, Massachusetts**

September 29, 2021

## **UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS**

### **Background**

#### **For the Academic Year 2020-2021**

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 University's Athletics 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 ("Compliance") maintains a compliance manual documenting the policies and procedures of the department. This manual addresses all NCAA compliance areas and is managed by the Associate Athletic Director for 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 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 2020-2021

#### **Procedures:**

As noted previously, we have performed the applicable procedures enumerated in the previously stated sections of the ACUA NCAA Audit Guide, for the University's Department of Athletics, in evaluating management's assertion about the University's compliance with the requirements for the 2020-2021 academic year with findings described below:

#### **Finding (F21-01):**

*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 for ten of the University's athletic teams and noted that the jerseys used by the women's and men's basketball teams and the baseball team each contained two New Balance logos, including one that was larger than the maximum allowed by NCAA regulations.

A similar finding was noted in our reports that covered the 2016-2017, 2012-2013 and 2009-2010 academic year. The findings were related to the three teams 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 suggest that the Compliance Office establish a procedure whereby new equipment is examined for compliance with applicable NCAA requirements.

#### **Management's Response:**

The University of Maine athletic equipment staff is aware of the patch overage. They will acquire an additional patch that will be sewn over the area of the logo that exceeds the required

# **UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS**

## **Findings**

### **For the Academic Year 2020-2021**

dimensions per the NCAA. Please note that the manufacturer has been made aware of the patch not meeting the NCAA specifications, but have not changed them rather sending the additional coverage patch as an alternative.

## UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS

### General Recommendations

#### For the Academic Year 2020-2021

##### Overview:

We have provided the enclosed “general recommendations” for the purposes of providing 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 (GR21-01):

###### *Extra Benefits – Athletic Equipment and Apparel*

We reviewed the policies and procedures surrounding equipment and apparel. 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 University of Maine equipment room staff has already acquired a software system and they are in the process of implementing it within the athletic department.

##### General Recommendation (GR21-02):

###### *Extra Benefits – Representatives of the University’s Athletics Interests*

The University has one booster group called the M Club. The M Club purchases are not reviewed by Compliance prior to disbursement. All disbursements are solely approved and determined by the M Club. Additionally, through discussion with management, we noted that compliance does not communicate directly with M Club members and does not attend M Club Meetings.

##### Recommendation

We recommend all disbursements from the M Club be reviewed by Compliance to ensure there are no potential compliance violations. Additionally, we recommend that Compliance attend M Club meetings and provide education to its members on NCAA rules and regulations pertaining to boosters.

# UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS

## General Recommendations

### For the Academic Year 2020-2021

#### Management Response:

The University of Maine will collaborate with the athletic business office to review purchases that the M Club make within the athletic department to ensure there are no compliance violations.

#### **General Recommendation (GR21-03):**

##### *Extra Benefits – Representatives of the University's Athletics Interests*

During our testing of the representatives of the University's athletic interests, we were advised by management that no information is directly disbursed to boosters to inform them of NCAA compliance rules and regulations.

#### Recommendation:

Compliance should create and send a form with 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 Response:

The Compliance office will collaborate with the ticket office and the development office to send educational information to donors and other parties involved (including single game ticket buyers) to notify them that they are now boosters of the athletics program. Secondly, we will provide boosters with what activities are permissible and non-permissible with student-athletes.

#### **General Recommendation (GR21-04):**

##### *Extra Benefits – Representatives of the University's Athletics Interests*

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 of the University's athletic interests have access to student-athletes at these locations and if monitoring exists to ensure violations of NCAA legislation did not occur. Per discussion with Samantha Hegmann, Associate Athletic Director for Compliance, the Athletic Development Office is responsible for reviewing and granting requests for sideline access 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 and is readily available electronically

## UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS

### General Recommendations

#### For the Academic Year 2020-2021

or physically. Ensure that this policy should contain activities that educate representatives of the University's athletic interests about the NCAA legislation regarding extra benefits and other interactions with student-athletes.

#### Management Response:

The Compliance office will work with all necessary areas to have a formal policy drafted and added to our institutions website.

#### **General Recommendation (GR21-05):**

##### *Extra Benefits – Representatives of the University's Athletics Interests*

We reviewed the M Club Policies and Procedures as well as the list of Board Members. We noted Ann Maxim, Director of Academic Support Services, acts as the President of the M Club, and Kristin Gilmour, Athletic Academic Counselor, acts as the Secretary of the M Club.

#### Recommendation

The University should examine the relationship of the athletic department and the M Club to gain a better understanding of any potential conflicts of interest that may exist. Additionally, management should determine if adequate controls are in place surrounding this relationship.

#### Management Response:

The University of Maine will reexamine the relationship that the academic counselors and M Club have. Please note that while the academic staff work with student-athletes and their offices are housed in the athletic department, their direct reporting line is to the office of the provost.

#### **General Recommendation (GR21-06):**

##### *Student Athlete Employment*

Compliance relies on student-athletes to self-report employment on the Student-Athlete Vehicle Housing Employment Activities Form. If the student athlete indicates employment, a second form, Student Athlete Employment Registration, is generated and automatically sent to the student-athlete. The student-athlete is required to complete this form and submit to Compliance. Compliance did not verify that the second form was completed. As a result, the University does not have a complete list of student-athlete employment information.

# **UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS**

## **General Recommendations**

### **For the Academic Year 2020-2021**

#### Recommendation

We recommend that management implement a system to track all student-athletes indicating employment in the Vehicle Housing Employment Activities Form. Management should ensure that each Student Athlete Employment Registration form is completed correctly.

#### Management Response:

The Compliance office has already taken steps this academic year to ensure that athletes are filling out the necessary employment form. This includes a revision of the current ARMS form to allow for easier upload access for those student-athletes that are employed.

University of Maine System  
Board of Trustees

**AGENDA ITEM SUMMARY**

**NAME OF ITEM:** Audit Committee Fiscal Year 2022 Work Plan

**INITIATED BY:** David M. MacMahon, Chair

**BOARD INFORMATION:** X

**BOARD ACTION:**

**BOARD POLICY:**

Bylaws – Section 3

**UNIFIED ACCREDITATION CONNECTION:**

N/A

**BACKGROUND:**

Board Committees annually review their Work Plans, which provide an overview of the agendas for the Committee for the fiscal year. The Audit Committee's Fiscal Year 2022 Work Plan is presented for your information. This Plan will also be included in the November 15, 2021 Board of Trustees meeting materials as an information item.

In addition, a copy of the Committee Duties and Responsibilities are included for your information.

10/15/2021

University of Maine System  
Board of Trustees

**Audit Committee  
Work Plan FY2022**

**Late October Meeting Agenda:**

1. UM Department of Athletics Agreed-Upon Procedures Report
2. Presentation of the Annual Financial Report (audited financial statements)
3. External auditor report including required communications letter, executive summary of financial statement audit results, and discussion of emerging accounting issues
4. Enterprise Risk Management update
5. Covid-19 updates and detailed campus by campus review

**May Meeting Agenda:**

1. Review Single Audit Report
2. External auditor summary of federal compliance Single Audit results
3. External auditor discussion of required communications, audit planning for the next fiscal year, and emerging accounting issues
4. UM Department of Athletics Agreed-Upon Procedures Report
5. Enterprise Risk Management update
6. Covid-19 updates and detailed campus by campus review

*Other meetings and agenda items scheduled as needed.*

University of Maine System  
Board of Trustees

**Audit Committee**  
Duties and Responsibilities

Committee established: July 1988

Last Revised: 7/11/1988; 10/21/2008; 8/23/2010; 5/23/2011

Approved by the Board of Trustees: 5/23/2011; 9/23/2013

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The Audit Committee shall monitor the adequacy and integrity of the University of Maine System's (System) internal controls, financial reporting, compliance with legal and regulatory requirements and ethics reporting.

#### Committee Authority

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Bylaws – Section 3

The primary duties and responsibilities of the Committee shall be to:

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1. Recommend for initial appointment by the Board the independent public accountant for the System.
2. Review and approve the annual audit scope and fees of the independent public accountant.
3. Review the independence of the independent public accountant and management's evaluation of this independence.
4. Review and approve the scope of other professional services performed or to be performed by any independent public accountant as well as the related fees and consider the possible effect that these services could have on the independence of such accountant.
5. Discuss with the independent public accountant the result of its audit of the prior year.
6. Review with management and the independent public accountant all significant issues concerning litigation contingencies, claims or assessments and all material accounting changes which require inclusion in the footnotes to the annual financial statements. This review should include a discussion of recent Governmental Accounting Standards Board (GASB) or other pronouncements that have a material impact on the System. GASB is the independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments.
7. Monitor instances where management seeks second opinions on significant accounting issues.
8. Review management's evaluation of the adequacy of the System's internal controls and the extent to which major recommendations made by the independent public accountant and the System internal auditors have been implemented.

## Audit Committee Duties and Responsibilities Continued

2

9. Review the internal audit services contracted for by the System.
10. Review the audit results of governmental and independent auditors engaged for specific purposes.
11. Review NCAA annual financial agreed-upon procedures reports and external compliance reports. Review the campus schedule to ensure that the entire rules compliance program receives an external comprehensive review at least once every four years.
12. Oversee the System efforts for enterprise risk management, to include the identification, assessment and prioritization of risks, as well as the development of action plans to address risks and progress towards mitigation.
13. As deemed appropriate by the Committee, unless otherwise specifically directed by the Board of Trustees, it shall direct and supervise an investigation into any matter within the scope of its duties and responsibilities. In connection with any such investigation, the Committee shall have the authority to utilize the System staff and other resources and to employ outside counsel or consultants at System expense.

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#### Membership of the Committee

The Audit Committee shall be made up of at least three voting members of the Board of Trustees. The Chair and Vice-Chair of the Board and the Chancellor shall be ex-officio members, but the Chancellor shall have no vote. The Audit Committee can only include persons who are members of the Board.

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#### Meetings

The meetings of the Committee ordinarily shall be called by the Committee Chair, but may be called by the Chair of the Board or a majority of the Committee.

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#### Staff to the Committee

The Audit Committee shall be staffed by the Vice Chancellor for Administration and Finance and Treasurer.

University of Maine System  
Board of Trustees

**AGENDA ITEM SUMMARY**

**NAME OF ITEM:** Other Postemployment Benefits (OPEB) Plan Presentation

**INITIATED BY:** David M. MacMahon, Chair

**BOARD INFORMATION:** X

**BOARD ACTION:**

**BOARD POLICY:**

Bylaws – Section 3

**UNIFIED ACCREDITATION CONNECTION:**

N/A

**BACKGROUND:**

Other Postemployment Benefits (or OPEB) are benefits (other than pensions) that U.S. state and local governments provide to their retired employees which primarily involve healthcare benefits, but may also include life insurance, disability, and other services.

Linda Bournival of KMS Actuaries, LLC will provide an overview of the UMS OPEB Plan's actuarial results including key financial results and information about the Plan's Trust assets and funded status.

10/15/2021

# University of Maine System

## Postemployment Benefits Other Than Pensions (OPEB)

June 30, 2021 Disclosures

Presentation to the Audit Committee

October 27, 2021

Linda L. Bournival, FSA, EA, MAAA  
Consulting Actuary  
KMS Actuaries, LLC



# Agenda

- Introduction
- Purpose of Valuation
- Key Results for FY2021
- OPEB Plan Funded Status
- OPEB Trust
- Actuarial Valuation
  - Model
  - Plan Provisions
  - Actuarial Assumptions
- Disclosures
- Resources



# Introduction

- Linda L. Bournival, FSA, EA, MAAA
  - Fellow, Society of Actuaries
    - Social Insurance & Public Finance Section Council Member
  - Enrolled Actuary under ERISA
  - Member of the American Academy of Actuaries
  - Fellow of the Conference of Consulting Actuaries
- Over 30 years of Actuarial & Benefits Consulting Experience
  - Retiree medical healthcare experience
    - OPEB valuations
    - Accounting disclosures under GASB 74 & 75
  - Public pension actuarial and consulting
  - Actuarial audits of large state pension and healthcare systems
  - Pension Obligation Bond consulting



# Purpose of Valuation

- Periodic review of OPEB Plan experience
  - Liabilities
  - Assets
- Review assumptions and methods
  - Appropriate
  - Consistent
  - Reasonable
  - Conform to Actuarial Standards of Practice (ASOPs)
- Develop contributions
- Develop Financial Statement Disclosures



# Key Results for FY2021

(in millions)

| OPEB Trust Assets   |         | Total OPEB Liability (TOL) |         |
|---------------------|---------|----------------------------|---------|
| Beginning balance   | \$137.4 | Beginning balance          | \$213.4 |
| Trust contributions | 5.5     | Benefits earned            | 7.0     |
| Investment earnings | 37.4    | Benefits paid              | (7.0)   |
| Ending balance (a)  | \$180.3 | Interest on TOL            | 15.7    |
|                     |         | Benefit changes            | (49.5)  |
| Rate of return      | 27%     | Experience                 | (8.9)   |
|                     |         | Assumption changes         | (8.5)   |
| Gain on investments | \$27.3  | Ending balance (b)         | \$162.2 |

Funded Ratio is 111% as of June 30, 2021.

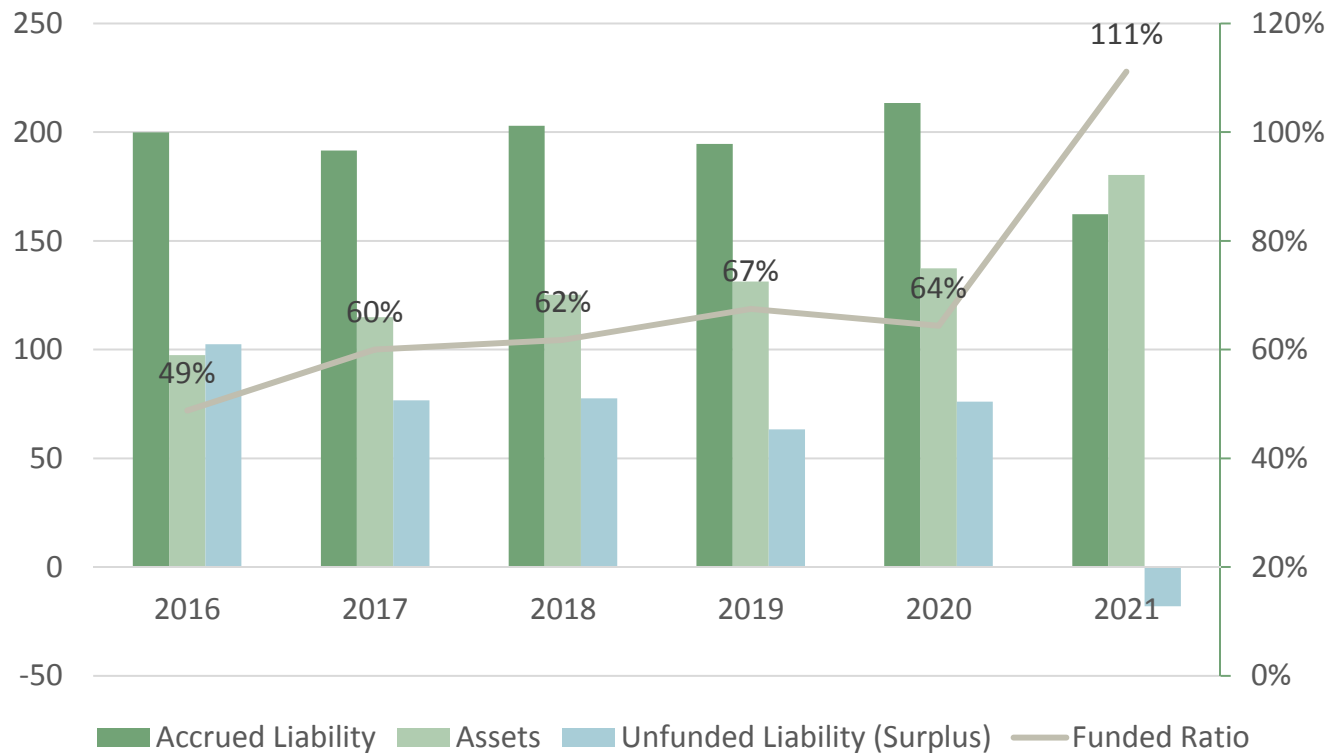
Funded Ratio is OPEB Trust Assets (a) divided by TOL (b).



**University of Maine System**  
 Other Postemployment Benefits Program  
 June 30, 2021 Disclosures

# OPEB Plan Funded Status

## 2016 - 2021



**University of Maine System**  
 Other Postemployment Benefits Program  
 June 30, 2021 Disclosures

# OPEB Trust - Basics

- UMS OPEB Trust
  - Purpose is to accumulate assets to prefund OPEB liabilities
- Trust Criteria
  - Assets dedicated to providing benefits to retirees
  - Assets legally protected from creditors of the employer
  - Employer contributions must be irrevocable



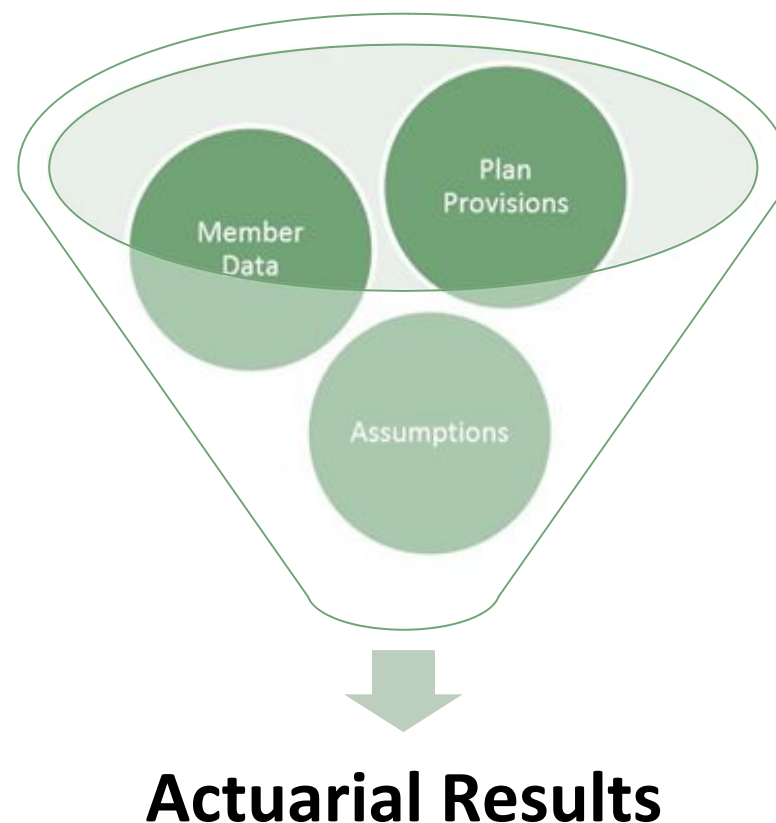
# OPEB Trust - Funding Policy

- UMS developed a systematic method of prefunding to OPEB Trust
  - Annual contributions
    - Normal cost component
    - Amortization payment component
      - Pay Unfunded Actuarial Accrued Liability (UAAL) over a specified period of time – 30 years from 2017
- OPEB Plan now in surplus (111% funded)
  - Funded ratio exceeds 100%
  - Trust used to pay annual benefits
  - Annual contributions
    - Normal cost component
    - No 'offset' for surplus amortization component
  - Revised funding policy adopted October 14, 2021



# Actuarial Valuation Model

- UMS submits employee and retiree data to KMS
- UMS provides 'substantive plan' of benefit provisions
- KMS selects actuarial assumptions
- Actuarial results used for funding and accounting disclosures



# Actuarial Valuation Plan Provisions

- Medicare-eligible retirees and spouses
  - Aetna Medicare Advantage Plan
    - Cost of plan is shared between UMS and retirees
    - No contributions required for eligible retirees who retired prior to July 1, 2010
  - Effective January 1, 2021, may elect coverage under the Aon Retiree Health Exchange
    - For 2021, retirees and spouses provided HRA of \$2,100 and \$800, respectively
    - Catastrophic prescription drug coverage for RX greater than \$1,500 within a calendar year
- Early retirees and spouses
  - Cigna plans available to active employees
  - Implicit subsidy is valued
- Plan details provided in Actuarial Valuation Report, Summary of Plan Provisions



# Actuarial Valuation Assumptions

- Used to project expected benefit payments in the future
- Economic
  - Discount rate
    - used to discount future benefit payments to present
    - Based on long-term expected return of 7.25%
    - Includes inflation assumption of 2.2%
  - Health care trend rates
    - Principal components are medical inflation, deductible erosion, cost shifting, utilization, technology and catastrophic claims
    - Start at 6% and trend down by .25% to an ultimate rate of 4% using SOA Getzen Medical Trend Model
    - Rx 6.5% to 5%
- Demographic
  - Mortality rates and mortality improvement rates
  - Pre-retirement decrements
  - Participation and covered spouse



# Financial Statement Disclosures

- Results from the Actuarial Valuation are reported on UMS' annual financial statements
- Net OPEB Liability (Asset)
  - UMS as of June 30, 2021, has Net OPEB Asset of \$18 million
- Expense (Income) under GASB 75 as of June 30, 2021 is (\$46.4 million)
  - Change in Net OPEB Liability
  - Benefit changes recognized immediately
  - Deferrals allowed for
    - Experience gains and losses
    - Assumption changes
    - Investment gains and losses
- 2022 – 2025 expected income of ~ \$3 - \$4 million
- 2026 – expected expense of ~ \$4 million



# Resources

- University of Maine System Other Postemployment Benefits Program, Financial Reporting and Disclosures, Governmental Accounting Standards Board Statements 74 and 75, Disclosures as of June 30, 2021 prepared by KMS Actuaries, LLC, report dated September 23, 2021
- Governmental Accounting Standards Board, [gasb.org](http://gasb.org)
- Actuaries for the University of Maine System  
KMS Actuaries, LLC  
52 Hunt Road  
Kingston, NH 03848  
(603) 792-9494  
  
Linda L. Bournival, FSA, EA  
Consulting Actuary  
[lindab@kmsactuaries.com](mailto:lindab@kmsactuaries.com)



University of Maine System  
Board of Trustees

## **AGENDA ITEM SUMMARY**

**NAME OF ITEM:** Annual Financial Report – Fiscal Year 2021

**INITIATED BY:** David M. MacMahon, Chair

**BOARD INFORMATION:**

**BOARD ACTION:** X

**BOARD POLICY:**

Bylaws – Section 3

**UNIFIED ACCREDITATION CONNECTION:**

N/A

**BACKGROUND:**

The University of Maine System's (UMS) fiscal year 2021 (FY2021) draft Annual Financial Report is presented for the Audit Committee's review. The report is currently pending final review by the UMS external auditors and receipt of the audited University of Maine Foundation financial statements. Darla Reynolds, UMS Director of Accounting, and Tracy Elliott, UMS Vice President of Finance and Controller, will provide an overview of the results at the October 27, 2021 Audit Committee meeting.

As shown on page 42 of the Annual Financial Report, the UMS ended FY21 with *Income Before Other Changes in Net Position* of \$59 million and *Total Other Changes in Net Position* of nearly \$54 million, for a *Change in Net Position* for FY2021 of \$113 million.

As shown on page 40, *Total Net Position* at June 30, 2021 was \$945 million increasing \$113 million from FY2020. Changes in each *Net Position* category were:

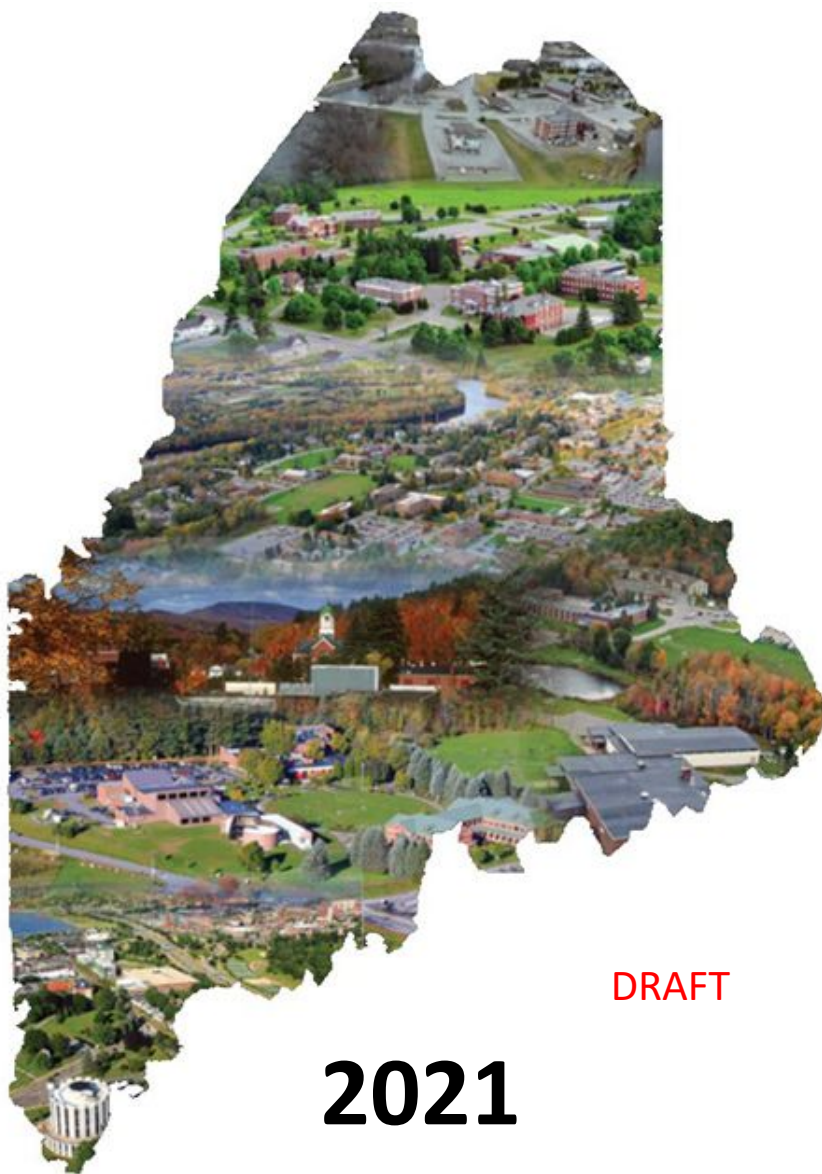
| <b>Net Position Category:</b>           | <b>FY2021<br/>Increase<br/>(Decrease)</b> |
|---|---|
| <i>Net Investment in Capital Assets</i> | \$3 million                               |
| <i>Restricted Nonexpendable</i>         | \$3 million                               |
| <i>Restricted Expendable</i>            | \$28 million                              |
| <i>Unrestricted</i>                     | <u>\$79 million</u>                       |
| <b><i>Change in Net Position</i></b>    | <u><b>\$113 million</b></u>               |

**TEXT OF PROPOSED RESOLUTION:**

That the Audit Committee, forwards this item to the October 27, 2021 Special Board of Trustees meeting for approval of the following resolution:

That the Board of Trustees accepts the recommendation of the Audit Committee and approves the FY2021 Annual Financial Report as presented, except that, should the University of Maine Foundation's audit fail to be completed prior to UMS issuing its Annual Financial Report, a disclaimer of opinion would replace the unmodified opinion regarding the Foundation's FY21 financial statements which are included in these draft statements.

10/15/2021



# 2021 University of Maine System Annual Financial Report

The University of Maine System is a Component Unit of the State of Maine  
Electronic statements are available at:  
<https://www.maine.edu/finance/policies-procedures-and-reports/annual-financial-reports/>  
Or by contacting:  
Controller's Office  
5703 Alumni Hall Suite 101  
Orono, ME 04469-5703

DRAFT

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#### NON-DISCRIMINATION NOTICE

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

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October 14, 2021

I began last year's letter noting that Fiscal Year 2020 was one of historic change and unprecedented challenge in the University of Maine System. Likewise, Fiscal Year 2021 presented considerable hurdles as well as exciting opportunities for collaboration, strengthening and progress.

Our most important work is providing education, research, public service, and workforce development. I am proud to report that nearly 5,000 students graduated from our universities and the Maine School of Law in May, with a mix of online and interactive events. This resilient Class of 2021 was 7 percent larger than last year even with COVID-19 complications.

This fall, a majority of students, faculty and staff are on our campuses and the energy is real. From the University of Maine at Fort Kent to the University of Southern Maine, we're safely engaged in learning, conducting research and providing outreach. This is possible because we continue to follow science-based public health protocols.

Because of diligent stewardship, UMS retained its AA- credit rating, with a stable outlook, during the pandemic. S&P Global's report indicated that UMS management "maintains a disciplined debt policy, imparts fiscal discipline through using dashboard indicators and long-term financial planning, and adapts to the challenging demographics of Maine through newly developed initiatives."

The report assessed our enterprise profile as strong, characterized by breadth and depth, and noted that enrollment has remained stable even with unfavorable state demographics and strong regional competition. The report also noted that our unified accreditation model will permit greater academic collaboration between our universities and allow UMS to offer academic programming that any one university may not have the resources to offer by itself.

We carefully administer our resources so that tax and donor dollars go farther. Our sound fiscal management is imperative to managing costs, lowering the cost of borrowing, and attracting additional investments.

The Harold Alfond Foundation's \$240 million investment in the System announced last October is a transformative opportunity for higher education in Maine. It includes:

- \$75 million for a multi-university Maine College of Engineering, Computing, and Information Science.
- \$20 million to support student retention and success systemwide.
- \$90 million to modernize UMaine Athletics infrastructure and improve gender equity.
- \$55 million to develop the Maine Graduate and Professional Center (Maine Center) in Portland, including a signature new building to house Maine Law, the Graduate School of Business and Muskie School of Public Service.

Over the next ten years, we'll be using these historic investments to improve diversity, equity, and inclusion in these important areas, and all universities in our system will play a role. We'll be leveraging Alfond investments to secure an additional \$170 million in matching funds over the same time from private, state and federal sources, resulting in \$410 million total investment in our public university system. The impacts will be truly transformative.

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In March Governor Janet Mills signed legislation to implement the Maine Jobs and Recovery Plan, **DRAFT** which directed \$35 million to UMS to accelerate talent development, research and innovation in support of the state's economic recovery and its long-term economic growth and global competitiveness. This plan will help to fund new programs and infrastructure, bringing new jobs to several industries.

With more than 50 percent of UMS's physical plant constructed or last renovated more than 50 years ago, the System is working on strategic capital infrastructure improvements and planning for more. Greater investment in our facilities and innovative partnerships are part of our plan.

This June Trustees approved a FY22 budget that — for the seventh time in 10 years — holds in-state tuition rates flat for Maine students. Holding the line on tuition cannot be the expectation every year, but our stewardship of university resources will always include an obligation to keep the costs of a public higher education in Maine within the reach of Maine families.

Thank you, again, for your interest in and support of our work.



Dannel P. Malloy  
Chancellor

**UNIVERSITY OF MAINE SYSTEM  
BOARD OF TRUSTEES AND MANAGEMENT  
AS OF JUNE 30, 2021**

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Dannel P. Malloy

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*Vice President of Budget and Financial Analysis*

## INDEPENDENT AUDITORS' REPORT

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Board of Trustees  
University of Maine System  
Orono, Maine

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities, the discretely presented component unit and the aggregate remaining fund information of the University of Maine System (the System) (a component unit of the state of Maine) as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditors' Responsibility**

Our responsibility is to express opinions on these basic financial statements based on our audits. We did not audit the financial statements of the University of Maine Foundation (Foundation), the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundation 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinions**

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit and the aggregate remaining fund information of the System as of June 30, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As described in Note 18, the System changed accounting policies related to reporting fiduciary activities as aggregate remaining fund information by adopting Statement of Governmental Accounting Standards (GASB Statement) No.84, *Fiduciary Activities*, in 2021. Accordingly, financial information that was historically accounted for in the business-type activities is not reported in fiduciary fund financial statements. The changes adopted to conform to the provisions of GASB Statement No. 84 are applied retroactively by restating the 2020 financial statements. Our auditors' opinion was not modified with respect to this matter.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplemental information – retirement and OPEB plans, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 auditing standards generally accepted in the United States of America, 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The supplemental information required by the state of Maine, as listed in the table of contents, is presented for purposes of additional analysis, and is not a required part of the basic financial statements.

The supplemental information required by the state of Maine 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. Such information has been subjected to the auditing procedures applied in the audit 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 auditing standards generally accepted in the United States of America. In our opinion, the supplemental information required by the state of Maine is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Board of Trustees  
University of Maine System

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The Chancellor's Letter and schedule of the Board of Trustees and Management, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Report on Summarized Comparative Information*

The other auditors have previously audited the Foundation's 2020 financial statements and they expressed an unmodified opinion on those audited statements in their report dated October 27, 2020. In our opinion, the summarized comparative information presented herein for the Foundation as of and for the year ended June 30, 2020, 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 our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

**CliftonLarsonAllen LLP**

Quincy, Massachusetts  
REPORT DATE

**UNIVERSITY OF MAINE SYSTEM**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2021 AND 2020 (UNAUDITED)**

The Management's Discussion and Analysis (MD&A) provides a broad overview of the University of Maine System's ("the System" or UMS) financial condition as of June 30, 2021 and 2020, the results of its operations for the years then ended, significant changes from the previous years, and outlook for the future where appropriate and relevant. Management has prepared the financial statements and related note disclosures along with this MD&A. The MD&A should be read in conjunction with the accompanying basic financial statements and related notes.

**Mission**

Established in 1968 by the Maine State Legislature, the System is the state's largest educational enterprise, uniting its public universities in the common purpose of providing high-quality educational undergraduate and graduate opportunities that are accessible, affordable, and relevant to the needs of Maine students, businesses, and communities. The System features seven universities—some with multiple campuses—located across the state, a law school, eight outreach centers, an additional 34 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.

**Universities, Campuses, and Centers**

The System is a comprehensive public institution of higher education with nearly 30,000 enrolled students, supported by the efforts of 1,165 regular full-time faculty, 83 regular part-time faculty, 3,104 regular full-time staff, and 308 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 University of Maine (UM) is the state's land grant, sea grant and space grant university. As Maine's flagship public university, UM has a statewide mission of teaching, research and economic development, and community service. UM is the state's only public research university and is among the most comprehensive higher education institutions in the Northeast, where undergraduate and graduate students have opportunities to participate in groundbreaking research with world-class scholars. UM offers bachelor's, master's and doctoral degrees.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)



With campuses in Augusta and Bangor, eight UMA Centers across Maine, and expertise in online and distance learning, the University of Maine at Augusta (UMA) is considered the university of choice for Mainers who want to receive a quality and affordable education without uprooting their lives.



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



The University of Maine at Fort Kent (UMFK) is a campus focused on health sciences and professional programs. Founded in 1878 to meet local, state, and regional workforce needs, UMFK provides a diversity of learners with the education and development needed to be successful professionals and engaged members of their communities in the 21<sup>st</sup> Century.



The University of Maine at Machias (UMM) is the regional campus of the University of Maine. Offering quality baccalaureate programs with an emphasis on experiential and community-engaged learning. UMM's distinct campus environment and strong regional identity are enhanced by a partnership with the state's flagship university.



The University of Maine at Presque Isle (UMPI) is a nationally recognized institution of innovation and opportunity, providing students with an affordable and personalized education, a caring, small-university environment, and life-changing experiences that prepare them to be career-ready graduates. Established in 1903, UMPI now offers bachelor's, associate's, online, and competency-based education degree programs, as well as its first master's degree program.



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 programs.



