

Board of Trustees  
**Audit Committee Meeting**

October 27, 2023 at 9:00am  
Zoom Meeting – No Physical Location Available

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

**AGENDA**

**Audit Committee**

- 9:00 am  
TAB 1      [UM Department of Athletics Agreed-Upon Procedures Report](#)
- 9:10 am  
TAB 2      [Audit Committee FY2024 Work Plan](#)
- 9:15 am  
TAB 3      [Other Post-Employment Benefits \(OPEB\) Plan Presentation](#)
- 9:30 am  
**TAB 4**      [Annual Financial Report – FY2023](#)
- 10:00 am  
TAB 5      [Auditor Communications to the Audit Committee](#)
- 10:25 am      **EXECUTIVE SESSION**  
The Audit Committee will enter Executive Session under the provision of:  
1 MRSA Section 405 6-A & 6-C.

Action items within the Committee purview are noted in green.

Items for Committee decisions and recommendations are noted in red.

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

University of Maine System  
Board of Trustees

**AGENDA ITEM SUMMARY**

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

**INITIATED BY:** Michael H. Michaud, Chair

**BOARD INFORMATION:** X

**BOARD ACTION:**

**BOARD POLICY:**

Bylaws – Section 3

**UNIFIED ACCREDITATION CONNECTION:**

N/A

**BACKGROUND:**

Samantha Hegmann, Associate Athletic Director for Compliance for the University of Maine, will provide a brief overview regarding the enclosed Department of Athletics Agree-Upon Procedures Report for Academic Year 2022-2023, performed by WithumSmith+Brown, PC.

Attachment

[UM Athletics AUP 6-30-23](#)

# **UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS**

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## **AGREED-UPON PROCEDURES REPORT**

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

**Academic Year 2022-2023**

**UNIVERSITY OF MAINE  
DEPARTMENT OF ATHLETICS**

**AGREED-UPON PROCEDURES REPORT**

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

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## INDEPENDENT ACCOUNTANT'S AGREED-UPON PROCEDURES REPORT

Mr. Jude Killy, Director of Athletics  
University of Maine  
Orono, Maine

We have performed the procedures enumerated in the following sections of the Association of College & University Auditors ("ACUA") National Collegiate Athletic Association ("NCAA") Division I Compliance Audit Guide ("Audit Guide") for the University of Maine (the "University") Department of Athletics (the "Department"), related to the University's compliance with the requirements related to the areas listed below for the 2022-2023 academic year. The University's Management is responsible for the compliance with those specified requirements.

- Governance & Organization
- Camps & Clinics
- Recruiting Off-Campus
- Recruiting On-Campus
- Individuals Associated with Prospects

The University of Maine has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of determining compliance with the specified requirements. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and findings are listed on the following pages.

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

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



This report is intended solely for the information and use of Mr. Jude Killy, the board of trustees and management of the University, and it is not intended to be, and should not be, used by anyone other than these specified parties.

*Withum Smith & Brown, PC*

October 11, 2023

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

### **Background**

#### **For the Academic Year 2022-2023**

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

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

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

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

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

# UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS

## Findings

### For the Academic Year 2022-2023

#### **Procedures:**

As noted previously, we have performed the applicable procedures enumerated in the previously stated sections of the ACUA NCAA Audit Guide, for the University's Department of Athletics, in evaluating the University's compliance with the requirements for the 2022-2023 academic year with findings described below:

#### **Finding (F23-01):**

*Camps and Clinics*  
Bylaw 11.2.2 states:

*Contractual agreements, including letters of appointment, between a full-time or part-time athletics de full-time or part-time athletics department staff member and an institution shall include the stipulation that an athletics department staff member who receives athletically related income or benefits from a source outside the institution (e.g., income from endorsement or consultation contracts with apparel companies, equipment manufacturers, television and radio programs; income from ownership, control or management of a foundation, organization or other entities; etc.) must report such earnings [other than cash or cash equivalent (as opposed to tangible items) if the total amount received is \$600 or less] to the president or chancellor on an annual basis.*

The University did not complete an annual outside income form for fiscal year 2022 for any coach. We were advised by the Assistant Director of Compliance that this was the result of a misunderstanding of an NCAA pronouncement.

#### **Recommendation:**

The Compliance Office should retroactively complete the forms for all athletic department staff when completing the new fiscal year form.

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

The Compliance Office admits that this was an oversight on their part. The Assistant Director misinterpreted NCAA proposed legislation to eliminate the declaration of outside income along with coaching certification exams. The Compliance Office is already working to rectify the deficiency and is in the process of collecting outside income forms from staff members that were employed at the University during the 2022-2023 academic year.



# UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS

## Findings

### For the Academic Year 2022-2023

#### **Finding (F23-02):**

##### *Camps & Clinics*

Bylaw 11.3.2.1.1 states:

*A full-time or part-time athletics department staff member who receives athletically related income or benefits from a source outside the institution (e.g., income from endorsement or consultation contracts with apparel companies, equipment manufacturers, television and radio programs; income from ownership, control or management of a foundation, organization or other entities; etc.) must report such earnings to the president or chancellor on an annual basis; however, the athletics staff member is not required to report any cash or cash equivalent (as opposed to tangible items) if the total amount received is \$600 or less.*

The University utilizes a “Non-Institutional Camp/Clinic” form to document each camp and clinic that athletic department staff work outside of their employment with the University. However, we only noted thirteen forms completed for the fiscal year. The Associate Athletic Director for Compliance advised that it does not appear that all coaches completed the form as required. (Could be a violation of 11.3.2.1)

#### **Recommendation:**

All athletic department staff should be required to complete the “Non-Institutional Camp/Clinic” form to ensure that the camp or clinic does not violate any NCAA bylaws.

#### **Management’s Response:**

The Compliance Office implemented the non-institutional camp and clinic form in July of 2022. The staff that did not have these forms complete, which were subsequently completed, did not have access to the form during the June 2022 camp season. With staff turnover the Compliance Office will continue to educate coaching staff on compliance policy and procedures and forms.

# UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS

## Findings

### For the Academic Year 2022-2023

#### **Finding (F23-03):**

##### *Camps and Clinics*

Bylaw 13.12.1.6 states:

*All institutional camp and clinic advertisement or promotion (e.g., camp brochure, website, newspaper or magazine advertisement) must indicate that the camp or clinic is open to any and all entrants (limited only by number, age, grade level and/or gender). An institution must publicly advertise (e.g., camp brochure, website, newspaper or magazine advertisement) an institutional camp or clinic at least 14 calendar days before the first date of the camp or clinic.*

We noted six of the twenty-seven camp and clinic brochures did not document that the camp was open to any and all entrants only restricted by age and number of participants. This included three camp brochures which advertised the camp for participants from specific towns (Pittsfield and Old Town). Additionally, we noted three of the twenty-seven camps did have language on the flyer; however, the brochure language did not match the required language of the NCAA.

#### **Recommendation:**

The Compliance Office should review all brochures/advertisements issued by coaches to ensure the appropriate language is being included before being released to the public.

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

The Compliance Office noted in the approval process that the language needed to be added when they approved camp/clinic flyers. The compliance staff will be more diligent with approving flyers to ensure they have the NCAA specified language included. Additionally, we will add additional language to the ARMS form to ensure that the necessary language is added moving forward.

#### **Overview:**

We have provided the enclosed "general recommendations" for the purposes of providing best practices for the University. Although these recommendations do not specifically correspond to NCAA compliance bylaws, we noted the following in performing our procedures. They have been found to aid in developing a solid foundation of documentation and rules compliance.

## UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS

### General Recommendations

#### For the Academic Year 2022-2023

##### **General Recommendation (GR23-01):**

###### *Governance*

The University's performance evaluation form does not contain specific measurable NCAA compliance criteria.

###### **Recommendation:**

Performance evaluations should include criteria for measuring each individual coach's compliance with NCAA bylaws. Establishing measurable evaluation criteria demonstrates the importance of the NCAA regulations and will foster an environment of compliance within the athletic department.

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

The Compliance Office will communicate with the Athletic Director and the Human Resources athletic liaison to ensure that there is a compliance component to end of year evaluations. Additionally, the Associate Athletic Director for Compliance/Senior Woman Administrator will educate sport administrators on the importance of adherence to compliance being a part of the evaluation process as well as communicating with them during the end of year evaluation process.

##### **General Recommendation (GR23-02):**

###### *Camps & Clinics*

The University utilizes a "Camp and Clinic Payroll" form to document those individuals employed by each camp. However, this form does not have to be approved by Compliance. Additionally, camps run by Men's and Women's Ice Hockey did not complete this form.

###### **Recommendation:**

The "Camp and Clinic Payroll" form should include Compliance in the approval flow, so the department is aware of those employed and the rates they are paid. This will help ensure that the camps and clinics follow NCAA bylaws surrounding employment and compensation. All camps and clinics should be required to use this form before payroll is approved and run.

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

The Compliance Office will work with the Business Office and human resources to ensure that the Compliance office is included in the approval process for camp/clinic payroll.

# UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS

## General Recommendations

### For the Academic Year 2022-2023

#### **General Recommendation (GR23-03):**

##### *Off-Campus Recruiting*

We selected ten prospective student-athletes and traced to the number of contacts and evaluations completed by the University's coaches. However, we noted only five had logged phone calls. We received the phone call logs entered into ARMS, the University's compliance software, and noted three teams with no phone logs (Men's Ice Hockey, Men's Basketball, and Softball). Additionally, we noted three teams in which the logs appeared incomplete (Men's & Women's Track & Field, Women's Basketball, Field Hockey). Due to the lack of phone logs, we were unable to compare the number or date of contacts.

##### **Recommendation:**

We recommend that Compliance emphasize to coaches the University's policy to log and track phone calls through ARMS. Additionally, compliance should review each team's call logs on a monthly basis to ensure they are accurate, and all phone calls are logged.

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

The Compliance staff will educate the coaching staff on the importance of essential job functions, which includes logging calls and visits. Additionally, we will work with ARMS to run monthly report to view coaches' activities and follow up if there are none recorded.

#### **General Recommendation (GR23-04):**

##### *On-Campus Recruiting*

We noted four of twenty-five official visits for which the coach did not complete the official visit summary. As a result, we were unable to confirm that the activities and expenses of the visit were in compliance with NCAA bylaws.

##### **Recommendation:**

All official visit summaries should be completed by the coach subsequent to the official visit. Compliance should run a report within ARMS each month to show the summaries that have not been completed.

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

The Compliance Coordinator will monitor official visits and add activity to the internal spreadsheet that they maintain. The coordinator has already begun to take actions to ensure the completion of these forms in a timely manner.

# UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS

## Appendix A

### For the Academic Year 2022-2023

#### **Procedures:**

As noted previously, we have performed the applicable procedures enumerated in the previously stated sections of the ACUA NCAA Audit Guide, for the University's Department of Athletics, in evaluating the University's compliance with the requirements for the 2022-2023 academic year the procedures described below:

#### **Governance and Organization**

##### **Basic Programs**

1. *Obtain a copy of all policies and procedures concerning NCAA compliance contained in the athletics department policies and procedures manual, compliance manual, coach's handbook, student-athlete handbook, etc.*
  - **Performed procedures without exception.**
2. *Identify all individuals on the institution's athletics compliance staff and obtain a job description for each person.*
  - **Performed procedures to identify compliance staff and obtained a job description for each individual.**
3. *Obtain a listing of "who has what responsibility" for all duties of the athletics compliance staff.*
  - **Performed procedures to identify compliance staff responsibilities and noted proper documentation within job descriptions.**
4. *Identify the university's faculty athletics representative (FAR). Determine the frequency of all meetings between the FAR and the university's senior management staff and the athletics compliance staff. Ensure that the FAR has a job description.*
  - **Performed procedures to identify faculty athletics representative and noted job description. Performed procedures to determine frequency of meetings.**
5. *Identify all computer software programs utilized by the institution to monitor NCAA compliance, review the general information collected in the program, and determine the extent of assistance that this program can provide to the audit review of the compliance area.*
  - **Performed procedures to identify all computer software programs utilized by the University for NCAA compliance.**

# UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS

## Appendix A

### For the Academic Year 2022-2023

#### Comprehensive Program

1. *Identify all individuals external to the athletics department who are active participants in critical and sensitive areas of athletics compliance (e.g., eligibility certification, financial aid) and determine whether their job descriptions reference these NCAA responsibilities.*
  - **Performed procedures to identify individuals external to the athletics department who are active in areas of athletics compliance and noted proper documentation within job descriptions.**
2. *Does a compliance committee exist on campus? How often do they meet and have they been given a specific charge for responsibilities?*
  - **Performed procedures and noted no compliance committee on campus.**
3. *Does the Director of Athletics conduct annual performance evaluations for coaches and athletic administrators? Do performance evaluations contain specific measurable NCAA compliance criteria, such as attendance at monthly compliance meetings, and the timely submission of required forms?*
  - **Please refer to general recommendation GR23-01 for additional detail.**
4. *Review the athletics department's audit/review schedule to establish whether the entire rules-compliance program has been subject to an external comprehensive review in the past few years. In consultation with the athletics department, develop an audit schedule utilizing the principles of risk management.*
  - **Performed procedures without exception.**

#### **Camps and Clinics**

##### Basic Programs

1. *Identify all athletics department or other university personnel who have primary responsibility for supervising the university's compliance with NCAA legislation in this area. Determine whether these responsibilities are reflected in the individual's job description.*  
  
*Also, identify the individual on the university's athletics compliance staff who has the responsibility for monitoring the university's efforts in these areas. Determine whether this responsibility is reflected in the individual's job description and in the staff's "who has what responsibility" chart.*
  - **Performed procedures to identify compliance staff responsibilities and noted proper documentation within job descriptions.**
2. *Determine whether the athletics department has written policies and procedures that govern the operation of camps and clinics, as well as athletic staff members' and student-athletes' involvement in camps and clinics.*
  - **Compared and agreed to university policies and procedures without exception.**

# UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS

## Appendix A

### For the Academic Year 2022-2023

3. *Determine whether prior approval from the institution is required for athletics department staff members to own or operate an institutional sports camp or clinic.*
  - **Performed procedures without exception.**
4. *Identify all activities undertaken by the athletics department (written policies, spot checking, etc.) to monitor whether compliance with NCAA legislation is occurring within this area.*
  - **Performed procedures to identify activities undertaken by the athletics department to monitor compliance with NCAA legislation within this area to be used for other procedures below.**
5. *Determine whether certain forms are required to be submitted prior to the approval of a request to conduct an institutional camp. For all institutional camps, determine whether these requirements were met prior to the beginning of camp.*
  - **Performed procedures without exception to be used for other procedures below.**
6. *Identify all educational efforts on NCAA legislation undertaken by the athletics department to ensure that the appropriate involved individuals understand applicable NCAA legislation in this area.*
  - **Performed procedures to identify educational efforts on NCAA legislation undertaken by the athletics department in this area to be used for other procedures below.**
7. *Determine whether the athletics department retains adequate documentation to identify and review information on institutional camp and clinic participants for compliance purposes. Records should include attendance, amount of fees, age, and characteristics such as prospect and athletics-award winner.*
  - **Performed procedures without exception.**
8. *Determine whether the athletics department retains adequate documentation to identify those individuals employed by the institutional sports camps and clinics for compliance purposes. Records should include specific responsibilities, compensation, payment method, and characteristics such as institutional coach, two-year college or high school coach, and prospective or enrolled student-athlete.*
  - **Performed procedures without exception.**

#### Comprehensive Program

1. *Determine whether athletics department staff members and student-athletes who are employed by a camp or clinic not owned or operated by the institution are required to submit information about the camp/clinic and the conditions of their employment.*
  - **Please refer to finding F23-01 and F23-02 for additional detail.**

# UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS

## Appendix A

### For the Academic Year 2022-2023

2. *Verify that in basketball all coaches and non-coaching staff members with basketball specific responsibilities were employed only at their own institution's camp or clinic.*
  - **Please refer to finding F-23-02 for additional detail.**
3. *Determine in men's basketball, softball, and women's volleyball if the institution has a process in place for identifying a prospective student-athlete for the purpose of applying camps and clinic legislation (Bylaws 13.12.1.1.1)*

*Determine in basketball if the institution has a process in place for identifying recruited prospects for the purpose of applying camps and clinic legislation. (Bylaw 13.12.1.1.2)*

*Determine in football if the institution has a process in place for identifying recruited prospects for the purpose of applying camps and clinic legislation. (Bylaw 13.12.1.1.3)*

  - **Performed procedures without exception.**
4. *Verify that in football, men's basketball, and women's basketball an individual associated with the prospect was not employed in any athletics department non-coaching staff or in a strength and conditioning staff position during a two-year period before the prospect's anticipated enrollment and a two-year period after the prospect's actual enrollment. (Bylaws 11.4.2, 11.4.3, and 11.4.4)*
  - **Performed procedures without exception.**
5. *Review policies and procedures to ensure that institutional sports camps have a responsibility to report some fiscal information. Determine whether profit/loss or reconciliation statements were required and whether these forms were submitted.*
  - **Performed procedures without exception.**
6. *Determine whether certain forms are required to be submitted in a short period of time following the completion of a camp. Select a sample of all institutional camps, and determine whether these requirements were met.*
  - **Performed procedures without exception.**
7. *Verify that institutional camps and clinics are open to all entrants (limited only by number, age, grade level, and/or gender) except for senior prospects in football and currently enrolled student-athletes.*
  - **Please refer to finding F23-03 for additional detail.**
8. *Verify that institutional camps and clinics in basketball and football comply with mile radius location restrictions. (Bylaw 13.12.1.2)*
  - **Performed procedures without exception.**



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### For the Academic Year 2022-2023

9. *Select a sample of institutional camps and clinics and of student-athletes employed at the camps and clinics. (Bylaw 13.12.2.1)*
  - a. *Verify that student-athletes do not participate in organized practice activities other than during the institution's playing season in the sport.*
    - **Performed procedures without exception.**
  - b. *Verify that student-athletes are compensated from the camp or clinic general account, not from a coach's personal account.*
    - **Performed procedures without exception.**
  - c. *In cases where all employees do not receive travel expenses, verify that student-athletes received cash advances to cover travel expenses only if the advance did not exceed estimated expenses or his/her estimated employment earnings (whichever is less) and such benefit was available to all camp/clinic employees.*
    - **Performed procedures without exception.**
10. *Select a sample of camps and clinics that employ high school, preparatory school, or two-year college coaches or any other individual responsible for teaching or directing an activity in which a prospective student-athlete is involved at its camp or clinic. (Bylaw 13.12.2.2)*
  - a. *Verify individuals received compensation commensurate with the going rate for camp counselors/speakers of like teaching ability and camp experience.*
    - **Performed procedures without exception.**
  - b. *Verify individuals are not paid based on their reputation, contact with prospects, or the number of campers the coach sends to camp.*
    - **Performed procedures without exception.**
  - c. *Verify that for football, women's basketball, and men's basketball camps and clinics that no individuals associated with a recruited student-athlete (LAWP) are employed either on a paid or volunteer basis. (Bylaws 13.12.2.2.2, 13.12.2.2.3, 13.12.2.2.4, and 13.12.2.2.5)*
    - **Performed procedures without exception.**
14. *Select a sample of camps and clinics and review income and expenses, if available*
  - a. *Ascertain that any free or discounted admissions were documented and allowable in accordance with NCAA legislation. Verify that high school, preparatory school, and two-year college athletics award winners were not given free or reduced admission privileges to participate in an institutional camp or clinic by the institution, staff members, or representatives of the university's athletics interests.*
    - **Performed procedures without exception.**

# UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS

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### For the Academic Year 2022-2023

- b. *Compare the amount of income attributed to camp fees to the number of campers who actually attended and all properly documented discounts.*
  - **Performed procedures without exception.**
- c. *Verify that expenses for prospects to attend an institutional or privately owned camp or clinic were not paid for by a representative of the university's athletics interests.*
  - **Performed procedures without exception.**

#### Recruiting Off-Campus

##### Basic Programs – General Recruiting

1. *Identify all athletics department or other university personnel who have primary responsibility for supervising the university's compliance with NCAA legislation in this area. Determine whether these responsibilities are reflected in the individual's job description.*

*Also, identify the individual on the university's athletics compliance staff who has the responsibility for monitoring the university's efforts in these areas. Determine whether this responsibility is reflected in the individual's job description and in the staff's "who has what responsibility" chart.*

- **Performed procedures to identify compliance staff responsibilities and noted proper documentation within job descriptions to be used for other procedures below.**
2. *Identify all educational efforts on NCAA legislation undertaken by the athletics department to ensure that the appropriate involved individuals understand applicable NCAA legislation in this area.*
    - **Performed procedures to identify educational efforts on NCAA legislation undertaken by the athletics department in this area to be used for other procedures below.**
  3. *Review the means used to document off-campus recruiting activities by coaching staff members. Determine whether the applicable information is being submitted in a timely manner.*
    - **Performed procedures without exception.**
  4. *Determine whether the policies, procedures, and practices identified above are periodically evaluated to determine if they are functioning within NCAA standards.*
    - **Performed procedures without exception.**

# UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS

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### For the Academic Year 2022-2023

5. *Identify means by which prospect information on file within various offices of the university is updated at each office when additional information is received by one of the offices.*

- **Performed procedures without exception to be used for other procedures below.**

#### Basic Program – Permissible Recruiting

1. *Identify all institutional staff members who were authorized as off-campus recruiters during the previous academic year. Verify that each coach was provided rules education regarding the recruitment of prospective student-athletes prior to recruiting off campus. (Bylaws 11.5 and 13.1.2.1)*

- **Performed procedures without exception.**

#### Basic Program – Compliance Software

1. *Identify the compliance software/recruiting program utilized by each sport to track the number of contacts, evaluations, and telephone calls with each prospect. Determine if the software for that report can identify potential NCAA violations when information is loaded into the software.*

- **Performed procedures to identify the compliance software utilized by the University and noted the software can identify potential NCAA violations.**

2. *Determine and evaluate the means by which the compliance office identifies potential issues regarding NCAA off-campus recruiting legislation established by the software.*

- **Compared and agreed to university policies and procedures without exception.**

#### Comprehensive Program – Contactable Prospects

1. *Select a sample of teams and a sample of off-campus recruiting activities during a certain time period.*

- a. *Obtain the coaches' travel records for certain trips during this time period, including authorization, requests for travel advances, expenses reimbursement, receipts, and entertainment documentation.*

- **Performed procedures without exception.**

- b. *Determine whether institutional staff members submitted the appropriate documentation to the compliance office both prior to and following the trip, if applicable.*

- **Performed procedures without exception.**

- c. *Identify when these forms were submitted and whether the submission was in conformance with required institutional guidelines.*

