

University of Maine System – Board of Trustees Meeting

**October 27, 2021**

Zoom Meeting – No Physical Location Available

**AGENDA**

**Wednesday, October 27, 2021**

Chair Gardner has determined that with the elevated covid cases in the State, this meeting will be held virtually, in accordance with [Board of Trustee Policy 215 - Remote Public Meetings](#)

**Call to Order @ 3:00 pm**

The Board of Trustees will go directly into Executive Session

**Executive Session** from 3:05 am to 3:20 pm

**Call to Order/Reconvene Public Meeting @ 3:20 pm**

**Citizen Comment (5 minutes)**

**Individuals who wish to participate in Citizen Comment, please contact the Board Office at [ums.trustees@maine.edu](mailto:ums.trustees@maine.edu) with your name and topic by 12:00 pm on Tuesday, October 26. To participate in Citizen Comment during the meeting dial: 1-800-605-5167 code 743544#**

*The Board of Trustees provides time for citizen comment prior to the business agenda at each meeting. The Chair of the Board will establish time limits (usually three minutes per person) and determine any questions of appropriateness and relevancy. Personnel decisions, collective bargaining issues, grievances, litigation and other areas excludable from public discussion under the Maine Freedom of Access Law shall not constitute appropriate matters for such input. A person who wishes to speak during the citizen comment period should arrive prior to the meeting start time and sign up on a sheet provided, indicating name and topic of remarks.*

**Action Items**

**Tab 1 – Annual Financial Report for FY2021 (10 minutes)**

**Tab 2 - Charge to the USM Presidential Search Committee (15 minutes)**

**Date of the Next Meeting:** The next Board of Trustees meeting will be held on November 15, 2021 via Zoom.

Tabs noted in red text are action items.

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

University of Maine System  
Board of Trustees

## **AGENDA ITEM SUMMARY**

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

**INITIATED BY:** Dannel P. Malloy, Chancellor

**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 your review and approval. Darla Reynolds, UMS Director of Accounting will provide a brief overview of the results.

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 <u>Increase</u></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>	<b><u>\$113 million</u></b>

Certain component unit information on pages 41 and 43 and in Note 16 to the financial statements is highlighted in yellow and/or is in red text as it is pending completion of the University of Maine Foundation's audit. We will provide an update upon receipt of their final audited financial statements.

The Audit Committee approved this item to be forwarded to the October 27, 2021 Board of Trustees meeting, for approval of the following resolution:

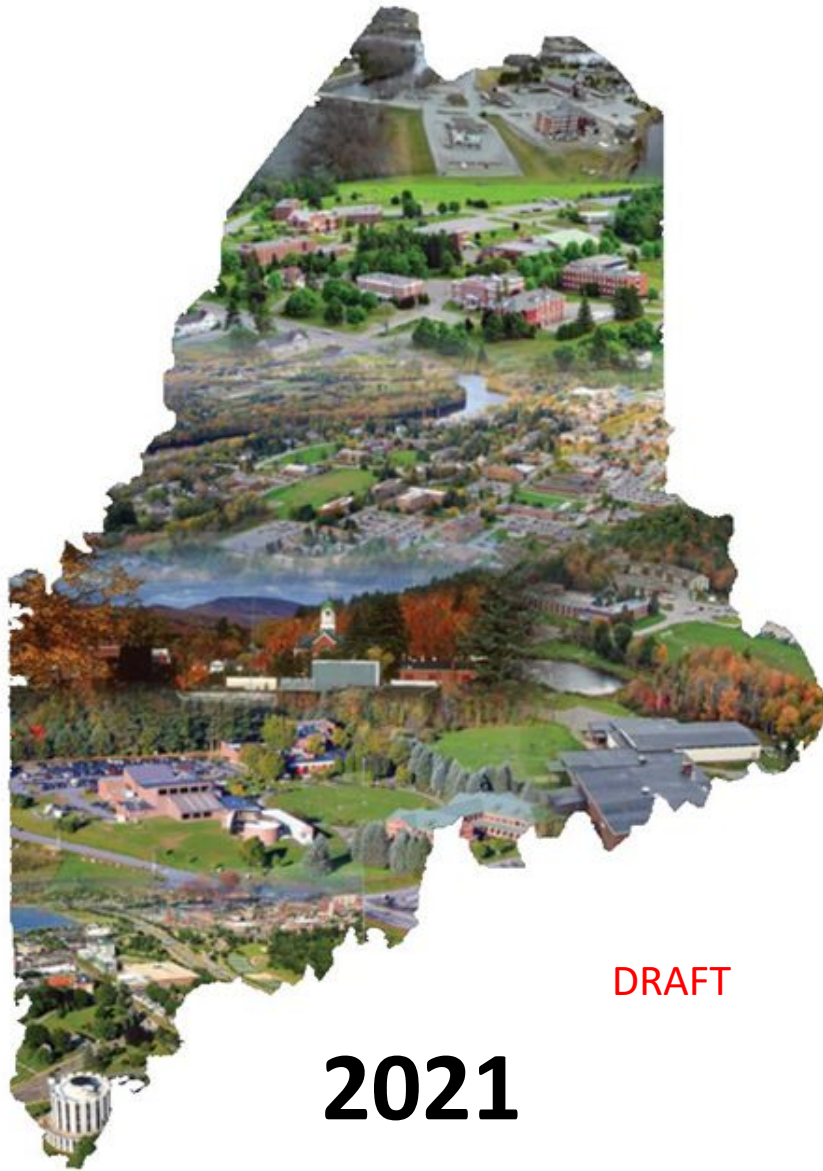
**TEXT OF PROPOSED RESOLUTION:**

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

10/15/2021

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

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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