The University of Maine School of Law (Maine Law), a free-standing institution within the System and located in Portland, is committed to justice and leadership in a changing world. As the state's public and only law school, Maine Law provides an accessible and affordable student-focused program of legal education through a rigorous doctrinal and experiential curriculum.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Lewiston-Auburn College is a campus of USM. The Hutchinson Center in Belfast is a campus of UM. UMA Bangor is a campus of UMA. UMA also has eight Centers that provide onsite, distance and online students with access and support to education courses offered by all seven UMS universities at the centers as well as at 34 Interactive Television (ITV) course sites statewide.

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**Student Enrollment**

Chart 1 shows student enrollment, including early college, on a headcount basis with 29,683 students enrolled for the fall 2020 semester, down 1.0% from fall 2019 and up 0.7% since fall 2016. For both fall 2020 and fall 2019, 63% of the student population were enrolled full-time.

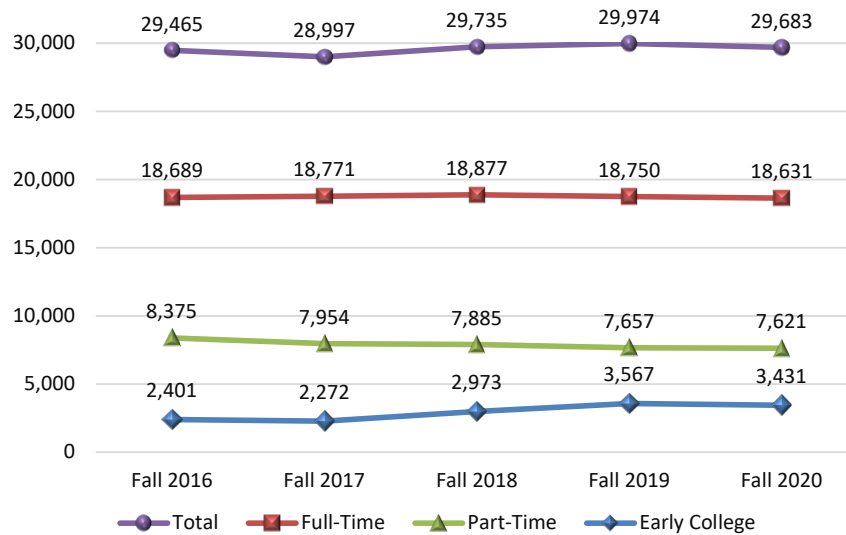
**Chart 1: Student Enrollment by Headcount**

Chart 2 and Table 1 show student enrollment, including early college, on a full-time equivalent (FTE) basis with 21,618 FTE students enrolled for the fall 2020 semester, down 1.4% from fall 2019 and down 1.1% from fall 2016. For fall 2020, 73% of FTE enrollments were from Maine residents compared to 75% for fall 2019.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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Chart 2: Student FTE Enrollment

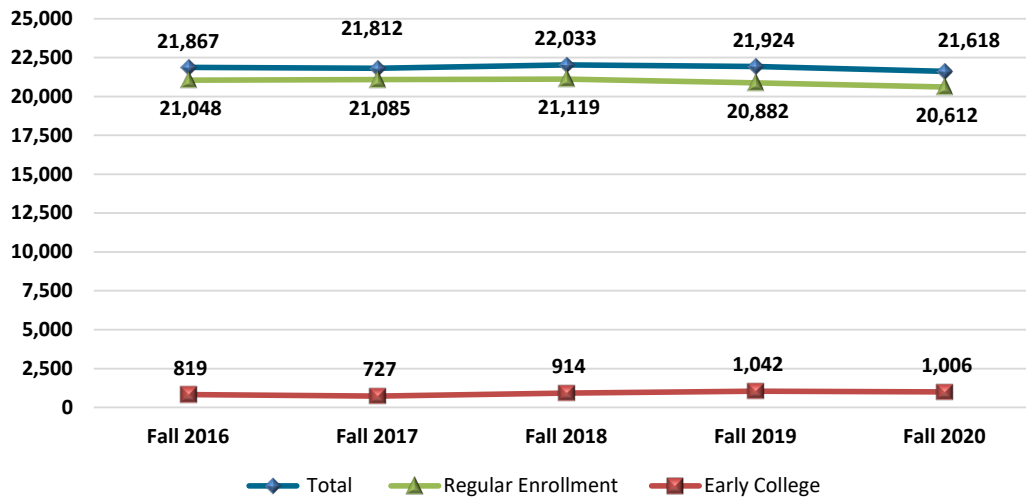


Table 1: Student FTE Enrollment

|              | %<br>Change<br>Fall 2016<br>to 2020 | Fall<br>2020  | %<br>Change  | Fall<br>2019  | %<br>Change  | Fall<br>2018  | %<br>Change | Fall<br>2017  | %<br>Change  | Fall<br>2016  | %<br>Change |
|--------------|-------------------------------------|---------------|--------------|---------------|--------------|---------------|-------------|---------------|--------------|---------------|-------------|
| UM           | 1.9%                                | 9,773         | -0.1%        | 9,782         | 0.3%         | 9,750         | 0.3%        | 9,720         | 1.3%         | 9,594         | 2.4%        |
| UMA          | -4.9%                               | 2,304         | -1.3%        | 2,335         | 3.9%         | 2,247         | 3.6%        | 2,169         | -10.4%       | 2,422         | -7.8%       |
| UMF          | -11.6%                              | 1,510         | -4.4%        | 1,579         | -3.8%        | 1,641         | -4.8%       | 1,723         | 0.8%         | 1,709         | -0.9%       |
| UMFK         | -22.8%                              | 812           | -3.6%        | 842           | -11.7%       | 954           | 0.4%        | 950           | -9.7%        | 1,052         | 15.5%       |
| UMM          | -19.3%                              | 397           | -1.5%        | 403           | -5.2%        | 425           | -6.0%       | 452           | -8.1%        | 492           | -0.2%       |
| UMPI         | 6.8%                                | 945           | 9.9%         | 860           | -7.8%        | 933           | 3.3%        | 903           | 2.0%         | 885           | 7.5%        |
| USM          | 2.9%                                | 5,877         | -4.0%        | 6,123         | 0.7%         | 6,083         | 3.2%        | 5,895         | 3.2%         | 5,713         | 0.6%        |
| <b>Total</b> | <b>-1.1%</b>                        | <b>21,618</b> | <b>-1.4%</b> | <b>21,924</b> | <b>-0.5%</b> | <b>22,033</b> | <b>1.0%</b> | <b>21,812</b> | <b>-0.3%</b> | <b>21,867</b> | <b>1.1%</b> |

**Student Comprehensive Cost of Education**

Net student fee revenue, totaling \$238 million in FY21 and \$248 million in FY20, is the System's greatest source of revenue, contributing 32% of total operating and net nonoperating revenues for FY21. Net student fees represented 35% of the total operating and net nonoperating revenues for FY20. Such revenues are impacted by enrollment levels; tuition, room and board, and fee levels; and the amount of scholarship allowances provided to students.

The average comprehensive cost of education (tuition, mandatory fees, and room and board) for UMS undergraduate, graduate, and law school students is shown in Table 2 and Chart 3. The percentage changes for the comprehensive cost of education in FY21 range from an increase of 3.2% for out-of-state and NEBHE undergraduate students, down to a decrease of 20.3% for

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Canadian graduate students. Percentage changes in FY20 ranged from an increase of 2.8% for in-state, NEBHE and Canadian undergraduate students, down to an increase of 0.8% for in-state law school students.

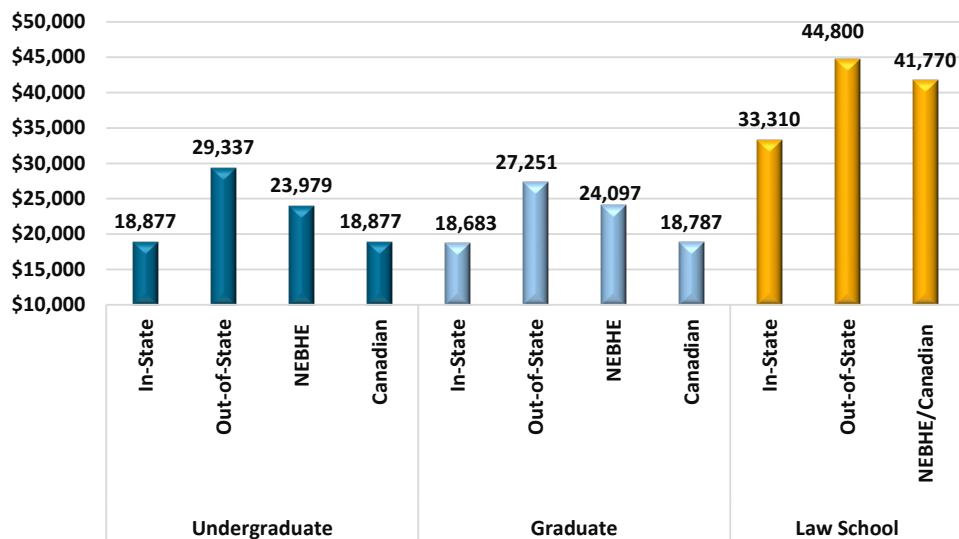
The FY21 in-state undergraduate tuition increased by a system-wide average of 2.5% where the overall average comprehensive cost of education for this same category of students increased 3.0%. In FY20, the System increased tuition for in-state undergraduate students by a system-wide average of 2.7% where the overall average comprehensive cost of education for this same category of students increased 2.8%.

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

|                       | 2021     |          | 2020     |          | 2019     |          | 2018     |          | 2017     |          |
|-----------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
|                       | Cost     | % Change | Cost     | % Change | Cost     | % Change | Cost     | % Change | Cost     | % Change |
| <b>Undergraduate:</b> |          |          |          |          |          |          |          |          |          |          |
| In-State              | \$18,877 | 3.0%     | \$18,321 | 2.8%     | \$17,819 | 1.7%     | \$17,520 | 2.7%     | \$17,065 | 0.3%     |
| Out-of-State          | 29,337   | 3.2%     | 28,425   | 2.2%     | 27,809   | 0.4%     | 27,707   | 2.9%     | 26,922   | 1.1%     |
| NEBHE                 | 23,979   | 3.2%     | 23,229   | 2.8%     | 22,593   | 2.6%     | 22,015   | 4.6%     | 21,045   | 2.0%     |
| Canadian              | 18,877   | -18.7%   | 23,229   | 2.8%     | 22,593   | 2.5%     | 22,045   | 4.6%     | 21,075   | 1.8%     |
| <b>Graduate:</b>      |          |          |          |          |          |          |          |          |          |          |
| In-State              | \$18,683 | 2.3%     | \$18,262 | 1.0%     | \$18,081 | 3.3%     | \$17,501 | 2.3%     | \$17,114 | 0.0%     |
| Out-of-State          | 27,251   | -8.9%    | 29,902   | 2.0%     | 29,313   | 3.1%     | 28,427   | 2.7%     | 27,674   | 0.7%     |
| NEBHE                 | 24,097   | 2.2%     | 23,578   | 2.6%     | 22,983   | 2.8%     | 22,350   | 4.0%     | 21,488   | 1.7%     |
| Canadian              | 18,787   | -20.3%   | 23,578   | 2.6%     | 22,983   | 2.8%     | 22,350   | 4.0%     | 21,488   | 1.7%     |
| <b>Law School:</b>    |          |          |          |          |          |          |          |          |          |          |
| In-State              | \$33,310 | 0.9%     | \$33,005 | 0.8%     | \$32,740 | 0.9%     | \$32,460 | 0.1%     | \$32,430 | 0.0%     |
| Out-of-State          | 44,800   | 0.7%     | 44,495   | 1.6%     | 43,810   | 0.6%     | 43,530   | 0.1%     | 43,500   | 0.0%     |
| NEBHE/Canadian        | 41,770   | 0.7%     | 41,465   | 1.5%     | 40,870   | 0.7%     | 40,590   | 0.1%     | 40,560   | 0.0%     |

*Note: Some amounts presented in the above Table 2 for 2019 differ from FY2019's MD&A and are based upon restated amounts included in the System report titled, 'Student Charges FY2020'.*

**Chart 3: FY21 Student Comprehensive Cost of Education - Averages**



## ***OVERVIEW OF THE FINANCIAL STATEMENTS***

This discussion and analysis is an introduction to the System's financial statements which are prepared in accordance with U.S. generally accepted accounting principles and are comprised of four components: 1) system-wide financial statements, 2) component unit financial statements, 3) fiduciary funds financial statements, and 4) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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

### ***System-wide Financial Statements***

These financial statements report information about the System's assets, liabilities, deferred inflows and outflows, net position, revenues, and expenses and are comprised of the following:

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**Fiduciary Funds Financial Statements**

These financial statements include information about assets held by the System on behalf of other entities as a trustee or fiduciary. The System is responsible for ensuring such assets are used only for their intended purposes and by those to whom the assets belong. Included in these fiduciary financial statements are investments held on behalf of the System's pension and other postemployment benefit trusts, monies invested by external parties in the System's managed investment and endowment pools, and cash held on behalf of various student government groups.

The fiduciary funds financial statements are comprised of the following:

- Statements of Fiduciary Net Position
- Statements of Changes in Fiduciary Net Position

**Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in both the system-wide and fiduciary funds financial statements.

**Other Information**

This report also provides certain required supplementary information related to the System's retirement and other postemployment benefit plans and a Schedule of Activities required by the State of Maine.

**STATEMENTS OF NET POSITION**

The Statements of Net Position present the financial position of the System at one point in time – June 30 – and include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the System. These statements are the primary statements used to report financial condition. Net position represents the residual interest in the System's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. The change in net position is an indicator of whether the overall financial condition has improved or deteriorated during the year. Table 3 on page 19 shows Condensed Statements of Net Position for the past five years.

**Restatement of Prior Year**

The FY20 financial statements have been restated to reflect adoption of GASB Statement No. 84, *Fiduciary Activities*. The overall impact on the FY20 data in the Condensed Statements of Net Position is that:

- Cash, a component of current assets, decreased by \$2.4 million as cash held on behalf of student and other groups was moved to the Statements of Fiduciary Net Position.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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- Unearned revenue and deposits and funds held for others – current portion, both of which are components of current liabilities, decreased by a total of \$2.4 million to coincide with the above-mentioned cash that was moved to the Statements of Fiduciary Net Position.
- Endowment investments and the offsetting funds held for others, a component of noncurrent liabilities, each decreased by \$25.9 million as endowment monies belonging to external parties and pooled with System endowment monies were moved to the Statements of Fiduciary Net Position.

For comparison purposes we also restated the FY19 data presented in the Condensed Statements of Net Position shown in Table 3 on page 19.

### **Impact of Change in Postemployment Health Plan**

The System's Other Postemployment Benefits (OPEB) plan had a significant impact on the FY21 Statement of Net Position, primarily due to two factors: 1) adding a Medicare Exchange option for retirees in addition to the group plan option and 2) actual investment returns in excess of projected earnings. The total OPEB liability decreased from \$213 million at June 30, 2020 to \$162 million at June 30, 2021, primarily due to this new Medicare Exchange option. Assets in the UMS OPEB Trust also increased from \$137 million at June 30, 2020 to \$180 million at June 30, 2021 including \$37 million in investment returns.

For reporting in the System's Condensed Statements of Net Position, the total OPEB liability is netted with the value of the UMS OPEB Trust assets. At June 30, 2021, the System had a net OPEB asset of \$18 million compared with a net OPEB liability of \$76 million (a component of other noncurrent liabilities) at June 30, 2020.

Other lines of the Condensed Statements of Net Position that were significantly adjusted by the FY21 actuarial results include the following:

- Deferred outflows of resources associated with the OPEB plan decreased \$13 million.
- Deferred inflows of resources associated with the OPEB plan increased \$22 million.

The plan benefit change, of offering the Medicare Exchange option, resulted in a \$49 million positive impact to the System's unrestricted net position, restoring a portion of the \$102 million of unrestricted net position that was lost when the full value of the liability associated with the UMS OPEB Plan was brought into the Statements of Net Position in FY17 as the System adopted GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

### **Overview of Condensed Statements of Net Position**

As shown in Table 3, assets and liabilities are classified as current or noncurrent. Current assets are available to satisfy current liabilities, which in turn are those amounts expected to be

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

payable within the next year. Total assets and deferred outflows of resources of \$1.327 billion at June 30, 2021, increased \$105 million, or 9% over the prior year.

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The major component of current assets is operating investments, which totaled \$286 million at June 30, 2021 and \$264 million at June 30, 2020. Noncurrent assets consist mainly of endowment investments and capital assets, net of depreciation. Endowment investments totaled \$166 million at June 30, 2021, an increase of \$31 million, or 23%, from the FY20 year-end balance of \$135 million, and a \$28 million, or 20%, increase from FY19. Capital assets net of accumulated depreciation totaled \$689 million and \$683 million at June 30, 2021 and 2020, respectively.

Current liabilities of \$97 million and \$73 million at June 30, 2021 and 2020, respectively, consist primarily of accounts payable and various accrued liabilities including those for the System's healthcare claims, defined contribution retirement plan and payroll taxes. Impacts to accounts payable and accrued liabilities include the timing of the last check cycle for the fiscal year, the level of construction activity in progress, and budget constraints.

At \$227 million, total noncurrent liabilities decreased \$53 million, or 19%, from June 30, 2020 to 2021. This decrease is primarily the result of an \$82 million decrease in other noncurrent liabilities and a \$29 million increase in long-term debt. For FY20 and FY19, the System had total noncurrent liabilities of \$280 million, with the change being a \$11 million increase in noncurrent liabilities and an \$11 million decrease in long-term debt.

Total net position at June 30, 2021 of \$945 million increased \$113 million, or 14%, from the June 30, 2020 balance, which increased \$14 million, or 2%, from the June 30, 2019 balance. Additional information about net position is presented on page 25.

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

|   | 2021            | %<br>Change | Restated<br>2020 | %<br>Change | Restated<br>2019 | 2018            | 2017            |
|---|-----------------|-------------|------------------|-------------|------------------|-----------------|-----------------|
| <b>Current Assets</b>                                       |                 |             |                  |             |                  |                 |                 |
| Operating Investments                                       | \$ 286          | 8%          | \$ 264           | 6%          | \$ 248           | \$ 252          | \$ 243          |
| Other   | 83              | 28%         | 65               | -13%        | 75               | 55              | 61              |
| <b>Noncurrent Assets</b>                                    |                 |             |                  |             |                  |                 |                 |
| Endowment investments                                       | 166             | 23%         | 135              | -2%         | 138              | 154             | 147             |
| Capital assets, net   | 689             | 1%          | 683              | 0%          | 685              | 700             | 700             |
| Other   | 85              | 93%         | 44               | -8%         | 48               | 57              | 67              |
| <b>Total Assets</b>   | <b>1,309</b>    | <b>10%</b>  | <b>1,191</b>     | <b>0%</b>   | <b>1,194</b>     | <b>1,218</b>    | <b>1,218</b>    |
| <b>Deferred Outflows of Resources</b>                       | <b>18</b>       | <b>-42%</b> | <b>31</b>        | <b>41%</b>  | <b>22</b>        | <b>12</b>       | <b>14</b>       |
| <b>Total Assets and Deferred Outflows</b>                   | <b>\$ 1,327</b> | <b>9%</b>   | <b>\$ 1,222</b>  | <b>0%</b>   | <b>\$ 1,216</b>  | <b>\$ 1,230</b> | <b>\$ 1,232</b> |
| <b>Current Liabilities</b>                                  |                 |             |                  |             |                  |                 |                 |
| Long-term debt - current portion                            | \$ 14           | 0%          | \$ 14            | -7%         | \$ 15            | \$ 14           | \$ 15           |
| Other   | 83              | 41%         | 59               | 0%          | 59               | 54              | 54              |
| <b>Noncurrent Liabilities</b>                               |                 |             |                  |             |                  |                 |                 |
| Long-term debt  | 153             | 23%         | 124              | -8%         | 135              | 148             | 161             |
| Other   | 74              | -53%        | 156              | 8%          | 145              | 180             | 179             |
| <b>Total Liabilities</b>                                    | <b>324</b>      | <b>-8%</b>  | <b>353</b>       | <b>0%</b>   | <b>354</b>       | <b>396</b>      | <b>409</b>      |
| <b>Deferred Inflows of Resources</b>                        | <b>58</b>       | <b>57%</b>  | <b>37</b>        | <b>-16%</b> | <b>44</b>        | <b>20</b>       | <b>25</b>       |
| <b>Total Liabilities and Deferred Inflows</b>               | <b>382</b>      | <b>-2%</b>  | <b>390</b>       | <b>-2%</b>  | <b>398</b>       | <b>416</b>      | <b>434</b>      |
| <b>Net investment in capital assets</b>                     | <b>550</b>      | <b>1%</b>   | <b>547</b>       | <b>1%</b>   | <b>542</b>       | <b>551</b>      | <b>544</b>      |
| <b>Restricted</b>   |                 |             |                  |             |                  |                 |                 |
| Nonexpendable   | 69              | 3%          | 67               | 2%          | 66               | 59              | 59              |
| Expendable  | 144             | 25%         | 115              | -1%         | 116              | 115             | 114             |
| <b>Unrestricted</b>   | <b>182</b>      | <b>77%</b>  | <b>103</b>       | <b>10%</b>  | <b>94</b>        | <b>89</b>       | <b>81</b>       |
| <b>Total Net Position</b>                                   | <b>945</b>      | <b>14%</b>  | <b>832</b>       | <b>2%</b>   | <b>818</b>       | <b>814</b>      | <b>798</b>      |
| <b>Total Liabilities, Deferred Inflows and Net Position</b> | <b>\$ 1,327</b> | <b>9%</b>   | <b>\$ 1,222</b>  | <b>0%</b>   | <b>\$ 1,216</b>  | <b>\$ 1,230</b> | <b>\$ 1,232</b> |

**Managed Investment Pool (MIP)**

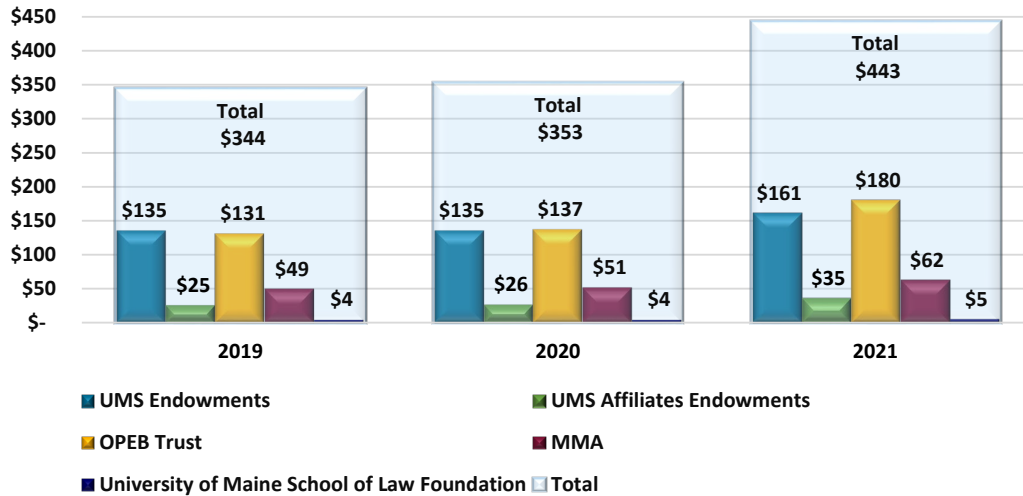
The System pools certain funds for investment purposes including the System's endowment pool monies, endowment monies belonging to the System's affiliated organizations, and monies on behalf of the following entities: the UMS OPEB Trust, Maine Maritime Academy (MMA), and the University of Maine School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

Chart 4 shows the June 30, 2019, 2020 and 2021 fair values of the MIP investments, including the amounts held on behalf of each entity.

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**Chart 4: Fair Value of MIP Investments by Entity**  
(In millions)



'UMS Endowments' noted in Chart 4 is the System's share of the MIP investments and is included as part of the 'Endowment Investments' noted in the accompanying Condensed Statements of Net Position. The portion of the MIP representing UMS Affiliates' Endowments is included in the Statements of Fiduciary Net Position as 'Investment in UMS endowment pool'. The total of the OPEB Trust, MMA, and the University of Maine School of Law Foundation portions of the MIP are included in the Statements of Fiduciary Net Position as 'Investment in UMS managed investment pool'.

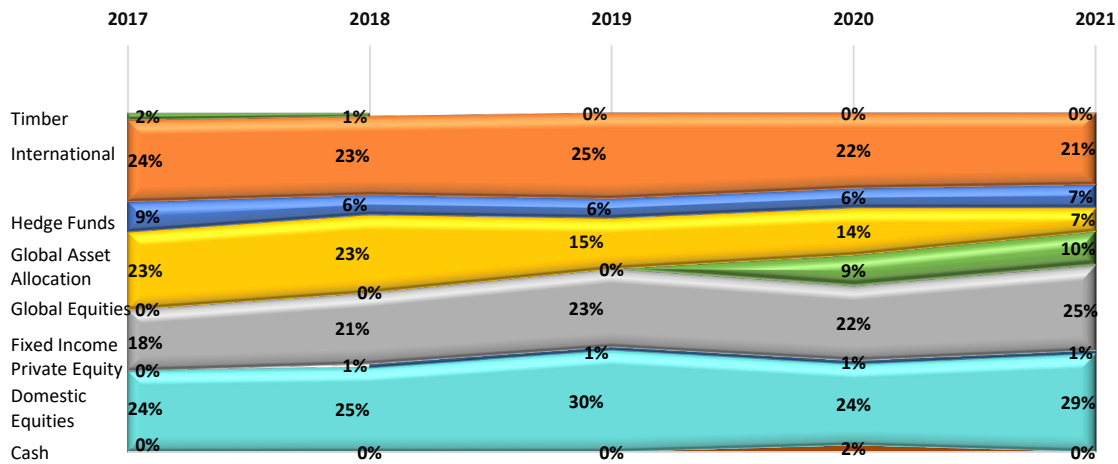
The MIP investments are diversified among a number of asset classes to minimize risk while optimizing return. Chart 5 illustrates the percentage of holdings in each asset class and how they have changed over the past 5 years.

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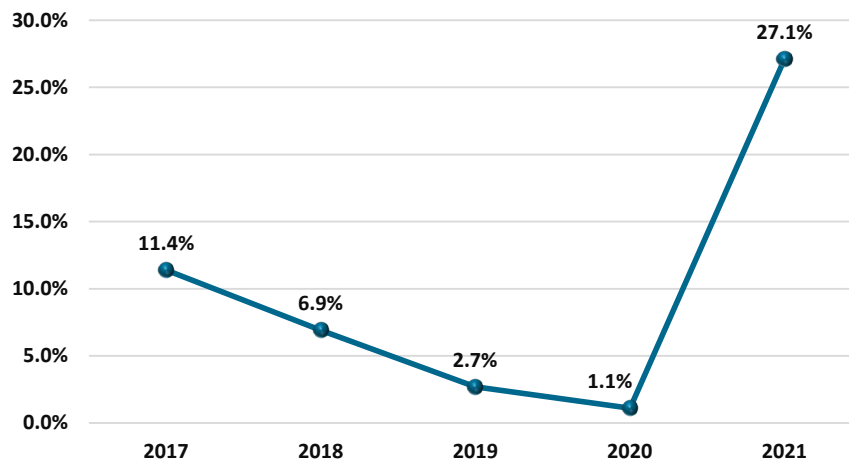
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Chart 5: Asset Allocation Percentages for Managed Investment Pool



As shown in Chart 6, in FY21 the MIP realized a net of fees return of 27.1%, up from 1.1% in FY20. The pooled investments have a 5-year annualized net of fees return of 9.5%.

Chart 6: Total Return (Net of Fees)



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**Endowments (Including Affiliates)**

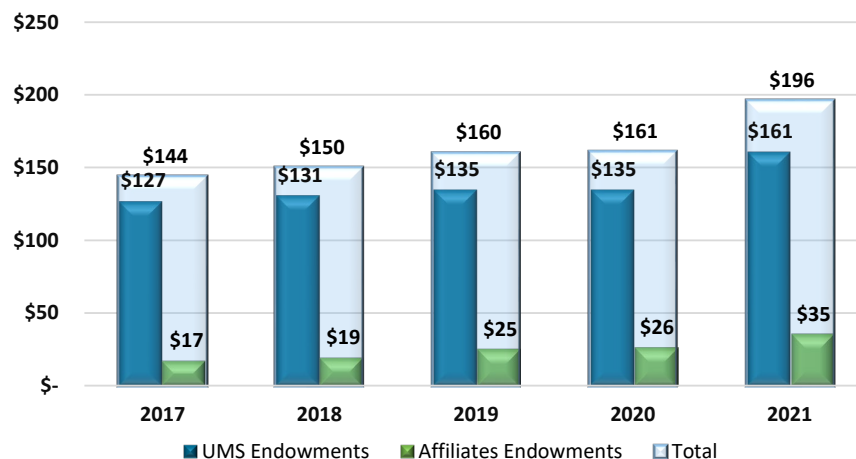
Endowments are generally created from donor gifts or bequests with the funds invested to create present and future income with the original amount of the gift (corpus) retained in perpetuity. If the donor established criteria to determine how the expendable amounts are to be used, such amounts are considered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

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

As shown in Chart 7, the UMS and its affiliates share of these pooled endowment investments had a fair value of \$196 million at June 30, 2021, an increase of \$36 million from the prior year. This included an increase of \$42 million in positive net performance less \$7 million distributed for scholarships and other operating activities.

The pool's June 30, 2020 fair value of \$161 million had increased \$1 million from the 2019 year-end fair value of \$160 million. This increase included endowment contributions of \$5 million plus \$2 million in positive net performance less \$6 million distributed for scholarships and other operating activities.

**Chart 7: Fair Values of UMS and Affiliates Pooled Endowments**  
(In millions)



Of the \$196 million in pooled endowment investment, \$161 million are UMS Endowments and \$35 million are Affiliates Endowments. The fair value of the UMS Endowments is reported as

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

part of the 'Endowment Investments' in the accompanying Condensed Statements of Net Position, and the fair value of the Affiliates Endowments is reported in the Statements of Fiduciary Net Position as 'Investment in UMS endowment pool'. DRAFT

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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 FY17 thru FY21 was 4.5%.

### **Capital Assets and Debt Activities**

Table 4 on the next page shows the status of major capital construction projects as of June 30, 2021 and the related budget approved by the UMS Board of Trustees.

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

During FY21, the System had capital asset additions of \$50 million, which included \$46 million of construction in progress, and \$4 million of equipment. In FY20, the System had capital asset additions of \$41 million, which included \$31 million of construction in progress, \$5 million of equipment and \$5 million of 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. In May 2021, the System issued \$43 million of bond anticipation notes (BAN) to partially finance UM's Engineering Education and Design Center project and USM's Career and Student Success Center project, both of which are noted in Table 4. The System anticipates issuing new revenue bonds in the spring of FY22 to pay off the BAN and to finance additional capital projects.

The System's total outstanding debt as of June 30, 2021 was \$167 million, an increase of \$29 million, or 21%, from the FY20 total debt of \$138 million. In FY20, total debt decreased \$12 million, or 8%, from the FY19 total debt of \$150 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

**Table 4: Major Capital Projects Completed During FY21 or In Progress at June 30, 2021** DRAFT  
(In millions)

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| Project  | Funding Source                         | Status      | BOT<br>Approved<br>Budget |
|--|--|-------------|---------------------------|
| <b>UMA</b>   |  |             |                           |
| • Augusta Campus Welcom Center                                   | 2018 State Bond                        | Complete    | \$ 0.35                   |
| • Randall Welcome Center   | 2018 State Bond                        | In Progress | 2.10                      |
| • Handley Hall HVAC System Upgrade                               | 2018 State Bond, Educational & General | In Progress | 0.57                      |
| <b>UMF</b>   |  |             |                           |
| • Dearborn Gym HW Upgrades                                       | 2010 State Bond, 2018 State Bond       | In Progress | 0.85                      |
| <b>UMFK</b>  |  |             |                           |
| • UMFK Enrollment/Advancement Center                             | 2018 State Bond, Educational & General | In Progress | 3.25                      |
| <b>UM</b>  |  |             |                           |
| • Advanced Structures and Composites Ctr Equipment               | Gift, Grant                            | In Progress | 1.53                      |
| • Darling Marine Center Waterfront Infrastructure                | Grants, Educational & General          | In Progress | 5.20                      |
| • Engineering Education and Design Center                        | Educational & General, Gifts           | In Progress | 72.00                     |
| • Wells Commons Generator  | Auxiliary Funds                        | Complete    | 0.53                      |
| • CCAR EDA Hatchery Building Roof Replacement                    | Educational & General                  | Complete    | 0.56                      |
| • Hilltop Commons Served Updates                                 | Auxiliary Funds                        | Complete    | 0.93                      |
| • York Hall Kitchen Hood Replacement                             | Auxiliary Funds                        | Complete    | 0.95                      |
| • UM Energy Center Phase 2                                       | Educational & General                  | In Progress | 5.70                      |
| • ASCC Renovation - Mezzanine Office Expansion                   | Educational & General                  | In Progress | 1.40                      |
| • Neville Hall Renovations                                       | 2018 State Bond                        | In Progress | 1.50                      |
| • ASCC GEM LAB   | Educational & General                  | In Progress | 1.50                      |
| <b>USM</b>   |  |             |                           |
| • USM Center for the Arts  | Gifts                                  | In Progress | 1.00                      |
| • Woodward Hall Renovation                                       | 2018 State Bond, Educational & General | Complete    | 1.80                      |
| • Brooks Student Center Generator & Switchgear Installation      | Educational & General                  | Complete    | 0.67                      |
| • Career and Student Success Center and Portland Residence Hall  | 2018 State Bond, Educational & General | In Progress | 99.40                     |
| • Bailey Hall Fire Protection and Electrical Upgrades            | 2018 State Bond, Educational & General | In Progress | 4.39                      |
| • USM Nursing Simulation Lab Science                             | 2018 State Bond                        | Complete    | 1.50                      |
| • Brooks Patio Renovations                                       | Educational & General                  | In Progress | 0.65                      |
| • Wishcamper Parking Lot   | Educational & General                  | In Progress | 1.71                      |
| • Portland Parking Garage Study                                  | Educational & General                  | In Progress | 1.20                      |
| • Fitness Equipment Purchase and Space Renovation                | Educational & General                  | In Progress | 0.70                      |
| • USM Steam Line   | Educational & General                  | In Progress | 0.60                      |
| <b>UMPI</b>  |  |             |                           |
| • UMPI Greenhouse  | 2013 State bond, Gifts, MEIF           | Complete    | 0.93                      |
| • Folsom 105 Nursing Renovation                                  | 2018 State Bond                        | In Progress | 0.80                      |
| • Wieden Renovation  | 2018 State Bond                        | In Progress | 3.76                      |
| • UMPI Solar Array   | Education & General                    | In Progress | 0.70                      |
| <b>UMS</b>   |  |             |                           |
| • IT Infrastructure - Wireless and Classroom Technology Upgrades | 2017 Revenue Bond                      | In Progress | 19.00                     |
| • MaineStreet Upgrade  | 2017 Revenue Bond                      | In Progress | 2.00                      |
| <b>TOTAL</b>   |  |             | \$ 239.73                 |

**Deferred Outflows and Inflows of Resources**

The System's deferred outflows and deferred inflows of resources primarily relate to the System's defined benefit pension plans and its postemployment health plan or OPEB. The total of these deferrals can fluctuate significantly from year-to-year depending on changes in assumptions used for the plans, differences between expected and actual experience, and differences between projected and actual earnings on plan investments. To smooth the impact of these changes, they are amortized over a period of years.