- **Performed procedures without exception.**





# UNIVERSITY OF MAINE DEPARTMENT OF ATHLETICS

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4. *Identify for each sport the number of official visits provided that are countable in that sport's totals over the past year. Determine if the allowable number per NCAA legislation was exceeded in the sports that limit the number of visits. (Bylaw 13.6.2.3)*
  - **Performed procedures without exception to be used for other procedures below.**
5. *Verify that the institution has written departmental policies related to official visits that apply to prospective student-athletes, student hosts, coaches and other athletics administrators that are approved by the institution's president or chancellor and kept on file at the institution and conference office. The institution must have their policies reviewed by an outside entity once every four years. (Bylaw 13.6.1)*
  - **Compared and agreed to university policies and procedures without exception.**

#### Comprehensive Program

1. *Select a sample of teams and a sample of prospects who made official visits.*
  - a. *Verify that the visit did not occur prior to the permissible date for that sport.*
    - **Performed procedures without exception.**
  - b. *Verify the visit did not take place during a "dead" period in the prospect's sport.*
    - **Performed procedures without exception.**
  - c. *Verify for a high school or preparatory school prospect that the institution received the prospect's high school or college academic transcripts. (Bylaw 13.6.3) Verify that the prospect was registered with the NCAA Eligibility Center and was placed on the institution's institutional request list (IRL).*
    - **Performed procedures without exception.**
  - d. *Verify the visits lasted no more than 48 hours. (Bylaw 13.6.4)*
    - **Performed procedures without exception.**
  - e. *Obtain a copy of the forms submitted for the visit and compare with the institutional policy.*
    - **Please refer to general recommendation GR23-04 for more detail.**
2. *Determine the type of transportation used by the prospect to get to and from the campus on the official visit.*
  - a. *Verify payment was for a prospect's actual round-trip transportation costs. (Bylaw 13.5.2.1)*
    - **Performed procedures without exception.**



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### For the Academic Year 2022-2023

- e. *Verify that prospects paid the regular institutional rate for lodging if they stayed in an enrolled student-athlete's dorm room. (Bylaw 13.7.3.1.3)*
  - **Performed procedures without exception.**

#### Individuals associated with Prospects

##### Basic Program

1. *Identify all athletics department or other university personnel who have primary responsibility for supervising the university's compliance with NCAA legislation in this area. Determine whether these responsibilities are reflected in the individual's job description.*

*Also, identify the individual on the university's athletics compliance staff who has the responsibility for monitoring the university's efforts in these areas. Determine whether this responsibility is reflected in the individual's job description and in the staff's "who has what responsibility" chart.*

- **Performed procedures to identify compliance staff responsibilities and noted proper documentation within job descriptions.**
2. *Identify all activities undertaken by the athletics department (written policies, spot checking, etc.) to monitor whether compliance with NCAA legislation is occurring within this area.*
    - **Performed procedures to identify activities undertaken by the athletics department to monitor compliance with NCAA legislation within this area to be used for other procedures below.**

##### Comprehensive Program

1. *Verify that a review was undertaken prior to the hiring of any non-coaching, sport-specific staff members in the sports of football and basketball to ensure they are not considered an IAWP.*
  - **Performed procedures without exception.**



University of Maine System  
Board of Trustees

**AGENDA ITEM SUMMARY**

**NAME OF ITEM:** Audit Committee Fiscal Year 2024 Work Plan

**INITIATED BY:** Michael H. Michaud, Chair

**BOARD INFORMATION:** X

**BOARD ACTION:**

**BOARD POLICY:**

Bylaws – Section 3

**UNIFIED ACCREDITATION CONNECTION:**

N/A

**BACKGROUND:**

Board Committees annually review their Work Plans, which provide an overview of the agendas for the Committee for the fiscal year. The Audit Committee's Fiscal Year 2024 Work Plan is presented for your information. This Plan will also be included in the November 5-6, 2023 Board of Trustees meeting materials as an information item.

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

[Attachment](#)

[Audit Committee Work Plan](#)

[Audit Committee Duties & Responsibilities](#)

University of Maine System  
Board of Trustees

**Audit Committee  
Work Plan FY2024**

**Late October Meeting Agenda:**

1. UM Department of Athletics Agreed-Upon Procedures Report
2. Presentation of the Annual Financial Report (audited financial statements)
3. External auditor report including required communications letter, executive summary of financial statement audit results, and discussion of emerging accounting issues

**May Meeting Agenda:**

1. Review Single Audit Report
2. External auditor summary of federal compliance Single Audit results
3. External auditor discussion of required communications, audit planning for the next fiscal year, and emerging accounting issues
4. UM Department of Athletics Agreed-Upon Procedures Report

*Other meetings and agenda items scheduled as needed.*

University of Maine System  
Board of Trustees

**Audit Committee**  
Duties and Responsibilities

Committee established: July 1988  
Last Revised: 7/11/1988; 10/21/2008; 8/23/2010; 5/23/2011  
Approved by the Board of Trustees: 5/23/2011; 9/23/2013

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

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Committee Authority

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Bylaws – Section 3

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

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

## Audit Committee Duties and Responsibilities Continued

2

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

#### Membership of the Committee

---

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

#### Meetings

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

#### Staff to the Committee

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

University of Maine System  
Board of Trustees

**AGENDA ITEM SUMMARY**

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

**INITIATED BY:** Michael H. Michaud, Chair

**BOARD INFORMATION:** X

**BOARD ACTION:**

**BOARD POLICY:**

Bylaws – Section 3

**UNIFIED ACCREDITATION CONNECTION:**

N/A

**BACKGROUND:**

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

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

10/17/2023

University of Maine System  
Board of Trustees

## **AGENDA ITEM SUMMARY**

**NAME OF ITEM:** Annual Financial Report – Fiscal Year 2023

**INITIATED BY:** Michael H. Michaud, Chair

**BOARD INFORMATION:**

**BOARD ACTION:** X

**BOARD POLICY:**

Bylaws – Section 3

**UNIFIED ACCREDITATION CONNECTION:**

N/A

**BACKGROUND:**

The University of Maine System's (UMS) fiscal year 2023 (FY2023) draft Annual Financial Report is presented for the Audit Committee's review. The report is currently pending final review by the UMS external auditors. Darla Reynolds, UMS Director of Accounting, will provide an overview of the results at the October 27, 2023 Audit Committee meeting.

As shown on page 43 of the Annual Financial Report, the UMS ended FY23 with *Loss Before Other Changes in Net Position* of \$23 million and *Total Other Changes in Net Position* of \$54 million, for a *Change in Net Position* for FY2023 of \$31 million.

As shown on page 41, *Total Net Position* at June 30, 2023 was \$1 billion increasing \$31 million from FY2022. Changes in each *Net Position* category were:

<b>Net Position Category:</b>	<b>FY2023 <u>Increase</u> <u>(Decrease)</u></b>
<i>Net Investment in Capital Assets</i>	\$45 million
<i>Restricted Nonexpendable</i>	\$1 million
<i>Restricted Expendable</i>	\$5 million
<i>Unrestricted</i>	<u>(\$20) million</u>
<b><i>Change in Net Position</i></b>	<b><u>\$31 million</u></b>

**TEXT OF PROPOSED RESOLUTION:**

That the Audit Committee, forwards this item to the October 27, 2023 Special Board of Trustees meeting for approval of the following resolution:

That the Board of Trustees accepts the recommendation of the Audit Committee and approves the FY2023 Annual Financial Report as presented.

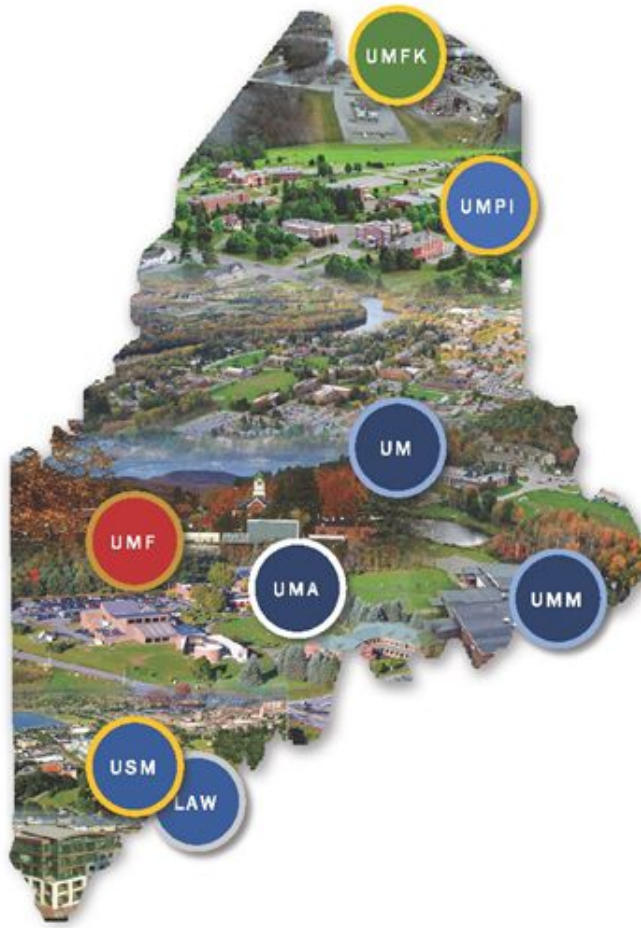
Attachments

[Draft FY2023 Annual Financial Report](#)

## Discussion of Annual Financial Report

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# 2023 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  
65 Texas Ave  
Bangor ME 04401



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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, 5703 Alumni Hall, University of Maine, Orono, ME 04469, 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 12, 2023

As we navigate through another year of opportunities and challenges, I want to provide you with an overview of how the University of Maine System (UMS), with its seven campuses and Law School, continues to uphold its tripartite mission of education, research, and public service through Fiscal Year 23.

The recent years have witnessed unprecedented shifts in the higher education landscape, primarily attributable to the global pandemic. Additionally, within the State of Maine, we have encountered distinct challenges stemming from changing demographics. While these challenges have tested our resilience, they have also propelled us to rethink and improve how learners access their education, the quality of those educational experiences, and develop strategies for involving students throughout their entire educational career.

In line with national trends, we have observed a slight decline in enrollments of first-time full-time students. However, we have proactively responded to the demographic and economic conditions influencing these enrollments and have seen growth in areas such as graduate studies, online education, and competency-based programming. Recognizing the value of seamless educational transitions, we are committed to creating more robust pathways for high school students and community college graduates into our degree programs. This not only facilitates their entry into higher education but also ensures the alignment of our programs with the needs of our local communities. Our commitment to global engagement remains strong. We have continued to attract and support international students, fostering diversity and a global perspective within our campuses. Finally, we have intensified our outreach to adult learners and working professionals, recognizing the importance of lifelong learning, and providing opportunities for career advancement and personal growth.

As we continue to implement these initiatives, we are mindful of the financial implications. In May 2023, the University of Maine System Board of Trustees approved the first system-wide strategic plan in over two decades. This working plan will ensure that our budgetary decisions align with our mission-driven commitments and will be a roadmap to sustainable futures for our universities and law school. Further, our unified accreditation allows us to collaborate and share resources in new and innovative ways to meet the demands of our learners more efficiently. At the heart of each decision is the student experience and providing access to quality education, research and innovation, and workforce development to the residents of Maine and beyond.