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

**BOARD OF TRUSTEES:**

Sven P. Bartholomew  
Emily A. Cain  
Timothy L. Doak  
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James R. Erwin  
Mark R. Gardner, *Chair*  
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David M. MacMahon  
Kelly A. Martin  
Michael H. Michaud  
Patricia (Trish) A. Riley  
Margaret (Peggy) R. Rotundo  
A. Pender Makin, *ex officio*

**CHANCELLOR:**

Dannel P. Malloy

**UNIVERSITY PRESIDENTS /  
SCHOOL of LAW DEAN:**

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University of Maine at Machias*  
**Rebecca M. Wyke**  
*University of Maine at Augusta*  
**Edward A. Serna**  
*University of Maine at Farmington*  
**Deborah Hedeon**  
*University of Maine at Fort Kent*  
**Raymond J. Rice**  
*University of Maine at Presque Isle*  
**Glenn A. Cummings**  
*University of Southern Maine*  
**Leigh I. Saufley**  
*University of Maine School of Law*

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**Daniel C. Demeritt**  
*Senior Executive Director of Marketing and Communications*  
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*Associate Vice Chancellor for Academic Affairs*  
**Ellen N. Doughty**  
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**Tracy E. Elliott**  
*Vice President of Finance and Controller*  
**Joan Ferrini-Mundy**  
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**MF Chip Gavin**  
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**James B. Thelen**  
*Vice Chancellor for Strategic Initiatives and Chief Legal Officer*  
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**Miriam A. White**  
*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.

Board of Trustees  
University of Maine System

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### **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)**

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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.

## 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.

**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.

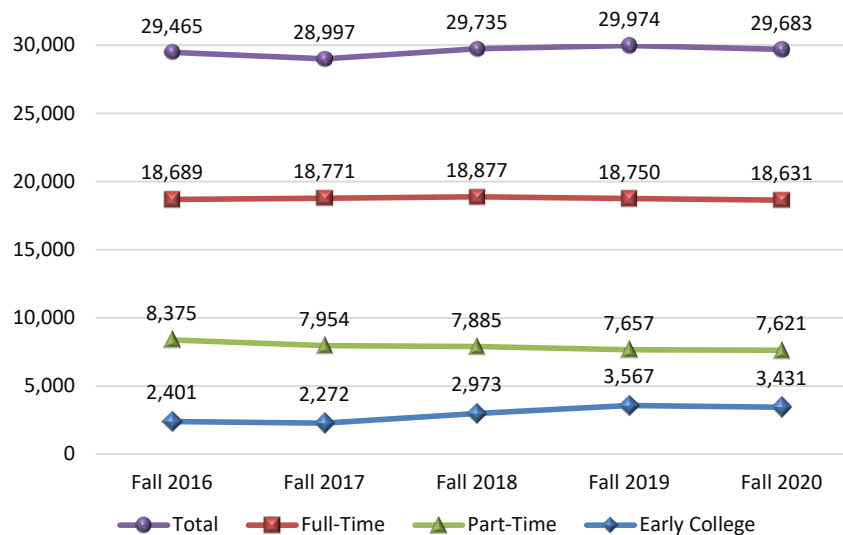
**Chart 1: Student Enrollment by Headcount**

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

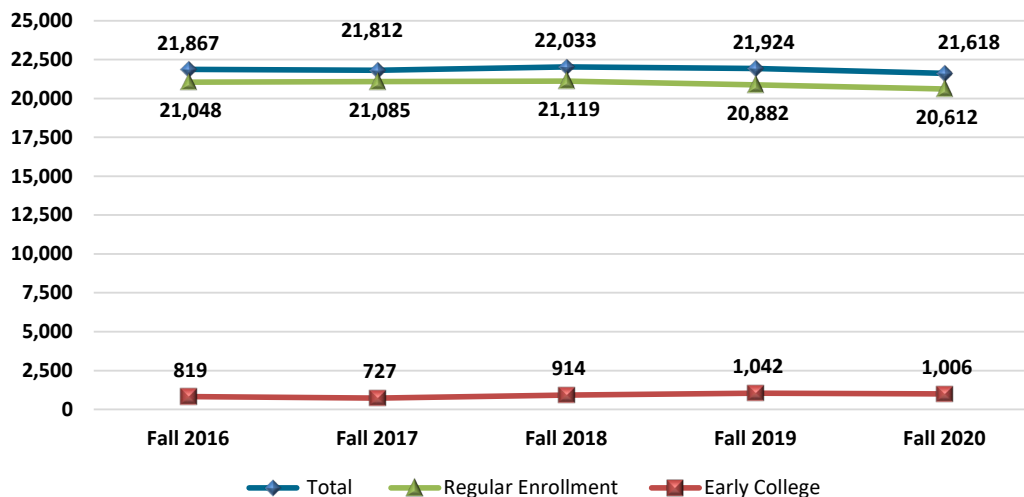


Table 1: Student FTE Enrollment

	% Change Fall 2016 to 2020	Fall 2020	% Change	Fall 2019	% Change	Fall 2018	% Change	Fall 2017	% Change	Fall 2016	% 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. DRAFT

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%.