At June 30, 2021 deferred outflows of resources totaled \$18 million, a decrease of \$13 million from the prior year balance of \$31 million. The decrease is primarily due to a decrease of \$13 million related to the UMS' postemployment health plan. In FY20, the System's deferred outflows of resources increased \$9 million from the June 30, 2019 balance of \$22 million, primarily due to a \$9 million increase related to OPEB.

Deferred inflows of resources of \$58 million at June 30, 2021 increased \$21 million from the \$37 million at June 30, 2020. The increase is primarily due to an increase of \$22 million related to the System's OPEB plan. In FY20, the System's deferred inflows of resources decreased \$7 million from the \$44 million at June 30, 2019, primarily due to a decrease of \$7 million related to the System's OPEB plan.

**Net Position**

As seen in the Condensed Statements of Net Position shown in Table 3 on page 19, the System's total net position is presented by the below noted four categories.

**Net investment in capital assets** represents the historical cost of the System's capital assets reduced by total accumulated depreciation and outstanding balances of debt attributable to the acquisition, construction, or improvement of those assets. The System's net investment in capital assets was \$550 million at June 30, 2021 and \$547 million at June 30, 2020.

The FY21 increase in net investment in capital assets of \$3 million was comprised of capital asset acquisitions of \$50 million less \$42 million of depreciation expense, less \$2 million of capital asset retirements, less new debt of \$16 million, plus a reduction in debt of \$13 million.

The FY20 increase in net investment in capital assets of \$5 million was comprised of capital asset acquisitions of \$41 million less \$42 million of depreciation expense, less \$1 million of capital asset retirements, less new debt of \$2 million, plus a reduction in debt of \$14 million, less an increase in software licensing agreements of \$3 million with Jaggaer and \$1 million with TouchNet, and less a \$1 million increase in deferred inflows related to the dining contract with Sodexo as the contract was renewed during FY20.

**Restricted-nonexpendable net position** represents the corpus of the System's permanent endowment funds. Items that impact this category of net position include new endowment gifts and fair value fluctuations for those endowments whose fair value has fallen below the endowment corpus. The June 30, 2021 balance of \$69 million increased \$2 million, or 3%, over

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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the \$67 million at June 30, 2020. For FY20, restricted-expendable net position increased \$1 million, or 2%, from the FY19 year-end balance of \$66 million. DRAFT

**Restricted-expendable net position** consists of a variety of funds including unexpended gifts, quasi-endowments and appreciation on true endowments, subject to externally imposed conditions on spending. The restrictions include a variety of purposes including student financial aid, capital asset acquisitions, research, and public service. The June 30, 2021 balance of \$144 million increased \$29 million, or 25% over the June 30, 2020 balance of \$115 million. This increase is primarily attributable to \$25 million of investment performance in excess of endowment income distributed for operations, plus a \$2 million increase in unspent restricted gift balances, a \$1 million increase in MEIF funds and a net \$1 million increase from other managed restricted-expendable funds.

The FY20 net decrease of \$1 million, or 1%, is primarily attributable to a \$4 million increase in unspent restricted gift balances offset by a \$3 million decrease in endowment values as endowment income distributed for operations exceeded actual investment performance.

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

The balance of \$182 million at June 30, 2021 increased by \$79 million, or 77%, from the FY20 year-end balance of \$103 million. For FY20, unrestricted net position increased \$9 million, or 10%, from the FY19 year-end balance of \$94 million.

## ***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.

### **Reclassification of Prior Year Revenues**

The FY20 financial statements have been restated to reflect a correction in the reporting of grant revenue from the federal Pell student financial aid program. FY20 revenue in the amount of \$37.8 million has been moved from the operating revenues section to the nonoperating revenues (expenses) section of the Statements of Revenues, Expenses, and Changes in Net Position. This classification correction has also been made to the 2019, 2018, and 2017 columns

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

of the Condensed Statements of Revenues, Expenses, and Changes in Net Position shown in **DRAFT** Table 5.

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**Overview of Condensed Statements of Revenues, Expenses, and Changes in Net Position**

Table 5, on the next page, shows Condensed Statements of Revenues, Expenses, and Changes in Net Position for the past five fiscal years ended June 30. The FY21 change in net position of \$113 million was significantly improved over the FY20 change in net position of \$14 million. Primary factors in this shift include a one-time savings of \$49 million related to a change in benefits offered through the System's OPEB Plan, an \$11 million increase in market returns for operating investments, and a \$33 million increase in market returns for endowment investments.

The FY20 increase in net position of \$14 million was up \$10 million over that for FY19. The coronavirus relief funding of \$15 million was a major factor in this increase, helping to compensate for room and board revenues lost from sending students home early in the spring semester due to the world-wide pandemic.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

|  | 2021   | Restated<br>2020 | 2019   | 2018   | 2017   |
|--|--------|------------------|--------|--------|--------|
| Operating Revenues                                 |        |                  |        |        |        |
| Net student fees                                   | \$ 239 | \$ 248           | \$ 264 | \$ 256 | \$ 245 |
| Grants, contracts and recovery of indirect costs   | 136    | 121              | 113    | 110    | 112    |
| Other operating revenues                           | 30     | 44               | 53     | 52     | 53     |
| Total Operating Revenues                           | 405    | 413              | 430    | 418    | 410    |
| Operating Expenses                                 | (679)  | (716)            | (724)  | (692)  | (668)  |
| Operating Loss                                     | (274)  | (303)            | (294)  | (274)  | (258)  |
| Nonoperating Revenues (Expenses)                   |        |                  |        |        |        |
| Noncapital State of Maine appropriations           | 218    | 220              | 212    | 211    | 212    |
| Federal Pell grants                                | 35     | 38               | 40     | 40     | 38     |
| Coronavirus relief funding                         | 37     | 15               | -      | -      | -      |
| Gifts currently expendable                         | 19     | 19               | 16     | 14     | 13     |
| Endowment return used for operations               | 6      | 6                | 6      | 6      | 6      |
| Investment income                                  | 22     | 9                | 12     | 7      | 10     |
| Interest expense, net                              | (4)    | (4)              | (4)    | (4)    | (5)    |
| Net Nonoperating Revenues (Expenses)               | 333    | 303              | 282    | 274    | 274    |
| Income (Loss) Before Other Changes in Net Position | 59     | -                | (12)   | -      | 16     |
| Other Changes in Net Position                      |        |                  |        |        |        |
| State of Maine capital appropriations              | 16     | 14               | 6      | 8      | 5      |
| Capital grants and gifts                           | 8      | 3                | 4      | 4      | 3      |
| Endow. return, net of amount used for operations   | 29     | (4)              | (2)    | 3      | 8      |
| Other  | 1      | 1                | 8      | 1      | 1      |
| Total Other Changes in Net Position                | 54     | 14               | 16     | 16     | 17     |
| Change in Net Position                             | \$ 113 | \$ 14            | \$ 4   | \$ 16  | \$ 33  |

**Operating and Nonoperating Revenue**

UMS revenues and expenses are categorized as either operating or nonoperating.

- In addition to tuition and fees, the System receives operating revenue from other sources such as governmental and privately funded grants and contracts; gifts from individuals, foundations, and corporations; state appropriations; and investment income.
- Certain significant recurring revenues and expenses are considered nonoperating including state noncapital appropriations, federal Pell grants, coronavirus relief funding, gifts, endowment return used for operations, investment income or loss, and interest expense.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

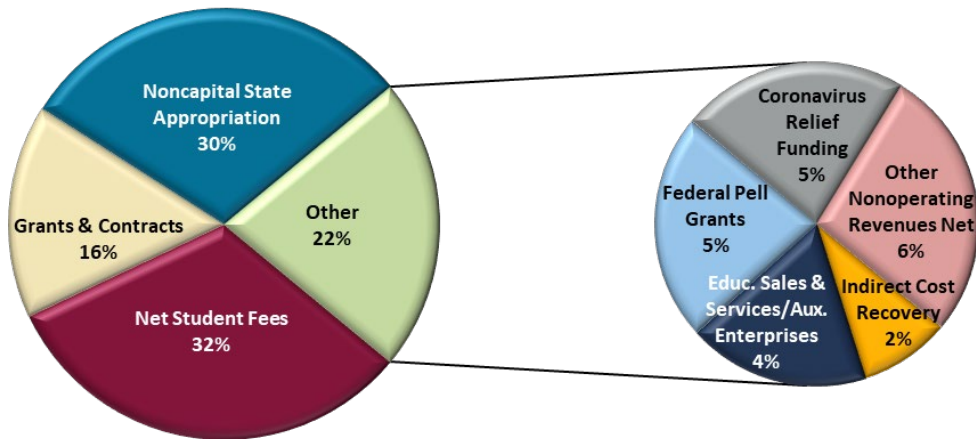
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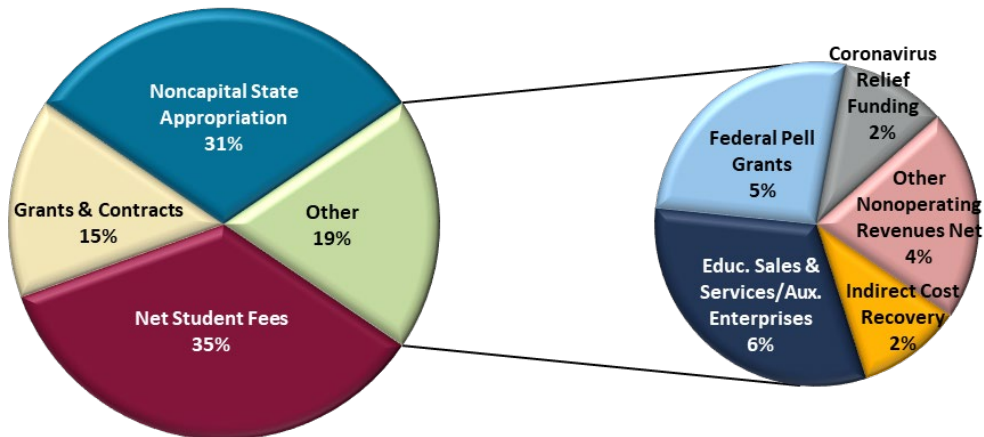
The following pie charts illustrate the total operating and net nonoperating revenue sources used to fund the System's activities for FY21 and FY20.

**Chart 8: Total Operating and Net Nonoperating Revenue**

**2021 - \$738 million**



**2020 - \$716 million**



**Net Student Fees Revenue**

Net student fees of \$239 million for FY21 are the largest source of revenues used to fund operating expenses, representing 32% of total operating and net nonoperating revenues. Net student fees represented 35% of the total operating and net nonoperating revenues for FY20.

Net student fees revenue is comprised of tuition and fees and residence and dining fees less scholarship allowances:

- Tuition and fees totaled \$321 million in FY21, increasing \$2 million, or less than 1%, from the prior year. FY20 revenues increased \$6 million, or 2%, from FY19.
- Residence and dining fees of \$40 million in FY21 were down \$12 million, or 23%, compared with FY20 as the COVID-19 pandemic that began in late FY20 continued to impact operations. The System limited the number of students allowed to live on campus during FY21 as part of its emergency response to the continuing pandemic.  
  
FY20 residence and dining fees decreased \$13 million, or 20%, compared with FY19, primarily attributable to sending students home early during the spring semester as part of the UMS' emergency response to the world-wide COVID-19 pandemic. Approximately 46%, or \$13 million, of the spring semester room and board charges were refunded to the students.
- Scholarship allowances totaled \$122 million in FY21, decreasing \$1 million, or less than 1%, from the prior year. The FY20 scholarship allowances increased \$9 million, or 8%, from FY19.

**Student Financial Aid**

Student financial aid awards are made from a variety of sources including federal, state, private, and university funds. Funding received by the UMS from third parties is recognized as grants and contracts revenue (operating), federal Pell grants revenue (nonoperating) or gift revenue (nonoperating) 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 as a component of the net student fees revenue line.
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.

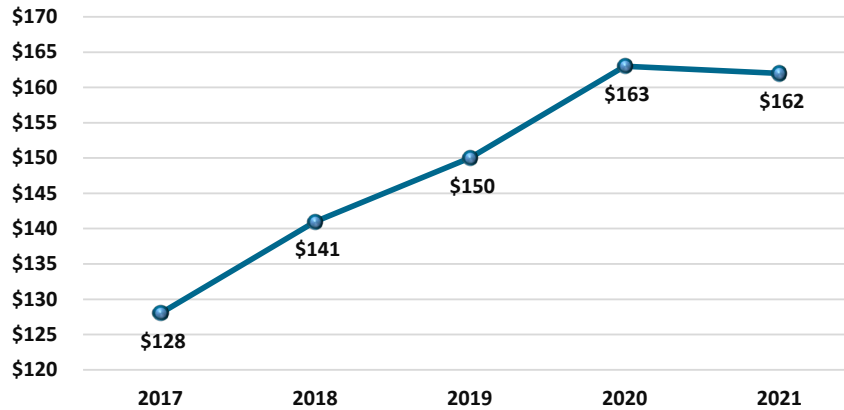
Federal financial aid awards are based on a student's financial need considering their total cost of education which includes tuition and fees, housing and meals (both on and off campus), books, and other personal living expenses.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**Chart 9: Total Financial Aid**  
(In millions)

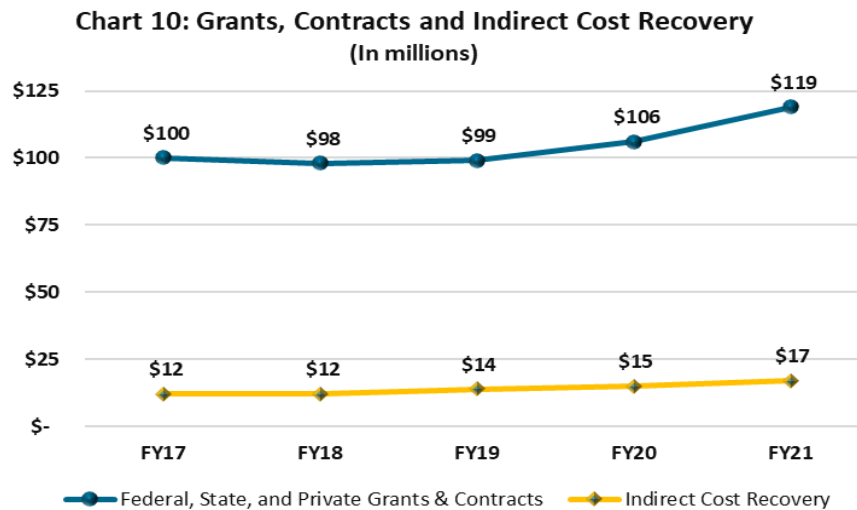


During FY21, total financial aid provided to students was \$162 million, decreasing \$1 million, or less than 1%, from FY20 financial aid of \$163 million. The decrease includes a \$3 million decrease in Pell awards and an increase of \$1 million in FY21 funding from the federal Coronavirus Relief funds which were received for the first time in FY20.

During FY20, total financial aid provided to students was \$163 million, increasing \$13 million, or 9%, over FY19 financial aid of \$150 million. The increase includes \$8 million in FY20 funding from the federal Coronavirus Aid, Relief, and Economic Security Act in response to the COVID-19 pandemic, an increase of \$7 million in institutional unrestricted aid, and a decrease of \$2 million in Pell awards.

**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.



Grants and contracts operating revenues totaled \$119 million in FY21, increasing \$13 million, or 12%, from FY20. This increase is the net change in funding from over 430 different sponsors. The largest single funding increase was \$1.4 million related to a corporate grant regarding innovative manufacturing techniques related to composites. In all, direct non-SFA Federal funding increased \$6.1 million while direct and pass-through funding from the State increased by \$3.6 million from FY20.

FY20 operating grants and contracts revenues totaled \$106 million in FY20, increasing \$7 million, or 7%, from FY19. This increase was the net change in funding from over 400 different sponsors. The largest single funding increase was \$2 million related to a corporate grant regarding production capability related to composites.

In addition to providing for direct costs, grants and contracts sponsors provide for recovery of Facilities and Administrative (F&A) costs, which are also known as indirect costs. The amount of allowable F&A costs is calculated for each grant and contract using the applicable negotiated rate subject to specific sponsor limitations and other proposal and award conditions. Recovery of indirect costs totaled \$17 million for FY21, increasing \$2 million from FY20. Recovery of indirect costs totaled \$15 million for FY20, which was an increase \$1 million from FY19.

### **Noncapital State of Maine Appropriations**

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

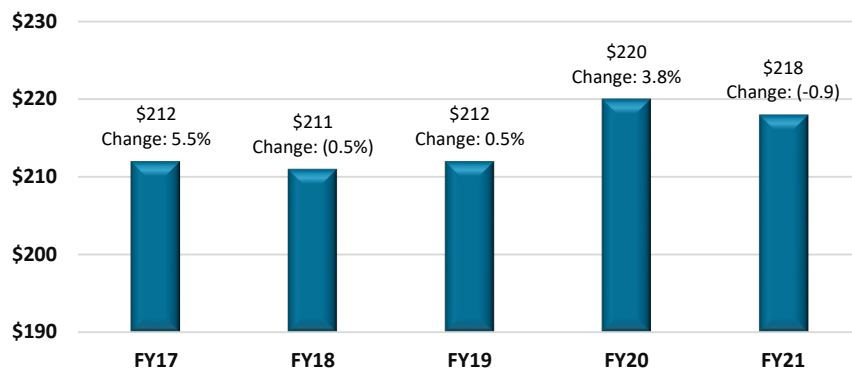
## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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As shown in Chart 11, the System received \$218 million in noncapital state appropriation revenue during FY21, down \$2 million, or 0.9% from FY20. The System received \$220 million in noncapital state appropriation revenue during FY20, up \$8 million, or 3.8%, from FY19.

At \$218 million, noncapital state appropriation revenue covered 80% of the \$274 million operating loss in FY21, up from the operating loss coverage level of 73% in FY20.

**Chart 11: Noncapital State Appropriation and Annual Percentage Change**  
(In millions)



### **Coronavirus Relief Funding**

The coronavirus relief funding of \$36.6 million and \$15.5 million for FY21 and FY20, respectively includes both a federal component and a state component.

#### **Federal Funding**

In response to the COVID-19 pandemic that began in March 2020, the federal government signed into law various acts to provide economic relief to the nation, including higher education. The U.S. Department of Education has awarded the System a total of \$103.7 million under the following acts:

- Coronavirus Aid, Relief and Economic Security (CARES) Act - \$17.9 million awarded in FY20.
- Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act - \$31.7 million awarded in FY21.
- American Rescue Plan (ARP) Act - \$54.1 million awarded in late FY21.

Under these acts, the System received total awards of \$44.7 million to use for emergency aid to students and total awards of \$59 million to use for various other pandemic related costs including reimbursement of FY20 refunded room and board revenues and recovery of lost revenues.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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In the accompanying financial statements, the System has recognized revenue from the above federal awards in accordance with GASB guidance. Under this guidance, revenue recognition does not necessarily correlate with the same fiscal year that the System applied allowable costs against the awards. For example, some of the FY21 revenue recognized in the accompanying financial statements related to costs applied against the federal awards in FY20. Also, certain costs applied against the federal awards in FY21 will not be recognized as revenue until FY22.

FY21 federal coronavirus relief funding revenue totals \$29.3 million and is related to the following costs:

- Emergency awards made to students in FY21 - \$9.0 million
- Reimbursement of FY20 room and board refunds - \$5.5 million
- Recovery of lost FY21 lost revenues - \$13.6 million
- Other pandemic related costs - \$1.2 million

FY20 federal coronavirus relief funding revenue totals \$15.5 million and is related to the following costs:

- Emergency awards made to students in FY20 - \$8.2 million
- Reimbursement of FY20 room and board refunds - \$7.2 million
- Other pandemic related costs - \$100 thousand

### ***State Funding***

During FY21, the System was awarded \$14.9 million in coronavirus relief from the State of Maine to be used for COVID-19 testing costs, personal protective equipment, and quarantine related costs. The System has recognized coronavirus relief funding revenue from this award in the amount of \$7.3 million for FY21.

### **Cash Gifts**

As shown in Chart 12, total cash gifts of \$26 million received in FY21 were up \$6 million from the prior year. FY21 gifts from the university foundations, corporations, non-profits, and other donor types each increased \$1 million, while alumni gifts increased \$2 million. FY20 gifts from the non-profits decreased \$5 million, and corporations, alumni gifts, and other donor types each decreased \$1 million.

Of the \$26 million in gifts received in FY21, 85% were restricted, 10% were endowed, and 5% were unrestricted. Of the \$20 million in gifts received in FY20, 95% were restricted, 4% were endowed, and 1% were unrestricted.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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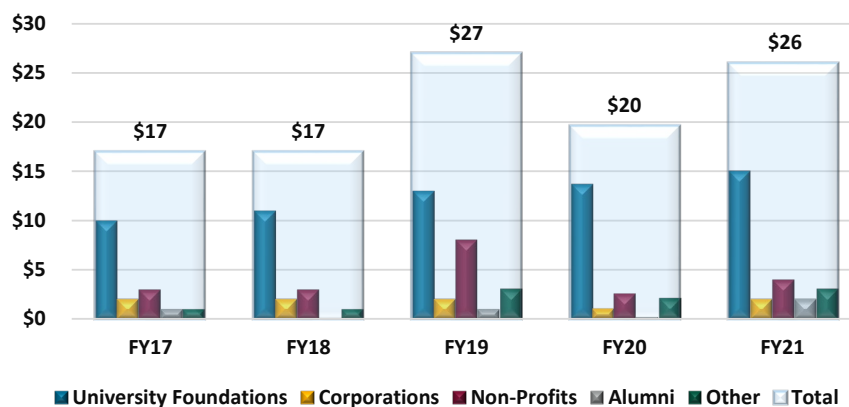
**Chart 12: Gifts by Donor Type**  
(In millions)**Operating Expenses**

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

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

|                                    | 2021         |             | 2020         |             | 2019         |             | 2018         |             | 2017         |             |
|------------------------------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|
| Instruction                        | \$185        | 27%         | \$183        | 25%         | \$181        | 25%         | \$174        | 25%         | \$171        | 26%         |
| Academic support                   | 77           | 11%         | 73           | 10%         | 73           | 10%         | 74           | 11%         | 71           | 10%         |
| Student services                   | 57           | 9%          | 62           | 9%          | 61           | 9%          | 58           | 8%          | 54           | 8%          |
| Subtotal                           | 319          | 47%         | 318          | 44%         | 315          | 44%         | 306          | 44%         | 296          | 44%         |
| Research                           | 86           | 13%         | 80           | 11%         | 80           | 11%         | 76           | 11%         | 73           | 11%         |
| Public service                     | 60           | 9%          | 58           | 8%          | 59           | 8%          | 57           | 8%          | 60           | 9%          |
| Institutional support              | 12           | 2%          | 65           | 9%          | 74           | 10%         | 64           | 9%          | 55           | 8%          |
| Operation and maintenance of plant | 63           | 9%          | 50           | 7%          | 52           | 7%          | 51           | 8%          | 51           | 7%          |
| Depreciation and amortization      | 42           | 6%          | 42           | 6%          | 41           | 6%          | 40           | 6%          | 38           | 6%          |
| Student aid                        | 40           | 6%          | 40           | 6%          | 36           | 5%          | 34           | 5%          | 31           | 5%          |
| Auxiliary enterprises              | 57           | 8%          | 63           | 9%          | 67           | 9%          | 64           | 9%          | 64           | 10%         |
| <b>Total Operating Expenses</b>    | <b>\$679</b> | <b>100%</b> | <b>\$716</b> | <b>100%</b> | <b>\$724</b> | <b>100%</b> | <b>\$692</b> | <b>100%</b> | <b>\$668</b> | <b>100%</b> |

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

|                                 | 2021         |             | 2020         |             | 2019         |             | 2018         |             | 2017         |             |
|---------------------------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|
| Operating:                      |              |             |              |             |              |             |              |             |              |             |
| Compensation                    | \$336        | 49%         | \$331        | 46%         | \$322        | 44%         | \$310        | 45%         | \$302        | 45%         |
| Benefits                        | 87           | 13%         | 129          | 18%         | 139          | 19%         | 124          | 18%         | 116          | 17%         |
| Utilities                       | 26           | 4%          | 28           | 4%          | 31           | 4%          | 30           | 4%          | 31           | 4%          |
| Supplies and Services           | 148          | 21%         | 146          | 20%         | 155          | 21%         | 154          | 22%         | 150          | 22%         |
| Depreciation and Amortization   | 42           | 6%          | 42           | 6%          | 41           | 6%          | 40           | 5%          | 38           | 6%          |
| Student Aid                     | 40           | 6%          | 40           | 5%          | 36           | 5%          | 34           | 5%          | 31           | 5%          |
| <b>Total Operating Expenses</b> | <b>679</b>   | <b>99%</b>  | <b>716</b>   | <b>99%</b>  | <b>724</b>   | <b>99%</b>  | <b>692</b>   | <b>99%</b>  | <b>668</b>   | <b>99%</b>  |
| Nonoperating:                   |              |             |              |             |              |             |              |             |              |             |
| Interest                        | 4            | 1%          | 4            | 1%          | 4            | 1%          | 4            | 1%          | 5            | 1%          |
| <b>Total Expenses</b>           | <b>\$683</b> | <b>100%</b> | <b>\$720</b> | <b>100%</b> | <b>\$728</b> | <b>100%</b> | <b>\$696</b> | <b>100%</b> | <b>\$673</b> | <b>100%</b> |

Compensation costs were \$336 million in FY21, up 1.5% from the FY20 total of \$331 million while FY21 benefits totaled \$87 million, down 33% from the FY20 total of \$129 million. The FY21 decrease in benefits is primarily related to the changes in the System's OPEB plan noted on page 17. Compensation costs for FY20 saw an increase of 2.8% over the FY19 total of \$322 million and FY20 benefits were down 7% from the FY19 total of \$139 million.

### STATEMENTS OF CASH FLOWS

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

### STATEMENTS OF FIDUCIARY NET POSITION

The Statements of Fiduciary Net Position present assets that the System holds in a fiduciary or trustee capacity on behalf of various external entities and groups, including the following:

- UMS OPEB Trust
- UMS Defined Benefit plan
- Maine Maritime Academy
- University of Maine School of Law Foundation
- University of Maine at Fort Kent Foundation

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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- University of Southern Maine Foundation
- John L. Martin Scholarship Fund, Inc.
- Student government groups

As shown in the Condensed Statements of Fiduciary Net Position in Table 8, the System holds a total of \$310 million in assets on behalf of the above noted entities. The vast majority of these assets are in the form of pooled investments, representing investment in the System's MIP, either directly or indirectly through the UMS Endowment Pool. See the discussion of the UMS' Managed Investment Pool and Endowments on pages 19 and 22, respectively for more information about these investments.

The Statements of Fiduciary Net Position also present liabilities and net position associated with the assets held on behalf of the external entities.

**Table 8: Condensed Statements of Fiduciary Net Position as of June 30**  
(In millions)

|   | 2021          | %<br>Change | 2020          | %<br>Change | 2019          |
|---|---------------|-------------|---------------|-------------|---------------|
| Cash and cash equivalents                   | \$ 2          | 0%          | \$ 2          | 0%          | \$ 2          |
| Investments - pooled                        | 283           | 30%         | 218           | 4%          | 209           |
| Investments - other                         | 25            | 0%          | 25            | -7%         | 27            |
| <b>Total Assets</b>                         | <b>310</b>    | <b>27%</b>  | <b>245</b>    | <b>3%</b>   | <b>238</b>    |
| <b>Total Liabilities</b>                    | <b>-</b>      | <b>0%</b>   | <b>-</b>      | <b>0%</b>   | <b>-</b>      |
| Pensions                                    | 25            | 0%          | 25            | -7%         | 27            |
| Postemployment benefits other than pensions | 180           | 31%         | 137           | 5%          | 131           |
| Pool participants                           | 102           | 26%         | 81            | 4%          | 78            |
| Student and other groups                    | 3             | 50%         | 2             | 0%          | 2             |
| <b>Total Net Position</b>                   | <b>\$ 310</b> | <b>27%</b>  | <b>\$ 245</b> | <b>3%</b>   | <b>\$ 238</b> |

## STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

The Statements of Changes in Fiduciary Net Position show the fiscal year changes in the net position associated with assets held on behalf of the external entities noted in the prior discussion of the Statements of Fiduciary Net Position.

## STRATEGIC VISION AND PRIORITIES

### Unified Accreditation & Strategic Planning

UMS's unified accreditation, effective since July 1, 2020, opens the door to previously unavailable strategic opportunities for the System's universities to collaborate, share resources,

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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and achieve educational efficiencies to better serve their students and the State of Maine. **DRAFT**

System leadership and representatives from all System universities and Maine Law are fully engaged in the significant work of preparing a self-study assessment report for the New England Commission of Higher Education (NECHE) in connection with NECHE's planned Fall 2022 comprehensive evaluation of the System's unified accreditation. Recognizing that this work is ongoing, the Board recently charged the Chancellor to lead the System in the creation of a new UMS strategic plan. The UMS strategic planning process and resulting Strategic Plan will be informed by the NECHE unified accreditation self-study, Fall 2022 comprehensive evaluation visit and report, and the NECHE Standards for Accreditation.

### **The Maine Jobs and Recovery Plan – University Funding Allocation**

The federal American Rescue Plan provided relief funding for states including a \$1.13 billion allocation to the state of Maine for discretionary use by the Governor and Legislature to respond to the pandemic and support economic recovery. The passage of the Administration's Maine Jobs and Recovery Plan identifies priorities for using these funds including \$35 million to be invested in critical university workforce infrastructure and experience opportunities thereby advancing economic recovery and Maine's 10-year strategic plan. These resources will accelerate talent development, research and innovation and the long-term economic growth and global competitiveness of Maine that responds to the COVID-19 public health emergency. Students will experience greater opportunities for exploratory learning, paid internships, and career preparation programs connected to the Maine workforce.

### **Harold Alfond Foundation Investment**

Last fall, the Harold Alfond Foundation announced an historic \$240 million investment over 12 years in the System. This extraordinary grant will support transformative changes in student success and retention, engineering, graduate and professional education, Division 1 athletics and gender equity at the state's largest educational, research, innovation and talent development asset.

### **Other Capital Investments**

Improving the System's capital infrastructure is a strategic imperative with more than 50 percent of UMS's physical plant constructed or last renovated more than 50 years ago. Greater investment in our facilities and innovative partnerships are part of our plan.

Earlier this year UMS Trustees authorized expending funds to develop the 580-bed Portland Commons affordable student housing residence hall project and the career and student success center on USM's Portland campus. The campus development project is part of a series of proposed housing initiatives that the System is exploring to bring more beds to other campuses in addition to Portland. Further, USM's new career and student success center will attract, retain, and prepare more career-ready college graduates for the Maine workforce.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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Trustees also gave initial approval for UM to enter into a public-private partnership to repurpose two costly and currently unusable historic buildings on the Orono campus into a boutique hotel. An on campus facility of this nature will serve people attending academic conferences, cultural and athletic events, homecomings, commencements, and other functions, and may serve as a base of experiential learning opportunities for UMS students in tourism and hospitality programs.

In addition, Trustees approved funds at UMPI to renovate Weiden Hall to meet needs of the Owls' athletic program and build enrollment in health-related academic programs and at UMA to create a hub for student spaces, admissions, advising, registrar and financial aid. The Board also authorized UMS to negotiate and execute a lease agreement for an interim home for the Law School and the Maine Center in downtown Portland, saving the need to spend far greater amounts to shore up the current law school building, which has fallen into obsolescence. These are just some of the exciting projects taking place throughout our System with more to come.

### **University Credit Rating**

The System routinely issues revenue bonds for its capital needs and S&P Global Ratings (S&P) reviews the credit worthiness of the System and its debt. In August 2021, S&P affirmed its AA-rating with a stable outlook for the UMS' revenue bonds, reflecting the strength of UMS' available resources for the rating category relative to medians and peer institutions. The stable outlook placed UMS ahead of the negative outlook for the not-for-profit higher education sector. In its overview, S&P assessed UMS' enterprise profile as strong, characterized by our breadth and depth of institutions and assessed our financial profile as very strong while noting significant future debt plans as a limiting factor. The revenue bonds are secured by a broad pledge of the System's available resources.

The State of Maine also periodically provides debt service and other capital support like its cumulative \$50 million commitment towards the construction of the Ferland Engineering Education and Design Center at the UM. This commitment is being fulfilled with annual payments to the System, which began in FY19 and extend through FY29.

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**UNIVERSITY OF MAINE SYSTEM**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2021 AND 2020 (IN THOUSANDS)**

|  | 2021                | 2020<br>Restated    |
|--|---------------------|---------------------|
| <b>Assets</b>  |                     |                     |
| Current Assets   |                     |                     |
| Cash and cash equivalents (Note 2)                                       | \$ 3,030            | \$ 7,282            |
| Operating investments (Note 3)   | 286,062             | 264,046             |
| Accounts, grants, and pledges receivable, net (Note 4)                   | 74,647              | 52,312              |
| Inventories and prepaid expenses   | 5,562               | 5,582               |
| Notes and lease receivable, net (Note 5)                                 | 63                  | 63                  |
| <b>Total Current Assets</b>  | <b>369,364</b>      | <b>329,285</b>      |
| Noncurrent Assets  |                     |                     |
| Deposits with bond trustees (Notes 3 and 6)                              | 34,203              | 5,778               |
| Accounts, grants and pledges receivable, net (Note 4)                    | 4,069               | 3,660               |
| Notes and leases receivable, net (Note 5)                                | 28,193              | 32,151              |
| Net OPEB asset (Note 14)   | 18,058              | -                   |
| Endowment investments (Note 3)   | 166,312             | 134,683             |
| Capital assets, net (Note 6)   | 688,587             | 683,173             |
| Irrevocable split interest agreements                                    | 847                 | 1,765               |
| <b>Total Noncurrent Assets</b>   | <b>940,269</b>      | <b>861,210</b>      |
| <b>Total Assets</b>  | <b>1,309,633</b>    | <b>1,190,495</b>    |
| <b>Deferred Outflows of Resources (Note 15)</b>                          | <b>17,636</b>       | <b>31,407</b>       |
| <b>Total Assets and Deferred Outflows of Resources</b>                   | <b>\$ 1,327,269</b> | <b>\$ 1,221,902</b> |
| <b>Liabilities</b>   |                     |                     |
| Current Liabilities  |                     |                     |
| Accounts payable   | \$ 18,585           | \$ 12,638           |
| Unearned revenue and deposits (Note 8)                                   | 19,089              | 15,464              |
| Accrued liabilities - current portion (Notes 7, 11 and 13)               | 44,104              | 30,380              |
| Funds held for others - current portion                                  | 1,702               | 504                 |
| Long-term debt - current portion (Note 7)                                | 13,736              | 13,816              |
| <b>Total Current Liabilities</b>   | <b>97,216</b>       | <b>72,802</b>       |
| Noncurrent Liabilities   |                     |                     |
| Accrued liabilities (Notes 7, 11, 13 and 14)                             | 54,081              | 132,530             |
| Funds held for others (Note 3)   | 248                 | 201                 |
| Long-term debt (Note 7)  | 153,105             | 123,735             |
| Government advances refundable (Note 9)                                  | 19,360              | 23,968              |
| <b>Total Noncurrent Liabilities</b>                                      | <b>226,794</b>      | <b>280,434</b>      |
| <b>Total Liabilities</b>   | <b>324,010</b>      | <b>353,236</b>      |
| <b>Deferred Inflows of Resources (Note 15)</b>                           | <b>58,565</b>       | <b>36,558</b>       |
| <b>Net Position</b>  |                     |                     |
| Net investment in capital assets (Note 10)                               | 549,870             | 547,323             |
| Restricted   |                     |                     |
| Nonexpendable (Note 10)  | 69,149              | 66,656              |
| Expendable (Notes 3 and 10)  | 143,604             | 115,378             |
| Unrestricted (Notes 3 and 10)  | 182,071             | 102,751             |
| <b>Total Net Position</b>  | <b>944,694</b>      | <b>832,108</b>      |
| <b>Total Liabilities, Deferred Inflows of Resources and Net Position</b> | <b>\$ 1,327,269</b> | <b>\$ 1,221,902</b> |

See accompanying notes to the basic financial statements.