We acknowledge that we cannot accomplish this work alone, so we remain committed to nurturing robust partnerships and actively seeking fundraising opportunities to support our mission. We continue to make significant progress on UMS TRANSFORMS, the initiative made possible by the historic \$240 million investment from the Harold Alfond Foundation that focuses on the transformational change of student success and retention, athletics programs and facilities, the creation of a multi-university College of Engineering, Computing and Information Science, and expansion of the Maine Graduate and Professional Center.

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We have been fortunate to receive an additional \$52.8 million in Congressionally Directed Spending, appropriated for the benefit of UMS including an additional \$8 million for UM's Factory of the Future. Other significant initiatives being funded are \$8 million in funding for a PFAS Research Center and related laboratory equipment, \$7 million to support the establishment of three Manufacturing Training Innovation Centers across Maine, \$6.1 million supporting tick and tick-borne pathogen surveillance and risk communication, \$4.5 million toward nursing education facilities and equipment across UMS.

Federal earmarks such as these, State funding from Governor Mill's administration, the generous Alford gift, numerous other philanthropic gifts, and public-private partnerships are enabling the critical investments needed in our capital infrastructure. Our planning includes long deferred infrastructure investments required to attract and retain students from Maine and beyond.

The world around us is evolving rapidly, and we are proud of how our System has responded to these new realities and challenges. By fostering a unified environment of collaboration among our campuses and leveraging our collective resources, we have been able to adapt swiftly and effectively. As we continue to navigate the dynamic higher education environment, our commitment to stewardship and providing fiscal responsibility and transparency remains steadfast. We are unwavering in our dedication to maintaining the affordability and accessibility of public higher education for Maine families.

Warm regards,



Dannel P. Malloy  
Chancellor

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**UNIVERSITY OF MAINE SYSTEM  
BOARD OF TRUSTEES AND MANAGEMENT  
AS OF JUNE 30, 2023**

**BOARD OF TRUSTEES:**

Barbara R. Alexander  
Emily A. Cain  
Beth Dobson  
Lisa Marchese Eames, *Vice Chair*  
Patrick S.A. Flood  
Roger J. Katz  
Valerie Landry  
Donna M. Loring  
David M. MacMahon  
Kelly A. Martin  
Owen McCarthy  
Michael H. Michaud  
John Moore  
Patricia (Trish) A. Riley, *Chair*  
Dhivya Singaram  
A. Pender Makin, *ex officio*

**CHANCELLOR:**

Dannel P. Malloy

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

**Joan Ferrini-Mundy**  
*University of Maine and  
University of Maine at Machias*  
**Joseph Szakas**  
*University of Maine at Augusta*  
**Joseph McDonnell**  
*University of Maine at Farmington*  
**Deborah Hedeon**  
*University of Maine at Fort Kent*  
**Raymond J. Rice**  
*University of Maine at Presque Isle*  
**Jacqueline Edmondson**  
*University of Southern Maine*  
**Leigh I. Saufley**  
*University of Maine School of Law*

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

**Gretchen Catlin**  
*Chief Facilities and General Services Officer*  
**Paul Chan**  
*General Counsel*  
**David M. Demers**  
*Chief Information Officer*  
**Carolyn Dorsey**  
*Acting Vice Chancellor for Strategic Initiatives*  
**Tracy E. Elliott**  
*Vice President of Finance and Controller*  
**Joan Ferrini-Mundy**  
*Vice Chancellor for Research and Innovation*  
**Kayla Flewelling**  
*Interim Clerk of the Board*  
**Kim-Marie Jenkins**  
*Director of Organizational Effectiveness*  
**Ryan W. Low**  
*Vice Chancellor for Finance and Administration and Treasurer*  
**Rosa S. Redonnett**  
*Associate Vice Chancellor for Student Success and Credential  
Attainment*  
**Judy Ryan**  
*Interim Chief Human Resources Officer*  
**Tory Ryden**  
*Senior Advisor and Director of External Affairs*  
**Jeffrey St. John**  
*Vice Chancellor for Academic and Student Affairs*  
**Samantha C. Warren**  
*Director of Government and Community Relations*  
**Miriam A. White**  
*Vice President of Budget and Financial Analysis*

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
University of Maine System  
Orono, Maine

### Report on the Audit of the Financial Statements

#### **Opinions**

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, 2023 and 2022 for the business-type activities and the aggregate remaining fund information, and as of and for the year ended and six month period ended December 31, 2022 and December 31, 2021, respectively, for the discretely presented component unit, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

In our opinion, based on our audits and the reports of 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, 2023 and 2022 for the business-type activity and the aggregate remaining fund information, and as of December 31, 2022 and 2021 for the discretely presented component unit, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended for the business-type activities and the aggregate remaining fund information, and the year and six month period then ended for the discretely presented component unit, in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the discretely presented component unit which statements represent 100% of asset, net assets and revenues of the discretely presented component unit as of and for the year ended December 31, 2022, and as of and for the six months ended June 30, 2021. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the reports of the other auditor.

#### **Basis for Opinions**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions. The financial statements of

the discretely presented component unit, the University of Maine Foundation (Foundation), were not audited in accordance with *Government Auditing Standards*.

### ***Emphasis of Matter***

As discussed in Note 1 to the financial statements, the System implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 94, *Public-Public Partnerships & Public-Private Partnerships and Availability Payment Arrangements*, and GASB Statement No. 96 *Subscription-Based Information Technology Arrangements*, for the year ended June 30, 2023, which represent changes in accounting principles. The System's June 30, 2022 statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows were restated to reflect the impact of adoption. A summary of the restatement is presented in Note 1. Our opinions are not modified with respect to this matter.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audits 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 System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control related matters that we identified during the audits.

#### ***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 on the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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 audits 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.

#### ***Supplementary Information***

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The supplemental information required by the state of Maine is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplemental schedule 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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### ***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the Chancellor's Letter and schedule of the Board of Trustees and Management, as listed in the table of contents, but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If,

based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

### ***Other Reporting Required by Government Auditing Standards***

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

CliftonLarsonAllen LLP

Quincy, Massachusetts  
REPORT DATE

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**UNIVERSITY OF MAINE SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2023 AND 2022 (UNAUDITED)**

The Management's Discussion and Analysis (MD&A) provides a broad overview of the University of Maine System's ("the System" or UMS) financial condition as of June 30, 2023 and 2022, 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, an additional 31 course sites, and Cooperative Extension. The System carries out the traditional tripartite mission – teaching, research, and public service. A major resource for the State, the System drives economic development by conducting world-class research, commercializing valuable ideas, and partnering successfully with businesses and industries throughout Maine and beyond.

**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 1,169 regular full-time faculty, 36 regular part-time faculty, 3,140 regular full-time staff, and 187 regular part-time staff members.

The System offers rich academic programs, including 258 bachelor's, 106 master's, and 38 doctoral or juris doctorate degrees. The largest program areas are Biological and Biomedical Sciences, Health Professions, Computer and Information Sciences, Business, Engineering, Education, Liberal Arts, and the Humanities.

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

- **The University of Maine (UM)** is the state's land and sea grant institution and the flagship campus of the University of Maine System. UM advances learning and discovery through excellence and innovation in undergraduate and graduate academic programs while addressing the complex challenges and opportunities of the 21st century through research-based knowledge. Internationally recognized research, scholarship, and creative activity distinguish UM as the State's flagship university.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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- **The University of Maine at Augusta (UMA)** transforms the lives of students of every age and background, across Maine and beyond, through access to high-quality distance and on-site education, excellent student support and civic engagement, and innovative professional and liberal arts programs. With its multiple locations and long-term expertise in online and distance learning, UMA is generally considered the university of choice for Mainers of all ages who want to attend college without uprooting their lives.
- **The University of Maine at Farmington (UMF)** is a premier teacher education and public liberal arts college, which prepares students for engaged citizenship, enriching professional careers, and an enduring love of learning. Since 1864, UMF has consistently been rooted in a vigorous tradition of education in service to the public interest.
- **The University of Maine at Fort Kent (UMFK)** is a career-focused university located on the northernmost border of Maine, offering relevant, experiential, academic programs and services with personalized attention.
- **The University of Maine at Machias (UMM)**, UM's regional campus, is Maine's Coastal University. UMM's distinctive, high quality education centers on engaging students in the scientific, cultural, economic and social inquiry prompted by Maine's Bold Coast region. Inspired by its location, UMM's creative energy, applied research, and community engagement enhance the social, cultural, economic, and natural environments of the State of Maine.
- **The University of Maine at Presque Isle (UMPI)** is fiercely dedicated to delivering opportunity for all and builds its success on an ethic of care inspiring learners from near and far, of all ages and career stages. UMPI differentiates itself by providing an Ethic of Care for each and every student, faculty, staff, and administrator. UMPI embraces collaborations with peers, communities, and fellow institutions, allowing it to provide students with outstanding education focused on practical and authentic learning experiences.
- **The University of Southern Maine (USM)** advances a culture of inquiry and belonging in which research, creativity, and innovation accelerate transformational development in our students, on our campuses, and in our communities. At USM, academic excellence finds expression in the four pillars of our academic vision: focus on relationships, future-forward curriculum, the integration of learning and work, and a mission of service and citizenship.
- **The University of Maine School of Law (Maine Law)**, is the State's public and only law school, a vital resource serving our local, regional, national, and global community. Maine Law is committed to providing an accessible and affordable student-focused program of legal education and achieving the highest standards of ethical behavior. Its rigorous doctrinal and experiential curriculum, influential scholarship, and signature programming prepare students to practice law, promote respect for the rule of law, and advance justice for all members of society.

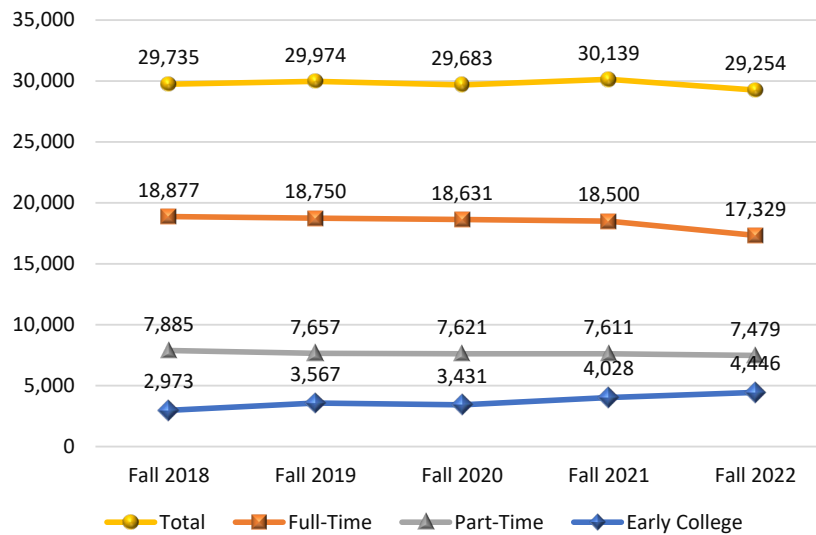
## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**Student Enrollment**

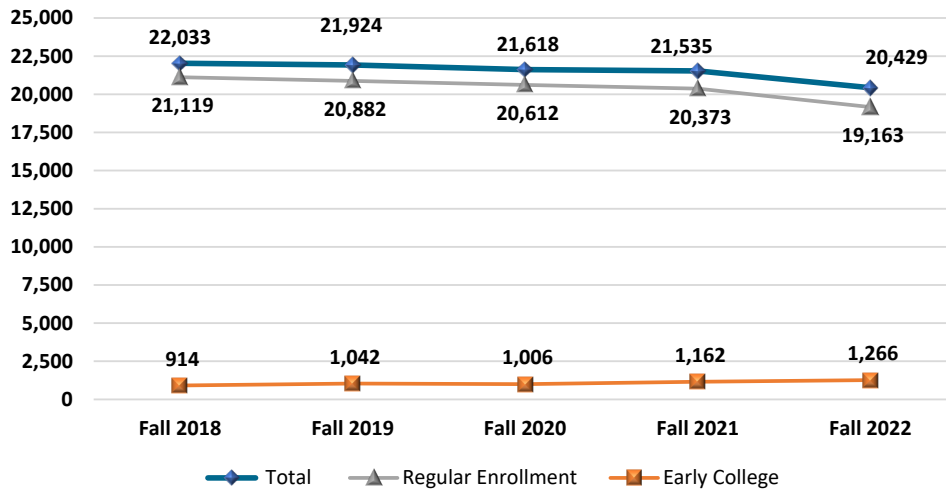
Chart 1 shows student enrollment, including early college, on a headcount basis with 29,254 students enrolled for the fall 2022 semester, down 2.9% from fall 2021 and down 1.6% since fall 2018. For fall 2022, 59% of the student population were enrolled full-time, down from 61% in fall 2021.