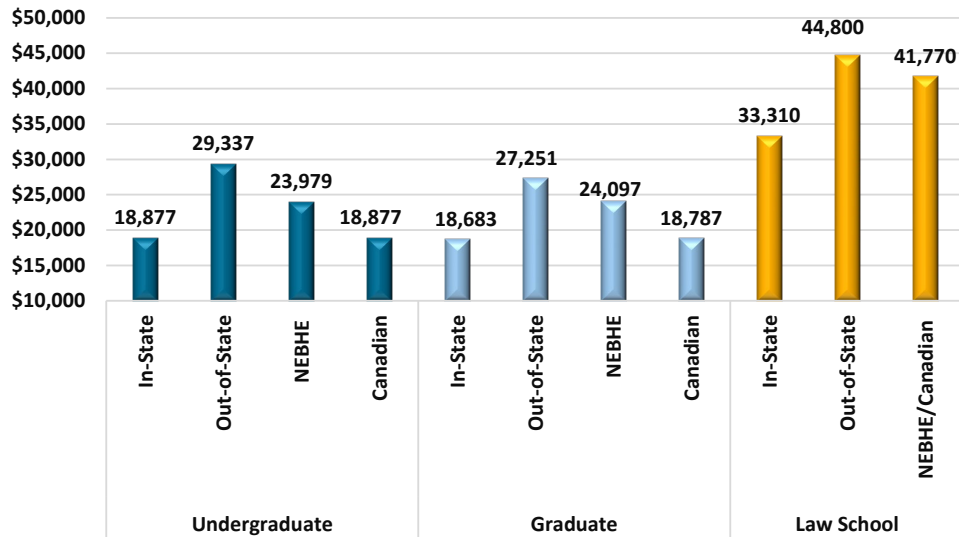
**Table 2: Student Comprehensive Cost of Education  
Tuition, Mandatory Fees, and Room and Board Fiscal Year Averages**

	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'.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**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)

**Fiduciary Funds Financial Statements**

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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)

- 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. DRAFT

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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

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	2021	% Change	Restated 2020	% Change	Restated 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)**

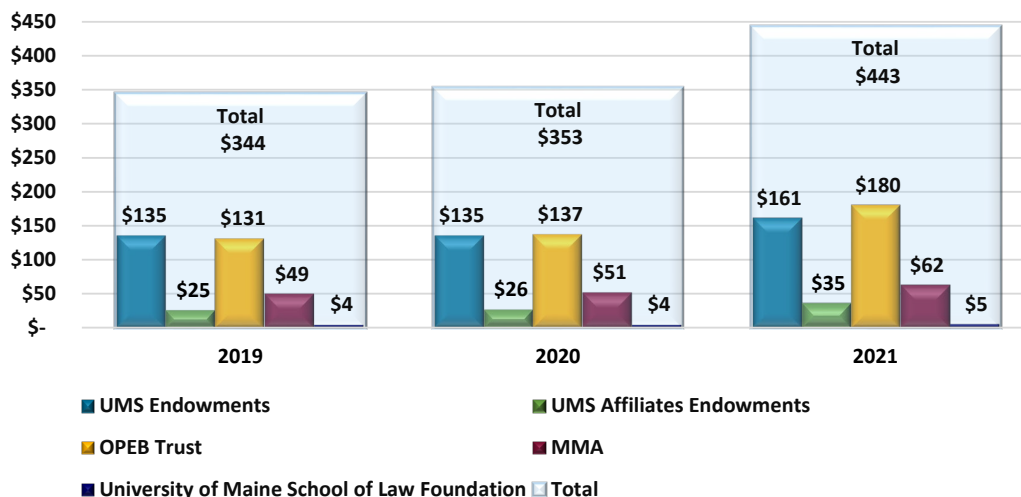
The System pools certain funds for investment purposes including the System's endowment pool monies, endowment monies belonging to the System's affiliated organizations, and monies on behalf of the following entities: the UMS OPEB Trust, Maine Maritime Academy (MMA), and the University of Maine School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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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