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**UNIVERSITY OF MAINE SYSTEM**  
**STATEMENTS OF FINANCIAL POSITION – DISCRETELY PRESENTED COMPONENT UNIT**  
**JUNE 30, 2021 AND 2020 (IN THOUSANDS)**

|   | 2021              | 2020              |
|---|-------------------|-------------------|
| <b>Assets</b>   |                   |                   |
| Cash and cash equivalents   | \$ 1,651          | \$ 2,361          |
| Other receivables   | 129               | 119               |
| Promises to give, less allowance for uncollectible pledges<br>of \$140                      | 8,364             | 8,034             |
| Short-term investments  | 25,130            | 23,481            |
| Cash surrender value of life insurance  | 188               | 170               |
| Long-term investments, endowment  | 310,056           | 228,117           |
| Long-term investments, life income plans  | 5,873             | 4,818             |
| Notes receivable  | 21                | 34                |
| Equity in Buchanan Alumni House   | 2,663             | 2,679             |
| Investment real estate  | 5,525             | 5,526             |
| Property and equipment, net of accumulated depreciation of<br>\$234 and \$287, respectively | 149               | 115               |
| Other assets  | 524               | 543               |
| Irrevocable trusts  | 7,662             | 6,794             |
| <b>Total Assets</b>   | <b>\$ 367,935</b> | <b>\$ 282,791</b> |
| <b>Liabilities</b>  |                   |                   |
| Accounts payable  | \$ 272            | \$ 336            |
| Distributions due income beneficiaries  | 1,758             | 1,932             |
| Accrued expenses  | 927               | 823               |
| Deferred revenue  | 133               | -                 |
| Notes payable   | -                 | 719               |
| Custodial accounts payable  | 3,998             | 3,177             |
| <b>Total Liabilities</b>  | <b>7,088</b>      | <b>6,987</b>      |
| <b>Net Assets</b>   |                   |                   |
| Without donor restrictions  | 15,414            | 12,995            |
| With donor restrictions   | 345,433           | 262,809           |
| <b>Total Net Assets</b>   | <b>360,847</b>    | <b>275,804</b>    |
| <b>Total Liabilities and Net Assets</b>   | <b>\$ 367,935</b> | <b>\$ 282,791</b> |

See accompanying notes to the basic financial statements.

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4.1

**UNIVERSITY OF MAINE SYSTEM**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED JUNE 30, 2021 AND 2020 (IN THOUSANDS)**

|  | 2021              | 2020              |
|--|-------------------|-------------------|
| <b>Operating Revenues</b>                                    |                   |                   |
| Tuition and fees   | \$ 320,684        | \$ 319,350        |
| Residence and dining fees                                    | 39,894            | 52,111            |
| Less: scholarship allowances                                 | (122,104)         | (123,712)         |
| <b>Net student fees</b>                                      | 238,474           | 247,749           |
| Federal, state and private grants and contracts              | 119,085           | 106,209           |
| Recovery of indirect costs                                   | 17,308            | 14,668            |
| Educational sales and services and other revenues            | 19,315            | 29,566            |
| Other auxiliary enterprises                                  | 10,894            | 14,823            |
| <b>Total Operating Revenues</b>                              | 405,076           | 413,015           |
| <b>Operating Expenses</b>                                    |                   |                   |
| Instruction  | 185,295           | 183,097           |
| Research   | 85,791            | 80,098            |
| Public service   | 59,435            | 57,914            |
| Academic support   | 77,404            | 73,440            |
| Student services   | 56,904            | 61,856            |
| Institutional support  | 12,004            | 64,842            |
| Operation and maintenance of plant                           | 63,407            | 50,533            |
| Depreciation and amortization (Note 6)                       | 42,285            | 41,838            |
| Student aid  | 40,122            | 39,662            |
| Auxiliary enterprises  | 56,837            | 62,790            |
| <b>Total Operating Expenses</b>                              | 679,484           | 716,070           |
| <b>Operating Loss</b>  | (274,408)         | (303,055)         |
| <b>Nonoperating Revenues (Expenses)</b>                      |                   |                   |
| Noncapital State of Maine appropriations                     | 218,157           | 219,864           |
| Federal Pell Grants  | 34,591            | 37,808            |
| Coronavirus relief funding                                   | 36,602            | 15,456            |
| Gifts currently expendable                                   | 19,165            | 19,400            |
| Endowment return used for operations (Note 3)                | 6,006             | 5,603             |
| Investment income (Note 3)                                   | 22,485            | 9,074             |
| Interest expense, net (Note 7)                               | (3,818)           | (4,044)           |
| <b>Net Nonoperating Revenues (Expenses)</b>                  | 333,188           | 303,161           |
| <b>Income Before Other Changes in Net Position</b>           | 58,780            | 106               |
| <b>Other Changes in Net Position</b>                         |                   |                   |
| State of Maine capital appropriations                        | 15,988            | 14,308            |
| Capital grants and gifts                                     | 8,225             | 3,387             |
| Endowment return, net of amount used for operations (Note 3) | 29,406            | (4,165)           |
| True and quasi endowment gifts                               | 2,582             | 787               |
| Loss on disposal of capital assets                           | (2,395)           | (511)             |
| <b>Total Other Changes in Net Position</b>                   | 53,806            | 13,806            |
| <b>Change in Net Position</b>                                | <b>112,586</b>    | <b>13,912</b>     |
| <b>Net Position - Beginning of the Year</b>                  | 832,108           | 818,196           |
| <b>Net Position - End of Year</b>                            | <b>\$ 944,694</b> | <b>\$ 832,108</b> |

See accompanying notes to the basic financial statements.

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4.1

**UNIVERSITY OF MAINE SYSTEM****STATEMENTS OF ACTIVITIES – DISCRETELY PRESENTED COMPONENT UNIT****YEAR ENDED JUNE 30, 2021 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE, 30 2020 (IN THOUSANDS)**

|  | Without<br>Donor<br>Restrictions | With Donor<br>Restrictions | Total<br>2021     | Total<br>2020     |
|--|----------------------------------|----------------------------|-------------------|-------------------|
| <b>Revenues, Gains, Losses, and Reclassification</b>                                 |                                  |                            |                   |                   |
| Contributions  | \$ 4,585                         | \$ 18,869                  | \$ 23,454         | \$ 22,663         |
| Advancement services   | 3,694                            | -                          | 3,694             | 3,653             |
| Investment returns and other revenue   | 2,484                            | 74,851                     | 77,335            | 3,176             |
| Gain from extinguishment of debt -<br>Paycheck Protection Program                    | 719                              | -                          | 719               | -                 |
| Net assets released from restrictions pursuant<br>to endowment spending distribution | 6,721                            | (6,721)                    | -                 | -                 |
| Net assets released from restrictions - other  | 4,375                            | (4,375)                    | -                 | -                 |
| <b>Total Revenues, Gains, Losses, and<br/>Reclassification</b>                       | <b>22,578</b>                    | <b>82,624</b>              | <b>105,202</b>    | <b>29,492</b>     |
| <b>Expenses and Losses</b>   |                                  |                            |                   |                   |
| Program services   | 16,134                           | -                          | 16,134            | 16,037            |
| Management and general   | 1,003                            | -                          | 1,003             | 1,051             |
| Fundraising  | 3,022                            | -                          | 3,022             | 3,273             |
| <b>Total Expenses</b>  | <b>20,159</b>                    | <b>-</b>                   | <b>20,159</b>     | <b>20,361</b>     |
| <b>Change in Net Assets</b>  | <b>2,419</b>                     | <b>82,624</b>              | <b>85,043</b>     | <b>9,131</b>      |
| <b>Net Assets - Beginning of Year</b>  | <b>12,995</b>                    | <b>262,809</b>             | <b>275,804</b>    | <b>266,673</b>    |
| <b>Net Assets - End of Year</b>  | <b>\$ 15,414</b>                 | <b>\$ 345,433</b>          | <b>\$ 360,847</b> | <b>\$ 275,804</b> |

See accompanying notes to the basic financial statements.

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4.1

**UNIVERSITY OF MAINE SYSTEM**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2021 AND 2020 (IN THOUSANDS)**

|   | 2021             | 2020<br>Restated |
|---|------------------|------------------|
| <b>Cash Flows From Operating Activities</b>                                     |                  |                  |
| Tuition, residence, dining, and other student fees                              | \$ 236,417       | \$ 242,181       |
| Grants and contracts  | 123,120          | 115,671          |
| Educational sales and services and other auxiliary enterprise revenues          | 30,559           | 43,460           |
| Payments to and on behalf of employees  | (463,985)        | (453,110)        |
| Financial aid paid to students  | (44,475)         | (45,476)         |
| Payments to suppliers   | (165,433)        | (175,917)        |
| Loans issued to students  | (1,791)          | (1,898)          |
| Collection of loans to students   | 5,091            | 5,640            |
| <b>Net Cash Used for Operating Activities</b>                                   | <b>(280,497)</b> | <b>(269,449)</b> |
| <b>Cash Flows From Noncapital Financing Activities</b>                          |                  |                  |
| State appropriations  | 218,157          | 219,864          |
| Federal Pell Grants   | 34,733           | 38,624           |
| Coronavirus relief funding  | 23,339           | 13,521           |
| Noncapital grants and gifts   | 23,942           | 18,811           |
| Agency transactions   | 88               | 11,274           |
| <b>Net Cash Provided by Noncapital Financing Activities</b>                     | <b>300,259</b>   | <b>302,094</b>   |
| <b>Cash Flows From Capital and Related Financing Activities</b>                 |                  |                  |
| Proceeds from capital debt issuances  | 43,000           | -                |
| Capital appropriations  | 15,758           | 11,886           |
| Capital grants and gifts  | 6,452            | 3,544            |
| Proceeds from sale of capital assets  | 41               | 35               |
| Acquisition and construction of capital assets                                  | (46,210)         | (31,686)         |
| Principal paid on capital debt and leases                                       | (12,869)         | (13,690)         |
| Interest paid on capital debt and leases  | (5,334)          | (5,848)          |
| <b>Net Cash Provided by (Used for) Capital and Related Financing Activities</b> | <b>838</b>       | <b>(35,759)</b>  |
| <b>Cash Flows From Investing Activities</b>                                     |                  |                  |
| Proceeds from sales and maturities of investments                               | 416,248          | 659,778          |
| Purchases of investments  | (447,045)        | (668,053)        |
| Earnings from investments   | 5,945            | 8,045            |
| <b>Net Cash Used for Investing Activities</b>                                   | <b>(24,852)</b>  | <b>(230)</b>     |
| <b>Net Decrease in Cash and Cash Equivalents</b>                                | <b>(4,252)</b>   | <b>(3,344)</b>   |
| <b>Cash and Cash Equivalents - Beginning of Year-Restated</b>                   | <b>7,282</b>     | <b>10,626</b>    |
| <b>Cash and Cash Equivalents - End of Year</b>                                  | <b>\$ 3,030</b>  | <b>\$ 7,282</b>  |

See accompanying notes to the basic financial statements.

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4.1

**UNIVERSITY OF MAINE SYSTEM**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2021 AND 2020 (IN THOUSANDS)**

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

|  | <b>2021</b>         | <b>2020<br/>Restated</b> |
|--|---------------------|--------------------------|
| Operating Loss   | \$ (274,408)        | \$ (303,055)             |
| Adjustments to reconcile operating loss to net cash used for operating activities: |                     |                          |
| Depreciation and amortization  | 42,285              | 41,838                   |
| Changes in assets, liabilities, deferred outflows and deferred inflows:            |                     |                          |
| Accounts and grants receivable, net  | (8,387)             | (3,919)                  |
| Inventories and prepaid expenses   | 20                  | 496                      |
| Notes receivable, net  | 3,895               | 3,762                    |
| Net OPEB asset   | (18,057)            | -                        |
| Irrevocable split interest agreements  | 918                 | 334                      |
| Deferred outflows related to pensions  | 357                 | (8)                      |
| Deferred outflows related to OPEB  | 13,135              | (8,943)                  |
| Accounts payable   | 2,176               | (4,375)                  |
| Unearned revenue and deposits  | 3,601               | 953                      |
| Accrued liabilities  | (63,431)            | 17,582                   |
| Grants refundable  | (4,608)             | (5,972)                  |
| Deferred inflows related to pensions   | 848                 | (371)                    |
| Deferred inflows related to OPEB   | 22,090              | (7,008)                  |
| Deferred inflows related to split interest agreements                              | (918)               | (334)                    |
| Deferred inflows related to dining contract  | (13)                | (429)                    |
| <b>Net Cash Used for Operating Activities</b>                                      | <b>\$ (280,497)</b> | <b>\$ (269,449)</b>      |

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

|  |          |          |
|--|----------|----------|
| Capital asset additions included in accounts payable and accrued liabilities as of June 30 | \$ 7,177 | \$ 3,406 |
| Capital asset additions acquired through long-term debt                                    | \$ 106   | \$ 2,389 |
| Capital asset additions acquired through long-term liabilities                             | \$ -     | \$ 4,386 |
| Capital asset additions acquired through service concession arrangements                   | \$ 5     | \$ 1,433 |

See accompanying notes to the basic financial statements.

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4.1

**UNIVERSITY OF MAINE SYSTEM**  
**STATEMENTS OF FIDUCIARY NET POSITION**  
**YEARS ENDED JUNE 30, 2021 AND 2020 (IN THOUSANDS)**

|   | 2021  |  |                             | 2020  |  |                             |
|---|---|--|-----------------------------|---|--|-----------------------------|
|   | Pension<br>and Other<br>Employee<br>Benefit<br>Trust<br>Funds | Custodial Funds<br>External<br>Investment<br>Pools | Other<br>Custodial<br>Funds | Pension<br>and Other<br>Employee<br>Benefit<br>Trust<br>Funds | Custodial Funds<br>External<br>Investment<br>Pools | Other<br>Custodial<br>Funds |
| <b>Assets</b>   |   |  |                             |   |  |                             |
| Cash and cash equivalents (Note 2)                    | \$ -  | \$ -   | \$ 2,674                    | \$ -  | \$ -   | \$ 2,377                    |
| Investment in UMS managed<br>investment pool (Note 3) | 180,270   | 66,958   | -                           | 137,400   | 55,083   | -                           |
| Investment in UMS endowment<br>pool (Note 3)          | -   | 35,190   | -                           | -   | 25,857   | -                           |
| Other investments (Note 3)                            | 25,291  | -  | -                           | 24,609  | -  | -                           |
| Prepaid expenses                                      | -   | -  | 5                           | -   | -  | -                           |
| <b>Total Assets</b>                                   | <b>205,561</b>  | <b>102,148</b>                                     | <b>2,679</b>                | <b>162,009</b>  | <b>80,940</b>                                      | <b>2,377</b>                |
| <b>Liabilities</b>                                    |   |  |                             |   |  |                             |
| Accounts payable and other liabilities                | -   | -  | 29                          | -   | -  | 22                          |
| <b>Total Liabilities</b>                              | <b>-</b>  | <b>-</b>   | <b>29</b>                   | <b>-</b>  | <b>-</b>   | <b>22</b>                   |
| <b>Net Position Restricted for:</b>                   |   |  |                             |   |  |                             |
| Pensions  | 25,291  | -  | -                           | 24,609  | -  | -                           |
| Postemployment benefits other<br>than pensions        | 180,270   | -  | -                           | 137,400   | -  | -                           |
| Pool participants                                     | -   | 102,149  | 17                          | -   | 80,939   | 9                           |
| Student and other groups                              | -   | -  | 2,633                       | -   | -  | 2,346                       |
| <b>Total Net Position</b>                             | <b>\$ 205,561</b>   | <b>\$ 102,149</b>                                  | <b>\$ 2,650</b>             | <b>\$ 162,009</b>   | <b>\$ 80,939</b>                                   | <b>\$ 2,355</b>             |

See accompanying notes to the basic financial statements.

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4.1

**UNIVERSITY OF MAINE SYSTEM**  
**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION**  
**YEARS ENDED JUNE 30, 2021 AND 2020 (IN THOUSANDS)**

|   | 2021  |   |                             | 2020  |   |                             |
|---|---|---|-----------------------------|---|---|-----------------------------|
|   | Pension<br>and Other<br>Employee<br>Benefit<br>Trust<br>Funds | <u>Custodial Funds</u><br>External<br>Investment<br>Pools | Other<br>Custodial<br>Funds | Pension<br>and Other<br>Employee<br>Benefit<br>Trust<br>Funds | <u>Custodial Funds</u><br>External<br>Investment<br>Pools | Other<br>Custodial<br>Funds |
| <b>Additions</b>                            |   |   |                             |   |   |                             |
| Contributions                               |   |   |                             |   |   |                             |
| Employer contributions                      | \$ 13,380   | \$ -  | \$ -                        | \$ 13,590   | \$ -  | \$ -                        |
| Retiree contributions                       | 2,225   | -   | -                           | 2,597   | -   | -                           |
| Contributions to investment pools           | -   | 4,501   | -                           | -   | 3,111   | -                           |
| Private donations                           | -   | -   | 23                          | -   | -   | 29                          |
| <b>Total contributions</b>                  | <b>15,605</b>   | <b>4,501</b>  | <b>23</b>                   | <b>16,187</b>   | <b>3,111</b>  | <b>29</b>                   |
| Investment income                           |   |   |                             |   |   |                             |
| Interest and dividends                      | 2,226   | 1,101   | 1                           | 2,431   | 1,196   | 36                          |
| Net increase in fair value of investments   | 40,107  | 21,048  | -                           | 1,302   | 62  | -                           |
| <b>Total investment income</b>              | <b>42,333</b>   | <b>22,149</b>   | <b>1</b>                    | <b>3,733</b>  | <b>1,258</b>  | <b>36</b>                   |
| Less investment expense                     | (1,240)   | (595)   | -                           | (959)   | (456)   | -                           |
| <b>Net investment income</b>                | <b>41,093</b>   | <b>21,554</b>   | <b>1</b>                    | <b>2,774</b>  | <b>802</b>  | <b>36</b>                   |
| Other additions                             |   |   |                             |   |   |                             |
| Student activity fees                       | -   | -   | 1,932                       | -   | -   | 2,473                       |
| Endowment income distribution               | -   | -   | 857                         | -   | -   | 764                         |
| Other income                                | -   | -   | 267                         | -   | -   | 471                         |
| <b>Total other additions</b>                | <b>-</b>  | <b>-</b>  | <b>3,056</b>                | <b>-</b>  | <b>-</b>  | <b>3,708</b>                |
| <b>Total additions</b>                      | <b>56,698</b>   | <b>26,055</b>   | <b>3,080</b>                | <b>18,961</b>   | <b>3,913</b>  | <b>3,773</b>                |
| <b>Deductions</b>                           |   |   |                             |   |   |                             |
| Beneficiary payments                        | 13,133  | -   | -                           | 14,834  | -   | -                           |
| Investment pool distributions               | -   | 4,845   | -                           | -   | 987   | -                           |
| Distribute activity fees                    | -   | -   | 1,161                       | -   | -   | 1,496                       |
| Distribute other revenues                   | -   | -   | 9                           | -   | -   | 103                         |
| Donations and sponsorships                  | -   | -   | 845                         | -   | -   | 744                         |
| Purchases by student and other groups       | -   | -   | 770                         | -   | -   | 1,215                       |
| Administrative costs                        | 13  | -   | -                           | 33  | -   | -                           |
| <b>Total deductions</b>                     | <b>13,146</b>   | <b>4,845</b>  | <b>2,785</b>                | <b>14,867</b>   | <b>987</b>  | <b>3,558</b>                |
| <b>Change in Fiduciary Net Position</b>     | <b>43,552</b>   | <b>21,210</b>   | <b>295</b>                  | <b>4,094</b>  | <b>2,926</b>  | <b>215</b>                  |
| <b>Net Position - Beginning of the Year</b> | <b>162,009</b>  | <b>80,939</b>   | <b>2,355</b>                | <b>157,915</b>  | <b>78,013</b>   | <b>2,140</b>                |
| <b>Net Position - End of Year</b>           | <b>\$ 205,561</b>   | <b>\$ 102,149</b>   | <b>\$ 2,650</b>             | <b>\$ 162,009</b>   | <b>\$ 80,939</b>  | <b>\$ 2,355</b>             |

See accompanying notes to the basic financial statements.

**UNIVERSITY OF MAINE SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2021 AND 2020 (IN THOUSANDS)**

## **1. SIGNIFICANT ACCOUNTING POLICIES**

### **a. Organization**

The University of Maine System ("the System"), a discretely presented component unit of the State of Maine, consists of seven universities, eight centers, and a central administrative office. All activities of the System are included in the accompanying financial statements, including those of its discretely presented component unit, the University of Maine Foundation, which is a not-for-profit entity controlled by a separate governing board whose goal is to support the System (see Note 16). The component unit receives funds primarily through donations and contributes funds to the System for student scholarships and institutional support.

### **b. Basis of Presentation**

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

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

**1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

In FY21 the System adopted GASB Statement No. 84, *Fiduciary Activities* (GASB No. 84). This statement addresses accounting and financial reporting related to the System's fiduciary funds and activity. This statement establishes criteria for identifying fiduciary activities and describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

Under GASB No. 84, fiduciary activities are reported in the fiduciary fund financial statements of the basic financial statements. The Statements of Fiduciary Net Position is used to report the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position of pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and custodial funds. The Statement of Changes in Fiduciary Net Position is used to report additions to and deductions from identified fiduciary funds. The System adopted the provisions of GASB No. 84 retroactive to July 1, 2019, and has restated its FY20 financial statements in accordance with the provisions of GASB No. 84. The adoption of GASB No. 84 is described further in Note 18.

**c. Fiduciary Funds**

The System holds these funds on behalf of other entities as a trustee or fiduciary. The System is responsible for ensuring such assets are used only for their intended purposes and by those to whom the assets belong.

The System reports its fiduciary funds in the following financial statements that accompany these notes.

**Statements of Fiduciary Net Position** – Presents the assets held by the System in a fiduciary capacity as of June 30 along with the related deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

**Statements of Changes in Fiduciary Net Position** – Presents the components of the fiscal year change in net position of the fiduciary funds.

The System's fiduciary financial statements include the following types of fiduciary funds:

**Pension and Other Employee Benefit Trusts** – These funds include the assets associated with the System's Defined Benefit Plan for classified employees and its OPEB health plan.

**External Investment Pools** – These are a type of custodial fund and represent amounts invested by external parties in the System's management investment and endowment pools.

**Other Custodial Funds** – These custodial funds are held on behalf of various student government groups.

**1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED****d. Net Position**

The accompanying Statements of Net Position present the System's net position (assets plus deferred outflows of resources less liabilities and deferred inflows of resources) in the following four categories:

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

**Restricted – nonexpendable:** Net position subject to externally imposed conditions that the System maintain them in perpetuity. Such net position includes the historical gift value of restricted true endowment funds. In the event that market fluctuations have caused the fair value of an endowment to fall below corpus, the related net position is valued at the lower fair value amount.

**Restricted – expendable:** Net position subject to externally imposed conditions that can be fulfilled by the actions of the System or by the passage of time. Such net position includes the accumulated net gains on true endowment funds, restricted gifts and income, and other similarly restricted funds.

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

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

**e. 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.

**f. Investments**

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

**Pooled Third party investments:** Three outside entities, the UMS Other Postemployment 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.

**1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Contributions to and withdrawals from the pool are allowed only on the first business day of a calendar quarter.

Investment of these monies follows guidelines approved by the System's Board of Trustees Investment Committee. These guidelines are further disclosed in the remainder of this Note and Note 3 to these financial statements as part of the discussion of endowments.

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

The income produced by the fund, including realized and unrealized gains, can be used to meet the spending objective. As determined by policy, the expendable income objective was 4.5% for FY21 and FY20. The percentage was applied to a 3-year market value average to determine expendable income.

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

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

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

**1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

- **Total Return Pool** – This pool is expected to add diversification and growth to the portfolio and may invest in diversified assets made up of, but not limited to, equities, hedge funds, and global asset allocation mandates.

**Authorized Investment Vehicles - Endowment Investments:** The fund is diversified both by asset class and within asset classes. 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, 2021 and 2020:

|                         | 2021   | 2020   |
|-------------------------|--------|--------|
| Equity securities       | 49-69% | 45-65% |
| Fixed income securities | 16-36% | 15-35% |
| Other                   | 5-25%  | 10-30% |
| Cash                    | 0-10%  | 0-10%  |

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

**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. Inventories**

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

**j. Capital Assets**

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

**1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Prior to July 1, 2003, library materials were generally capitalized and depreciated over a ten-year period. Effective July 1, 2003, the System began to expense library materials as incurred. The System will retain the undepreciated library materials balance as a core non-depreciating asset.

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

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

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

**k. Irrevocable Split-Interest Agreements**

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

**l. 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 waivers. Other expenses related to unearned revenue for summer programs are presented as prepaids in the Statements of Net Position (e.g., scholarships, supplies).

**1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED****m. Compensated Absences**

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

**n. Deferred Outflows and Deferred Inflows of Resources**

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

The System's deferred outflows consist of:

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

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

The System's deferred inflows of resources consist of:

1. Assumption and experience changes and net investment gains that reduce the pension and OPEB liabilities. These amounts are to be recognized as components of pension and postemployment health expense in future reporting periods.
2. The unamortized balances of a service concession arrangement with Sodexo America, LLC that provided the System with equipment, facility improvements, and a signing bonus. These amounts will be recognized as revenue over the life of the agreement.
3. An offsetting credit to the fair value of the System's remainder interest in irrevocable split-interest agreements. These deferrals will be recognized as gift income at the termination of the split-interest agreement.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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**1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED****o. 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.

**p. Tax Status**

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

**q. 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.

**r. Reclassifications**

Certain FY20 items in the accompanying financial statements have been reclassified, without effect on total net position, to conform to the FY21 presentation. The most significant change was the reclassification of federal Pell grant revenue from the operating revenues section of the Statements of Revenues, Expenses and Changes in Net Position to the nonoperating revenues section.

**2. CASH AND CASH EQUIVALENTS**

Custodial credit risk is the risk that in the event of bank failure, the System's deposits, including those held in a fiduciary capacity, may not be returned. Deposits are considered uninsured if they are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the System's name. The System's policy is that with the exception of daily operating cash, it will carry no deposits that are uncollateralized or uninsured. As of June 30, 2021 and 2020, bank balances with uninsured or uncollateralized operating cash deposits were \$1,156 and \$726, respectively.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**3. INVESTMENTS**

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**a. Composition and Fair Value Measurements****Composition and Purpose of Investments:**

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

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

**Deposits with Bond Trustees:** Deposits with bond trustees are composed of unexpended bond proceeds from bond issuances, bond anticipation notes and escrow accounts associated with the System's lease-purchase program.

**Endowment Investments:** Except for certain gifts invested separately at the request of the donors (\$716 and \$491 at June 30, 2021 and 2020, 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, 2021 and 2020, respectively are \$35,190 and \$25,857, and are reported as investments in the UMS endowment pool in the accompanying Statements of Fiduciary Net Position.

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

|                              | 2021     | 2020     |
|------------------------------|----------|----------|
| Restricted - expendable      | \$76,199 | \$51,028 |
| Unrestricted                 | 20,697   | 16,754   |
| Total available for spending | \$96,896 | \$67,782 |

**Investments for the Defined Benefit Plan – Classified Employees:** These pension plan investments offset the Total Pension Liability of the System's Defined Benefit Plan – Classified

**3. INVESTMENTS - CONTINUED**

Employees (DB Plan) described in Note 13d. They are managed by the System and their fair values, credit ratings, and interest rate risk are presented below in the “DB Plan and MIP investments”.

**Fair Value Measurements:**

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

- Level 1. Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access as of the measurement date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgement.
- Level 2. Valuations based on significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or 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.

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

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

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**3. INVESTMENTS - CONTINUED**

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The System's operating investments and deposits with bond trustees were composed of the following at June 30, 2021:

|   | Total             | Fair Value Measurements Using: |                  |             | Credit Rating | Interest Rate Risk |                           |
|---|-------------------|--------------------------------|------------------|-------------|---------------|--------------------|---------------------------|
|   |                   | Level 1                        | Level 2          | Level 3     |               |                    |                           |
| <b>Operating Investments measured at fair value:</b>        |                   |                                |                  |             |               |                    |                           |
| Equities:   |                   |                                |                  |             |               |                    |                           |
| Multi-strategy funds  | \$ 52,919         | \$ 52,919                      | \$ -             | \$ -        |               |                    |                           |
| Fixed income funds:   |                   |                                |                  |             |               |                    |                           |
| Bonds   | 117,535           | 41,482                         | 76,053           | -           | Not rated     | 1.28-6.58 years    | Duration                  |
| Money markets   | 28,519            | 28,519                         | -                | -           | Not rated     | 28-47 days         | Weighted Average Maturity |
| <b>Total operating investments at fair value level</b>      | <b>198,973</b>    | <b>\$ 122,920</b>              | <b>\$ 76,053</b> | <b>\$ -</b> |               |                    |                           |
| <b>Operating investments measured at NAV</b>                |                   |                                |                  |             |               |                    |                           |
| Equities: Multi-Strategy                                    | 15,706            |                                |                  |             |               |                    |                           |
| Bank loans  | 18,587            |                                |                  |             | Not rated     | .30 years          | Duration                  |
| Total operating investments measured at NAV                 | 34,293            |                                |                  |             |               |                    |                           |
| Total operating investments measured at fair value plus NAV | 233,266           |                                |                  |             |               |                    |                           |
| State pool measured at amortized cost                       | 52,796            |                                |                  |             | Not rated     | .69 years          | Duration                  |
| <b>Total operating investments</b>                          | <b>\$ 286,062</b> |                                |                  |             |               |                    |                           |
| <b>Deposits with Bond Trustees:</b>                         |                   |                                |                  |             |               |                    |                           |
| Bonds and money markets                                     | \$ 34,203         | \$ 34,203                      | \$ -             | \$ -        | Not rated     | 28-47 days         | Weighted Average Maturity |

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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4.1

**3. INVESTMENTS - CONTINUED**

The System's DB Plan and MIP investments were composed of the following at June 30, 2021:

|  | Total             | Fair Value Measurements Using: |         |          | Credit Rating | Interest Rate Risk |                           |
|--|-------------------|--------------------------------|---------|----------|---------------|--------------------|---------------------------|
|  |                   | Level 1                        | Level 2 | Level 3  |               |                    |                           |
| <b>Investments measured at fair value:</b>                   |                   |                                |         |          |               |                    |                           |
| Equities:  |                   |                                |         |          |               |                    |                           |
| Equity securities  | \$ 13,600         | \$ 13,600                      | \$ -    | \$ -     |               |                    |                           |
| Equity funds   | 51,613            | 51,613                         | -       | -        |               |                    |                           |
| Multi-strategy funds   | 31,396            | 31,396                         | -       | -        | Not rated     | Not rated          |                           |
| Fixed income funds:  |                   |                                |         |          |               |                    |                           |
| Money markets  | 2,490             | 2,490                          | -       | -        | Not rated     | 27 days            | Weighted Average Maturity |
| Bonds  | 60,494            | 60,494                         | -       | -        | Not rated     | 1.28-7.5 years     | Duration                  |
| Real assets  | 2,161             | -                              | -       | 2,161    | Not rated     | Not rated          |                           |
| Total DB Plan and MIP investments at fair value level        | 161,754           | \$ 159,593                     | \$ -    | \$ 2,161 |               |                    |                           |
| <b>Investments measured at NAV:</b>                          |                   |                                |         |          |               |                    |                           |
| Equity securities  | 92,541            |                                |         |          |               |                    |                           |
| Equity funds   | 118,188           |                                |         |          |               |                    |                           |
| Multi-strategy funds   | 33,770            |                                |         |          |               |                    |                           |
| Fixed income funds - bonds                                   | 41,177            |                                |         |          |               |                    |                           |
| Bank loans   | 21,602            |                                |         |          | Not rated     | 0.3 years          | Duration                  |
| Total DB Plan and MIP investments measured at NAV            | 307,278           |                                |         |          |               |                    |                           |
| <b>Total DB Plan and MIP investments</b>                     | <b>\$ 469,032</b> |                                |         |          |               |                    |                           |
| <b>Breakdown of above investments by portfolio:</b>          |                   |                                |         |          |               |                    |                           |
| DB Plan at fair value level                                  | \$ 13,917         | \$ 11,756                      | \$ -    | \$ 2,161 |               |                    |                           |
| DB Plan at NAV   | 11,374            |                                |         |          |               |                    |                           |
| Total DB Plan Investments                                    | \$ 25,291         |                                |         |          |               |                    |                           |
| MIP held on behalf of outside entities at fair level         | \$ 82,367         | \$ 82,367                      | \$ -    | \$ -     |               |                    |                           |
| MIP held on behalf of outside entities at NAV                | 164,861           |                                |         |          |               |                    |                           |
| Total MIP held on behalf of outside entities                 | \$ 247,228        |                                |         |          |               |                    |                           |
| Fiduciary Funds held in Endowment Pool at fair value level   | \$ 11,724         | \$ 11,724                      | \$ -    | \$ -     |               |                    |                           |
| Fiduciary Funds held in Endowment Pool at NAV                | 23,466            |                                |         |          |               |                    |                           |
| Total Fiduciary Funds  | \$ 35,190         |                                |         |          |               |                    |                           |
| Endowment pool investments included in the MIP at fair value | \$ 53,746         | \$ 53,746                      | \$ -    | \$ -     |               |                    |                           |
| Endowment pool investments included in the MIP at NAV        | 107,577           |                                |         |          |               |                    |                           |
| Total endowment pool investments included in the MIP         | 161,323           |                                |         |          |               |                    |                           |
| Endowment investments - separately invested                  | 4,989             | \$ 4,989                       | \$ -    | \$ -     |               |                    |                           |
| <b>Total endowment investments</b>                           | <b>\$ 166,312</b> |                                |         |          |               |                    |                           |

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**3. INVESTMENTS - CONTINUED**

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4.1

Additional disclosures for **System investments**, including the DB Plan and MIP, measured at NAV at June 30, 2021:

|  | Fair Value        | Redemption Frequency (If Currently Eligible) | Redemption Period Notice |
|--|-------------------|--|--------------------------|
| <b>Operating Investments measured at NAV:</b>                  |                   |  |                          |
| Equities: Multi-strategy <sup>1</sup>                          | \$ 15,706         | Quarterly, Monthly                           | 60, 90 days              |
| Bank loans <sup>2</sup>  | 18,587            | Bi-monthly                                   | 15 days                  |
| <b>Total operating investments measured at NAV</b>             | <b>\$ 34,293</b>  |  |                          |
| <b>Investments measured at NAV:</b>                            |                   |  |                          |
| Equity securities  | \$ 92,541         | Monthly                                      | 30 days                  |
| Equity funds   | 118,188           | Monthly                                      | 30 days                  |
| Multi-strategy funds <sup>1</sup>                              | 33,770            | Quarterly, Monthly                           | 30, 45, 60, 90 days      |
| Fixed income funds - bonds                                     | 41,177            | Monthly                                      | 5 days                   |
| Bank loans <sup>2</sup>  | 21,602            | Monthly                                      | 30 days                  |
| <b>Total DB Plan and MIP investments measured at NAV</b>       | <b>\$ 307,278</b> |  |                          |
| <b>Further breakdown of above DB Plan and MIP investments:</b> |                   |  |                          |
| DB Plan at NAV   | \$ 11,374         |  |                          |
| MIP held on behalf of outside entities at NAV                  | 164,861           |  |                          |
| Fiduciary funds held in the Endowment Pool for others          | 23,466            |  |                          |
| <b>Endowment pool investments included in the MIP at NAV</b>   | <b>107,577</b>    |  |                          |
| <b>Total investments measured at NAV by portfolio</b>          | <b>\$ 307,278</b> |  |                          |