**Chart 1: Student Enrollment by Headcount**

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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Chart 2 and Table 1 show student enrollment, including early college, on a full-time equivalent (FTE) basis with 20,429 FTE students enrolled for the fall 2022 semester, down 5.1% from fall 2021 and down 7.3% from fall 2018. For fall 2022 and 2021, 71% of FTE enrollments were from Maine residents.

**4.1****Chart 2: Student FTE Enrollment****Table 1: Student FTE Enrollment**

	% Change			% Change			% Change			% Change	
	Fall 2018	Fall	%	Fall	%	Fall	%	Fall	%	Fall	%
	to 2022	2022	Change	2021	Change	2020	Change	2019	Change	2018	Change
UM	-3.6%	9,399	-5.3%	9,926	1.6%	9,773	-0.1%	9,782	0.3%	9,750	0.3%
UMA	1.1%	2,272	-3.6%	2,358	2.3%	2,304	-1.3%	2,335	3.9%	2,247	3.6%
UMF	-20.2%	1,309	-8.9%	1,437	-4.8%	1,510	-4.4%	1,579	-3.8%	1,641	-4.8%
UMFK	-40.6%	567	-21.1%	718	-11.6%	812	-3.6%	842	-11.7%	954	0.4%
UMM	-15.5%	359	-5.7%	381	-4.2%	397	-1.5%	403	-5.2%	425	-6.0%
UMPI	17.8%	1,099	5.8%	1,038	9.9%	945	9.9%	860	-7.8%	933	3.3%
USM	-11.3%	5,174	-4.7%	5,428	0.2%	5,633	-2.6%	5,879	-1.2%	5,836	2.0%
Law	1.2%	250	0.6%	249	2.2%	244	0.0%	244	-1.1%	247	7.9%
<b>Total</b>	<b>-7.3%</b>	<b>20,429</b>	<b>-5.1%</b>	<b>21,535</b>	<b>-0.4%</b>	<b>21,618</b>	<b>0.1%</b>	<b>21,924</b>	<b>-1.0%</b>	<b>22,033</b>	<b>0.7%</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

**DRAFT****4.1****Student Comprehensive Cost of Education**

Net student fee revenue, totaling \$251 million in FY23 and \$263 million in FY22, is the System's greatest source of revenue, contributing 32% of total operating and net nonoperating revenues for FY23. Net student fees represented 33% of the total operating and net nonoperating revenues for FY22. 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. The percentage changes for the comprehensive cost of education in FY23 range from an increase of 1.5% for NEBHE and Canadian law students to an increase of 4.2% for NEBHE undergraduate and out-of-state law students. Percentage changes in FY22 ranged from an increase of 3.6% for in-state, out-of-state and Canadian undergraduate students to an increase of 6.7% for in-state law students.

The FY23 in-state undergraduate tuition remained flat with FY22. The overall average comprehensive cost of education for this same category of students increased 3.2%. While the UMS did not increase in-state undergraduate tuition in FY22, UM and UMM consolidated most student fees into a single tuition charge resulting in a neutral impact to students' bills, which were thereby simplified. This change appears to increase UM's and UMM's annual tuition rate; however, it is simply due to the shift in where fees are reflected. The overall average comprehensive cost of education for this same category of students increased 3.6%.

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

	2023		2022		2021		2020		2019	
	Cost	% Change	Cost	% Change	Cost	% Change	Cost	% Change	Cost	% Change
<b>Undergraduate:</b>										
In-State	\$20,183	3.2%	\$19,548	3.6%	\$18,877	3.0%	\$18,321	2.8%	\$17,819	1.7%
Out-of-State	31,395	3.3%	30,399	3.6%	29,337	3.2%	28,425	2.2%	27,809	0.4%
NEBHE	26,175	4.2%	25,109	4.7%	23,979	3.2%	23,229	2.8%	22,593	2.6%
Canadian	20,183	3.2%	19,548	3.6%	18,877	-18.7%	23,229	2.8%	22,593	2.5%
<b>Graduate:</b>										
In-State	\$20,095	2.9%	\$19,524	4.5%	\$18,683	2.4%	\$18,238	0.9%	\$18,081	3.3%
Out-of-State	29,266	2.8%	28,470	4.5%	27,251	-8.9%	29,902	2.0%	29,313	3.1%
NEBHE	26,458	3.3%	25,604	6.3%	24,097	2.2%	23,578	2.6%	22,983	2.8%
Canadian	20,095	2.9%	19,524	3.9%	18,787	-20.3%	23,578	2.6%	22,983	2.8%
<b>Law School:</b>										
In-State	\$36,218	1.9%	\$35,555	6.7%	\$33,310	0.9%	\$33,005	0.8%	\$32,740	0.9%
Out-of-State	49,028	4.2%	47,045	5.0%	44,800	0.7%	44,495	1.6%	43,810	0.6%
NEBHE/Canadian	44,678	1.5%	44,015	5.4%	41,770	0.7%	41,465	1.5%	40,870	0.7%

*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'. The In-State Graduate 2020 cost differs from FY2022's*

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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*MD&A due to restated amounts included in the System report titled, 'Student Charges FY2020' which was revised February 2023.*

**4.1****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

**Fiduciary Funds Financial Statements**

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

The fiduciary funds financial statements are comprised of the following:

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

**Notes to the Financial Statements**

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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4.1

**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 FY22 financial statements have been restated to reflect adoption of GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* and GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The overall impact on the FY22 data in the Condensed Statements of Net Position is that:

- Other current assets decreased \$1 million
- Capital assets, net increased \$15 million
- Obligations for right of use assets increased \$18 million
- Deferred inflows of resources decreased \$4 million

**Postemployment Health Plan Considerations**

The System's Other Postemployment Benefits (OPEB) plan's impact on the FY23 Statement of Net Position is primarily due to differences between expected and actual experience including impacts of the Supplemental Retirement Incentive program and changes in the medical trend rate assumption.

For reporting in the System's Condensed Statements of Net Position, the total OPEB liability/asset is netted with the OPEB Trust assets. At June 30, 2023, the System had a net OPEB asset of \$21 million compared with a net OPEB liability of \$18 million at June 30, 2022.

Other lines of the Condensed Statements of Net Position that were significantly adjusted by the FY23 actuarial results include the following:

- Deferred outflows of resources associated with the OPEB plan decreased \$12 million.
- Deferred inflows of resources associated with the OPEB plan increased \$21 million.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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4.1

**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 payable within the next year. Total assets and deferred outflows of resources of \$1.5 billion at June 30, 2023, increased \$117 million, or 8% over the prior year.

The major component of current assets is operating investments, which totaled \$259 million at June 30, 2023 and \$307 million at June 30, 2022. Noncurrent assets consist mainly of endowment investments and capital assets, net of depreciation and amortization. Endowment investments totaled \$150 million at June 30, 2023, an increase of \$9 million, or 6%, from the FY22 year-end balance of \$141 million, and a \$16 million, or 10%, decrease from FY21. Capital assets, net of accumulated depreciation and amortization totaled \$935 million and \$813 million at June 30, 2023 and 2022, respectively.

Current liabilities of \$120 million and \$174 million at June 30, 2023 and 2022, 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 \$349 million, total noncurrent liabilities increased \$118 million, or 51%, from June 30, 2022 to 2023. This increase is primarily the result of a \$121 million increase in long-term debt. For FY22 and FY21, the System had total noncurrent liabilities of \$231 million and \$239 million respectively, with the change attributable to a \$34 million increase in obligations for right of use assets, a decrease in long-term debt of \$57 million and an increase of \$15 million in other noncurrent liabilities.

Total net position at June 30, 2023 of \$1 billion increased \$31 million, or 3%, from the June 30, 2022 balance, which increased \$26 million, or 3%, from the June 30, 2021 balance. Additional information about net position is presented on page 25.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

	2023	% Change	Restated 2022	% Change	2021	2020	2019
<b>Current Assets</b>							
Operating Investments	\$ 259	-16%	\$ 307	7%	\$ 286	\$ 264	\$ 248
Other	90	15%	78	-7%	84	65	75
<b>Noncurrent Assets</b>							
Endowment investments	150	6%	141	-15%	166	135	138
Capital assets, net	935	15%	813	16%	701	683	685
Other	73	103%	36	-59%	88	44	48
<b>Total Assets</b>	<b>1,507</b>	<b>10%</b>	<b>1,375</b>	<b>4%</b>	<b>1,325</b>	<b>1,191</b>	<b>1,194</b>
<b>Deferred Outflows of Resources</b>	<b>17</b>	<b>-47%</b>	<b>32</b>	<b>78%</b>	<b>18</b>	<b>31</b>	<b>22</b>
<b>Total Assets and Deferred Outflows</b>	<b>\$ 1,524</b>	<b>8%</b>	<b>\$ 1,407</b>	<b>5%</b>	<b>\$ 1,343</b>	<b>\$ 1,222</b>	<b>\$ 1,216</b>
<b>Current Liabilities</b>							
Obligations for right of use assets - current portion	\$ 6	0%	\$ 6	500%	\$ 1	\$ -	\$ -
Long-term debt - current portion	20	-64%	56	300%	14	14	15
Other	94	-16%	112	35%	83	59	59
<b>Noncurrent Liabilities</b>							
Obligations for right of use assets	66	40%	47	262%	13	-	-
Long-term debt	217	126%	96	-37%	153	124	135
Other	66	-25%	88	21%	73	156	145
<b>Total Liabilities</b>	<b>469</b>	<b>16%</b>	<b>405</b>	<b>20%</b>	<b>337</b>	<b>353</b>	<b>354</b>
<b>Deferred Inflows of Resources</b>	<b>54</b>	<b>64%</b>	<b>33</b>	<b>-47%</b>	<b>62</b>	<b>37</b>	<b>44</b>
<b>Total Liabilities and Deferred Inflows</b>	<b>523</b>	<b>19%</b>	<b>438</b>	<b>10%</b>	<b>399</b>	<b>390</b>	<b>398</b>
Net investment in capital assets	635	8%	589	7%	549	547	542
Restricted Nonexpendable	72	1%	71	3%	69	67	66
Restricted Expendable	152	3%	147	2%	144	115	116
Unrestricted	142	-12%	162	-11%	182	103	94
<b>Total Net Position</b>	<b>1,001</b>	<b>3%</b>	<b>969</b>	<b>3%</b>	<b>944</b>	<b>832</b>	<b>818</b>
<b>Total Liabilities, Deferred Inflows and Net Position</b>	<b>\$ 1,524</b>	<b>8%</b>	<b>\$ 1,407</b>	<b>5%</b>	<b>\$ 1,343</b>	<b>\$ 1,222</b>	<b>\$ 1,216</b>