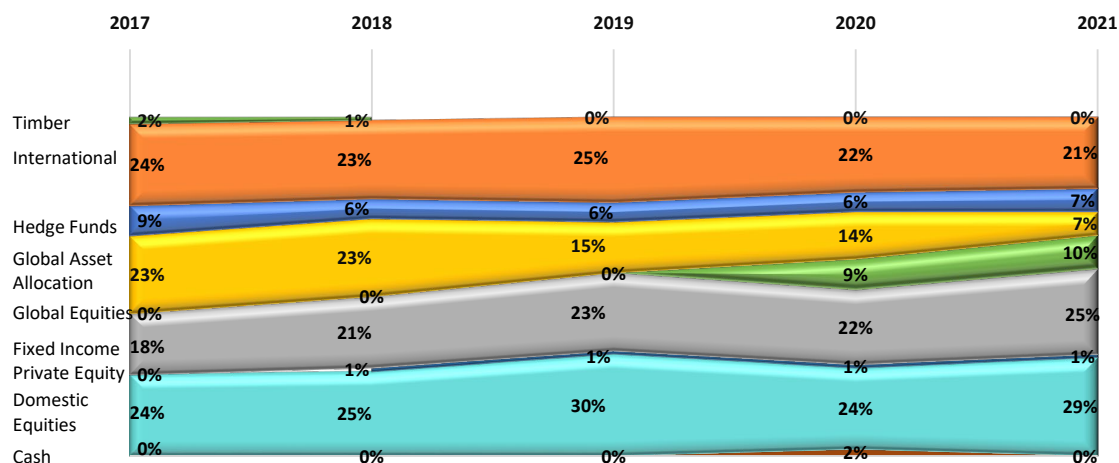
'UMS Endowments' noted in Chart 4 is the System's share of the MIP investments and is included as part of the 'Endowment Investments' noted in the accompanying Condensed Statements of Net Position. The portion of the MIP representing UMS Affiliates' Endowments is included in the Statements of Fiduciary 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.

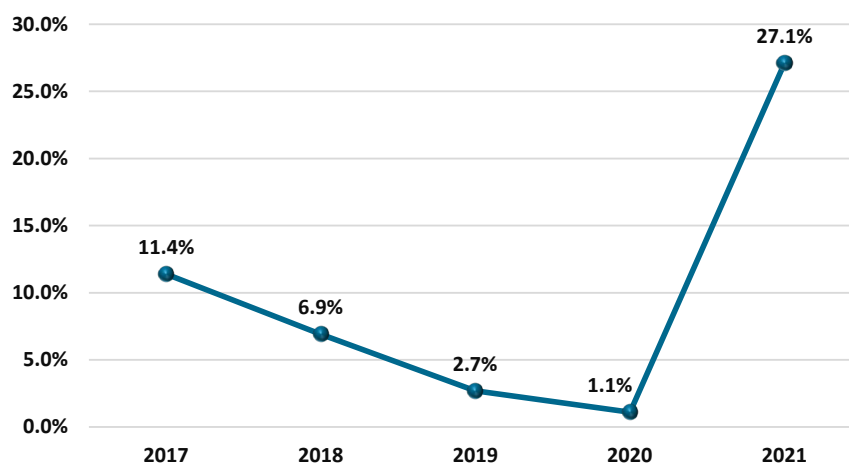
## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

**Chart 5: Asset Allocation Percentages for Managed Investment Pool**

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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)**



## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

**Endowments (Including Affiliates)**

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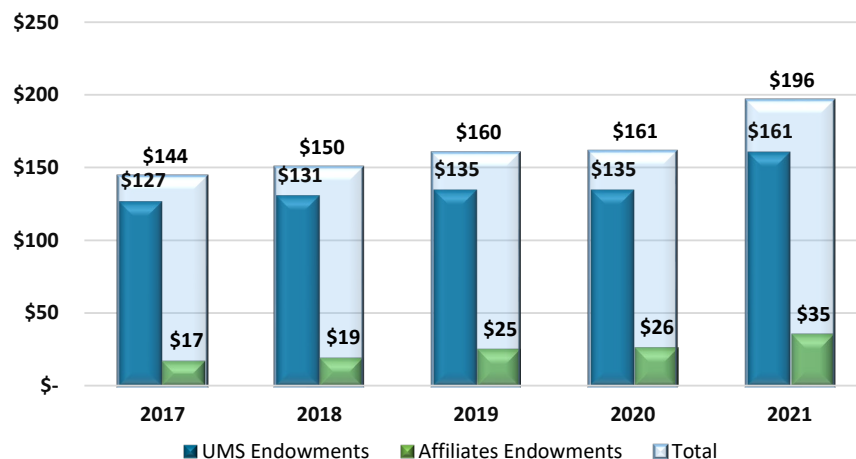
Endowments are generally created from donor gifts or bequests with the funds invested to create present and future income with the original amount of the gift (corpus) retained in perpetuity. If the donor established criteria to determine how the expendable amounts are to be used, such amounts are considered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

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)

Project	Funding Source	Status	BOT Approved 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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

**Deferred Outflows and Inflows of Resources**

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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)

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)