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**3. INVESTMENTS - CONTINUED**

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4.1

The **System's operating investments and deposits with bond trustees** were composed of the following at June 30, 2020:

|   | Total             | Fair Value Measurements Using: |                  |             | Credit Rating | Interest Rate Risk |                           |
|---|-------------------|--------------------------------|------------------|-------------|---------------|--------------------|---------------------------|
|   |                   | Level 1                        | Level 2          | Level 3     |               |                    |                           |
| <b>Operating Investments measured at fair value:</b>        |                   |                                |                  |             |               |                    |                           |
| Equities:   |                   |                                |                  |             |               |                    |                           |
| Multi-strategy funds  | \$ 45,880         | \$ 45,880                      | \$ -             | \$ -        |               |                    |                           |
| Fixed income funds:   |                   |                                |                  |             |               |                    |                           |
| Bonds   | 105,366           | 37,032                         | 68,334           | -           | Not rated     | 1.75-6.4 years     | Duration                  |
| Money markets   | 40,825            | 40,825                         | -                | -           | Not rated     | 34-40 days         | Weighted Average Maturity |
| <b>Total operating investments at fair value level</b>      | <b>192,071</b>    | <b>\$ 123,737</b>              | <b>\$ 68,334</b> | <b>\$ -</b> |               |                    |                           |
| Operating investments measured at NAV                       |                   |                                |                  |             |               |                    |                           |
| Equities: Multi-Strategy                                    | 15,944            |                                |                  |             |               |                    |                           |
| Bank loans  | 20,170            |                                |                  |             | Not rated     | .10 years          | Duration                  |
| Total operating investments measured at NAV                 | 36,114            |                                |                  |             |               |                    |                           |
| Total operating investments measured at fair value plus NAV | 228,185           |                                |                  |             |               |                    |                           |
| State pool measured at amortized cost                       | 35,861            |                                |                  |             | Not rated     | .55 years          | Duration                  |
| <b>Total operating investments</b>                          | <b>\$ 264,046</b> |                                |                  |             |               |                    |                           |
| <b>Deposits with Bond Trustees:</b>                         |                   |                                |                  |             |               |                    |                           |
| Bonds and money markets                                     | \$ 5,778          | \$ 5,778                       | \$ -             | \$ -        | Not rated     | 34-51 days         | Weighted Average Maturity |

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**3. INVESTMENTS - CONTINUED**

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4.1

The System's DB Plan and MIP investments were composed of the following at June 30, 2020 (Restated):

|  | Total             | Fair Value Measurements Using: |         |          | Credit Rating | Interest Rate Risk |                           |
|--|-------------------|--------------------------------|---------|----------|---------------|--------------------|---------------------------|
|  |                   | Level 1                        | Level 2 | Level 3  |               |                    |                           |
| <b>Investments measured at fair value:</b>                   |                   |                                |         |          |               |                    |                           |
| Equities:  |                   |                                |         |          |               |                    |                           |
| Equity securities  | \$ 12,747         | \$ 12,747                      | \$ -    | \$ -     |               |                    |                           |
| Equity funds   | 42,714            | 42,714                         | -       | -        |               |                    |                           |
| Multi-strategy funds   | 47,233            | 47,233                         | -       | -        | Not rated     | Not rated          |                           |
| Fixed income funds:  |                   |                                |         |          |               |                    |                           |
| Money markets  | 6,170             | 6,170                          | -       | -        | Not rated     | 43 days            | Weighted Average Maturity |
| Bonds  | 48,947            | 48,947                         | -       | -        | Not rated     | 2.8-7.9 years      | Duration                  |
| Real assets  | 2,004             | -                              | -       | 2,004    | Not rated     | Not rated          |                           |
| Total DB Plan and MIP investments at fair value level        | 159,815           | \$ 157,811                     | \$ -    | \$ 2,004 |               |                    |                           |
| <b>Investments measured at NAV:</b>                          |                   |                                |         |          |               |                    |                           |
| Equity securities  | 75,882            |                                |         |          |               |                    |                           |
| Equity funds   | 72,179            |                                |         |          |               |                    |                           |
| Multi-strategy funds   | 29,696            |                                |         |          |               |                    |                           |
| Fixed income funds - bonds                                   | 22,643            |                                |         |          |               |                    |                           |
| Bank loans   | 17,286            |                                |         |          | Not rated     | 0.25               | Duration                  |
| Total DB Plan and MIP investments measured at NAV            | 217,686           |                                |         |          |               |                    |                           |
| <b>Total DB Plan and MIP investments</b>                     | <b>\$ 377,501</b> |                                |         |          |               |                    |                           |
| <b>Breakdown of above investments by portfolio:</b>          |                   |                                |         |          |               |                    |                           |
| DB Plan at fair value level                                  | \$ 13,668         | \$ 11,664                      | \$ -    | \$ 2,004 |               |                    |                           |
| DB Plan at NAV   | 10,941            |                                |         |          |               |                    |                           |
| Total DB Plan Investments                                    | \$ 24,609         |                                |         |          |               |                    |                           |
| MIP held on behalf of outside entities at fair level         | \$ 79,715         | \$ 79,715                      | \$ -    | \$ -     |               |                    |                           |
| MIP held on behalf of outside entities at NAV                | 112,768           |                                |         |          |               |                    |                           |
| Total MIP held on behalf of outside entities                 | \$ 192,483        |                                |         |          |               |                    |                           |
| Fiduciary Funds held in Endowment Pool at fair value level   | \$ 10,708         | \$ 10,708                      | \$ -    | \$ -     |               |                    |                           |
| Fiduciary Funds held in Endowment Pool at NAV                | 15,149            |                                |         |          |               |                    |                           |
| Total Fiduciary Funds  | \$ 25,857         |                                |         |          |               |                    |                           |
| Endowment pool investments included in the MIP at fair value | \$ 55,724         | \$ 55,724                      | \$ -    | \$ -     |               |                    |                           |
| Endowment pool investments included in the MIP at NAV        | 78,828            |                                |         |          |               |                    |                           |
| Total endowment pool investments included in the MIP         | 134,552           |                                |         |          |               |                    |                           |
| Endowment investments - separately invested                  | 131               | \$ 131                         | \$ -    | \$ -     |               |                    |                           |
| <b>Total endowment investments</b>                           | <b>\$ 134,683</b> |                                |         |          |               |                    |                           |

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**3. INVESTMENTS - CONTINUED**

DRAFT

4.1

Additional disclosures for **System investments**, including the DB Plan and MIP, measured at NAV at June 30, 2020 (Restated):

|  | Fair Value        | Redemption Frequency (If Currently Eligible) | Redemption Period Notice |
|--|-------------------|--|--------------------------|
| <b>Operating Investments measured at NAV:</b>                  |                   |  |                          |
| Equities: Multi-strategy <sup>1</sup>                          | \$ 15,944         | Quarterly, Monthly                           | 60, 90 days              |
| Bank loans <sup>2</sup>  | 20,170            | Bi-monthly                                   | 15 days                  |
| <b>Total operating investments measured at NAV</b>             | <b>\$ 36,114</b>  |  |                          |
| <b>Investments measured at NAV:</b>                            |                   |  |                          |
| Equity securities  | \$ 75,882         | Monthly                                      | 30 days                  |
| Equity funds   | 72,179            | Monthly                                      | 30 days                  |
| Multi-strategy funds <sup>1</sup>                              | 29,696            | Quarterly, Monthly                           | 30, 45, 60, 90 days      |
| Fixed income funds - bonds                                     | 22,643            | Monthly                                      | 5 days                   |
| Bank loans <sup>2</sup>  | 17,286            | Monthly                                      | 30 days                  |
| <b>Total DB Plan and MIP investments measured at NAV</b>       | <b>\$ 217,686</b> |  |                          |
| <b>Further breakdown of above DB Plan and MIP investments:</b> |                   |  |                          |
| DB Plan at NAV   | \$ 10,941         |  |                          |
| MIP held on behalf of outside entities at NAV                  | 112,768           |  |                          |
| Fiduciary funds held in the Endowment Pool for others          | 15,149            |  |                          |
| <b>Endowment pool investments included in the MIP at NAV</b>   | <b>78,828</b>     |  |                          |
| <b>Total investments measured at NAV by portfolio</b>          | <b>\$ 217,686</b> |  |                          |

Additional information for investments measured at NAV at June 30, 2021 and 2020 is as follows:

<sup>1</sup> 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.

<sup>2</sup> 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. INVESTMENTS - CONTINUED****b. Interest Rate Risk**

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

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

**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 6.61 years and 6.01 years at June 30, 2021 and 2020, respectively).

**Investments for the Defined Benefit Plan – Classified Employees:** To limit interest rate exposure, the defined benefit plan 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 6.61 years and 6.01 years at June 30, 2021 and 2020, respectively).

**c. Foreign Currency Risk**

**Operating Investments:** The System's operating investments include various fixed income, equity, and hedge fund holdings that have foreign currency exposure, with some funds hedging against foreign currency risk. Portfolio foreign currency exposure was \$6,622 and \$21,712 at June 30, 2021 and 2020, 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 \$ 54,847 and \$ 61,865 at June 30, 2021 and 2020, respectively. This includes \$9,822 and \$9,972 at June 30, 2021 and 2020, respectively, for investments held for affiliated organizations.

**Investments for the Defined Benefit Plan – Classified Employees:** Pension investments include various fixed income, equity, and hedge fund holdings that have foreign currency exposure, with some funds hedging against foreign currency risk. Portfolio foreign currency exposure was \$4,956 and \$9,095 at June 30, 2021 and 2020, respectively.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**3. INVESTMENTS - CONTINUED**

DRAFT

4.1

**d. Investment Income**

Income related to the **System's investments** and reported in the accompanying Statements of Revenues, Expenses and Changes in Net Position is as follows:

| <b>2021</b>   |                                   |                                       |                            |                                  |
|---|-----------------------------------|---------------------------------------|----------------------------|----------------------------------|
|   | <b>Net<br/>Gains<br/>(Losses)</b> | <b>Interest<br/>and<br/>Dividends</b> | <b>Investment<br/>Fees</b> | <b>Net<br/>Income<br/>(Loss)</b> |
| Endowment investment income and fees                            | \$ 34,619                         | \$ 1,803                              | \$ (963)                   | \$ 35,459                        |
| Net income allocated to annuities payable to others             |                                   |                                       |                            | (47)                             |
| System endowment net income                                     |                                   |                                       |                            | \$ 35,412                        |
| Reported as endowment return used for operations                |                                   |                                       |                            | \$ 6,006                         |
| Reported as endowment return, net of amount used for operations |                                   |                                       |                            | 29,406                           |
| System endowment income   |                                   |                                       |                            | \$ 35,412                        |
| Operating investments   | \$ 17,595                         | \$ 5,877                              | \$ (999)                   | \$ 22,473                        |
| Perkins savings account   | -                                 | 9                                     | -                          | 9                                |
| Deposits with bond trustees                                     | -                                 | 3                                     | -                          | 3                                |
| Total other investment income (loss)                            | \$ 17,595                         | \$ 5,889                              | \$ (999)                   | \$ 22,485                        |

| <b>2020 Restated</b>  |                                   |                                       |                            |                                  |
|---|-----------------------------------|---------------------------------------|----------------------------|----------------------------------|
|   | <b>Net<br/>Gains<br/>(Losses)</b> | <b>Interest<br/>and<br/>Dividends</b> | <b>Investment<br/>Fees</b> | <b>Net<br/>Income<br/>(Loss)</b> |
| Endowment investment income and fees                            | \$ 157                            | \$ 2,049                              | \$ (765)                   | \$ 1,441                         |
| Net income allocated to annuities payable to others             |                                   |                                       |                            | (3)                              |
| System endowment net income                                     |                                   |                                       |                            | \$ 1,438                         |
| Reported as endowment return used for operations                |                                   |                                       |                            | \$ 5,603                         |
| Reported as endowment return, net of amount used for operations |                                   |                                       |                            | (4,165)                          |
| System endowment income   |                                   |                                       |                            | \$ 1,438                         |
| Operating investments   | \$ 3,063                          | \$ 6,902                              | \$ (1,023)                 | \$ 8,942                         |
| Perkins savings account   | -                                 | 38                                    | -                          | 38                               |
| Deposits with bond trustees                                     | -                                 | 94                                    | -                          | 94                               |
| Total other investment income (loss)                            | \$ 3,063                          | \$ 7,034                              | \$ (1,023)                 | \$ 9,074                         |

See Note 13d for investment returns related to the **Defined Benefit Plan – Classified Employees**.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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

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4.1

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

|                                       | 2021      |                 |                    | 2020      |                 |                    |
|---------------------------------------|-----------|-----------------|--------------------|-----------|-----------------|--------------------|
|                                       | Total     | Current Portion | Noncurrent Portion | Total     | Current Portion | Noncurrent Portion |
| Student and other accounts receivable | \$ 45,729 | \$ 45,236       | \$ 493             | \$ 38,798 | \$ 38,362       | \$ 436             |
| Grants receivable                     | 51,705    | 48,530          | 3,175              | 28,587    | 25,642          | 2,945              |
| Pledges receivable                    | 528       | 106             | 422                | 2,086     | 1,794           | 292                |
| Total gross receivables               | 97,962    | 93,872          | 4,090              | 69,471    | 65,798          | 3,673              |
| Less allowance for doubtful accounts  | (19,233)  | (19,225)        | (8)                | (13,492)  | (13,486)        | (6)                |
| Less discount on pledges receivable   | (13)      | -               | (13)               | (7)       | -               | (7)                |
| Total receivables, net                | \$ 78,716 | \$ 74,647       | \$ 4,069           | \$ 55,972 | \$ 52,312       | \$ 3,660           |

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:

|  | 2021     |                 |                    | 2020     |                 |                    |
|--|----------|-----------------|--------------------|----------|-----------------|--------------------|
|  | Total    | Current Portion | Noncurrent Portion | Total    | Current Portion | Noncurrent Portion |
| Perkins loans                          | \$15,355 | \$ -            | \$ 15,355          | \$19,804 | \$ -            | \$ 19,804          |
| Nursing loans                          | 2,141    | -               | 2,141              | 2,240    | -               | 2,240              |
| Institutional loans                    | 11,145   | -               | 11,145             | 10,749   | -               | 10,749             |
| Lease receivable (a)                   | 500      | 63              | 437                | 563      | 63              | 500                |
| Total notes and leases receivable      | 29,141   | 63              | 29,078             | 33,356   | 63              | 33,293             |
| Less allowance for doubtful accounts   | (885)    | -               | (885)              | (1,142)  | -               | (1,142)            |
| Total notes and leases receivable, net | \$28,256 | \$ 63           | \$ 28,193          | \$32,214 | \$ 63           | \$ 32,151          |

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**

DRAFT

4.1

Capital asset activity for the year ended June 30, 2021 is as follows:

|                                | Beginning<br>Balance | Additions | Reclassifications | Retirements | Ending<br>Balance |
|--------------------------------|----------------------|-----------|-------------------|-------------|-------------------|
| Land                           | \$ 18,376            | \$ -      | \$ -              | \$ -        | \$ 18,376         |
| Library materials              | 25,686               | -         | -                 | -           | 25,686            |
| Construction in progress       | 23,582               | 45,985    | (19,112)          | -           | 50,455            |
| Total nondepreciable assets    | 67,644               | 45,985    | (19,112)          | -           | 94,517            |
| Land improvements              | 62,884               | -         | 874               | (162)       | 63,596            |
| Buildings & improvements       | 951,172              | -         | 14,674            | (4,564)     | 961,282           |
| Equipment                      | 171,421              | 3,978     | 3,564             | (4,122)     | 174,841           |
| Software                       | 35,794               | -         | -                 | (98)        | 35,696            |
| Total depreciable assets       | 1,221,271            | 3,978     | 19,112            | (8,946)     | 1,235,415         |
| Less accumulated depreciation: |                      |           |                   |             |                   |
| Land improvements              | 42,544               | 2,304     | -                 | (162)       | 44,686            |
| Buildings & improvements       | 414,067              | 27,015    | -                 | (2,822)     | 438,260           |
| Equipment                      | 120,773              | 10,961    | -                 | (3,634)     | 128,100           |
| Software                       | 28,358               | 2,005     | -                 | (64)        | 30,299            |
| Total accumulated depreciation | 605,742              | 42,285    | -                 | (6,682)     | 641,345           |
| Net depreciable assets         | 615,529              | (38,307)  | 19,112            | (2,264)     | 594,070           |
| Total capital assets           | \$ 683,173           | \$ 7,678  | \$ -              | \$ (2,264)  | \$ 688,587        |

Capital asset activity for the year ended June 30, 2020 is as follows:

|                                | Beginning<br>Balance | Additions  | Reclassifications | Retirements | Ending<br>Balance |
|--------------------------------|----------------------|------------|-------------------|-------------|-------------------|
| Land                           | \$ 18,376            | \$ -       | \$ -              | \$ -        | \$ 18,376         |
| Library materials              | 25,686               | -          | -                 | -           | 25,686            |
| Construction in progress       | 17,806               | 31,265     | (25,489)          | -           | 23,582            |
| Total nondepreciable assets    | 61,868               | 31,265     | (25,489)          | -           | 67,644            |
| Land improvements              | 61,763               | -          | 1,121             | -           | 62,884            |
| Buildings & improvements       | 931,377              | -          | 20,753            | (958)       | 951,172           |
| Equipment                      | 163,069              | 4,948      | 3,615             | (211)       | 171,421           |
| Software                       | 34,292               | 4,387      | -                 | (2,885)     | 35,794            |
| Total depreciable assets       | 1,190,501            | 9,335      | 25,489            | (4,054)     | 1,221,271         |
| Less accumulated depreciation: |                      |            |                   |             |                   |
| Land improvements              | 40,268               | 2,276      | -                 | -           | 42,544            |
| Buildings & improvements       | 388,305              | 26,188     | -                 | (426)       | 414,067           |
| Equipment                      | 109,807              | 11,163     | -                 | (197)       | 120,773           |
| Software                       | 29,032               | 2,211      | -                 | (2,885)     | 28,358            |
| Total accumulated depreciation | 567,412              | 41,838     | -                 | (3,508)     | 605,742           |
| Net depreciable assets         | 623,089              | (32,503)   | 25,489            | (546)       | 615,529           |
| Total capital assets           | \$ 684,957           | \$ (1,238) | \$ -              | \$ (546)    | \$ 683,173        |

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**6. CAPITAL ASSETS - CONTINUED**

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4.1

As of June 30, 2021 and 2020, \$34,179 and \$5,755, respectively, in proceeds from debt issuances remain unspent. These amounts are included in the accompanying Statements of Net Position as part of deposits with bond trustees along with amounts restricted for debt service.

Also remaining unspent as of June 30, 2021 and 2020 is \$33,401 and \$41,057, respectively, in capital appropriations awarded by the State of Maine. These amounts are not included in the accompanying financial statements because the System has not met all eligibility requirements (e.g., incurred costs).

Both the debt proceeds 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 \$52,403 and \$21,289 at June 30, 2021 and 2020, respectively.

**7. ACCRUED LIABILITIES AND LONG-TERM DEBT**

Changes in accrued liabilities and long-term debt during the year ended June 30, 2021 include the following:

|   | Beginning<br>Balance | Additions  | Reductions   | Ending<br>Balance | Current<br>Portion |
|---|----------------------|------------|--------------|-------------------|--------------------|
| Accrued liabilities:                      |                      |            |              |                   |                    |
| Workers' compensation (Note 11)           | \$ 2,200             | \$ 160     | \$ (159)     | \$ 2,201          | \$ 553             |
| Health insurance (Note 11)                | 6,982                | 84,540     | (85,235)     | 6,287             | 6,287              |
| Postemployment health plan (Note 14)      | 76,031               | 29,681     | (105,712)    | -                 | -                  |
| Other employee benefit programs (Note 13) | 56,307               | 68,622     | (69,391)     | 55,538            | 6,039              |
| Other                                     | 21,390               | 28,727     | (15,958)     | 34,159            | 31,225             |
| Total accrued liabilities                 | \$ 162,910           | \$ 211,730 | \$ (276,455) | \$ 98,185         | \$ 44,104          |
| Long-term debt:                           |                      |            |              |                   |                    |
| Capital lease obligations <sup>(a)</sup>  | \$ 1,972             | \$ -       | \$ (503)     | \$ 1,469          | \$ 162             |
| Bonds and notes payable <sup>(b)</sup>    | 131,776              | 43,000     | (12,510)     | 162,266           | 12,712             |
| Lease purchase agreement <sup>(b)</sup>   | 3,803                | 106        | (803)        | 3,106             | 862                |
| Total long-term debt                      | \$ 137,551           | \$ 43,106  | \$ (13,816)  | \$ 166,841        | \$ 13,736          |

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**7. ACCRUED LIABILITIES AND LONG-TERM DEBT - CONTINUED**

DRAFT

4.1

Changes in accrued liabilities and long-term debt during the year ended June 30, 2020 include the following:

|   | Beginning<br>Balance | Additions  | Reductions   | Ending<br>Balance | Current<br>Portion |
|---|----------------------|------------|--------------|-------------------|--------------------|
| Accrued liabilities:                      |                      |            |              |                   |                    |
| Workers' compensation (Note 11)           | \$ 1,819             | \$ 712     | \$ (331)     | \$ 2,200          | \$ 825             |
| Health insurance (Note 11)                | 8,171                | 75,714     | (76,903)     | 6,982             | 6,982              |
| Postemployment health plan (Note 14)      | 63,247               | 35,335     | (22,551)     | 76,031            | -                  |
| Other employee benefit programs (Note 13) | 53,984               | 61,221     | (58,898)     | 56,307            | 5,577              |
| Other                                     | 14,909               | 19,894     | (13,413)     | 21,390            | 16,996             |
| Total accrued liabilities                 | \$ 142,130           | \$ 192,876 | \$ (172,096) | \$ 162,910        | \$ 30,380          |
| Long-term debt:                           |                      |            |              |                   |                    |
| Capital lease obligations <sup>(a)</sup>  | \$ 2,433             | \$ -       | \$ (461)     | \$ 1,972          | \$ 503             |
| Bonds and notes payable <sup>(b)</sup>    | 145,636              | -          | (13,860)     | 131,776           | 12,510             |
| Lease purchase agreement <sup>(b)</sup>   | 2,069                | 2,389      | (655)        | 3,803             | 803                |
| Total long-term debt                      | \$ 150,138           | \$ 2,389   | \$ (14,976)  | \$ 137,551        | \$ 13,816          |

**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, 2021 are as follows:

| Year Ending<br>June 30:         | Capital Leases |          | Operating<br>Leases | Total    |
|---------------------------------|----------------|----------|---------------------|----------|
|                                 | Principal      | Interest |                     |          |
| 2022                            | \$ 162         | \$ 63    | \$ 245              | \$ 470   |
| 2023                            | 169            | 56       | 239                 | 464      |
| 2024                            | 177            | 48       | 237                 | 462      |
| 2025                            | 185            | 40       | 239                 | 464      |
| 2026                            | 193            | 32       | 239                 | 464      |
| 2027-2031                       | 583            | 42       | 1,246               | 1,871    |
| 2032-2036                       | -              | -        | 659                 | 659      |
| 2037-2041                       | -              | -        | 131                 | 131      |
| Total minimum<br>lease payments | \$ 1,469       | \$ 281   | \$ 3,235            | \$ 4,985 |

The rent expense related to operating leases amounted to \$233 for the year ended June 30, 2021 and \$395 for the year ended June 30, 2020.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**b. Bonds, Notes Payable and Lease Purchase Agreements**

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4.1

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

|   | 2021      | 2020      |
|---|-----------|-----------|
| 2017 Series A Revenue Bonds (original principal of \$30,340)<br>Serial bonds, maturing from 2018 to 2026, with annual principal payments from \$2,285 to \$4,460 and coupon interest rates from 4.0% to 5.0%. Issued to refund 2007A Series Revenue bonds and to provide funding for capital projects. Includes premiums of \$1,073 and \$1,604, respectively.                      | \$ 17,048 | \$ 21,024 |
| 2015 Series A Revenue Bonds (original principal of \$48,450)<br>Serial bonds, maturing from 2016 to 2037, with annual principal payments from \$405 to \$3,760 and coupon interest rates from 3.0% to 5.0%. Issued to refund 2004A, 2005A, and 2007A Series Revenue bonds and to provide funding for capital projects. Includes premiums of \$1,467 and \$1,898, respectively.      | 38,507    | 41,203    |
| 2013 Series A Revenue Bonds (original principal of \$65,255)<br>Serial and Term bonds, maturing from 2014 to 2035, with annual principal payments from \$1,275 to \$4,425 and coupon interest rates from 2.0% to 5.0%. Issued to refund 2000A, 2003A, 2004A, and 2005A Series Revenue bonds. Includes premiums of \$2,063 and \$2,637.  | 46,233    | 49,592    |
| 2012 Series A Revenue Bonds (original principal of \$34,975)<br>Serial and Term bonds, maturing from 2013 to 2033, with annual principal payments from \$1,070 to \$2,620 and coupon interest rates from 2.0% to 4.0%. Issued to refund balloon on the 2002A Series Revenue bonds and to provide funding for a capital project. Includes premiums of \$374 and \$478, respectively. | 15,714    | 17,763    |
| TD Bank, N.A.<br>\$43,000 bond anticipation note, Series 2021, monthly interest only payments at .31%, matures July 2022  | 43,000    | -         |
| University of Maine Foundation<br>Note payable, secured by equipment, with annual payments of \$15, including interest at 4.25%, matures 2023   | 21        | 35        |
| Key Government Finance Inc.<br>\$832 loan secured by five-year software license agreement, annual payments of \$182, including interest at 3.78%, matures July 2023   | 510       | 667       |
| Efficiency Maine Trust<br>\$2,595 loan for biomass energy project, quarterly principal payments of \$65 plus interest at 1.5% beginning in June 2016 and continuing through March 2026.   | 1,233     | 1,492     |
| Total bonds and notes payable, net  | 162,266   | 131,776   |

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**b. Bonds, Notes Payable and Lease Purchase Agreements - continued**

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4.1

|  | 2021       | 2020       |
|--|------------|------------|
| Banc of America Public Capital Corp.   |            |            |
| Master lease purchase agreement, secured by equipment and vehicles, quarterly or semi-annual payments including interest at 1.19% to 4.14%, maturing from October 2022 to May 2037 | 3,106      | 3,803      |
| Total bonds, notes payable and lease purchase agreements, net  | \$ 165,372 | \$ 135,579 |
| Total par value of outstanding bonds, notes payable and lease purchase agreements  | \$ 160,395 | \$ 128,962 |
| Total unamortized premiums and discounts   | 4,977      | 6,617      |
| Total bonds, notes payable and lease purchase agreements   | \$ 165,372 | \$ 135,579 |

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, notes payable and lease purchase agreements for the next five years and in subsequent five-year periods are as follows at June 30, 2021:

| Year Ending<br>June 30: | Principal        | Interest        | Total            |
|-------------------------|------------------|-----------------|------------------|
| 2022                    | \$ 12,209        | \$ 4,920        | \$ 17,129        |
| 2023                    | 54,664           | 4,236           | 58,900           |
| 2024                    | 11,880           | 3,684           | 15,564           |
| 2025                    | 9,993            | 3,152           | 13,145           |
| 2026                    | 10,269           | 2,699           | 12,968           |
| 2027-2031               | 40,496           | 8,138           | 48,634           |
| 2032-2036               | 20,400           | 1,671           | 22,071           |
| 2037-2041               | 484              | 16              | 500              |
| <b>Total Payments</b>   | <b>\$160,395</b> | <b>\$28,516</b> | <b>\$188,911</b> |

Interest costs related to the revenue bonds for FY21 and FY20 were \$3,620 and \$3,842, respectively.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**8. UNEARNED REVENUE AND DEPOSITS**

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4.1

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

|                                     | 2021      | 2020<br>Restated |
|-------------------------------------|-----------|------------------|
| Unearned grant advances             | \$ 6,447  | \$ 6,774         |
| Unearned summer session revenue     | 8,014     | 7,899            |
| Other unearned revenue and deposits | 4,628     | 791              |
| Total unearned revenue and deposits | \$ 19,089 | \$ 15,464        |

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, 2021 and 2020, the portion of outstanding awards excluded from the financial statements totaled \$127,831 and \$66,118, respectively.

**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, 2021 and 2020 has been included in the accompanying Statements of Net Position as a noncurrent liability.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**10. NET POSITION**

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

|                                       | 2021       | 2020       |
|---------------------------------------|------------|------------|
| Net investment in capital assets      | \$ 549,870 | \$ 547,323 |
| Restricted - Nonexpendable:           |            |            |
| Endowment funds                       | 69,149     | 66,656     |
| Restricted - Expendable:              |            |            |
| Student financial aid                 | 63,081     | 47,441     |
| Capital assets and retirement of debt | 1,340      | 1,873      |
| Loans                                 | 17,391     | 17,059     |
| Academic support                      | 17,946     | 14,246     |
| Research and public service           | 11,011     | 6,863      |
| Library                               | 4,519      | 3,775      |
| Other                                 | 28,316     | 24,121     |
| Total restricted - expendable         | 143,604    | 115,378    |
| Unrestricted:                         |            |            |
| Educational and general reserves      | 88,619     | 81,098     |
| Risk management                       | 3,888      | 2,450      |
| Budget stabilization                  | 21,500     | 12,114     |
| Auxiliary enterprises                 | 1,253      | 7,865      |
| Benefit pool carryover                | 28,286     | 19,563     |
| Implementation of GASB 75 for OPEB    | (33,795)   | (83,264)   |
| Information technology initiatives    | 1,120      | 1,199      |
| Internally designated projects        | 8,632      | 13,535     |
| Facility projects                     | 36,772     | 26,193     |
| Quasi endowment corpus                | 13,398     | 11,093     |
| Endowment appreciation                | 7,299      | 5,661      |
| Cost sharing and other                | 5,099      | 5,244      |
| Total unrestricted                    | 182,071    | 102,751    |
| Total Net Position                    | \$ 944,694 | \$ 832,108 |

**11. COMMITMENTS AND CONTINGENCIES**

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**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 \$200 per loss retention with an aggregate limit of \$25,000. 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, 2021 and 2020 certain legal claims existed for which the probability or amount of payment could not be determined. The System, however, does not expect these amounts, if any, to be material to the financial statements.

At October 1, 2016, the System moved from a self-funded workers' compensation model to commercial insurance. Prior to October 1, 2016, the System was self-funded for the risk of loss related to workers' compensation. The liability for pre-existing unpaid claims is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The System's estimated liability at June 30, 2021 and 2020 of \$2,201 and \$2,200, 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 \$1.5.

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 began offering two health plan options for calendar year 2021 to retirees who are Medicare eligible. The legacy option is a fully insured Medicare Advantage Private Fee for Service program with a commercial carrier. The new option is a funded Health Reimbursement Account (HRA) through a Medicare Exchange program. As of June 30, 2021 and 2020, the estimated liability for claims incurred but not reported is included in total health insurance accrued liabilities in the

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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**11. COMMITMENTS AND CONTINGENCIES - CONTINUED**

accompanying Statements of Net Position (see Note 7). The System purchases stop-loss insurance which limits the exposure to \$1,000 per individual.

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

|   | 2021     | 2020     |
|---|----------|----------|
| Claims incurred but not reported          | \$ 5,382 | \$ 5,703 |
| Reported claims                           | 905      | 1,279    |
| Total health insurance liability (Note 7) | \$ 6,287 | \$ 6,982 |

Related to the System's self-insured health plan, certain collective bargaining agreements with System employees provide for a health insurance 'premium rebate' in the event that the total aggregate premium amount for the applicable two-year period (the "calculation period") exceeds, by a stated percentage, the total aggregate costs paid for claims and other expenses for the same period. Throughout each calculation period, the System receives periodic reports on how actual costs are trending in relation to the premiums; however, probability of a rebate cannot be determined prior to the end of the calculation period ending December 31, 2020. As of June 30, 2021 and 2020 the estimated liability for the premium rebate of \$2,750 and \$0, respectively, has been included in the accompanying Statements of Net Position as a current liability.

**12. PASS THROUGH GRANTS**

During FY21 and FY20, the System distributed \$103,358 and \$112,555, 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.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**13. PENSION PLANS**

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

|                                       | 2021      | 2020      |
|---------------------------------------|-----------|-----------|
| Faculty and Professional Employees:   |           |           |
| Contributory retirement plan          | \$ 22,602 | \$ 21,809 |
| Incentive retirement plan             | 1,526     | 1,443     |
| Hourly Employees:                     |           |           |
| Basic retirement plan                 | 3,201     | 3,139     |
| Defined benefit plan (Income)/Expense | (216)     | 1,361     |
| Total net pension expense             | \$ 27,113 | \$ 27,752 |

**a. Contributory Retirement Plan - Faculty and Professional Employees**

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

All full-time employees are eligible once employment begins. Part-time employees are eligible upon achieving the equivalent of five years of continuous, full-time, regular service. All eligible employees are required to participate when they reach thirty years of age. The System contributes an amount equal to 10% of each participant's base salary and each participant contributes 4% of base salary. Participants may make additional voluntary contributions up to limits allowable by the Internal Revenue Service. The System implemented a five-year vesting schedule for the employer matching contribution for certain salaried employees hired on or after January 1, 2010. All participant contributions are fully and immediately vested.

Effective June 1, 2014, TIAA became the sole record-keeper for the Contributory Retirement Plan. 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 \$9,042 in FY21 and \$8,723 in FY20.

**13. PENSION PLANS - CONTINUED****b. Incentive Retirement Plan – Faculty and Professional Employees****Plan Description**

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

**Benefits Provided:** 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.

**Plan Membership:** At June 30, 2021 and 2020, active plan membership consisted of 794 and 859 active plan participants, respectively.

**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.

**Net Pension Liability**

The total pension liability related to the Incentive Plan at the measurement date of June 30, 2021 and 2020 was \$21,208 and \$21,049, respectively. The fiduciary net position as a percentage of the total pension liability was 0.00% as this plan has no assets. The total pension liability was determined by an actuarial valuation as of July 1, 2021 and July 1, 2019 rolled forward to the measurement date of June 30, 2020 respectively, 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         | 2.16% as of June 30, 2021<br>2.21% as of June 30, 2020  |
| Life expectancy       | 2021: Mortality rates were based on the Pub-2010 amount-weighted Mortality Table projected with Scale MP-2020<br>2020: Mortality rates were based on the RP-2014 Mortality Table projected with MP-2018 |

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**13b. Incentive Retirement Plan – Faculty and Professional Employees - continued**

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

For the Incentive Plan, which does not hold assets, the total pension liability is based on the discount rate of 2.16% and 2.21% as of June 30, 2021 and 2020, respectively. The rates are based on the municipal bond rates as of the measurement dates. The municipal bond rates for 2021 and 2020 are based on the Bond Buyer 20-Bond General Obligation (GO) Index published for the weeks of June 30, 2021 and June 30, 2020, respectively.