**4.1**

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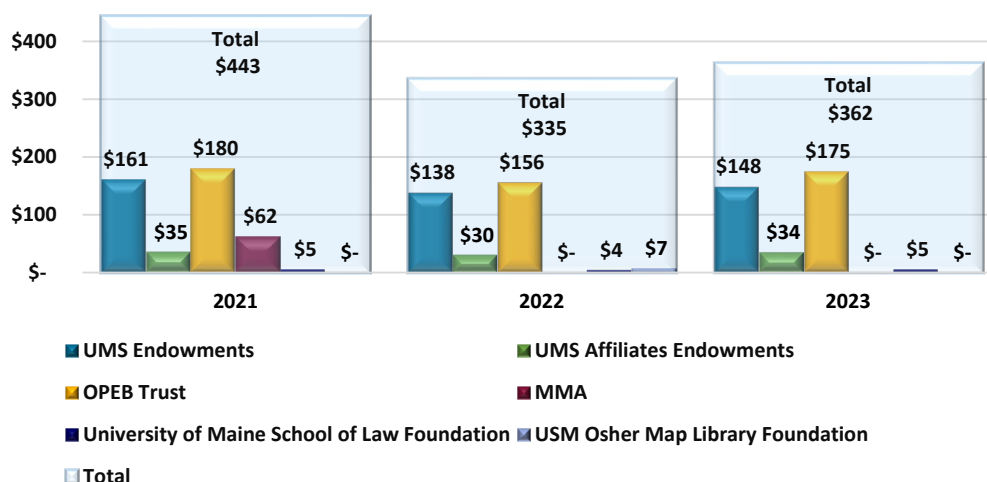
4.1

**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) [redeemed in spring 2022], USM Osher Map Library Foundation [redeemed in spring 2023], and the University of Maine School of Law Foundation.

Chart 3 shows the June 30, 2021, 2022 and 2023 fair values of the MIP investments, including the amounts held on behalf of each entity.

**Chart 3: Fair Value of MIP Investments by Entity**  
(In millions)



'UMS Endowments' noted in Chart 3 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 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'.

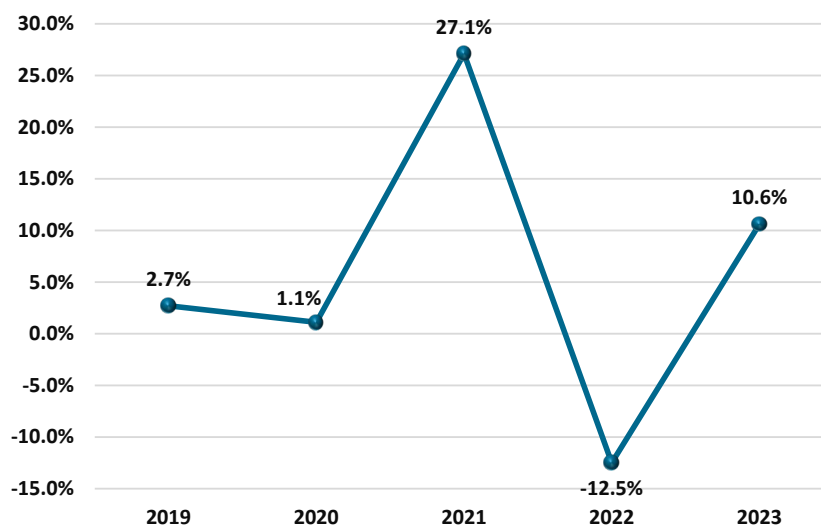
## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

**DRAFT****4.1**

The MIP investments are diversified among a number of asset classes to minimize risk while optimizing return. The percentage of holdings in each asset class for the past 5 years is summarized below.

	2023	2022	2021	2020	2019
Domestic Equities	30%	29%	29%	24%	30%
International Equities	18%	16%	21%	22%	25%
Global Equities	10%	9%	10%	9%	0%
Fixed Income	26%	28%	25%	22%	23%
Global Asset Allocation	7%	8%	7%	14%	15%
Hedge Funds	7%	9%	7%	6%	6%
Private Equity	1%	1%	1%	1%	1%
Cash	1%	0%	0%	2%	0%
	100%	100%	100%	100%	100%

As shown in Chart 4, in FY23 the MIP realized a net of fees return of 10.6%, up from a loss of (12.5)% in FY22. The pooled investments have a 5-year annualized net of fees return of 5.8%.

**Chart 4: Total Return (Net of Fees)**

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**Endowments (Including Affiliates)**

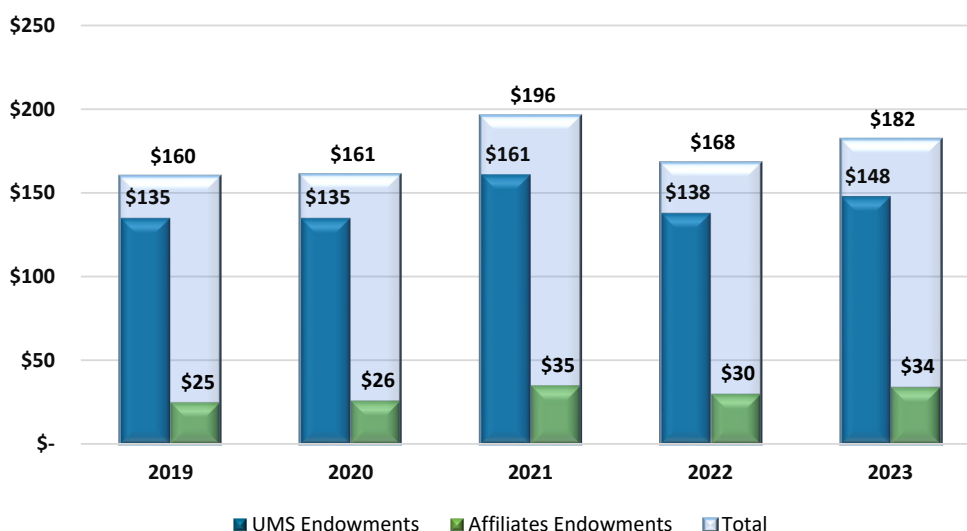
Endowments are generally created from donor gifts or bequests with the funds invested to create present and future income with the original amount of the gift (corpus) retained in perpetuity and are considered restricted non-expendable. If the donor established criteria to determine how the expendable 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 5, the UMS and its affiliates' share of these pooled endowment investments had a fair value of \$182 million at June 30, 2023, an increase of \$14 million from the prior year. This included an increase of \$18 million in positive net performance less \$7 million distributed for scholarships and other operating activities offset by contributions of \$3 million.

The pool's June 30, 2022 fair value of \$168 million had decreased \$28 million from the 2021 year-end fair value of \$196 million. This included a decrease of \$26 million from negative net performance less \$7 million distributed for scholarships and other operating activities, offset by contributions of \$5 million.

**Chart 5: Fair Values of UMS and Affiliates Pooled Endowments**  
(In millions)



## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

**DRAFT****4.1**

Of the \$182 million in pooled endowment investments, at June 30, 2023, \$148 million are UMS Endowments and \$34 million are Affiliates Endowments. The fair value of the UMS Endowments is reported as 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'.

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 FY23 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, 2023 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 FY23, the System had capital asset additions of \$176 million, which included \$143 million of construction in progress, \$24 million of right of use building assets, \$7 million of equipment, and \$2 million of subscription based IT arrangements. In FY22, the System had capital asset additions of \$145 million, which included \$114 million of construction in progress, \$22 million of right of use building assets, \$5 million of equipment, and \$4 million of subscription based IT arrangements.

The System strives to manage all its financial resources effectively, including the prudent use of debt to finance construction projects that support the System's mission. The System issued new revenue bonds twice in FY23 with a total par amount of \$157.8 million to pay off the 2021 bond anticipation notes, to refund 2013 revenue bonds, and to finance additional capital projects. The System also borrowed \$11 million through a lease purchase agreement to fund an energy improvement project at UMF.

The System's total outstanding debt as of June 30, 2023 was \$237 million, an increase of \$85 million, or 56%, from the FY22 total debt of \$152 million. In FY22, total debt decreased \$15 million, or 9%, from the FY21 total debt of \$167 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

**DRAFT****Table 4: Major Capital Projects Completed During FY23 or In Progress at June 30, 2023  
(In millions)****4.1**

Project	Funding Source	Status	BOT Approved Budget
<b>UMA</b>			
•Randall Welcome Center	2018 State Bond	Complete	2.10
•Handley Hall HVAC System Upgrade	2018 State Bond, Educational & General	In Progress	1.20
•Katz Library HVAC Repairs	HEERF	In Progress	1.34
•Medical Laboratory Technology	Internal Loan, Education & General	In Progress	2.00
•Camden Hall Vet Tech	Internal Loan, Education & General	In Progress	1.60
<b>UMF</b>			
•274 Front St Renovation	2018 State Bond, MJRP, Grant, Federal Earmark	In Progress	3.10
•Fitness & Recreation Center Façade Replacement	2018 State Bond	In Progress	0.90
•Campus ESCO	BOA LPA, 2018 State Bond, Educational & General	In Progress	11.70
<b>UMFK</b>			
•Enrollment/Advancement Center	2018 State Bond, Educational & General	In Progress	3.25
<b>UM</b>			
•Darling Marine Center Waterfront Infrastructure	Grants, Educational & General	Complete	5.50
•Ferland Engineering Education and Design Center	Educational & General, Gifts, 2022 Revenue Bond	In Progress	78.00
•Energy Center Phase 2	Educational & General, 2022 Revenue Bond, Grant	In Progress	5.70
•ASCC Renovation - Mezzanine Office Expansion	Educational & General, Grants	Complete	1.40
•Neville Hall Renovations	2018 State Bond	In Progress	1.50
•ASCC Green Engineering & Materials (GEM) Lab	Educational & General	In Progress	15.30
•ASCC Secure Clean Lab Suite	Grants	In Progress	2.50
•Steampit line SA10	Educational & General	In Progress	0.64
•HVAC Systems & Controls Upgrades	Educational & General	In Progress	10.00
•UM Priority 1 Athletic Fields	Gifts and HAF Grant	In Progress	33.00
•UM Adaptive Reuse Project/Historic P3	Educational & General	In Progress	3.00
•UM Athletic Phase 2 Projects	HAF, Internal Loan	In Progress	5.00
•Relocation of Dairy Operations	Educational & General	In Progress	0.80
•Boudreau Hall Renovation	Gifts	In Progress	0.70
•Mahaney Dome Replacement	Educational & General	In Progress	3.00
<b>USM</b>			
•Center for the Arts	Gifts	In Progress	63.00
•Center for Teaching Innovations	2018 State Bond, Gifts	In Progress	0.93
•Career and Student Success Center	2018 State Bond, 2022 Revenue Bond, 2023 Revenue Bond, Educational & General, and Gifts	In Progress	26.60
•Portland Residence Hall	2022 Revenue Bond, 2023 Revenue Bond, Educational & General	In Progress	74.00
•Bailey Hall Fire Protection and Electrical Upgrades	2018 State Bond, Educational & General	In Progress	4.39
•Portland Parking Garage	Educational & General	In Progress	23.50
•Fitness Equipment Purchase and Space Renovation	Educational & General	In Progress	0.77
•Steam Line	Educational & General	Complete	0.60
•Dubyak Center	2018 State Bond, MJRP	In Progress	2.50
•Relocation of Deering Farmhouse	Educational & General	In Progress	2.00
•Hannaford Field turf Replacement	Educational & General	In Progress	0.90
•Inter-Professional Education Lab	Gifts	In Progress	0.98
<b>UMPI</b>			
•Folsom 105 Nursing Renovation	2018 State Bond	Complete	0.76
•Wieden Renovation	2018 State Bond and Grants	In Progress	7.70
•Solar Array	Education & General	Complete	1.14
•Park Hall Improvements	State Appropriation	In Progress	0.66
•Emerson Hall Improvements	State Appropriation	In Progress	0.92
<b>UMS</b>			
•300 Fore St. Portland Renovation	Education & General, Gifts, Grants	In Progress	13.83
•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>			<b>\$ 439.41</b>

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**Deferred Outflows and Inflows of Resources**

The System's deferred outflows and deferred inflows of resources primarily relate to the System's defined benefit pension plans and its other postemployment health plan (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, 2023 deferred outflows of resources totaled \$17 million, a decrease of \$15 million from the prior year balance of \$32 million. The decrease is primarily due to a decrease of \$12 million related to OPEB. In FY22, the System's deferred outflows of resources increased \$14 million from the June 30, 2021 balance of \$18 million, due to a \$14 million increase also related to OPEB.