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

**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 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.

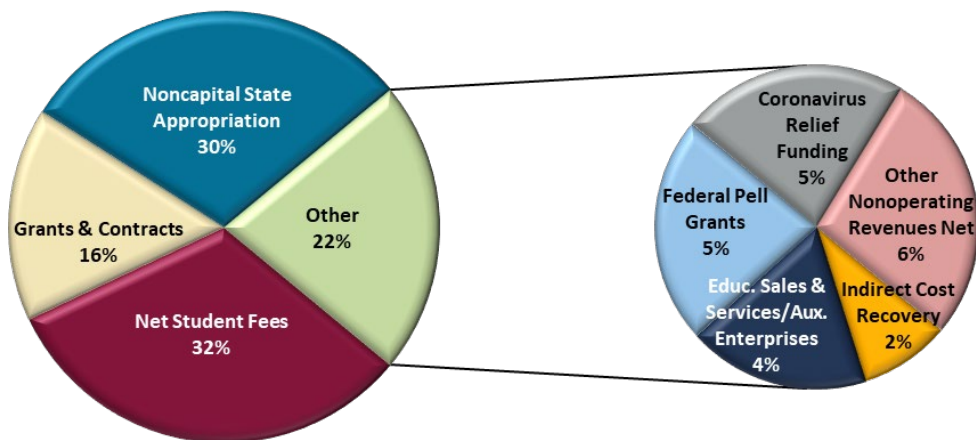
- In addition to tuition and fees, the System receives operating revenue from other sources such as governmental and privately funded grants and contracts; gifts from individuals, foundations, and corporations; state appropriations; and investment income.
- Certain significant recurring revenues and 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)

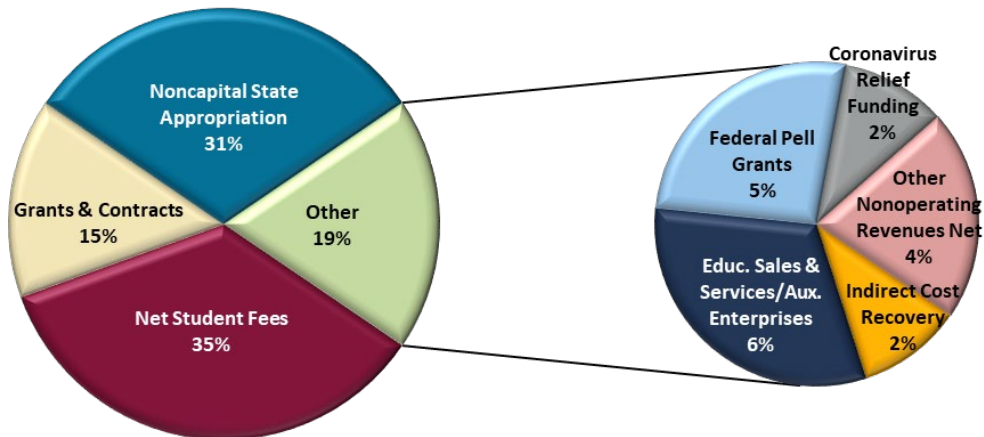
The following pie charts illustrate the total operating and net nonoperating revenue sources used to fund the System's activities for FY21 and FY20. DRAFT

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

**2021 - \$738 million**



**2020 - \$716 million**





## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

**Net Student Fees Revenue**

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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:

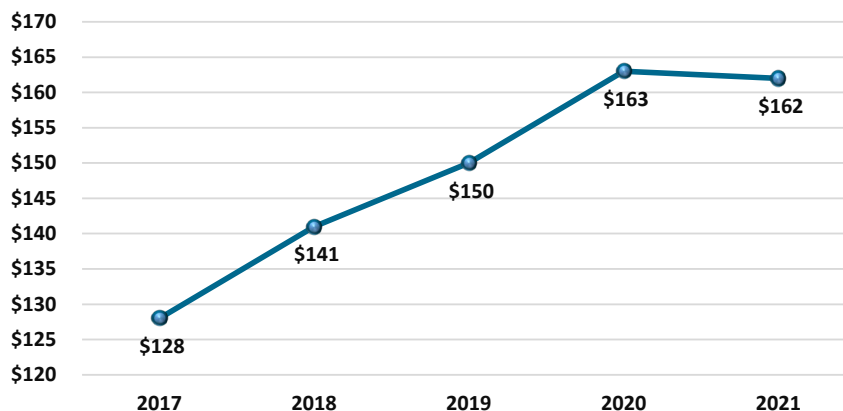
1. Scholarship Allowances – financial aid retained by the System to cover students' tuition, fees, and on-campus housing and meals. These amounts are reported as a direct offset to operating revenues as a component of the net student fees revenue line.
2. Student Aid Expense – financial aid refunded 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.

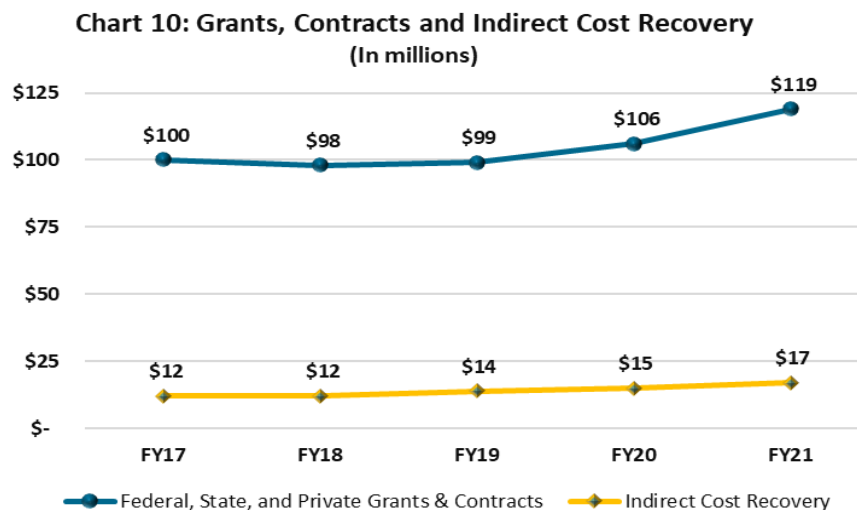
During FY20, total financial aid provided to students was \$163 million, increasing \$13 million, or 9%, over FY19 financial aid of \$150 million. The increase includes \$8 million in FY20 funding from the federal Coronavirus Aid, Relief, and Economic Security Act in response to the COVID-19 pandemic,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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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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**