**Sensitivity of the net pension liability to changes in the discount rate:** The following table presents the total pension liability as of June 30, calculated using the respective current discount rate as well as using a discount rate 1-percentage point lower or 1-percentage point higher than the current rate:

|                         | June 30, 2021             |  |                           | June 30, 2020             |                                       |                           |
|-------------------------|---------------------------|--|---------------------------|---------------------------|---------------------------------------|---------------------------|
|                         | 1%<br>Decrease<br>(1.16%) | Current<br>Discount<br>Rate<br>(2.16%) | 1%<br>Increase<br>(3.16%) | 1%<br>Decrease<br>(1.21%) | Current<br>Discount<br>Rate<br>(2.21) | 1%<br>Increase<br>(3.21%) |
| Total pension liability | \$ 21,844                 | \$ 21,208                              | \$ 20,552                 | \$21,689                  | \$21,049                              | \$20,390                  |

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**13b. Incentive Retirement Plan – Faculty and Professional Employees - continued**

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

| <b>Fiscal Year Ended June 30</b>   | <b>2021</b> | <b>2020</b> |
|--|-------------|-------------|
| Total pension liability – beginning  | \$ 21,049   | \$ 21,082   |
| Changes for the year:  |             |             |
| Service cost   | 692         | 538         |
| Interest   | 456         | 719         |
| Differences between expected and actual experience                         | 833         | -           |
| Changes of assumptions and other inputs                                    | 376         | 851         |
| Benefit payments   | (2,198)     | (2,141)     |
| Total pension liability – ending (a)                                       | 21,208      | 21,049      |
| Fiduciary net position – beginning   | -           | -           |
| Contributions – employer   | 2,198       | 2,141       |
| Benefit payments   | (2,198)     | (2,141)     |
| Fiduciary net position – ending (b)  | -           | -           |
| Net pension liability – ending (a)-(b)                                     | \$ 21,208   | \$ 21,049   |
| Plan fiduciary net position as a percentage of the total pension liability | 0.00%       | 0.00%       |
| Covered payroll  | \$ 62,646   | \$ 67,303   |
| Net pension liability as a percentage of covered payroll                   | 33.85%      | 31.27%      |
| Contributions as a percentage of covered payroll                           | 3.51%       | 3.18%       |

**c. Basic Retirement Plan - Classified Employees**

The Basic Retirement Plan (Basic Plan) is a single employer defined contribution plan (DC Plan) administered by the System and does not issue standalone financial statements. This DC 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 this DC Plan.

Eligible employees who were hired before July 1, 1998 could elect to roll over to the DC Plan the value of their accrued benefit in the Defined Benefit Retirement Plan for Classified Staff (DB Plan), as described further below, or remain in the DB Plan. Eligible employees that remained in the DB 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 DC Plan.

Full-time employees are eligible to participate in the DC 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.

**13. PENSION PLANS - CONTINUED**

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 DC 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 DC 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 DB 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 for employer matching contributions. 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 \$1,346 in FY21 and \$1,340 in FY20.

**d. Defined Benefit Plan – Classified Employees****Plan Description**

**Plan Administration:** 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.

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

**Benefits Provided:** Participants are eligible for normal retirement benefits upon attaining age 65 and retirement. 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.

Participants are eligible for early retirement benefits upon the attainment of age 55 and completion of 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

**13. PENSION PLANS - CONTINUED**

years of age with 25 or more years of service. Participants are also eligible for disability and death benefits.

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.

**Plan Membership:** The Plan is closed to new entrants. At June 30, pension plan membership consisted of the following:

|  | 2021 | 2020 |
|--|------|------|
| Inactive plan participants or beneficiaries currently receiving benefits | 700  | 724  |
| Inactive plan participants entitled to but not yet receiving benefits    | 191  | 199  |
| Active plan participants   | 2    | 3    |
| Total plan participants  | 893  | 926  |

**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 \$672 through and including FY51, 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.

**Plan Investments**

**Method Used to Value Investments:** Investments are reported at fair value. See Note 3 for information related to the fair value measurement, interest rate risk, and foreign currency risk associated with the Plan's investments.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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**13d. Defined Benefit Plan – Classified Employees – continued**

**Investment Policy:** The Plan's investments are diversified both by asset class and within asset classes. To have a reasonable probability of consistently achieving the Plan's return objectives, the following asset allocation policy ranges were effect as of June 20, 2021 and 2020:

|                         | 2021   | 2020   |
|-------------------------|--------|--------|
| Equity securities       | 25-45% | 25-45% |
| Fixed income securities | 35-55% | 35-55% |
| Other                   | 15-35% | 15-35% |
| Cash                    | 0-10%  | 0-10%  |

**Rate of Return:** For the years ended June 30, 2021 and 2020, the annual money-weighted rate of return, net of investment expenses, was 15.86% and 4.48%, respectively.

**Net Pension Liability**

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

|   | 2021      | 2020      |
|---|-----------|-----------|
| Total pension liability   | \$ 33,840 | \$ 36,318 |
| Fiduciary net position  | (25,291)  | (24,609)  |
| Net pension liability   | \$ 8,549  | \$ 11,709 |
| Fiduciary net position as a percentage of the total pension liability | 74.7%     | 67.8%     |

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

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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**13d. Defined Benefit Plan – Classified Employees - continued**

**Actuarial Assumptions:** The total pension liability as of June 30, 2021 and 2020 was determined by an actuarial valuation as of July 1, 2021 and as of July 1, 2019 rolled forward to the measurement date of June 30, 2020, respectively, 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                 | 2.5% as of June 30, 2021<br>2.4% as of June 30, 2020  |
| Salary increases          | 3.5% for all years  |
| Investment rate of return | 6.25% net of investment expenses, including inflation   |
| Life expectancy           | Pre-retirement and post-retirement mortality rates were based on the Pub-2010 amount-weighted Mortality Table with Scale MP-2020. For disabled lives, the mortality rates were based on the Pub-2010 amount-weighted Disabled Mortality Table with Scale MP-2020. |

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

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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**13d. Defined Benefit Plan – Classified Employees - continued**

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

| Asset Class             | 2021              |   | 2020              |   |
|-------------------------|-------------------|---|-------------------|---|
|                         | Target Allocation | Long-Term Expected Real Rates of Return | Target Allocation | Long-Term Expected Real Rates of Return |
| Global Equity           | 30 %              | 4.40%                                   | 30%               | 5.70%                                   |
| Emerging Market Equity  | 3%                | 6.10%                                   | 3%                | 7.60%                                   |
| Core Fixed Income       | 43%               | 0.97%                                   | 43%               | 0.50%                                   |
| Global Asset Allocation | 8 %               | 2.30%                                   | 8%                | 2.20%                                   |
| Real Estate             | 8%                | 3.10%                                   | 8%                | 3.30%                                   |
| Alternative Investments | 5%                | 3.10%                                   | 5%                | 3.20%                                   |
| Cash                    | 3%                | -0.10%                                  | 3%                | -0.60%                                  |
| Total                   | 100%              |   | 100.0%            |   |

**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, 2021 and 2020 was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from the System will be made in accordance with the Plan's funding policy adopted on February 27, 2014. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected benefit payments of current plan participants. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**13d. Defined Benefit Plan – Classified Employees - continued**

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**Sensitivity of the net pension liability to changes in the discount rate:** The following presents the net pension liability as of June 30 calculated using the discount rate of 6.25%, as well as using a discount rate 1-percentage point lower or 1-percentage point higher than the current rate:

|                         | June 30, 2021             |  |                           | June 30, 2020             |  |                           |
|-------------------------|---------------------------|--|---------------------------|---------------------------|--|---------------------------|
|                         | 1%<br>Decrease<br>(5.25%) | Current<br>Discount<br>Rate<br>(6.25%) | 1%<br>Increase<br>(7.25%) | 1%<br>Decrease<br>(5.25%) | Current<br>Discount<br>Rate<br>(6.25%) | 1%<br>Increase<br>(7.25%) |
| Total pension liability | \$ 36,194                 | \$ 33,840                              | \$ 31,762                 | \$ 38,945                 | \$ 36,318                              | \$ 34,010                 |
| Fiduciary net position  | 25,291                    | 25,291                                 | 25,291                    | 24,609                    | 24,609                                 | 24,609                    |
| Net pension liability   | \$ 10,903                 | \$ 8,549                               | \$ 6,471                  | \$ 14,336                 | \$ 11,709                              | \$ 9,401                  |

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

| Fiscal Year Ended June 30  | 2021      | 2020      |
|--|-----------|-----------|
| Total pension liability – beginning  | \$ 36,318 | \$ 38,105 |
| Changes for the year:  |           |           |
| Service cost   | 1         | 1         |
| Interest   | 2,148     | 2,255     |
| Differences between expected and actual experience                         | (285)     | -         |
| Changes of assumptions   | (426)     | -         |
| Benefit payments   | (3,916)   | (4,043)   |
| Total pension liability – ending (a)                                       | 33,840    | 36,318    |
| Fiduciary net position – beginning   | 24,609    | 26,576    |
| Contributions – employer   | 907       | 896       |
| Net investment income  | 3,704     | 1,213     |
| Benefit payments   | (3,916)   | (4,043)   |
| Administrative expenses  | (13)      | (33)      |
| Fiduciary net position – ending (b)  | 25,291    | 24,609    |
| Net pension liability – ending (a)-(b)                                     | \$ 8,549  | \$ 11,709 |
| Plan fiduciary net position as a percentage of the total pension liability | 74.74%    | 67.76%    |
| Covered payroll  | \$ 65     | \$ 68     |
| Net pension liability as a percentage of covered payroll                   | 13158.91% | 17284.43% |
| Contributions as a percentage of covered payroll                           | 1396.00%  | 1322.06%  |
| Plan assets measured at fair value   | \$ 25,291 | \$ 24,609 |

**13. PENSION PLANS - CONTINUED****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****Plan Description**

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

**Plan Benefits:** 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 are in the System health plan upon retirement, are eligible for post-retirement health coverage. This coverage is also extended to those former eligible employees who receive 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 Medicare eligible retiree health plan options include a Medicare Advantage program with an HRA and a group health plan which subsidizes the cost of insurance for eligible persons who are retired from the System and have reached age 65, who are under age 65 and are part of a special retirement incentive program, and who are former employees and approved for LTD benefits regardless of age or years of service. The level of subsidy varies with retirement date and years of service. The System also provides a subsidy for eligible dependents. With certain restrictions, dependents are eligible to continue coverage after the death of a retiree meeting the above criteria.

Persons eligible for a subsidy from the System may not convert their benefit into an in-lieu-of payment to secure coverage under independent plans.

The System’s OPEB (income)/expense for June 30, 2021 and 2020 was \$(46,390) and \$9,528, respectively.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**14. POSTEMPLOYMENT HEALTH PLAN - CONTINUED**

DRAFT

4.1

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

|  | 2021  | 2020  |
|--|-------|-------|
| Inactive plan participants or beneficiaries currently receiving benefits | 2,137 | 2,562 |
| Active plan participants   | 4,014 | 3,976 |
| Total plan participants  | 6,151 | 6,538 |

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

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

**Plan Investments**

Assets of the OPEB Plan are invested in the System's managed investment pool. See Notes 1f and 3 for more information on the pool and the OPEB Plan's share.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**14. POSTEMPLOYMENT HEALTH PLAN - CONTINUED**

DRAFT

4.1

**Net OPEB Liability**

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

|  | 2021        | 2020      |
|--|-------------|-----------|
| Total OPEB liability   | \$162,212   | \$213,431 |
| Fiduciary net position   | (180,270)   | (137,400) |
| Net OPEB liability (asset)   | \$ (18,058) | \$ 76,031 |
| Fiduciary net position as a percentage of the total OPEB liability | 111.13%     | 64.38%    |

**Actuarial Assumptions:** The total OPEB liability as of June 30, 2021 and 2020 was determined by an actuarial valuation as of July 1, 2021 and as of July 1, 2019 rolled forward to the measurement date of June 30, 2020 respectively, using the following actuarial assumptions, applied to all periods included in the measurement:

|  |  |
|--|--|
| Actuarial cost method  | Entry age normal   |
| Actuarial asset method   | Market value   |
| Inflation  | 2.2% as of June 30, 2021; 2.4% as of June 30, 2020   |
| Investment rate of return  | 7.25% net of investment expenses, including inflation as of June 30, 2021 and 2020   |
| Healthcare cost trend rate   | 6% for 2021 decreasing .25% per year to 5.25%, then grading down to an ultimate trend rate of 4%, utilizing the Society of Actuaries Getzen Medical Trend Model. The ultimate medical inflation rate is reached in 2075.<br>8% for 2020 decreasing .5% per year to 5.5%, then grading down to an ultimate trend rate of 3.9%, utilizing the Society of Actuaries Getzen Medical Trend Model. The ultimate medical inflation rate is reached in 2075. |
| Prescription drug trend rates (Catastrophic prescription Drug HRA) | 6.5% for 2021, decreasing .25% per year to an ultimate trend rate of 5 percent. Drug HRA)  |
| Life expectancy  | Pre-retirement and post-retirement mortality rates were based on the Pub-2010 headcount-weighted Mortality Table projected with fully generational mortality improvement using Scale MP-2020. For disabled lives, the mortality rates were based on the Pub-2010 headcount-weighted Disabled Mortality Table projected with fully generational mortality improvement using Scale MP-2020.  |

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**14. POSTEMPLOYMENT HEALTH PLAN – CONTINUED**

DRAFT

4.1

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

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

| Asset Class                        | 2021              |  | 2020              |  |
|------------------------------------|-------------------|--|-------------------|--|
|                                    | Target Allocation | Long-Term Expected Real Rate of Return | Target Allocation | Long-Term Expected Real Rate of Return |
| Large Cap Equities                 | 22.0%             | 3.80%                                  | 17.0%             | 5.00%                                  |
| Domestic Small/Mid Cap             | 6.0%              | 3.90%                                  | 7.0%              | 5.20%                                  |
| International Equities             | 10.0%             | 3.80%                                  | 10.0%             | 5.20%                                  |
| International Small Cap Equities   | 4.0%              | 4.10%                                  | 4.0%              | 5.60%                                  |
| Emerging Market Equities           | 3.5%              | 5.90%                                  | 3.5%              | 7.10%                                  |
| Emerging Small Cap Market Equities | 3.5%              | 6.10%                                  | 3.5%              | 7.60%                                  |
| Global Equity                      | 10.0%             | 4.40%                                  | 10.0%             | 5.70%                                  |
| Domestic Core Bonds                | 9.5%              | 0.70%                                  | 7.0%              | 0.20%                                  |
| TIPS                               | 3.5%              | 0.20%                                  | 7.0%              | -0.40%                                 |
| Short-term TIPS                    | 3.5%              | 0.00%                                  | 0.0%              | 0.00%                                  |
| Bank Loans                         | 5.0%              | 2.80%                                  | 5.0%              | 2.70%                                  |
| Absolute Return Fixed Income       | 5.0%              | 1.80%                                  | 5.0%              | 1.10%                                  |
| Global Asset Allocation            | 7.5%              | 2.30%                                  | 15.0%             | 2.90%                                  |
| Hedge Funds                        | 7.0%              | 3.10%                                  | 6.0%              | 3.20%                                  |
| Total                              | 100%              |  | 100%              |  |

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

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**14. POSTEMPLOYMENT HEALTH PLAN - CONTINUED**

DRAFT

4.1

The discount rate used to measure the total OPEB liability at the measurement dates of June 30, 2021 and 2020 was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from the System will be made in accordance with the OPEB Plan's funding policy. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Sensitivity of the net OPEB liability to changes in the discount rate:** The following presents the net OPEB liability as of June 30, calculated using the respective current discount rate as well as using a discount rate 1-percentage point lower or 1-percentage point higher than the current rate:

|                               | June 30, 2021             |  |                           | June 30, 2020             |  |                           |
|-------------------------------|---------------------------|--|---------------------------|---------------------------|--|---------------------------|
|                               | 1%<br>Decrease<br>(6.25%) | Current<br>Discount<br>Rate<br>(7.25%) | 1%<br>Increase<br>(8.25%) | 1%<br>Decrease<br>(6.25%) | Current<br>Discount<br>Rate<br>(7.25%) | 1%<br>Increase<br>(8.25%) |
| Total OPEB liability          | \$182,043                 | \$162,212                              | \$145,667                 | \$240,075                 | \$213,431                              | \$191,170                 |
| Fiduciary net position        | 180,270                   | 180,270                                | 180,270                   | 137,400                   | 137,400                                | 137,400                   |
| Net OPEB liability<br>(asset) | \$ 1,773                  | \$(18,058)                             | \$(34,603)                | \$102,675                 | \$ 76,031                              | \$ 53,770                 |

**Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates:** The following presents the net OPEB liability as of June 30, calculated using the respective current healthcare cost trend rates as well as using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

|                               | June 30, 2021                                      |   |  | June 30, 2020  |   |  |
|-------------------------------|--|---|--|--|---|--|
|                               | 1%<br>Decrease<br>5% Year 1<br>Decreasing<br>to 3% | Healthcare<br>Cost<br>Trend Rates<br>6% Year 1<br>Decreasing<br>to 4% | 1%<br>Increase<br>7% Year 1<br>Decreasing<br>to 5% | 1%<br>Decrease<br>7% Year 1<br>Decreasing<br>to 2.9% | Healthcare<br>Cost Trend<br>Rates<br>8% Year 1<br>Decreasing<br>to 3.9% | 1%<br>Increase<br>9% Year 1<br>Decreasing<br>to 4.9% |
| Total OPEB liability          | \$143,919  | \$162,212   | \$184,474  | \$187,627  | \$213,431   | \$244,558  |
| Fiduciary net position        | 180,270  | 180,270   | 180,270  | 137,400  | 137,400   | 137,400  |
| Net OPEB liability<br>(asset) | \$(36,351)   | \$(18,058)  | \$ 4,204   | \$ 50,227  | \$ 76,031   | \$107,158  |

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**14. POSTEMPLOYMENT HEALTH PLAN - CONTINUED**

DRAFT

4.1

Changes in the net OPEB liability:

| <b>Fiscal Year Ended June 30</b>  | <b>2021</b> | <b>2020</b> |
|---|-------------|-------------|
| Total OPEB liability – beginning  | \$ 213,431  | \$ 194,586  |
| Changes for the year:   |             |             |
| Service cost  | 6,964       | 6,434       |
| Interest  | 15,725      | 14,769      |
| Changes of benefit terms  | (49,469)    | (102)       |
| Differences between expected and actual experience                              | (8,908)     | -           |
| Changes of assumptions  | (8,539)     | 5,938       |
| Benefit payments  | (6,992)     | (8,194)     |
| Total OPEB liability (asset) – ending (a)                                       | 162,212     | 213,431     |
| Fiduciary net position – beginning  | 137,400     | 131,339     |
| Contributions – employer  | 12,473      | 12,694      |
| Net investment income   | 37,389      | 1,561       |
| Benefit payments  | (6,992)     | (8,194)     |
| Fiduciary net position – ending (b)   | 180,270     | 137,400     |
| Net OPEB liability (asset)– ending (a)-(b)                                      | \$ (18,058) | \$ 76,031   |
| Plan fiduciary net position as a percentage of the total OPEB liability (asset) | 111.13%     | 64.38%      |
| Covered payroll   | \$ 258,827  | \$ 241,501  |
| Net OPEB liability (asset) as a percentage of covered employee payroll          | -6.98%      | 31.48%      |
| Contributions as a percentage of covered payroll                                | 4.82%       | 5.26%       |
| Plan assets measured at fair value  | \$ 180,270  | \$ 137,400  |

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**15. DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES** DRAFT**4.1**

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

| <b>2021</b>                    |                          |             |  |  |                                       |              |
|--------------------------------|--------------------------|-------------|--|--|---------------------------------------|--------------|
|                                | <b>Pension Liability</b> | <b>OPEB</b> | <b>Deferred Amount on Debt Refunding</b> | <b>Irrevocable Split-Interest Agreements</b> | <b>Service Concession Arrangement</b> | <b>Total</b> |
| Deferred outflows of resources | \$2,662                  | \$11,514    | \$ 3,460                                 | \$ -   | \$ -                                  | \$17,636     |
| Deferred inflows of resources  | \$1,916                  | \$51,094    | \$ -                                     | \$ 847                                       | \$ 4,708                              | \$58,565     |

| <b>2020</b>                    |                          |             |  |  |                                       |              |
|--------------------------------|--------------------------|-------------|--|--|---------------------------------------|--------------|
|                                | <b>Pension Liability</b> | <b>OPEB</b> | <b>Deferred Amount on Debt Refunding</b> | <b>Irrevocable Split-Interest Agreements</b> | <b>Service Concession Arrangement</b> | <b>Total</b> |
| Deferred outflows of resources | \$3,019                  | \$24,649    | \$ 3,739                                 | \$ -   | \$ -                                  | \$31,407     |
| Deferred inflows of resources  | \$1,068                  | \$29,004    | \$ -                                     | \$ 1,765                                     | \$ 4,721                              | \$36,558     |

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

| <b>2021</b>  |                                  |                             |                      |             |
|--|----------------------------------|-----------------------------|----------------------|-------------|
|  | <b>Incentive Retirement Plan</b> | <b>Defined Benefit Plan</b> | <b>Total Pension</b> | <b>OPEB</b> |
| Deferred outflows of resources   |                                  |                             |                      |             |
| Changes of assumption or other inputs                                    | \$1,560                          | \$ -                        | \$ 1,560             | \$11,514    |
| Difference between expected and actual experience                        | 1,102                            | -                           | 1,102                | -           |
| Total deferred outflows of resources                                     | 2,662                            | -                           | 2,662                | 11,514      |
| Deferred inflows of resources  |                                  |                             |                      |             |
| Changes of assumption or other inputs                                    | 296                              | -                           | 296                  | 7,287       |
| Difference between expected and actual experience                        | 401                              | 1,219                       | 1,620                | 29,598      |
| Net difference between projected and actual earnings on plan investments | -                                | -                           | -                    | 14,209      |
| Total deferred inflows of resources                                      | 697                              | 1,219                       | 1,916                | 51,094      |
| Net deferred outflows (inflows)  | \$1,965                          | \$(1,219)                   | \$ 746               | \$(39,580)  |

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**15. DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES** DRAFT  
**CONTINUED**

4.1

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

|  | 2020                      |                      |               |           |
|--|---------------------------|----------------------|---------------|-----------|
|  | Incentive Retirement Plan | Defined Benefit Plan | Total Pension | OPEB      |
| Deferred outflows of resources   |                           |                      |               |           |
| Changes of assumption or other inputs                                    | \$ 1,624                  | \$ -                 | \$ 1,624      | \$14,738  |
| Difference between expected and actual experience                        | 578                       | -                    | 578           | -         |
| Net difference between projected and actual earnings on plan investments | -                         | 817                  | 817           | 9,911     |
| Total deferred outflows of resources                                     | 2,202                     | 817                  | 3,019         | 24,649    |
| Deferred inflows of resources  |                           |                      |               |           |
| Changes of assumption or other inputs                                    | 414                       | -                    | 414           | -         |
| Difference between expected and actual experience                        | 654                       | -                    | 654           | 29,004    |
| Total deferred inflows of resources                                      | 1,068                     | -                    | 1,068         | 29,004    |
| Net deferred outflows (inflows)  | \$ 1,134                  | \$ 817               | \$ 1,951      | \$(4,355) |

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

| Year Ending June 30: | Incentive Retirement Plan | Defined Benefit Plan | Total Pension | OPEB       |
|----------------------|---------------------------|----------------------|---------------|------------|
| 2022                 | \$ 378                    | \$ (151)             | \$ 227        | \$(8,765)  |
| 2023                 | 496                       | (252)                | 244           | (8,701)    |
| 2024                 | 388                       | (369)                | 19            | (8,486)    |
| 2025                 | 349                       | (447)                | (98)          | (9,702)    |
| 2026                 | 291                       | -                    | 291           | (1,829)    |
| Thereafter           | 63                        | -                    | 63            | (2,097)    |
|                      | \$ 1,965                  | \$(1,219)            | \$ 746        | \$(39,580) |

**16. COMPONENT UNITS**

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4.1

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

The Foundation is a legally separate, tax-exempt organization, which acts primarily as a fund-raising organization to supplement the resources that are available to the System in support of its programs. The Board of Directors of the Foundation is self-perpetuating and independent of the System's Board of Trustees. Although the System does not control the timing or amount of receipts from the Foundation, the Foundation holds and invests resources almost entirely for the System's benefit (specifically the University of Maine); the System is entitled to access a majority of the economic resources held; and the economic resources held are "significant to the System" based on a 5% of net position threshold. The Foundation has accordingly been discretely presented as a component unit of the System in the accompanying financial statements as of and for the years ended June 30, 2021 and 2020, 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 and additions to endowments with donor restrictions were \$16,580 for FY21 and \$7,082 for FY20.

The Foundation asset category, long-term investments, endowment, comprised 84% and 81% of the Foundation's total assets as of June 30, 2021 and 2020, respectively. Remaining disclosures in this note relate to this asset group.

**Long-term investments, endowment**

The Foundation maintains a general pool of investments for its endowments. These investment securities are stated at fair value based on quoted market prices within active markets. The fair values of alternative investments are determined from information supplied by the investment managers based on the market values of underlying investments on a net asset value basis. Investment income is reflected in the Statements of Activities as "without donor restrictions" or "with donor restrictions" based upon the existence and nature of any donor-imposed restrictions.

The Foundation has established a specific set of investment objectives and guidelines for investment managers that attempt to provide a predictable stream of income while seeking to maintain the purchasing power of the endowment assets over the long-term. The investment policy establishes an achievable return objective and seeks to manage risk through diversification of asset classes. The current long-term return objective is to return 7.25% in 2021 and 2020. Actual returns in any given year may vary from these amounts.

**16. COMPONENT UNITS - CONTINUED****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, 2021 and 2020 the spending policy was 4.5% of the average market value for the twelve previous quarters ending September 30.

Endowment spending is contingent upon a fund's market value exceeding its historic dollar value (principal). In accordance with the Uniform Prudent Management of Institutional Funds Act, a prudent expenditure may be allowed unless the donor has explicitly prohibited expenditure of principal. During the years ended June 30, 2021 and 2020, the Foundation distributed \$14,184 and \$13,596, respectively, to the System for both restricted and unrestricted purposes.

**Fair value measurements**

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

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

- Level 1. Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.
- Level 2. Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3. Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**16. COMPONENT UNITS - CONTINUED**

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4.1

The Foundation's short-term investments measured at fair value valuations based on unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) as of June 30, 2021 and 2020 were \$25,130 and \$23,481, respectively. These investments include money markets, certificates of deposit, U.S. government obligations and bonds.

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

|   | NAV             | 2021             |             |             | Total            | Liquidity   |
|---|-----------------|------------------|-------------|-------------|------------------|---|
|   |                 | Level 1          | Level 2     | Level 3     |                  |   |
| U.S. equities                                 | \$ -            | \$ 96,783        | \$ -        | \$ -        | \$ 96,783        | Daily/Monthly   |
| Non-U.S. equities                             | -               | 60,519           | -           | -           | 60,519           | Daily/Monthly/Quarterly                               |
| Global equities                               | -               | 41,908           | -           | -           | 41,908           | Monthly/Quarterly                                     |
| U.S. fixed income                             | -               | 35,361           | -           | -           | 35,361           | Daily   |
| Total private investments                     | 36,161          | -                | -           | -           | 36,161           | Illiquid  |
| Alternative investments                       | 39,237          | -                | -           | -           | 39,237           | Illiquid/Monthly/Quarterly/<br>Semi-Annually/Annually |
| Cash  | -               | 87               | -           | -           | 87               | Daily   |
| <b>Total long-term investments, endowment</b> | <b>\$75,398</b> | <b>\$234,658</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$310,056</b> |   |

|   | NAV             | 2020             |             |             | Total            | Liquidity   |
|---|-----------------|------------------|-------------|-------------|------------------|---|
|   |                 | Level 1          | Level 2     | Level 3     |                  |   |
| U.S. equities                                 | \$ -            | \$ 60,634        | \$ -        | \$ -        | \$ 60,634        | Daily/Monthly   |
| Non-U.S. equities                             | -               | 61,536           | -           | -           | 61,536           | Daily/Monthly/Quarterly                               |
| Global equities                               | -               | 20,371           | -           | -           | 20,371           | Monthly/Quarterly                                     |
| U.S. fixed income                             | -               | 28,412           | -           | -           | 28,412           | Daily   |
| Total private investments                     | 14,149          | -                | -           | -           | 14,149           | Illiquid  |
| Alternative investments                       | 42,469          | -                | -           | -           | 42,469           | Illiquid/Monthly/Quarterly/<br>Semi-Annually/Annually |
| Cash  | -               | 546              | -           | -           | 546              | Daily   |
| <b>Total long-term investments, endowment</b> | <b>\$56,618</b> | <b>\$171,499</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$228,117</b> |   |

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

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**17. SERVICE CONCESSION ARRANGEMENTS**

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In June 2016, the System contracted with Sodexo America LLC (“Sodexo”) to provide food services at all campuses except the University of Maine. In May 2020, the term of the contract was extended for 5 additional years commencing July 1, 2021, continuing through June 30, 2026 and is subject to renewal for 5 additional 1-year terms.

Upon execution of the 2016 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. Effective September 1, 2018, the contract was amended to include an additional \$2,000 for equipment and improvements. Any such improvements and equipment provided will remain the property of the System. Improvements to facilities not completed as of June 30, 2021 and 2020 are recorded as a receivable in the amount of \$0 and \$5, respectively, in the Statement of Net Position.

As of June 30, 2021 and 2020, the equipment and improvements provided under this agreement have been classified as either capital assets or expenses in accordance with the System’s capitalization policies, with an offsetting deferred inflow of resources. The signing bonus has also been classified as a deferred inflow of resources. Over the life of the contract, the System will amortize the deferred inflows of resources while recognizing auxiliary revenue each year. If the agreement expires, terminates or is amended in a way that has an adverse impact on Sodexo, the System will be liable for the unamortized portion of Sodexo’s investment.

As of June 30, 2021 and 2020 the balance of the deferred inflows of resources related to the Sodexo service concession arrangement is \$4,708 and \$4,721, respectively (see Note 15). During FY21 and FY20, amortization in the amount of \$513 and \$429, respectively, has been recognized as auxiliary revenue.

**18. PRIOR PERIOD ADJUSTMENTS**

The provisions of GASB No. 84 are effective for periods beginning after December 15, 2019. This statement applies to the System’s fiduciary funds (see Note 1c.) and the System adopted GASB No. 84 for its June 30, 2021 financial statements. The change represents a change from one generally accepted accounting principle to another generally accepted accounting principle that is the current industry practice.

The changes adopted to conform to the provisions of GASB No. 84 are applied retroactively by restating the FY20 financial statements. The impact of the restatement was to reduce the balances of certain items in the System’s FY20 Statements of Net Position and to move those reductions to the Statements of Fiduciary Net Position. A condensed version of the System’s FY20 Statements of Net Position is presented below, showing the originally stated balances,

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**18. PRIOR PERIOD ADJUSTMENTS - CONTINUED**

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the impact of GASB No. 84, and the restated FY20 balances. There was no impact on the System's Statements of Revenues, Expenses, and Changes in Net Position.

|  | 2020 As<br>Originally<br>Stated | Moved to<br>Statements<br>of Fiduciary<br>Net Position | 2020 as<br>Restated |
|--|---------------------------------|--|---------------------|
| <b>Assets</b>  |                                 |  |                     |
| Cash   | \$ 9,659                        | \$ (2,377)   | \$ 7,282            |
| Endowment investments  | 160,540                         | (25,857)   | 134,683             |
| Other assets   | 1,048,530                       | -  | 1,048,530           |
| <b>Total Assets</b>  | <b>1,218,729</b>                | <b>(28,234)</b>  | <b>1,190,495</b>    |
| Deferred Outflows of Resources   | 31,407                          | -  | 31,407              |
| <b>Total Assets and Deferred Outflows of Resources</b>                       | <b>\$1,250,136</b>              | <b>\$ (28,234)</b>                                     | <b>\$1,221,902</b>  |
| <b>Liabilities</b>   |                                 |  |                     |
| Unearned revenue and deposits  | \$ 15,486                       | \$ (22)  | \$ 15,464           |
| Funds held for others - current portion                                      | 2,859                           | (2,355)  | 504                 |
| Funds held for others - noncurrent   | 26,058                          | (25,857)   | 201                 |
| Other liabilities  | 337,067                         | -  | 337,067             |
| <b>Total Liabilities</b>   | <b>381,470</b>                  | <b>(28,234)</b>  | <b>353,236</b>      |
| Deferred Inflows of Resources  | 36,558                          | -  | 36,558              |
| <b>Net Position</b>  | <b>832,108</b>                  | <b>-</b>   | <b>832,108</b>      |
| <b>Total Liabilities, Deferred Inflows of Resources<br/>and Net Position</b> | <b>\$1,250,136</b>              | <b>\$ (28,234)</b>                                     | <b>\$1,221,902</b>  |

**19. UNCERTAINTIES**

During FY20, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. Subsequent to the FY21 year-end, the COVID-19 pandemic continues to have significant effects on global markets, supply chains, businesses, communities, and the delivery of education. Specific to the System, COVID-19 may negatively impact various parts of its FY22 operations and financial results, including, but not limited to, enrollment, auxiliary revenues, collections of receivables, operating costs and personnel. Management is taking appropriate actions to mitigate impacts; however, the full effect of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

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4.1

**UNIVERSITY OF MAINE SYSTEM**  
**REQUIRED SUPPLEMENTAL INFORMATION – RETIREMENT AND OPEB PLANS**  
**YEAR ENDED JUNE 30, 2020 (UNAUDITED)**  
**(IN THOUSANDS)**

***INCENTIVE RETIREMENT PLAN:***

**Changes in Total Pension Liability and Related Ratios**

| <b>Fiscal Year Ended June 30</b>                           | <b>2021</b> | <b>2020</b> | <b>2019</b> | <b>2018</b> | <b>2017</b> | <b>2016</b> | <b>2015</b> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Service cost   | \$ 692      | \$ 538      | \$ 595      | \$ 604      | \$ 862      | \$ 718      | \$ 880      |
| Interest   | 456         | 719         | 813         | 785         | 629         | 877         | 1,110       |
| Differences between expected and actual experience         | 833         | -           | (217)       | -           | 1,287       | -           | (1,831)     |
| Changes of assumptions and other inputs                    | 376         | 851         | 562         | (225)       | (628)       | 921         | 505         |
| Benefit payments   | (2,198)     | (2,141)     | (2,175)     | (1,972)     | (2,084)     | (5,260)     | (3,114)     |
| Net change in total pension liability                      | 159         | (33)        | (422)       | (808)       | 66          | (2,744)     | (2,450)     |
| Total pension liability – beginning                        | 21,049      | 21,082      | 21,504      | 22,312      | 22,246      | 24,990      | 27,440      |
| Total pension liability – ending                           | \$21,208    | \$21,049    | \$21,082    | \$21,504    | \$22,312    | \$22,246    | \$24,990    |
| Covered payroll  | \$62,646    | \$67,303    | \$68,685    | \$72,541    | \$77,644    | \$95,653    | \$92,419    |
| Total pension liability as a percentage of covered payroll | 33.85%      | 31.27%      | 30.69%      | 29.64%      | 28.74%      | 23.26%      | 27.04%      |

**Schedule of Employer Contributions**

| <b>Fiscal Year Ended June 30</b>                                     | <b>2021</b> | <b>2020</b> | <b>2019</b> | <b>2018</b> | <b>2017</b> | <b>2016</b> | <b>2015</b> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Actuarially determined contribution                                  | \$ -        | \$ -        | \$ -        | \$ -        | \$ -        | \$ -        | \$ -        |
| Contributions in relation to the actuarially determined contribution | 2,198       | 2,141       | 2,175       | 1,972       | 2,084       | 5,260       | 3,114       |
| Contribution deficiency (excess)                                     | \$(2,198)   | \$(2,141)   | \$(2,175)   | \$(1,972)   | \$(2,084)   | \$(5,260)   | \$(3,114)   |
| Covered payroll  | \$62,646    | \$67,303    | \$68,685    | \$72,541    | \$77,644    | \$95,653    | \$92,419    |
| Contributions as a percentage of covered payroll                     | 3.51%       | 3.18%       | 3.17%       | 2.72%       | 2.68%       | 5.50%       | 3.37%       |

## REQUIRED SUPPLEMENTAL INFORMATION – RETIREMENT PLANS (UNAUDITED) (IN THOUSANDS)

DRAFT

4.1

***INCENTIVE RETIREMENT PLAN – CONTINUED:*****Notes to Required Supplementary Information:***Changes of benefit terms:* None.*Changes of assumptions and other inputs:*

- 2021: The discount rate changed from 2.21% as of the beginning of the measurement period to 2.16% as of the end of the measurement period. In addition, the mortality tables were updated to the Pub-2010 mortality tables with mortality improvement scale MP-2020.
- 2020: The discount rate changed from 3.5% as of the beginning of the measurement period to 2.21% as of the end of the measurement period.
- 2019: The discount rate changed from 3.87% as of the beginning of the measurement period to 3.5% as of the end of the measurement period.
- 2018: The discount rate changed from 3.58% as of the beginning of the measurement period to 3.87% as of the end of the measurement period.
- 2017: The discount rate changed from 2.85% as of the beginning of the measurement period to 3.58% as of the end of the measurement period.