Deferred inflows of resources of \$54 million at June 30, 2023 increased \$21 million from the \$33 million at June 30, 2022. The increase is primarily due to an increase of \$21 million related to the System's OPEB plan. In FY22, the System's deferred inflows of resources decreased \$29 million from the \$62 million at June 30, 2021, primarily due to a decrease of \$24 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 \$635 million at June 30, 2023 and \$589 million at June 30, 2022.

The FY23 increase in net investment in capital assets of \$46 million was comprised of capital asset additions of \$176 million plus reduction of debt and other liabilities through refundings and payments of \$114 million, plus \$20 million of debt reclassified to unexpended plant, less \$50 million of depreciation and amortization expense, less new debt and other liabilities of \$211 million and less \$3 million of capital asset retirements.

The FY22 increase in net investment in capital assets of \$40 million was comprised of capital asset additions of \$119 million less \$44 million of depreciation expense, less \$1 million of capital asset retirements, less an increase in debt and other liabilities of \$7 million, and less a \$27 million reclassification of debt from unexpended plant to invested in capital assets.

**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, 2023 balance of \$72 million increased \$1 million, or 1%, over



## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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the \$71 million at June 30, 2022. For FY22, restricted-nonexpendable net position increased \$2 million, or 3%, from the FY21 year-end balance of \$69 million.

**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, 2023 balance of \$152 million increased \$5 million, or 3% from the June 30, 2022 balance of \$147 million. This increase is primarily attributable to a \$7 million increase in the expendable portion of endowments, resulting from positive investment performance less endowment income distributed for operations and a \$1 million increase in unspent restricted gift. Offsetting these increases was a net \$3 million decrease from other managed restricted-expendable funds.

The FY22 increase of \$3 million, or 2%, is primarily attributable to a \$25 million increase in unspent restricted gift balances and a net \$2 million increase from other managed restricted-expendable funds. Offsetting these increases was a \$24 million decrease in the expendable portion of endowments, resulting from negative investment performance and endowment income distributed for operations.

**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 \$142 million at June 30, 2023 decreased by \$20 million, or 12%, from the FY22 year-end balance of \$162 million. For FY22, unrestricted net position decreased \$20 million, or 11%, from the FY21 year-end balance of \$182 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.

### **Restatement of Prior Year**

The FY22 financial statements have been restated to reflect a change in the reporting of revenues and expenses related to subscription based information technology arrangements per the adoption of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. Revenue and expenses netting to a decrease in net position of \$65 thousand

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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have been moved in various segments of the Statements of Revenues, Expenses, and Changes in Net Position.

**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 FY23 net position increased \$31 million while FY22 (restated) increased \$26 million. Notable factors in this shift include the following:

- \$19 million increase in noncapital State of Maine appropriations
- \$60 million decrease in coronavirus relief funding
- \$27 million increase in investment income from operating investments
- \$34 million increase in market returns for endowment investments
- Net \$15 million decrease in various other revenue and expense lines

The FY22 net position increase of \$26 million was down \$86 million from FY21's increase of \$112 million. Notable factors in this shift include the following:

- \$62 million increase in operating revenues
- OPEB expense of \$3 million compared with OPEB income of \$46 million in FY21
- \$82 million increase in other operating expenses
- \$26 million increase in coronavirus relief funding
- \$36 million decrease in investment income from operating investments
- \$27 million increase in capital grants and gifts mainly related to construction of the Ferland Engineering Education and Design Center
- \$55 million decrease in market returns for endowment investments
- Net \$21 million increase in various other nonoperating revenue lines.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

	2023	Restated 2022	2021	2020	2019
Operating Revenues					
Net student fees	\$ 251	\$ 263	\$ 239	\$ 248	\$ 264
Grants, contracts and recovery of indirect costs	168	163	136	121	113
Other operating revenues	45	41	30	44	53
Total Operating Revenues	464	467	405	413	430
Operating Expenses	(810)	(811)	(680)	(716)	(724)
Operating Loss	(346)	(344)	(275)	(303)	(294)
Nonoperating Revenues (Expenses)					
Noncapital State of Maine appropriations	248	229	218	220	212
Federal Pell grants	32	34	35	38	40
Coronavirus relief funding	3	63	37	15	-
Gifts currently expendable	29	20	19	19	16
Endowment return used for operations	6	6	6	6	6
Investment income (loss)	13	(14)	22	9	12
Interest expense, net	(8)	(4)	(4)	(4)	(4)
Net Nonoperating Revenues (Expenses)	323	334	333	303	282
Income (Loss) Before Other Changes in Net Position	(23)	(10)	58	-	(12)
Other Changes in Net Position					
State of Maine capital appropriations	21	25	16	14	6
Capital grants and gifts	26	35	8	3	4
Endow. return, net of amount used for operations	8	(26)	29	(4)	(2)
Other	(1)	2	1	1	8
Total Other Changes in Net Position	54	36	54	14	16
Change in Net Position	\$ 31	\$ 26	\$ 112	\$ 14	\$ 4

**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; educational sales and services; and auxiliary enterprises.
- 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, and interest expense.

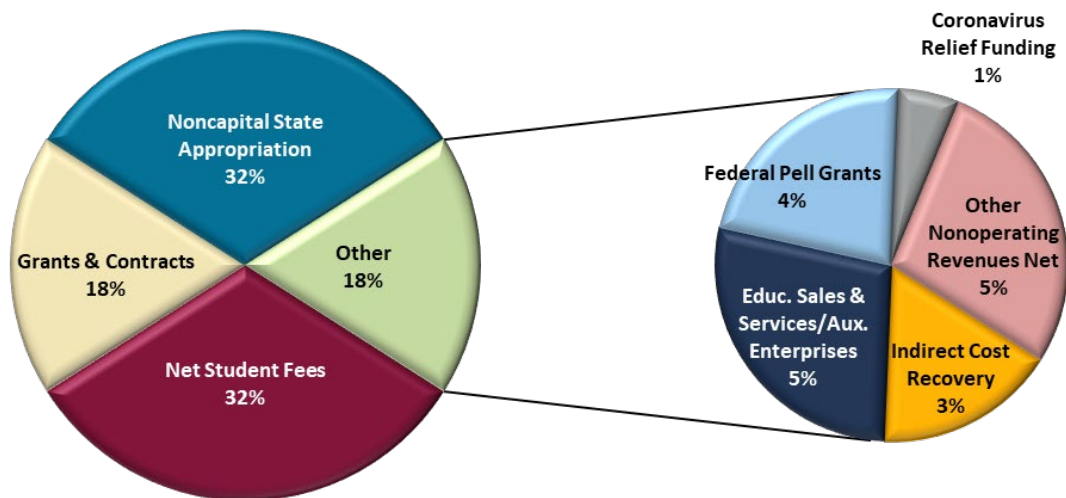
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The following pie charts illustrate the total operating and net nonoperating revenue sources used to fund the System's activities for FY23 and FY22.

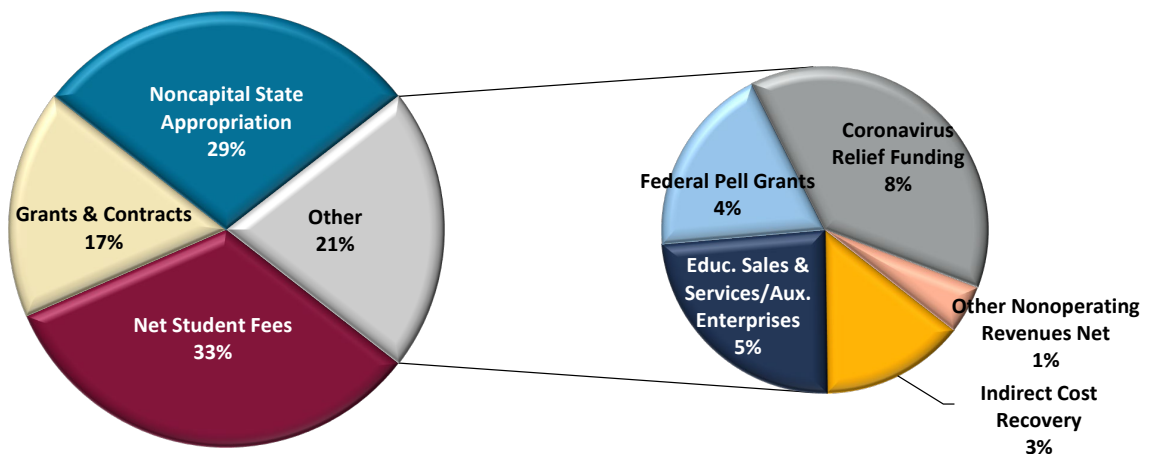
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**Chart 6: Total Operating and Net Nonoperating Revenue**

**2023 - \$787 million**



**2022 - \$801 million**



## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**Net Student Fees Revenue**

Net student fees revenue of \$251 million for FY23, is the largest source of revenues used to fund operating expenses, representing 32% of total operating and net nonoperating revenues. Net student fees of \$263 million for FY22 represented 33% of that year's total operating and net nonoperating revenues.

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

- Tuition and fees totaled \$314 million in FY23, decreasing \$14 million, or 4%, from the prior year. FY22 revenues increased \$7 million, or 2%, from FY21.
- Residence and dining fees of \$67 million in FY23 were up \$2 million, or 3%, compared with FY22. FY22 residence and dining fees increased \$25 million, or 63%, compared with FY21.
- Scholarship allowances totaled \$130 million in FY23, remaining flat with the prior year. The FY22 scholarship allowances increased \$8 million, or 7%, from FY21.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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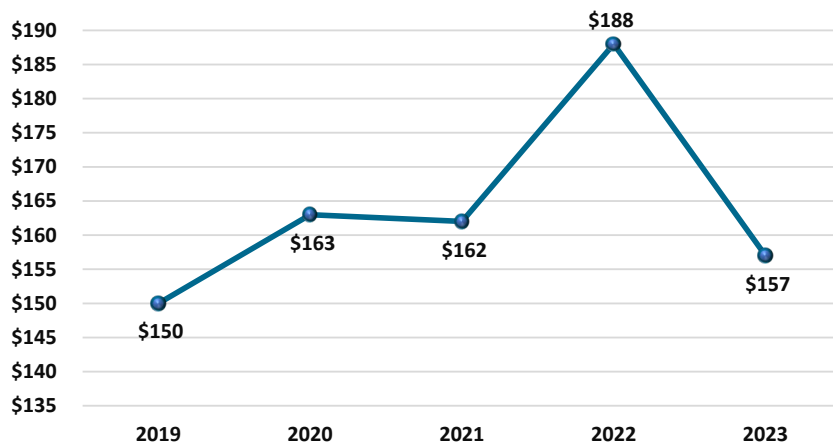
**Student Financial Aid**

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.