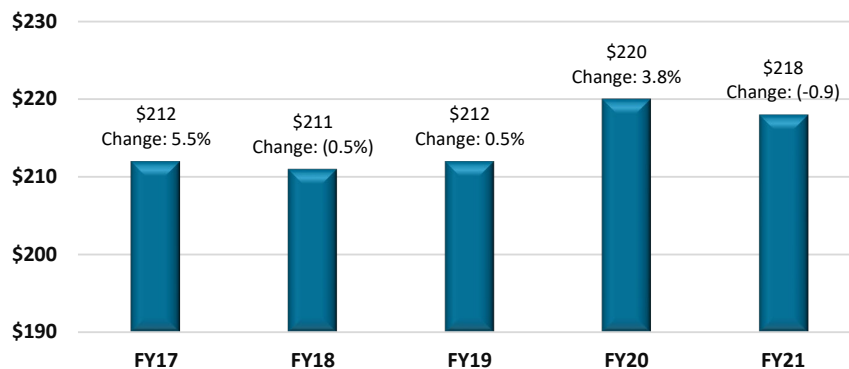
State noncapital appropriation revenue includes amounts for general operations and amounts legislatively earmarked for research and development, financial aid, and various other areas. Although not considered operating revenue under GASB reporting requirements, the noncapital state appropriation was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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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. DRAFT

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)

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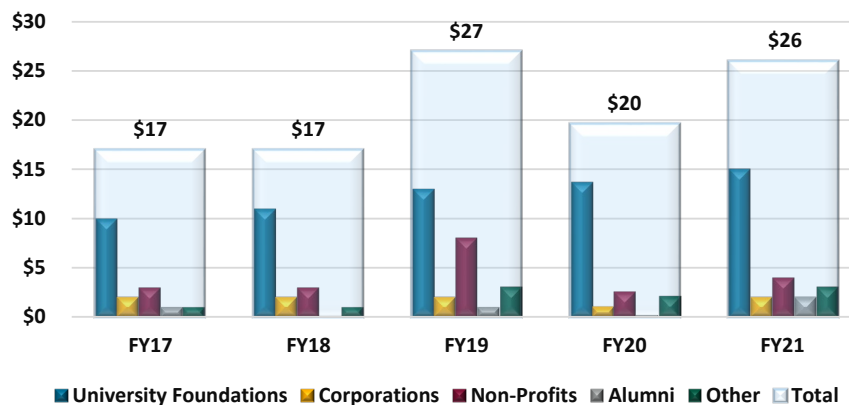
**Chart 12: Gifts by Donor Type**  
(In millions)**Operating Expenses**

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	% Change	2020	% 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)

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)

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.

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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.

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

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	2021	2020 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.

**UNIVERSITY OF MAINE SYSTEM****DRAFT****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 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 \$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.

**UNIVERSITY OF MAINE SYSTEM**

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**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.

**UNIVERSITY OF MAINE SYSTEM**

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**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 Donor Restrictions	With Donor Restrictions	Total 2021	Total 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 - Paycheck Protection Program	719	-	719	-
Net assets released from restrictions pursuant to endowment spending distribution	6,721	(6,721)	-	-
Net assets released from restrictions - other	4,375	(4,375)	-	-
<b>Total Revenues, Gains, Losses, and 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.

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

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	2021	2020 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.

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

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

	<b>2021</b>	<b>2020 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.



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

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	2021			2020		
	Pension and Other Employee Benefit Trust Funds	Custodial Funds External Investment Pools	Other Custodial Funds	Pension and Other Employee Benefit Trust Funds	Custodial Funds External Investment Pools	Other Custodial Funds
<b>Assets</b>						
Cash and cash equivalents (Note 2)	\$ -	\$ -	\$ 2,674	\$ -	\$ -	\$ 2,377
Investment in UMS managed investment pool (Note 3)	180,270	66,958	-	137,400	55,083	-
Investment in UMS endowment 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 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.

**UNIVERSITY OF MAINE SYSTEM**

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

	2021			2020		
	Pension and Other Employee Benefit Trust Funds	<u>Custodial Funds</u> External Investment Pools	Other Custodial Funds	Pension and Other Employee Benefit Trust Funds	<u>Custodial Funds</u> External Investment Pools	Other Custodial 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)**

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## **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.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

DRAFT

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.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

DRAFT

**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.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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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).

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

DRAFT

- **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.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

DRAFT

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).



## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

DRAFT

**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)

**1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

DRAFT

**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

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**3. INVESTMENTS - CONTINUED**

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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	Interest Rate Risk	
		Level 1	Level 2	Level 3	Rating		
<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>			
Operating investments measured at NAV							
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)

**3. INVESTMENTS - CONTINUED**

DRAFT

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

	Total	Fair Value Measurements Using:			Credit	Interest Rate Risk	
		Level 1	Level 2	Level 3	Rating		
<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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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**

DRAFT

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	Interest Rate Risk	
		Level 1	Level 2	Level 3	Rating		
<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**

DRAFT

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**

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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.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**3. INVESTMENTS - CONTINUED**

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**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**

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**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 Gains (Losses)</b>	<b>Interest and Dividends</b>	<b>Investment Fees</b>	<b>Net Income (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 Gains (Losses)</b>	<b>Interest and Dividends</b>	<b>Investment Fees</b>	<b>Net Income (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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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**

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

	Beginning Balance	Additions	Reclassifications	Retirements	Ending 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 Balance	Additions	Reclassifications	Retirements	Ending 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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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 Balance	Additions	Reductions	Ending Balance	Current 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

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current 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 June 30:	Capital Leases		Operating 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 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**

DRAFT

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) 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) 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) 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) 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. \$43,000 bond anticipation note, Series 2021, monthly interest only payments at .31%, matures July 2022	43,000	-
University of Maine Foundation Note payable, secured by equipment, with annual payments of \$15, including interest at 4.25%, matures 2023	21	35
Key Government Finance Inc. \$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 \$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***

DRAFT

	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 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**

DRAFT

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

	2021	2020 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**

DRAFT

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

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**11. COMMITMENTS AND CONTINGENCIES**

DRAFT

**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)

**11. COMMITMENTS AND CONTINGENCIES - CONTINUED**

DRAFT

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**

DRAFT

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.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**13. PENSION PLANS - CONTINUED**

DRAFT

**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 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 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** DRAFT

**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% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)	1% Decrease (1.21%)	Current Discount Rate (2.21)	1% Increase (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** DRAFTChanges 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.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**13. PENSION PLANS - CONTINUED**

DRAFT

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

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**13. PENSION PLANS - CONTINUED**

DRAFT

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)

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

DRAFT

**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)

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

DRAFT

**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 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)

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

DRAFT

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**

DRAFT

**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% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (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



## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**13. PENSION PLANS - CONTINUED**

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**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

**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

**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. 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

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

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% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (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 (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% Decrease 5% Year 1 Decreasing to 3%	Healthcare Cost Trend Rates 6% Year 1 Decreasing to 4%	1% Increase 7% Year 1 Decreasing to 5%	1% Decrease 7% Year 1 Decreasing to 2.9%	Healthcare Cost Trend Rates 8% Year 1 Decreasing to 3.9%	1% Increase 9% Year 1 Decreasing 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 (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

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

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**

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)



## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**16. COMPONENT UNITS**

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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.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**16. COMPONENT UNITS - CONTINUED**

DRAFT

**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****DRAFT**

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/ 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/ 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 Originally Stated	Moved to Statements of Fiduciary Net Position	2020 as 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 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.

DRAFT

**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

***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

**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

**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

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

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

**DEFINED BENEFIT PENSION PLAN – CONTINUED:**

DRAFT

<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:**

DRAFT

## 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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**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 2016: Projected Unit Credit
Amortization method	2021: Level dollar amount over 25 years on a closed amortization period 2020: Level dollar amount over 26 years on a closed amortization period 2019: Level dollar amount over 28 years on a closed amortization period 2017 to 2018: Level dollar amount over 30 years on a closed amortization period
Amortization period	2021: 25 years 2020: 26 years 2019: 28 years 2017 to 2018: 30 years
Asset valuation method	Market value

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

**OPEB PLAN - CONTINUED:**

DRAFT

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/ 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.

**UNIVERSITY OF MAINE SYSTEM**

DRAFT

**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

**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**

DRAFT

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

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### **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  
Board of Trustees

## **AGENDA ITEM SUMMARY**

**NAME OF ITEM:** University of Southern Maine Presidential Search/President Cummings's  
Return to Faculty

**INITIATED BY:** Dannel P. Malloy, Chancellor

**BOARD INFORMATION:**

**BOARD ACTION:** X

**BOARD POLICY:**

[204 – Presidents – Appointments & Responsibilities](#)

[404.4 - Chancellor & Presidents Benefit Package](#)

**UNIFIED ACCREDITATION CONNECTION:**

**BACKGROUND:**

On October 4, 2021, USM President Glenn Cummings notified the UMS Board and Chancellor in separate letters of his request and intention to step down from the USM presidency and return to the faculty with tenure, as his presidential contract permits, at the end of June 2022.

Chancellor Malloy seeks authorization to accept President Cummings's request and make arrangements with him for his July 2022 return to the faculty, as well as to launch an appropriate national search to identify an appropriate successor president.

Since receiving President Cummings's notice, work has been undertaken to begin forming a USM Presidential search committee, with constituent groups working to identify representative committee members. The Board Chair will soon identify three Trustees to serve on the committee, and one of the identified Trustees will chair the committee. UMS System staff are also working to retain a search consultant to lead a national presidential search on UMS's behalf.

Important first steps of the search are for the Board to develop the description of the position and related criteria for selecting the President and to formally charge the committee.