*Methods and assumptions used in calculations of actuarially determined contributions:*

The University of Maine System Incentive Retirement Plan is funded on a terminal funding basis - funded when costs become due and payable.

|                       |   |
|-----------------------|---|
| Actuarial cost method | Entry age normal  |
| Inflation             | Not explicitly assumed  |
| Salary increases      | 3.5% per year, including longevity  |
| Payroll increases     | 3.5% per year   |
| Assets                | There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 73. |

## REQUIRED SUPPLEMENTAL INFORMATION – RETIREMENT PLANS (UNAUDITED) (IN THOUSANDS)

DRAFT

4.1

**DEFINED BENEFIT PENSION PLAN:**

| Changes in Total Pension Liability and Related Ratios                      |           |           |           |          |          |           |          |          |
|--|-----------|-----------|-----------|----------|----------|-----------|----------|----------|
| Fiscal Year Ended June 30  | 2021      | 2020      | 2019      | 2018     | 2017     | 2016      | 2015     | 2014**   |
| Changes for the year:  |           |           |           |          |          |           |          |          |
| Service cost   | \$ 1      | \$ 1      | \$ 1      | \$ 1     | \$ 6     | \$ 5      | \$ 40    | \$       |
| Interest   | 2,148     | 2,255     | 2,270     | 2,385    | 2,545    | 2,769     | 2,884    |          |
| Differences between expected and actual experience                         | (285)     |           | (1,238)   | -        | (759)    | -         | 12       |          |
| Changes of assumptions   | (426)     | -         | 2,828     | -        | -        | 1,427     | -        |          |
| Benefit payments   | (3,916)   | (4,043)   | (4,153)   | (4,280)  | (4,435)  | (4,585)   | (4,693)  |          |
| Net change in total pension liability                                      | (2,478)   | (1,787)   | (292)     | (1,894)  | (2,643)  | (384)     | (1,757)  |          |
| Total pension liability – beginning  | 36,318    | 38,105    | 38,397    | 40,291   | 42,934   | 43,318    | 45,075   |          |
| Total pension liability – ending (a)                                       | 33,840    | 36,318    | 38,105    | 38,397   | 40,291   | 42,934    | 43,318   | 45,075   |
| Contributions – employer   | 907       | 896       | 714       | 695      | 735      | 538       | 1,100    |          |
| Net investment income  | 3,704     | 1,213     | 1,112     | 1,335    | 2,173    | 202       | 27       |          |
| Benefit payments   | (3,916)   | (4,043)   | (4,153)   | (4,280)  | (4,435)  | (4,585)   | (4,693)  |          |
| Administrative expenses  | (13)      | (33)      | (27)      | (36)     | (20)     | (19)      | (8)      |          |
| Net change in plan fiduciary net position                                  | 682       | (1,967)   | (2,354)   | (2,286)  | (1,547)  | (3,864)   | (3,574)  |          |
| Fiduciary net position – beginning   | 24,609    | 26,576    | 28,930    | 31,216   | 32,763   | 36,627    | 40,201   |          |
| Fiduciary net position – ending (b)  | 25,291    | 24,609    | 26,576    | 28,930   | 31,216   | 32,763    | 36,627   | 40,201   |
| Net pension liability – ending (a)-(b)                                     | \$ 8,549  | \$ 11,709 | \$ 11,529 | \$ 9,467 | \$ 9,075 | \$ 10,171 | \$ 6,691 | \$ 4,874 |
| Plan fiduciary net position as a percentage of the total pension liability | 74.74%    | 67.76%    | 69.74%    | 75.34%   | 77.48%   | 76.31%    | 84.56%   | 89.19%   |
| Covered payroll*   | \$ 65     | \$ 68     | \$ 156    | \$ 105   | \$ 168   | \$ 312    | \$ 301   | \$ 692   |
| Net pension liability as a percentage of covered payroll                   | 13158.91% | 17284.43% | 7396.21%  | 9052.65% | 5400.37% | 3259.34%  | 2219.09% | 704.23%  |

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

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

## REQUIRED SUPPLEMENTAL INFORMATION – RETIREMENT PLANS (UNAUDITED) (IN THOUSANDS)

**DEFINED BENEFIT PENSION PLAN – CONTINUED:**

DRAFT

4.1

**Schedule of Employer Contributions**

| <b>Fiscal Year Ended June 30</b>                                     | <b>2021</b> | <b>2020</b> | <b>2019</b> | <b>2018</b> | <b>2017</b> | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Actuarially determined contribution                                  | \$ 907      | \$ 896      | \$ 714      | \$ 695      | \$ 735      | \$ 538      | \$ 550      | \$ 550      |
| Contributions in relation to the actuarially determined contribution | 907         | 896         | 714         | 695         | 735         | 538         | 1,100       | 550         |
| Contribution deficiency (excess)                                     | \$ -        | \$ -        | \$ -        | \$ -        | \$ -        | \$ -        | \$ (550)    | \$ -        |
| Covered payroll  | \$ 65       | \$ 68       | \$ 156      | \$ 105      | \$ 168      | \$ 312      | \$ 301      | \$ 692      |
| Contributions as a percentage of covered payroll                     | 1396.00%    | 1322.06%    | 458.23%     | 664.54%     | 437.48%     | 172.49%     | 364.84%     | 79.47%      |

## REQUIRED SUPPLEMENTAL INFORMATION – RETIREMENT PLANS (UNAUDITED) (IN THOUSANDS)

**DEFINED BENEFIT PENSION PLAN – CONTINUED:**

DRAFT

4.1

**Notes to Required Supplementary Information:***Changes of benefit terms:* None.*Changes of assumptions and other inputs:*

2021: The mortality tables were updated to the Pub-2010 amount-weighted mortality tables with scale MP-2020

2020: None

2019: The mortality tables were updated to reflect more recent mortality tables and generational mortality improvement.

2018: None

2017: None

2016: The investment return rate was changed from 6.75% to 6.25% and the administrative expense assumption was changed from \$50, increasing by 3% per year, to \$30, increasing by 2% per year up to a maximum of \$70.

2015: The actuarial funding method was changed from Projected Unit Credit to Entry Age Normal, the investment return rate was changed from 7.25% to 6.75% and the administrative expense assumption was changed from \$90 per year to \$50 per year.

*Methods and assumptions used in calculations of actuarially determined contributions:*

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

|   |   |
|---|---|
| Actuarial cost method                       | 2015 to 2021: Entry age normal<br>2014: Projected Unit Credit   |
| Asset valuation method                      | The actuarial value of assets is the market value of assets.  |
| Inflation                                   | 2021: 2.5% per year<br>2020: 2.4% per year<br>2019: 2.6% per year<br>2016 to 2018: 3% per year<br>2015: 3.25% per year  |
| Salary increases                            | 3.5% per year   |
| Payroll increases                           | 3.5% per year   |
| Investment rate of return/<br>discount rate | 2016 to 2021: 6.25%, net of investment expenses,<br>compounded annually<br>2015: 6.75%, net of investment expenses, compounded<br>annually<br>2014: 7.25%, net of investment expenses, compounded<br>annually |

## REQUIRED SUPPLEMENTAL INFORMATION – RETIREMENT PLANS (UNAUDITED) (IN THOUSANDS)

**DEFINED BENEFIT PENSION PLAN – CONTINUED:**

DRAFT

4.1

| <b>Investment Returns:</b>                                       |             |             |             |             |             |             |             |             |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Fiscal Year Ended June 30</b>                                 | <b>2021</b> | <b>2020</b> | <b>2019</b> | <b>2018</b> | <b>2017</b> | <b>2016</b> | <b>2015</b> | <b>2014</b> |
| Annual money-weighted rate of return, net of investment expenses | 15.86%      | 4.48%       | 4.03%       | 4.80%       | 7.04%       | 0.64%       | 0.12%       | 14.27%      |

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

## REQUIRED SUPPLEMENTAL INFORMATION – RETIREMENT PLANS (UNAUDITED) (IN THOUSANDS)

**OPEB PLAN:**

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4.1

## Changes in Net OPEB Liability and Related Ratios

| Fiscal Year Ended June 30   | 2021        | 2020       | 2019       | 2018       | 2017       | 2016**     |
|---|-------------|------------|------------|------------|------------|------------|
| Changes for the year:   |             |            |            |            |            |            |
| Service cost  | \$ 6,964    | \$ 6,434   | \$ 6,583   | \$ 6,330   | \$ 6,174   | \$         |
| Interest  | 15,725      | 14,769     | 15,354     | 14,482     | 15,567     |            |
| Changes in benefit terms  | (49,469)    | (102)      | -          | -          | (8,670)    |            |
| Differences between expected and actual experience                              | (8,908)     | -          | (30,871)   | -          | (17,138)   |            |
| Changes of assumptions  | (8,539)     | 5,938      | 10,090     | -          | 6,051      |            |
| Benefit payments  | (6,992)     | (8,194)    | (9,425)    | (9,454)    | (10,364)   |            |
| Net change in total OPEB liability  | (51,219)    | 18,845     | (8,269)    | 11,358     | (8,380)    |            |
| Total OPEB liability – beginning  | 213,431     | 194,586    | 202,855    | 191,497    | 199,877    |            |
| Total OPEB liability – ending (a)   | 162,212     | 213,431    | 194,586    | 202,855    | 191,497    | 199,877    |
| Contributions – employer  | 12,473      | 12,694     | 11,868     | 11,942     | 16,146     |            |
| Net investment income   | 37,389      | 1,561      | 3,546      | 7,979      | 11,565     |            |
| Benefit payments  | (6,992)     | (8,194)    | (9,425)    | (9,454)    | (10,364)   |            |
| Net change in plan fiduciary net position                                       | 42,870      | 6,061      | 5,989      | 10,467     | 17,347     |            |
| Fiduciary net position – beginning  | 137,400     | 131,339    | 125,350    | 114,883    | 97,536     |            |
| Fiduciary net position – ending (b)   | 180,270     | 137,400    | 131,339    | 125,350    | 114,883    | 97,536     |
| Net OPEB liability (asset) – ending (a)-(b)                                     | \$ (18,058) | \$ 76,031  | \$ 63,247  | \$ 77,505  | \$ 76,614  | \$ 102,341 |
| Plan fiduciary net position as a percentage of the total OPEB liability (asset) | 111.13%     | 64.38%     | 67.50%     | 61.79%     | 59.99%     | 48.80%     |
| Covered payroll   | \$ 258,827  | \$ 241,501 | \$ 237,125 | \$ 220,849 | \$ 214,956 |            |
| Net OPEB liability (asset) as a percentage of covered payroll                   | -6.98%      | 31.48%     | 26.67%     | 35.09%     | 35.64%     |            |

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

## Schedule of Employer Contributions

| Fiscal Year Ended June 30  | 2021      | 2020      | 2019      | 2018      | 2017       |
|--|-----------|-----------|-----------|-----------|------------|
| Actuarially determined contribution                                  | \$ 13,564 | \$ 11,942 | \$ 13,216 | \$ 12,819 | \$ 14,970  |
| Contributions in relation to the actuarially determined contribution | 12,473    | 12,694    | 11,868    | 11,942    | 16,146     |
| Contribution deficiency (excess)                                     | \$ 1,091  | \$ (752)  | \$ 1,348  | \$ 877    | \$ (1,176) |
| Covered payroll  | \$258,827 | \$241,501 | \$237,125 | \$220,849 | \$214,956  |
| Contributions as a percentage of covered payroll                     | 4.82%     | 5.26%     | 5.00%     | 5.41%     | 7.51%      |

## REQUIRED SUPPLEMENTAL INFORMATION – RETIREMENT PLANS (UNAUDITED) (IN THOUSANDS)

**OPEB PLAN - CONTINUED:**

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4.1

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

Effective January 1, 2021 UMS offered a funded Health Reimbursement Account (HRA) through a retiree health exchange. Retirees can choose from various individual Medicare coverages. UMS sponsored group coverage is still available as an option. The impact of implementing the HRA program was a decrease in the OPEB liability of approximately \$51,000.

*Changes of assumptions:*

2021: The mortality tables were updated to the Pub-2010 amount-weighted mortality tables with scale MP-2020. The health care cost rate was updated to reflect more recent trends. The inflation rate was changed from 2.4% to 2.2%.

2020: The investment rate of return/discount rate was changed from 7.5% to 7.25%

2019: The mortality tables were updated to reflect more recent mortality tables and generational mortality improvement. The health care cost rate was updated to reflect more recent trends.

2018: *None*

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

*Methods and assumptions used in calculations of actuarially determined contributions:*

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

|                        |  |
|------------------------|--|
| Actuarial cost method  | 2017 to 2021: Entry age normal<br>2016: Projected Unit Credit  |
| Amortization method    | 2021: Level dollar amount over 25 years on a closed amortization period<br>2020: Level dollar amount over 26 years on a closed amortization period<br>2019: Level dollar amount over 28 years on a closed amortization period<br>2017 to 2018: Level dollar amount over 30 years on a closed amortization period |
| Amortization period    | 2021: 25 years<br>2020: 26 years<br>2019: 28 years<br>2017 to 2018: 30 years   |
| Asset valuation method | Market value   |

## REQUIRED SUPPLEMENTAL INFORMATION – RETIREMENT PLANS (UNAUDITED) (IN THOUSANDS)

**OPEB PLAN - CONTINUED:**

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4.1

|   |   |
|---|---|
| Inflation                                   | 2021: 2.2%  |
|   | 2020: 2.4%  |
|   | 2019: 2.6%  |
|   | 2017 to 2018: 3% per year   |
| Healthcare cost trend rate                  | 2021: 6% decreasing .25% per year to 5.25%, then grading down to an ultimate trend rate of 4%, utilizing the Society of Actuaries Getzen Medical Trend Model. The ultimate medical inflation rate is reached in 2075.         |
|   | 2019 to 2020: 8% decreasing .5% per year to 5.5%, then grading down to an ultimate trend rate of 3.9%, utilizing the Society of Actuaries Getzen Medical Trend Model. The ultimate medical inflation rate is reached in 2075. |
|   | 2017 to 2018: 8% decreasing 1% per year to an ultimate rate of 5% for 2020 and later years  |
| Investment rate of return/<br>discount rate | 2020 to 2021: 7.25% net of investment expenses, including inflation   |
|   | 2017 to 2019: 7.5% net of investment expenses, including inflation  |
|   | 2016: 7.75% net of investment expenses, including inflation   |

**Investment Returns:****Fiscal Year Ended June 30**

|  | 2021   | 2020  | 2019  | 2018  | 2017   |
|--|--------|-------|-------|-------|--------|
| Annual money-weighted rate of return, net of investment expenses | 26.88% | 1.16% | 2.81% | 6.90% | 11.56% |

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

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4.1

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

| Year Ended June 30, 2021                    |            |                      |                           |                                 |                               |                       |
|---|------------|----------------------|---------------------------|---------------------------------|-------------------------------|-----------------------|
| Functions/Programs                          | Expenses   | Charges for Services | Program Investment Income | Operating Grants/ Contributions | Capital Grants/ Contributions | Net (Expense) Revenue |
| University of Maine System                  | \$ 683,302 | \$ 268,683           | \$ 29,406                 | \$ 161,564                      | \$ 8,225                      | \$ (215,424)          |
| <b>General Revenues:</b>                    |            |                      |                           |                                 |                               |                       |
|   |            |                      |                           |                                 |                               | 22,485                |
| Unrestricted interest and investment income |            |                      |                           |                                 |                               |                       |
| Additions to endowments - gifts             |            |                      |                           |                                 |                               | 2,582                 |
| State of Maine noncapital appropriation     |            |                      |                           |                                 |                               | 218,157               |
| State of Maine capital appropriation        |            |                      |                           |                                 |                               | 15,988                |
| Federal Pell grants                         |            |                      |                           |                                 |                               | 34,591                |
| Coronavirus relief funding                  |            |                      |                           |                                 |                               | 36,602                |
| Loss on disposal of capital assets          |            |                      |                           |                                 |                               | (2,395)               |
| Total Revenues and Extraordinary Items      |            |                      |                           |                                 |                               | 328,010               |
| Change in Net Position                      |            |                      |                           |                                 |                               | 112,586               |
| Net Position, Beginning of Year             |            |                      |                           |                                 |                               | 832,108               |
| Net Position, End of Year                   |            |                      |                           |                                 |                               | \$ 944,694            |

| Year Ended June 30, 2020 (Restated)         |            |                      |                         |                                 |                               |                       |
|---|------------|----------------------|-------------------------|---------------------------------|-------------------------------|-----------------------|
| Functions/Programs                          | Expenses   | Charges for Services | Program Investment Loss | Operating Grants/ Contributions | Capital Grants/ Contributions | Net (Expense) Revenue |
| University of Maine System                  | \$ 720,114 | \$ 292,138           | \$ (4,165)              | \$ 145,880                      | \$ 3,387                      | \$ (282,874)          |
| <b>General Revenues:</b>                    |            |                      |                         |                                 |                               |                       |
|   |            |                      |                         |                                 |                               | 9,074                 |
| Unrestricted interest and investment income |            |                      |                         |                                 |                               |                       |
| Additions to endowments - gifts             |            |                      |                         |                                 |                               | 787                   |
| State of Maine noncapital appropriation     |            |                      |                         |                                 |                               | 219,864               |
| State of Maine capital appropriation        |            |                      |                         |                                 |                               | 14,308                |
| Federal Pell grants                         |            |                      |                         |                                 |                               | 37,808                |
| Coronavirus relief funding                  |            |                      |                         |                                 |                               | 15,456                |
| Loss on disposal of capital assets          |            |                      |                         |                                 |                               | (511)                 |
| Total Revenues and Extraordinary Items      |            |                      |                         |                                 |                               | 296,786               |
| Change in Net Position                      |            |                      |                         |                                 |                               | 13,912                |
| Net Position, Beginning of Year             |            |                      |                         |                                 |                               | 818,196               |
| Net Position, End of Year                   |            |                      |                         |                                 |                               | \$ 832,108            |

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4.1

**INDEPENDENT AUDITORS' 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**

Board of Trustees  
University of Maine System  
Orono, Maine

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, the discretely presented component unit and the aggregate remaining fund information of the University of Maine System (the System) as of and for the year ended June 30, 2021, 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 University of Maine Foundation (Foundation), as described in our report on the System's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

**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) 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. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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Board of Trustees  
University of Maine System

DRAFT

4.1

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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.

**CliftonLarsonAllen LLP**

Quincy, Massachusetts  
REPORT DATE



## **UNIVERSITY OF MAINE SYSTEM**

### **Discussion of the DRAFT 2021 ANNUAL FINANCIAL REPORT**

Audit Committee Meeting  
October 27, 2021

# Discussion Topics

4.2

| Slide | Topic  |
|-------|--|
| 3     | Required Financial Statements                                |
| 4     | Independent Auditor's Report                                 |
| 5     | Key Factors Impacting FY21 Financial Statements              |
| 6     | Impact of Other Postemployment Benefit (OPEB) Plan on FY21   |
| 7     | Statements of Revenues, Expenses and Changes in Net Position |
| 10    | Statements of Net Position                                   |
| 13    | Statements of Fiduciary Net Position                         |
| 14    | Statements of Changes in Fiduciary Net Position              |
| 15    | Questions?   |

# Required Financial Statements

4.2

NEW

| System-Wide   | Discretely Presented Component Unit | UMS Fiduciary Activities                        |
|---|-------------------------------------|---|
| Statements of Net Position (SNP)                                      | Statements of Financial Position    | Statements of Fiduciary Net Position            |
| Statements of Revenues, Expenses and Changes in Net Position (SRECNP) | Statements of Activities            | Statements of Changes in Fiduciary Net Position |
| Statements of Cash Flows  |                                     |   |

# Independent Auditor's Report

4.2

| Opinion Unit  | Type of Opinion – Scenario #1 | Type of Opinion – Scenario #2            |
|---|-------------------------------|--|
| Business-Type Activities as of and for the years ended June 30, 2021 and 2020   | Unmodified                    | Unmodified                               |
| Discretely Presented Component Unit as of and for the years ended June 30, 2021 | Unmodified                    | <b>Disclaimer – see below paragraphs</b> |
| Discretely Presented Component Unit as of and for the year ended June 30, 2020  | Unmodified                    | Unmodified                               |
| Fiduciary Activities as of and for the years ended June 30, 2021 and 2020       | Unmodified                    | Unmodified                               |

## ***Basis for Disclaimer of Opinion on the Discretely Presented Component Unit***

The financial statements of the Foundation have not been audited as of and for the year ended June 30, 2021 and we were not engaged to audit the Foundation financial statements as part of our audit of the System's basic financial statements. The Foundation's financial activities are included in the System's basic financial statements as a discretely presented component unit.

## ***Disclaimer of Opinion***

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on the Discretely Presented Component Unit" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the discretely presented component unit of the System as of and for the year ended June 30, 2021. Accordingly, we do not express an opinion on these financial statements.

# Key Factors Impacting FY21 Financial Statements

4.2

**New  
Accounting  
Standard**

**Bond  
Anticipation  
Notes**

**Reclassification  
of Pell**

**Investment  
Returns**

**Coronavirus  
Relief Funding**

**Change in  
Postemployment  
Health Plan**

**Pandemic**

# Impact of Other Postemployment Benefit (OPEB) Plan on FY21

## \$ in thousands

4.2

|   | 2021       | 2020       | \$ Variance | OPEB Portion<br>of \$ Variance |
|---|------------|------------|-------------|--------------------------------|
| <b>STATEMENTS OF NET POSITION</b>                                   |            |            |             |                                |
| <b>Assets</b>   |            |            |             |                                |
| Noncurrent Assets   |            |            |             |                                |
| Net OPEB asset ( <i>Note 14</i> )                                   | \$ 18,058  | \$ -       | \$ 18,058   | \$ 18,058                      |
| <b>Deferred Outflows of Resources (<i>Note 15</i>)</b>              | \$ 17,636  | \$ 31,407  | \$ (13,771) | \$ (13,135)                    |
| <b>Liabilities</b>  |            |            |             |                                |
| Noncurrent Liabilities  |            |            |             |                                |
| Accrued liabilities ( <i>Notes 7, 11 and 13</i> )                   | \$ 54,081  | \$ 132,530 | \$ (78,449) | \$ (76,031)                    |
| <b>Deferred Inflows of Resources (<i>Note 15</i>)</b>               | \$ 58,565  | \$ 36,558  | \$ 22,007   | \$ 22,090                      |
| <b>Net Position</b>   |            |            |             |                                |
| Unrestricted ( <i>Notes 3 and 10</i> )                              | \$ 182,071 | \$ 102,751 | \$ 79,320   | \$ 46,391                      |
| <b>STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</b> |            |            |             |                                |
| <b>Operating Expenses</b>   |            |            |             |                                |
| Institutional Support   | \$ 12,004  | \$ 64,842  | \$ (52,838) | \$ (55,918)                    |

# SRECNP – Operating Revenues thru Operating Loss

(\$ in thousands)

4.2

|   | 2021       | 2020       | \$ Variance | %<br>Variance |
|---|------------|------------|-------------|---------------|
| <b>Operating Revenues</b>                         |            |            |             |               |
| Tuition and fees                                  | \$ 320,684 | \$ 319,350 | \$ 1,334    | 0%            |
| Residence and dining fees                         | 39,894     | 52,111     | (12,217)    | -23%          |
| Less: scholarship allowances                      | (122,104)  | (123,712)  | 1,608       | 1%            |
| <b>Net student fees</b>                           | 238,474    | 247,749    | (9,275)     | -4%           |
| Federal, state and private grants and contracts   | 119,085    | 106,209    | 12,876      | 12%           |
| Recovery of indirect costs                        | 17,308     | 14,668     | 2,640       | 18%           |
| Educational sales and services and other revenues | 19,315     | 29,566     | (10,251)    | -35%          |
| Other auxiliary enterprises                       | 10,894     | 14,823     | (3,929)     | -27%          |
| <b>Total Operating Revenues</b>                   | 405,076    | 413,015    | (7,939)     | -2%           |
| <b>Operating Expenses</b>                         |            |            |             |               |
| Instruction                                       | 185,295    | 183,097    | 2,198       | 1%            |
| Research  | 85,791     | 80,098     | 5,693       | 7%            |
| Public Service                                    | 59,435     | 57,914     | 1,521       | 3%            |
| Academic Support                                  | 77,404     | 73,440     | 3,964       | 5%            |
| Student Services                                  | 56,904     | 61,856     | (4,952)     | -8%           |
| Institutional Support                             | 12,004     | 64,842     | (52,838)    | -81%          |
| Operation and maintenance of plant                | 63,407     | 50,533     | 12,874      | 25%           |
| Depreciation and amortization (Note 6)            | 42,285     | 41,838     | 447         | 1%            |
| Student Aid                                       | 40,122     | 39,662     | 460         | 1%            |
| Auxiliary enterprises                             | 56,837     | 62,790     | (5,953)     | -9%           |
| <b>Total Operating Expenses</b>                   | 679,484    | 716,070    | (36,586)    | -5%           |
| <b>Operating Loss</b>                             | (274,408)  | (303,055)  | 28,647      | 9%            |

# Operating Expenses – Natural Classification

(\$ in thousands)

4.2

|                                 | <b>2021</b>       | <b>2020</b>       | <b>\$ Variance</b> | <b>%<br/>Variance</b> |
|---------------------------------|-------------------|-------------------|--------------------|-----------------------|
| Compensation                    | \$ 336,480        | \$ 330,703        | \$ 5,777           | 2%                    |
| Benefits                        | 86,791            | 129,496           | (42,705)           | -33%                  |
| Utilities                       | 26,295            | 28,029            | (1,734)            | -6%                   |
| Supplies and Services           | 147,511           | 146,342           | 1,169              | 1%                    |
| Depreciation and amortization   | 42,285            | 41,838            | 447                | 1%                    |
| Student Aid                     | 40,122            | 39,662            | 460                | 1%                    |
| <b>Total Operating Expenses</b> | <b>\$ 679,484</b> | <b>\$ 716,070</b> | <b>\$ (36,586)</b> | <b>-5%</b>            |

## SRECNP – Operating Loss thru Change in Net Position (\$ in thousands)

4.2

|  | 2021              | 2020              | \$ Variance       | %<br>Variance |
|--|-------------------|-------------------|-------------------|---------------|
| <b>Operating Loss</b>  | (274,408)         | (303,055)         | 28,647            | 9%            |
| <b>Nonoperating Revenues (Expenses)</b>                                      |                   |                   |                   |               |
| Noncapital State of Maine appropriations                                     | 218,157           | 219,864           | (1,707)           | -1%           |
| Federal Pell grants  | 34,591            | 37,808            | (3,217)           | -9%           |
| Coronavirus relief funding   | 36,602            | 15,456            | 21,146            | 137%          |
| Gifts currently expendable   | 19,165            | 19,400            | (235)             | -1%           |
| Endowment return used for operations ( <i>Note 3</i> )                       | 6,006             | 5,603             | 403               | 7%            |
| Investment income ( <i>Note 3</i> )  | 22,485            | 9,074             | 13,411            | 148%          |
| Interest expense, net ( <i>Note 7</i> )                                      | (3,818)           | (4,044)           | 226               | 6%            |
| <b>Net Nonoperating Revenues</b>   | 333,188           | 303,161           | 30,027            | 10%           |
| <b>Income Before Other Changes in Net Position</b>                           | 58,780            | 106               | 58,674            | 55353%        |
| <b>Other Changes in Net Position</b>   |                   |                   |                   |               |
| State of Maine capital appropriations  | 15,988            | 14,308            | 1,680             | 12%           |
| Capital grants and gifts   | 8,225             | 3,387             | 4,838             | 143%          |
| Endowment return (loss), net of amount used for operations ( <i>Note 3</i> ) | 29,406            | (4,165)           | 33,571            | 806%          |
| True and quasi endowment gifts   | 2,582             | 787               | 1,795             | 228%          |
| Loss on disposal of capital assets   | (2,395)           | (511)             | (1,884)           | -369%         |
| <b>Total Other Changes in Net Position</b>                                   | 53,806            | 13,806            | 40,000            | 290%          |
| <b>Change in Net Position</b>  | <b>112,586</b>    | <b>13,912</b>     | <b>98,674</b>     | <b>709%</b>   |
| <b>Net Position - Beginning of the Year</b>                                  | 832,108           | 818,196           | 13,912            | 2%            |
| <b>Net Position - End of Year</b>  | <b>\$ 944,694</b> | <b>\$ 832,108</b> | <b>\$ 112,586</b> | <b>14%</b>    |

# Statements of Net Position – Assets and Deferred Outflows of Resources (\$ in thousands)

|  | 2021                | 2020                | \$ Variance       | % Variance  |
|--|---------------------|---------------------|-------------------|-------------|
| <b>Assets</b>  |                     |                     |                   |             |
| Current Assets   |                     |                     |                   |             |
| Cash and cash equivalents ( <i>Note 2</i> )                    | \$ 3,030            | \$ 7,282            | \$ (4,252)        | -58%        |
| Operating investments ( <i>Note 3</i> )                        | 286,062             | 264,046             | 22,016            | 8%          |
| Accounts, grants and pledges receivable, net ( <i>Note 4</i> ) | 74,647              | 52,312              | 22,335            | 43%         |
| Inventories and prepaid expenses                               | 5,562               | 5,582               | (20)              | 0%          |
| Notes and leases receivable, net ( <i>Note 5</i> )             | 63                  | 63                  | -                 | 0%          |
| <b>Total Current Assets</b>                                    | <b>369,364</b>      | <b>329,285</b>      | <b>40,079</b>     | <b>12%</b>  |
| Noncurrent Assets  |                     |                     |                   |             |
| Deposits with bond trustees ( <i>Notes 3 and 6</i> )           | 34,203              | 5,778               | 28,425            | 492%        |
| Accounts, grants and pledges receivable, net ( <i>Note 4</i> ) | 4,069               | 3,660               | 409               | 11%         |
| Notes and leases receivable, net ( <i>Note 5</i> )             | 28,193              | 32,151              | (3,958)           | -12%        |
| Net OPEB asset ( <i>Note 14</i> )                              | 18,058              | -                   | 18,058            | -           |
| Endowment investments ( <i>Note 3</i> )                        | 166,312             | 134,683             | 31,629            | 23%         |
| Capital assets, net ( <i>Note 6</i> )                          | 688,587             | 683,173             | 5,414             | 1%          |
| Irrevocable split interest agreements                          | 847                 | 1,765               | (918)             | -52%        |
| <b>Total Noncurrent Assets</b>                                 | <b>940,269</b>      | <b>861,210</b>      | <b>79,059</b>     | <b>9%</b>   |
| <b>Total Assets</b>  | <b>1,309,633</b>    | <b>1,190,495</b>    | <b>119,138</b>    | <b>10%</b>  |
| <b>Deferred Outflows of Resources (<i>Note 15</i>)</b>         | <b>17,636</b>       | <b>31,407</b>       | <b>(13,771)</b>   | <b>-44%</b> |
| <b>Total Assets and Deferred Outflows</b>                      | <b>\$ 1,327,269</b> | <b>\$ 1,221,902</b> | <b>\$ 105,367</b> | <b>9%</b>   |

# Statements of Net Position – Liabilities, Deferred Inflows of Resources and Net Position (\$ in thousands)

4.2

|   | 2021                | 2020                | \$ Variance       | %<br>Variance |
|---|---------------------|---------------------|-------------------|---------------|
| <b>Liabilities</b>  |                     |                     |                   |               |
| Current Liabilities   |                     |                     |                   |               |
| Accounts payable  | \$ 18,585           | \$ 12,638           | \$ 5,947          | 47%           |
| Unearned revenue and deposits (Note 8)                      | 19,089              | 15,464              | 3,625             | 23%           |
| Accrued liabilities - current portion (Notes 7, 11, and 13) | 44,104              | 30,380              | 13,724            | 45%           |
| Funds held for others - current portion                     | 1,702               | 504                 | 1,198             | 238%          |
| Long-term debt - current portion (Note 7)                   | 13,736              | 13,816              | (80)              | -1%           |
| <b>Total Current Liabilities</b>                            | <b>97,216</b>       | <b>72,802</b>       | <b>24,414</b>     | <b>34%</b>    |
| Noncurrent Liabilities                                      |                     |                     |                   |               |
| Accrued liabilities (Notes 7, 11 and 13)                    | 54,081              | 132,530             | (78,449)          | -59%          |
| Funds held for others (Note 3)                              | 248                 | 201                 | 47                | 23%           |
| Long-term debt (Note 7)                                     | 153,105             | 123,735             | 29,370            | 24%           |
| Government advances refundable (Note 9)                     | 19,360              | 23,968              | (4,608)           | -19%          |
| <b>Total Noncurrent Liabilities</b>                         | <b>226,794</b>      | <b>280,434</b>      | <b>(53,640)</b>   | <b>-19%</b>   |
| <b>Total Liabilities</b>                                    | <b>324,010</b>      | <b>353,236</b>      | <b>(29,226)</b>   | <b>-8%</b>    |
| <b>Deferred Inflows of Resources (Note 15)</b>              | <b>58,565</b>       | <b>36,558</b>       | <b>22,007</b>     | <b>60%</b>    |
| <b>Net Position</b>   |                     |                     |                   |               |
| Net investment in capital assets (Note 10)                  | 549,870             | 547,323             | 2,547             | 0%            |
| Restricted  |                     |                     |                   |               |
| Nonexpendable (Note 10)                                     | 69,149              | 66,656              | 2,493             | 4%            |
| Expendable (Notes 3 and 10)                                 | 143,604             | 115,378             | 28,226            | 24%           |
| Unrestricted (Notes 3 and 10)                               | 182,071             | 102,751             | 79,320            | 77%           |
| <b>Total Net Position</b>                                   | <b>944,694</b>      | <b>832,108</b>      | <b>112,586</b>    | <b>14%</b>    |
| <b>Total Liabilities, Deferred Inflows and Net Position</b> | <b>\$ 1,327,269</b> | <b>\$ 1,221,902</b> | <b>\$ 105,367</b> | <b>9%</b>     |

# Composition of Net Position at June 30

(\$ in thousands)

4.2

|                                       | 2021       | 2020       |
|---------------------------------------|------------|------------|
| Net investment in capital assets      | \$ 549,870 | \$ 547,323 |
| Restricted - Nonexpendable:           |            |            |
| Endowment funds                       | 69,149     | 66,656     |
| Restricted - Expendable:              |            |            |
| Student financial aid                 | 63,081     | 47,441     |
| Capital assets and retirement of debt | 1,340      | 1,873      |
| Loans                                 | 17,391     | 17,059     |
| Academic support                      | 17,946     | 14,246     |
| Research and public service           | 11,011     | 6,863      |
| Library                               | 4,519      | 3,775      |
| Other                                 | 28,316     | 24,121     |
| Total restricted - expendable         | 143,604    | 115,378    |
| Unrestricted:                         |            |            |
| Educational and general reserves      | 88,619     | 81,098     |
| Risk management                       | 3,888      | 2,450      |
| Budget stabilization                  | 21,500     | 12,114     |
| Auxiliary enterprises                 | 1,253      | 7,865      |
| Benefit pool carryover                | 28,286     | 19,563     |
| Implementation of GASB 75 for OPEB    | (33,795)   | (83,264)   |
| Information technology initiatives    | 1,120      | 1,199      |
| Internally designated projects        | 8,632      | 13,535     |
| Facility projects                     | 36,772     | 26,193     |
| Quasi endowment corpus                | 13,398     | 11,093     |
| Endowment appreciation                | 7,299      | 5,661      |
| Cost sharing and other                | 5,099      | 5,244      |
| Total unrestricted                    | 182,071    | 102,751    |
| Total Net Position                    | \$ 944,694 | \$ 832,108 |

# Statements of Fiduciary Net Position

(\$ in thousands)

4.2

|  | 2021  |  |                             | 2020  |  |                             |
|--|---|--|-----------------------------|---|--|-----------------------------|
|  | Pension<br>and Other<br>Employee<br>Benefit<br>Trust<br>Funds | Custodial Funds<br>External<br>Investment<br>Pools | Other<br>Custodial<br>Funds | Pension<br>and Other<br>Employee<br>Benefit<br>Trust<br>Funds | Custodial Funds<br>External<br>Investment<br>Pools | Other<br>Custodial<br>Funds |
| <b>Assets</b>  |   |  |                             |   |  |                             |
| Cash and cash equivalents <i>(Note 2)</i>                    | \$ -  | \$ -   | \$ 2,674                    | \$ -  | \$ -   | \$ 2,377                    |
| Investment in UMS managed<br>investment pool <i>(Note 3)</i> | 180,270   | 66,958   | -                           | 137,400   | 55,083   | -                           |
| Investment in UMS endowment<br>pool <i>(Note 3)</i>          | -   | 35,190   | -                           | -   | 25,857   | -                           |
| Other investments <i>(Note 3)</i>                            | 25,291  | -  | -                           | 24,609  | -  | -                           |
| Prepaid expenses   | -   | -  | 5                           | -   | -  | -                           |
| <b>Total Assets</b>  | <b>205,561</b>  | <b>102,148</b>                                     | <b>2,679</b>                | <b>162,009</b>  | <b>80,940</b>                                      | <b>2,377</b>                |
| <b>Liabilities</b>   |   |  |                             |   |  |                             |
| Accounts payable and other liabilities                       | -   | -  | 29                          | -   | -  | 22                          |
| <b>Total Liabilities</b>                                     | <b>-</b>  | <b>-</b>   | <b>29</b>                   | <b>-</b>  | <b>-</b>   | <b>22</b>                   |
| <b>Net Position Restricted for:</b>                          |   |  |                             |   |  |                             |
| Pensions   | 25,291  | -  | -                           | 24,609  | -  | -                           |
| Postemployment benefits other<br>than pensions               | 180,270   | -  | -                           | 137,400   | -  | -                           |
| Pool participants  | -   | 102,149  | 17                          | -   | 80,939   | 9                           |
| Student and other groups                                     | -   | -  | 2,633                       | -   | -  | 2,346                       |
| <b>Total Net Position</b>                                    | <b>\$ 205,561</b>   | <b>\$ 102,149</b>                                  | <b>\$ 2,650</b>             | <b>\$ 162,009</b>   | <b>\$ 80,939</b>                                   | <b>\$ 2,355</b>             |

# Statements of Changes in Fiduciary Net Position

(\$ in thousands)

4.2

|   | 2021  |  |                             | 2020  |  |                             |
|---|---|--|-----------------------------|---|--|-----------------------------|
|   | Pension<br>and Other<br>Employee<br>Benefit<br>Trust<br>Funds | Custodial Funds<br>External<br>Investment<br>Pools | Other<br>Custodial<br>Funds | Pension<br>and Other<br>Employee<br>Benefit<br>Trust<br>Funds | Custodial Funds<br>External<br>Investment<br>Pools | Other<br>Custodial<br>Funds |
| <b>Additions</b>                            |   |  |                             |   |  |                             |
| Contributions                               |   |  |                             |   |  |                             |
| Employer contributions                      | \$ 13,380   | \$ -   | \$ -                        | \$ 13,590   | \$ -   | \$ -                        |
| Retiree contributions                       | 2,225   | -  | -                           | 2,597   | -  | -                           |
| Contributions to investment pools           | -   | 4,501  | -                           | -   | 3,111  | -                           |
| Private donations                           | -   | -  | 23                          | -   | -  | 29                          |
| <b>Total contributions</b>                  | <b>15,605</b>   | <b>4,501</b>                                       | <b>23</b>                   | <b>16,187</b>   | <b>3,111</b>                                       | <b>29</b>                   |
| Investment income                           |   |  |                             |   |  |                             |
| Interest and dividends                      | 2,226   | 1,101  | 1                           | 2,431   | 1,196  | 36                          |
| Net increase in fair value of investments   | 40,107  | 21,048   | -                           | 1,302   | 62   | -                           |
| <b>Total investment income</b>              | <b>42,333</b>   | <b>22,149</b>                                      | <b>1</b>                    | <b>3,733</b>  | <b>1,258</b>                                       | <b>36</b>                   |
| Less investment expense                     | (1,240)   | (595)  | -                           | (959)   | (456)  | -                           |
| <b>Net investment income</b>                | <b>41,093</b>   | <b>21,554</b>                                      | <b>1</b>                    | <b>2,774</b>  | <b>802</b>   | <b>36</b>                   |
| Other additions                             |   |  |                             |   |  |                             |
| Student activity fees                       | -   | -  | 1,932                       | -   | -  | 2,473                       |
| Endowment income distribution               | -   | -  | 857                         | -   | -  | 764                         |
| Other income                                | -   | -  | 267                         | -   | -  | 471                         |
| <b>Total other additions</b>                | <b>-</b>  | <b>-</b>   | <b>3,056</b>                | <b>-</b>  | <b>-</b>   | <b>3,708</b>                |
| <b>Total additions</b>                      | <b>56,698</b>   | <b>26,055</b>                                      | <b>3,080</b>                | <b>18,961</b>   | <b>3,913</b>                                       | <b>3,773</b>                |
| <b>Deductions</b>                           |   |  |                             |   |  |                             |
| Beneficiary payments                        | 13,133  | -  | -                           | 14,834  | -  | -                           |
| Investment pool distributions               | -   | 4,845  | -                           | -   | 987  | -                           |
| Distribute activity fees                    | -   | -  | 1,161                       | -   | -  | 1,496                       |
| Distribute other revenues                   | -   | -  | 9                           | -   | -  | 103                         |
| Donations and sponsorships                  | -   | -  | 845                         | -   | -  | 744                         |
| Purchases by student and other groups       | -   | -  | 770                         | -   | -  | 1,215                       |
| Administrative costs                        | 13  | -  | -                           | 33  | -  | -                           |
| <b>Total deductions</b>                     | <b>13,146</b>   | <b>4,845</b>                                       | <b>2,785</b>                | <b>14,867</b>   | <b>987</b>   | <b>3,558</b>                |
| <b>Change in Fiduciary Net Position</b>     | <b>43,552</b>   | <b>21,210</b>                                      | <b>295</b>                  | <b>4,094</b>  | <b>2,926</b>                                       | <b>215</b>                  |
| <b>Net Position - Beginning of the Year</b> | <b>162,009</b>  | <b>80,939</b>                                      | <b>2,355</b>                | <b>157,915</b>  | <b>78,013</b>                                      | <b>2,140</b>                |
| <b>Net Position - End of Year</b>           | <b>\$ 205,561</b>   | <b>\$ 102,149</b>                                  | <b>\$ 2,650</b>             | <b>\$ 162,009</b>   | <b>\$ 80,939</b>                                   | <b>\$ 2,355</b>             |

# Questions?

4.2



University of Maine System  
Board of Trustees

**AGENDA ITEM SUMMARY**

5

**NAME OF ITEM:** Auditor Communications to the Audit Committee

**INITIATED BY:** David M. MacMahon, Chair

**BOARD INFORMATION:** X

**BOARD ACTION:**

**BOARD POLICY:**

Bylaws – Section 3

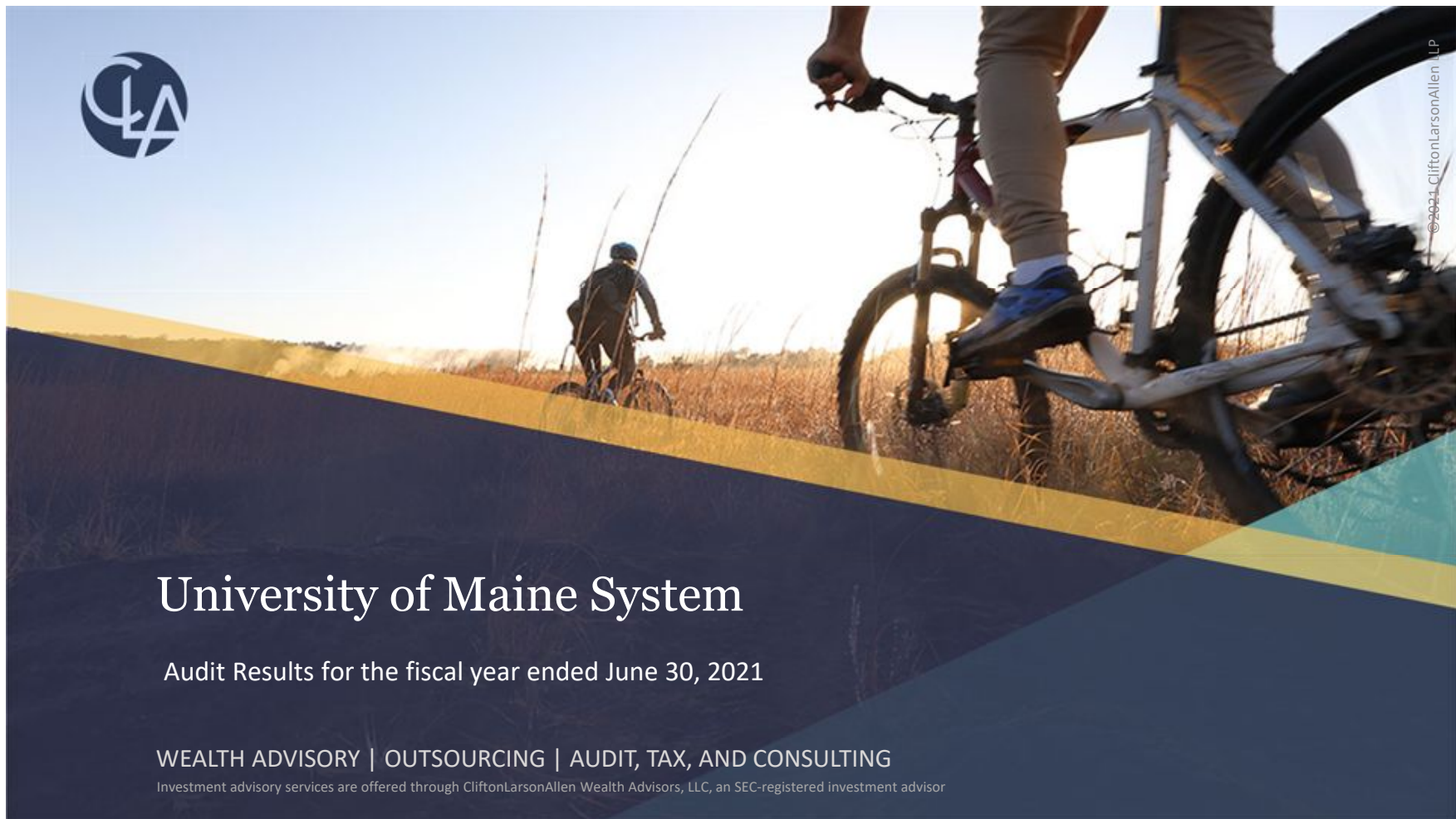
**UNIFIED ACCREDITATION CONNECTION:**

N/A

**BACKGROUND:**

On October 27, 2021, CliftonLarsonAllen LLP (CLA) representatives Michael Johns and Sara Doyle will report to the Committee, including discussion of the 2021 UMS audit results and emerging accounting issues. They will also discuss their Required Communications Letter.

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# Overview

Overview of the Audit Process

Audit Results

Governance Communication

Concluding the Engagement

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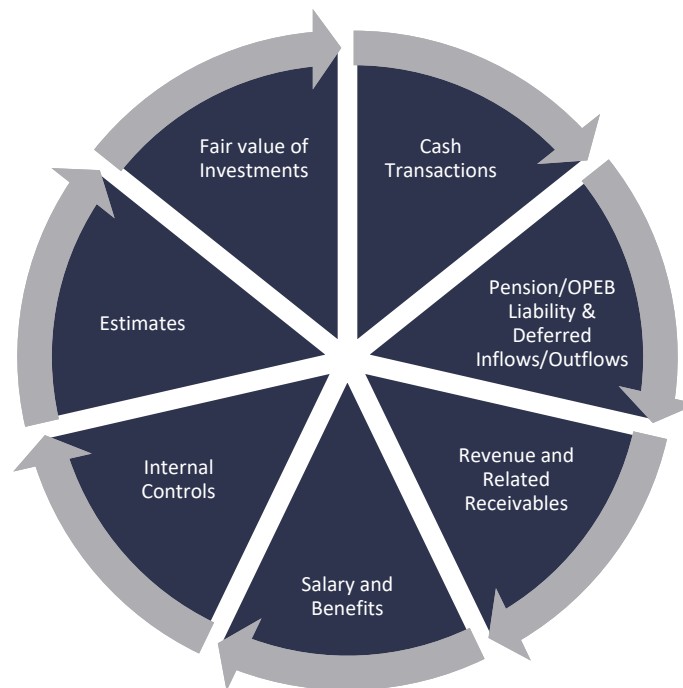
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2



## Financial Statement Audit Process - Risk Assessment

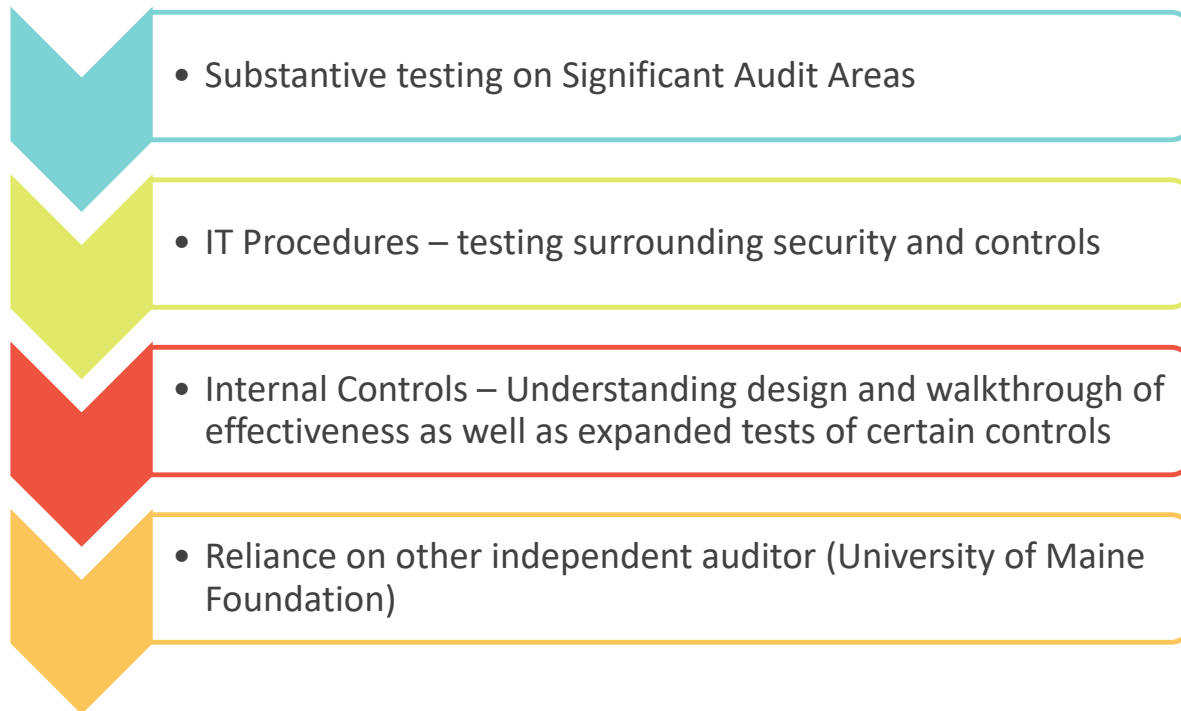
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3

## Audit Approach - Financial Statement Audit



## Audit Results – System-Wide

### Adjustments and Results

- No material audit adjustments
- No material weaknesses identified

### Opinion

- Unmodified opinion – financial statements



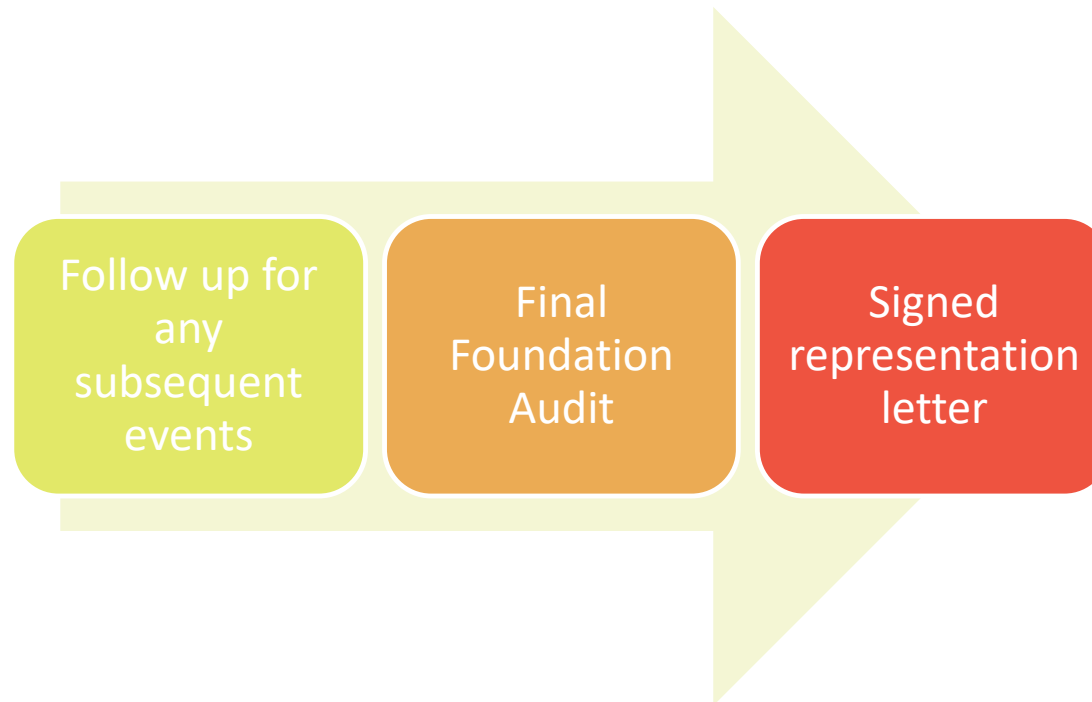
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# Governance Communication Letter

| Overall   | Estimates   | Difficulties   | Other   |
|---|---|--|---|
| <ul style="list-style-type: none"> <li>• Purpose is to provide an update on the audit since the planning meeting</li> <li>• No changes in scope of audit</li> <li>• GASB 84, <i>Fiduciary Activities</i></li> </ul> | <ul style="list-style-type: none"> <li>• Depreciable lives</li> <li>• Allowance for doubtful accounts</li> <li>• Compensated absences</li> <li>• Unearned revenue</li> <li>• Scholarship allowance</li> <li>• Other postemployment benefits liability</li> <li>• Net pension items</li> <li>• Fair value of Investments</li> <li>• We are comfortable with management's estimate</li> </ul> | <ul style="list-style-type: none"> <li>• No difficulties encountered</li> <li>• No disagreements encountered</li> <li>• No other findings to report</li> </ul> | <ul style="list-style-type: none"> <li>• No material adjustments recorded</li> <li>• Management representation letter will be signed at conclusion of engagement</li> <li>• Timing of final audit opinion regarding the Foundation</li> </ul> |



## Concluding the Engagement



# HEERF Reporting and Testing



## Other Financial Matters

- \$57 million authorized awards remaining from HEERF II and III
  - \$26M for student emergency aid
- \$78 million positive change in net position
  - \$55 million of net investment return
  - \$20 million of HEERF revenues (System portion)



# Future Accounting Standards

## Leases

- Government Accounting Standards Board Statement No. 87
  - Establishes a single model for accounting for leases by lessees and lessors
  - Will result in changes to current lease accounting (financial statements and notes)
  - Lessee and Lessor accounting will be affected
  - Effective June 30, 2022



## Leases

The following activities should be started:

- Review service agreements for embedded leases
- Inventory all leases (including embedded leases and leases in which the System is the Lessor)
- Identify a software solution

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# Future Accounting Standards

- GASB 95 postponed effective dates of certain standards by one year
  - Statement No. 87, *Leases (postponed 18 months)* – Effective year-end June 30, 2022
  - Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* - Effective year-end June 30, 2022
  - Statement No. 91, *Conduit Debt Obligations* - Effective year-end June 30, 2023
  - Statement No. 92, *Omnibus 2020* - Effective year-end June 30, 2022
  - Statement No. 93, *Replacement of Interbank Offered Rates* - Effective year-end June 30, 2022
  - Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* – Effective year-end June 30, 2023
  - *Statement 96, Subscription-Based Information Technology Arrangements* – Effective year-end June 30, 2023.
  - *Statement 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No.31.*



## Questions and Feedback

We welcome any questions pertaining to the audit, governance communication letter, or other matters related to the engagement

We appreciate the opportunity to serve as the auditors for the University of Maine System and welcome any feedback relative to our performance



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WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

University of Maine System  
Board of Trustees

## **AGENDA ITEM SUMMARY**

**NAME OF ITEM:** COVID-19 Update

**INITIATED BY:** David M. MacMahon, Chair

**BOARD INFORMATION:** X

**BOARD ACTION:**

**BOARD POLICY:**

Bylaws – Section 3

**UNIFIED ACCREDITATION CONNECTION:**

N/A

**BACKGROUND:**

Chip Gavin, Chief Facilities Management and General Services Officer, will provide highlights of the below COVID-19 update at the October 27, 2021 Audit Committee meeting.

The University of Maine System and its institutions have continued to monitor, plan, and respond to the COVID-19 pandemic for the 2021-22 academic year and beyond. UMS has delivered in-person instruction and experienced robust campus life during fall 2021 semester without significant pandemic-related interruptions to this point.

UMS has achieved a current vaccine verification rate of approximately 90 percent of its in-person fall population as of October 12, 2021, a rate backed by a vaccination requirement for students, staff and faculty announced by the Chancellor on August 4, 2021 as one of several responses related in part to the Delta variant surge. UMS and campus leadership continue to monitor varied metrics regarding COVID-19 transmission within the UMS community and beyond, including health care infrastructure capacity, waste water disease detection, new case rates, active case rates and more to help inform understanding of the pandemic in the broader community and within the University community.

Test-trace-and-isolate continues to be a key practice at the University System, with 11,098 fast, high-quality PCR tests completed for the period from August 1, 2021 through October 12, 2021 and an overall positivity rate during that period of 1.2 percent. Asymptomatic testing has been required for those not fully vaccinated and also open to those who are fully vaccinated. As of early October, the positivity rate within the University's own testing had been reduced to 0.83 percent for the weekly testing period ending October 10, 2021. The positivity rate for all testing in Maine as reported by the Maine CDC on its public website has been generally in the 4 percent to 7 percent range during that same period.

Protocols beyond test-trace-and-isolate continue to be deployed and escalated or de-escalated depending on the data, overall situation and specific circumstances. For example, face coverings continue to be required as of October 12, 2021, for all persons when indoors at University System facilities. Special approval and evidence of vaccination continues to be required for

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international University System travel, with details varying by destination. The University System announced on October 6, 2021 that evidence of full vaccination or a negative test would be required effective October 15, 2021 for those attending events of more than 250 people and may be required at other times. These protocols are subject to further change and adjustment as circumstances warrant.

October 15, 2021 also marks the deadline after which any student who has not met the COVID-19 vaccination policy requirement will not be permitted to participate in in-person University System experiences or activities. The University System will continue to work diligently with these non-compliant students to avoid that situation to the extent possible.

The University System carries out this pandemic planning and response work through the systemwide and individual institution leadership teams in conjunction with the Incident Command structure or dedicated successor response teams at each University and the Law School. Further, the University System has reached agreements with all six bargaining units to provide for vaccination verification or testing of staff in support of that pandemic effort.

Hundreds of staff continue to participate in the pandemic response along with the thousands of students, staff and faculty who continue to be stalwart in adhering to the various public health protocols as evidenced, for example, by the 97 percent (so far) vaccination verification rate of residential students.

The University System has continued to be transparent about its efforts and its data again this academic year by publishing a daily media report regarding case counts and other information and by posting online a public dashboard regarding COVID-19 information that is updated daily.

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University of Maine System  
Board of Trustees

**AGENDA ITEM SUMMARY**

**NAME OF ITEM:** Enterprise Risk Management Update

**INITIATED BY:** David M. MacMahon, Chair

**BOARD INFORMATION:** X

**BOARD ACTION:**

**BOARD POLICY:**

Bylaws – Section 3

**UNIFIED ACCREDITATION CONNECTION:**

N/A

**BACKGROUND:**

Gretchen Catlin, Risk Manager, and Chip Gavin, Chief Facilities Management and General Services Officer, will provide an update to the Audit Committee regarding Enterprise Risk Management (ERM) and the risk assigned to this Committee for oversight. Overall, Risk Management is monitoring 19 enterprise-level risks for which a comprehensive update was previously presented to the Committee in May 2020.

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# Enterprise Risk Management

Audit Committee Meeting – October, 2021

7.1

Gretchen Catlin, BS, CHC  
System Risk Manager

## Executive Summary

- Each enterprise risk has a designated Trustee Committee of oversight, as suggested by Trustees.
- The University of Maine System preliminarily monitored 15 enterprise level risks in 2019. Since then, the list has grown to 19 enterprise risks being monitored.
- One of those risks has been assigned to the Audit Committee for oversight.
- Due to pandemic related activities, review of the Enterprise Risk Matrix was paused in FY21.
- Risk Management is resuming providing ERM updates to board committees in FY22. The next update will take place in January, 2021 at the Human Resources and Labor Relations committee meeting.



|                        |
|------------------------|
| Enterprise Risk Matrix |
|------------------------|

| ID | Risk Description   | Risk Assessment           |                     |         | Type      | Control/Mitigation Description  | BOT Committee              | Management locus of control                            |
|----|--|---------------------------|---------------------|---------|-----------|---|----------------------------|--|
|    |  | Materiality               | Frequency (Scope)   | Measure |           |   |                            |  |
| R1 | Personal injury or death of students, employees or guests  | 3 (Medium) \$1.1M- \$ 10M | 4 (Likely >65%)     | 12      | Insurable | Safety Program  | HR and Labor Relations     | Chief Facilities Management & General Services Officer |
| R2 | Infrastructure loss threatening to continuity of operations  | 4 (High) \$>\$10M         | 3 (Possible 26-65%) | 12      | Insurable | Preventative Maintenance  | FFT                        | Chief Facilities Management & General Services Officer |
| R3 | Loss of state or public confidence in the value & merit of higher education                              | 4 (High) \$>\$10M         | 3 (Possible 26-65%) | 12      | Strategic | Focus on Strategic Planning<br>Effective communications<br>Public and Gov't Relations | Executive                  | Director of Community & Government Relations           |
| R4 | Data breach or cyber incident  | 4 (High) \$>\$10M         | 4 (Likely >65%)     | 16      | Insurable | Limitation of PHI on computers, training, risk  | FFT                        | Chief Information Officer                              |
| R5 | Title IX complaints/lawsuits   | 3 (Medium) \$1.1M- \$ 10M | 4 (Likely >65%)     | 12      | Insurable | Training & Communication  | HR and Labor Relations     | Chief Human Resources Officer                          |
| R6 | Radical or long-term enrollment change   | 4 (High) \$>\$10M         | 3 (Possible 26-65%) | 12      | Strategic | Strategic Actions and Tracking<br>Enrollment (Facilitation)                           | Academic & Student Affairs | Vice-Chancellor for Academic Affairs                   |
| R7 | Loss of state appropriation funding or other state policy threatening solvency or the ability to operate | 4 (High) \$>\$10M         | 2 (Unlikely 11-25%) | 8       | Financial | Continued Lobbying effort with State  | Executive                  | Director of Community & Government Relations           |
| R8 | Product Liability lawsuit  | 4 (High) \$>\$10M         | 1 (Remote 0-10%)    | 4       | Insurable | Monitoring of Patent and Licensing with Counsel                                       | Executive                  | General Counsel & Chief of Staff                       |
| R9 | Investment Decline   | 4 (High) \$>\$10M         | 2 (Unlikely 11-25%) | 8       | Financial | Diversification   | Investment                 | Vice President Finance & Controller                    |

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|                        |
|------------------------|
| Enterprise Risk Matrix |
|------------------------|

| ID  | Risk Description   | Risk Assessment           |                     |         | Type          | Control/Mitigation Description   | BOT Committee              | Management locus of control   |
|-----|--|---------------------------|---------------------|---------|---------------|--|----------------------------|---|
|     |  | Materiality               | Frequency (Scope)   | Measure |               |  |                            |   |
| R10 | Natural disaster threatening to life or property   | 4 (High) \$>\$10M         | 3 (Possible 26-65%) | 12      | Insurable     | Business Continuity Planning   | FFT                        | Chief Facilities Management & General Services Officer                                |
| R11 | Credit rating downgrade resulting in increased cost of capital and hitting state debt cap            | 3 (Medium) \$1.1M- \$ 10M | 2 (Unlikely 11-25%) | 6       | Strategic     | Routine budget review  | Audit                      | Vice President Finance & Controller & Vice President Budgeting and Financial Analysis |
| R12 | Inability to obtain a quorum of Trustees to take action necessary for continuity of operations       | 1 (Negligible) <\$400K    | 1 (Remote 0-10%)    | 1       | Strategic     | Pending  | Executive                  | General Counsel & Chief of Staff  |
| R13 | Loss of key officer(s)/staff to the extent threatening to successful or the continuity of operations | 3 (Medium) \$1.1M- \$ 10M | 3 (Possible 26-65%) | 9       | Human Capital | Cross-Training, leadership training  | HR and Labor Relations     | Chief Human Resources Officer   |
| R14 | Event or events threatening to the reputation of a school or schools                                 | 4 (High) \$>\$10M         | 2 (Unlikely 11-25%) | 8       | Insurable     | Effective Public Communications, engagement with all campuses, crisis communication experience       | Executive                  | Executive Director of Public Affairs  |
| R15 | Student Retention Decline  | 4 (High) \$>\$10M         | 4 (Likely >65%)     | 16      | Strategic     | Strategic Actions & Planning   | Academic & Student Affairs | Vice-Chancellor for Academic Affairs  |
| R16 | Minors on campus   | 4 (High) \$>\$10M         | 3 (Possible 26-65%) | 12      | Insurable     | Liability insurance  | HR and Labor Relations     | Chief Human Resources Officer   |
| R17 | Improper foreign influence & trade secrets relative to research                                      | 3 (Medium) \$1.1M- \$ 10M | 3 (Possible 26-65%) | 9       | Operational   | Background screening and licensure requirement review  | Academic & Student Affairs | Vice-Chancellor for Academic Affairs  |
| R18 | Conflicts of interest  | 1 (Negligible) <\$400K    | 3 (Possible 26-65%) | 3       | Human Capital | Policy, annual training, GC reviews questions - people need to identify and disclose. Self Identify, | HR and Labor Relations     | General Counsel & Chief of Staff  |
| R19 | Export control compliance  | 3 (Medium) \$1.1M- \$ 10M | 3 (Possible 26-65%) | 9       | Operational   | Screening, policies & procedures   | Academic & Student Affairs | Vice-Chancellor for Academic Affairs  |

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Audit Committee

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| ID  | Risk Description  | Materiality               | Frequency (Scope)   | Measure | Type      | Control/Mitigation Description | BOT Committee | Management locus of control   | Summary of Control Strategies  |
|-----|---|---------------------------|---------------------|---------|-----------|--------------------------------|---------------|---|--|
| R11 | Credit rating downgrade resulting in increased cost of capital and hitting state debt cap | 3 (Medium) \$1.1M- \$ 10M | 2 (Unlikely 11-25%) | 6       | Strategic | Routine budget review          | Audit         | Vice President Finance & Controller & Vice President Budgeting and Financial Analysis | <ul style="list-style-type: none"> <li>- Continuous focus on maintaining fiscal soundness</li> <li>- Monitoring financial conditions</li> <li>- Spending control measures in place</li> <li>- Identifying opportunities to maintain and grow revenue</li> <li>- Ensure revenue/funding streams are identified to fund debt service payments on new debt</li> <li>- Maintaining rigorous budget process</li> <li>- Management awareness of financial conditions and adjusting operations</li> </ul> |

Control Strategy Status Matrix

|  |   |
|--|---|
|  | Control strategies are fully implemented              |
|  | Strategies are pending                                |
|  | Strategies are in-progress, not yet fully implemented |

# S&P Global Ratings Report

On September 15, 2021, Vice Chancellor Low provided an update on the S&P Global Ratings Report.

Reference: [S&P Global Ratings - Tab 13](#)

## University of Maine System; Public Coll/Univ - Unlimited Student Fees

### Credit Profile

|                                       |                  |          |
|---------------------------------------|------------------|----------|
| University of Maine Sys PCU_USF       |                  |          |
| <i>Long Term Rating</i>               | AA-/Stable       | Affirmed |
| University of Maine Sys PCU_USF       |                  |          |
| <i>Long Term Rating</i>               | AA-/Stable       | Affirmed |
| University of Maine Sys PCU_USF (AGM) |                  |          |
| <i>Unenhanced Rating</i>              | AA-(SPUR)/Stable | Affirmed |

Many issues are enhanced by bond insurance.

### Rating Action

S&P Global Ratings affirmed its 'AA-' long-term rating and underlying rating (SPUR) on University of Maine System's (UMS or the system) various series of revenue bonds outstanding. **The outlook is stable.**

## Next Steps

Risk Management is committed to providing regular updates to each Board Committee.

| Board Committee                   | Date            |
|-----------------------------------|-----------------|
| Audit                             | May 19, 2022    |
| Investment                        | March 3, 2022   |
| Human Resources & Labor Relations | January 3, 2022 |
| Academic & Student Affairs        | March 7, 2022   |
| Finance, Facilities & Technology  | May 4, 2022     |
| Executive                         | TBD             |
| Audit                             | October, 2022   |