UMS Administrative Procedures for the Recruitment and Selection of Presidents state:

The Chancellor on behalf of the Board of Trustees must formally charge each search committee with the responsibility for conducting the search for a president. The charge shall include preferred characteristics to be used as guidelines throughout the search articulated and/or approved by the chancellor and Board of Trustees based on an assessment of the needs of the university and University System. Close collaboration of the Chancellor, Board and committee in defining the preferred characteristics will enhance the quality of information to candidates and increase the likelihood of a successful search outcome.

10/15/2021

In addition to the criteria identified by the Board of Trustees, the selected search consultant will conduct interviews of constituent groups and provide the resulting themes to the search committee for use in its work.

Vice Chancellor for Strategic Initiatives and Chief Legal Officer James Thelen and Chancellor Malloy will provide a summary of pre-search activities already underway and lead a brief discussion with the Board of preferred characteristics of candidates for the next President of the University of Southern Maine. The presidential candidate who is hired will be called upon to advance USM's historic mission and serve its students and the State of Maine by using USM's strengths to strategically collaborate with other UMS universities in the UMS unified accreditation environment.

#### **TEXT OF PROPOSED RESOLUTION:**

That the Board of Trustees:

- Approves President Cummings's request to step down from the USM presidency as of June 30, 2022 and return to the faculty with tenure and authorizes Chancellor Malloy to make appropriate arrangements with President Cummings related to his return to the faculty, with the expectation that such arrangements will be brought to the Board for final approval before the end of President Cummings's term as president; and
- Approves the preferred characteristics and priorities for the University of Southern Maine Presidential search as discussed, which will be further developed by the Presidential search committee and selected search consultant in a presidential profile to be used for the national search. When charging the committee, Chancellor Malloy will transmit the UMS Board of Trustees' preferred characteristics and priorities to the search committee and search consultant for use in describing the position and guiding the work of recommending final candidates for USM's next President to Chancellor Malloy and the Board.

10/15/2021

**UNIVERSITY OF MAINE SYSTEM****University of Southern Maine****CHARGE TO THE PRESIDENTIAL SEARCH COMMITTEE****October 2021**

The USM Presidential Search Committee, appointed to advise the Chancellor and Board of Trustees of the University of Maine System, will be composed of the following representative membership:

- UMS Board of Trustees (3, appointed by the Board Chair, one of whom is designated by the Board chair to serve as the search committee chair)
- USM faculty (3, selected by the USM faculty senate)
- USM undergraduate student body (1 plus an alternate undergraduate student, selected by the USM student senate or governance body)
- USM graduate student body (1, selected by the USM graduate student body government or assembly body)
- USM academic administration (1; the selection process is to be coordinated by the provost or vice president for academic affairs, with input from academic administrators such as deans, associate or assistant provosts and deans, and department chairs where that position is excluded from the bargaining unit)
- USM salaried staff (1, selected by the applicable governance or advisory body)
- USM hourly staff (1, selected by the applicable governance or advisory body)
- USM Board of Visitors (1, selected by the Board of Visitors)
- USM alumni/ae or general community representative (1) to be appointed by the Chancellor from recommendations received from groups such as the alumni association, foundation, and other university-related groups not already represented on the committee
- A Chancellor's designee (1), selected by the Chancellor

The committee's chair and spokesperson will be a UMS Trustee.

The Presidential Search Committee is charged with recommending to the Chancellor an unranked list of at least two, but no more than four, individuals who, in the committee's judgment, are well qualified to lead the University of Southern Maine as its next president, along with the committee's assessment of each recommended candidate's strengths and weaknesses.

Actions essential to fulfilling the charge, which will be undertaken in coordination with the selected presidential search consultant, include:

- Adoption of operating procedures for the committee to guide its tasks and decision-making;
- Adherence to a timetable which covers the entire time frame necessary to develop recommendations for the Chancellor;
- Adoption of a statement of preferred presidential characteristics to be used as guidelines throughout the process, including characteristics articulated and/or approved by the Board of Trustees and Chancellor in the charge to the committee. Close collaboration among and between the Chancellor, Board and presidential search committee in defining the preferred characteristics will enhance the quality of information to candidates and increase the likelihood of a successful search outcome;
- Active conduct of a national search, to develop a diverse pool of well-qualified candidates and ensure that the process is open to and actively inclusive of persons of diverse backgrounds in conformance with all equal opportunity and affirmative action guidelines and UMS goals for diversity, equity, and inclusion;
- Adoption of a strategy for handling public relations which includes progress reports to the Chancellor, the Board and the USM campus community;
- Through the committee chair, maintaining contact with the Chancellor and/or his designee throughout the search;
- Recommending to the Chancellor qualified finalist candidates to be invited for on-campus interviews;
- Conducting on-campus visits for approved finalist candidates to provide USM faculty, students, staff and other constituents an opportunity to provide meaningful input for the search committee's and Chancellor's consideration;
- An adherence to conduct that recognizes the importance of confidentiality within the requirements of an open public search.

The Chancellor and Board of Trustees extend their gratitude to the members of the Presidential Search Committee for accepting this demanding and critically important assignment. Best wishes for the successful completion of your role in the search to identify USM's next president.