**Chart 7: Total Financial Aid**  
(In millions)



During FY23, total financial aid provided to students was \$157 million, decreasing \$31 million, or 16%, from FY22 financial aid of \$188 million. This net decrease includes a \$4 million decrease in unrestricted institutional aid, a \$2 million decrease in both PELL awards and State of Maine Grant funds, and a decrease of \$23 million in funding from the federal coronavirus relief funds.

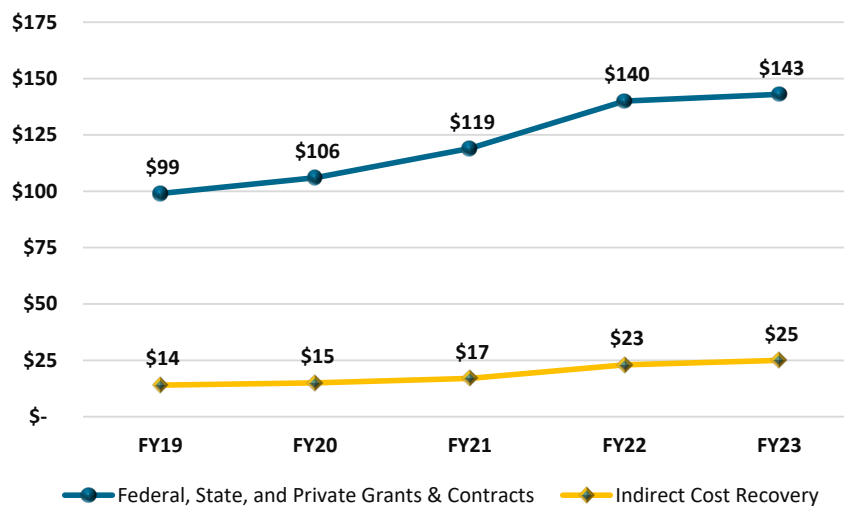
During FY22, total financial aid provided to students was \$188 million, increasing \$26 million, or 16%, from FY21 financial aid of \$162 million. The net increase includes a \$1 million decrease in Pell awards, an increase of \$18 million in funding from the federal coronavirus relief funds, \$6 million increase in State of Maine Grant funds and \$3 million increase in unrestricted institutional aid.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

**DRAFT****4.1****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 for student aid, research and other activities with the majority of funding being provided by the federal government. State research and development funding is often used to leverage federal dollars.

**Chart 8: Grants, Contracts and Indirect Cost Recovery**  
(In millions)



Grants and contracts operating revenues totaled \$143 million in FY23, increasing \$3 million, or 2%, from FY22. This increase is the net change in funding from over 400 different sponsors. The largest sponsor increase was \$4 million related to National Science Foundation funding.

FY22 operating grants and contracts revenues totaled \$140 million, increasing \$21 million, or 18%, from FY21. This increase was the net change in funding from over 400 different sponsors. The largest sponsor increase was a \$6 million related to State of Maine funding for financial aid.

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 \$25 million for FY23, increasing \$2 million from FY22. Recovery of indirect costs totaled \$23 million for FY22, which was an increase of \$6 million from FY21.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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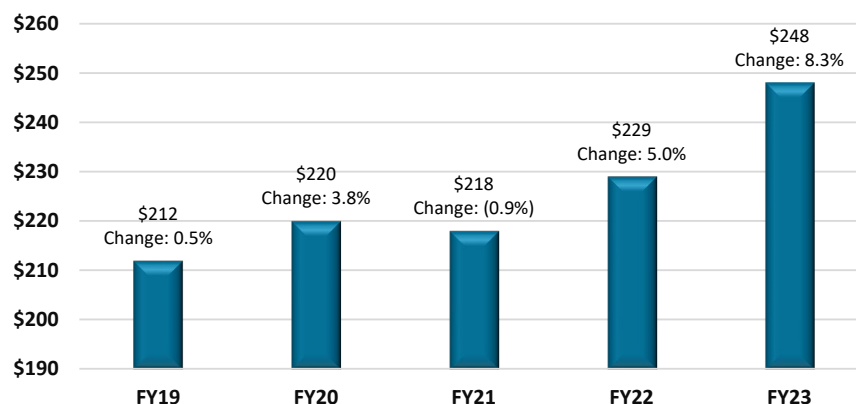
**Noncapital State of Maine Appropriations**

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

As shown in Chart 9, the System received \$248 million in noncapital state appropriation revenue during FY23, up \$19 million, or 8% from FY22. The System received \$229 million in noncapital state appropriation revenue during FY22, up \$11 million, or 5%, from FY21.

At \$248 million, noncapital state appropriation revenue covered 72% of the \$346 million operating loss in FY23, up from the operating loss coverage level of 66% in FY22.

**Chart 9: Noncapital State Appropriation and Annual Percentage Change  
(In millions)**

**Coronavirus Relief Funding**

The coronavirus relief funding of \$3 million and \$63 million for FY23 and FY22, 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 \$104 million under the following acts:

- Coronavirus Aid, Relief and Economic Security (CARES) Act - \$18 million awarded in FY20.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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- Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act - \$32 million awarded in FY21.
- American Rescue Plan (ARP) Act - \$54 million awarded in late FY21.

Under these acts, the System received total awards of \$45 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 refunded room and board revenues and recovery of lost revenues.

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 FY23 revenue recognized in the accompanying financial statements related to costs applied against the federal awards in FY22. Also, certain costs applied against the federal awards in FY21 were not recognized as revenue until FY22.

FY23 federal coronavirus relief funding revenue totals \$1 million and is related to the following costs:

- Emergency awards made to students in FY23 - \$237 thousand
- Recovery of lost FY21 and FY22 revenues - \$490 thousand
- Other pandemic related costs - \$273 thousand

In FY23, an additional \$2 million of federal coronavirus relief funding is reported in the Statements of Revenues, Expenses, and Changes in Net Position as part of capital grants and gifts revenue as the monies were utilized for capital improvements.

FY22 federal coronavirus relief funding revenue totaled \$55 million and is related to the following costs:

- Emergency awards made to students in FY22 - \$28 million
- Recovery of lost FY21 and FY22 revenues - \$22 million
- Other pandemic related costs - \$5 million

***State Funding***

From its American Rescue Plan Act funds, the State of Maine awarded the System a total of \$35 million to be used for projects related to the Maine Jobs and Recovery Plan (MJRP). During FY23, the System recognized \$2 million of coronavirus relief funding from this source of funds. In FY23, the System has reported an additional \$4 million of MJRP funds as part of capital grants and gifts revenue in the Statements of Revenues, Expenses, and Changes in Net Position as the monies were utilized for capital improvements.

During FY22, the System recognized \$8 million of coronavirus relief funding from a \$15 million State of Maine grant awarded to the System in FY21 for COVID-19 testing costs, personal protective equipment, and quarantine related costs.

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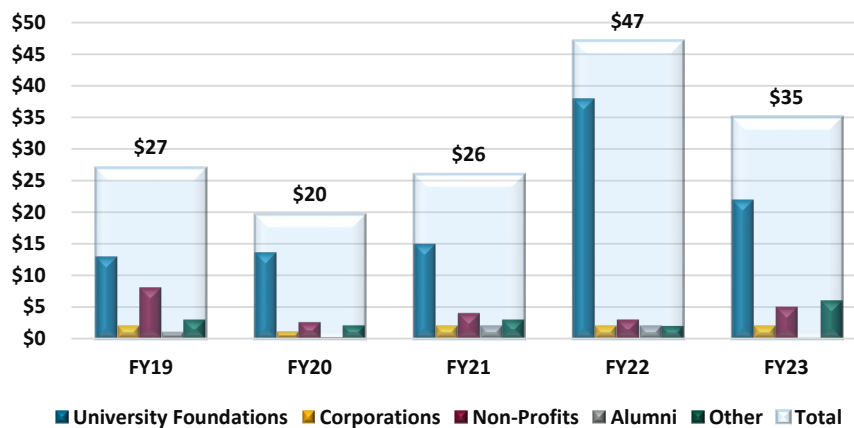
### Cash Gifts

As shown in Chart 10, total cash gifts of \$35 million received in FY23 were down \$12 million from the prior year, mainly as a result of decreased fundraising for engineering capital projects as those projects were completed during FY23. FY23 gifts from university foundations decreased \$16 million, while corporation gifts remained flat. Gifts from non-profits increased \$2 million while alumni gifts decreased \$2 million and other donor types increased \$4 million.

FY22 gifts were up \$21 million from the prior year mainly as a result of fundraising for engineering capital projects. Gifts from university foundations increased \$23 million, while corporation and alumni gifts remained flat. Gifts from non-profits, and other donor types each decreased \$1 million.

Of the \$35 million in gifts received in FY23, 89% were restricted, 10% were endowed, and 1% were unrestricted. Of the \$47 million in gifts received in FY22, 93% were restricted, 6% were endowed, and 1% were unrestricted.

**Chart 10: Gifts by Donor Type**  
(In millions)



## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

**DRAFT****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)

	2023		Restated 2022		2021		2020		2019	
Instruction	\$199	24%	\$202	25%	\$188	28%	\$183	25%	\$181	25%
Academic support	79	10%	78	10%	75	11%	73	10%	73	10%
Student services	76	9%	69	8%	57	8%	62	9%	61	9%
Subtotal	354	43%	349	43%	320	47%	318	44%	315	44%
Research	110	14%	100	12%	86	13%	80	11%	80	11%
Public service	72	9%	65	8%	59	9%	58	8%	59	8%
Institutional support	72	9%	66	8%	12	2%	65	9%	74	10%
Operation and maintenance of plant	55	7%	61	8%	62	9%	50	7%	52	7%
Depreciation and amortization	50	6%	47	6%	44	6%	42	6%	41	6%
Student aid	27	3%	58	7%	40	6%	40	6%	36	5%
Auxiliary enterprises	70	9%	65	8%	57	8%	63	9%	67	9%
<b>Total Operating Expenses</b>	<b>\$810</b>	<b>100%</b>	<b>\$811</b>	<b>100%</b>	<b>\$680</b>	<b>100%</b>	<b>\$716</b>	<b>100%</b>	<b>\$724</b>	<b>100%</b>

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

	2023		Restated 2022		2021		2020		2019	
Operating:										
Compensation	\$379	47%	\$362	44%	\$336	49%	\$331	46%	\$322	44%
Benefits	147	18%	148	18%	87	13%	129	18%	139	19%
Utilities	27	3%	30	4%	27	5%	28	4%	31	4%
Supplies and Services	180	22%	166	20%	146	20%	146	20%	155	21%
Depreciation and Amortization	50	6%	47	6%	44	6%	42	6%	41	6%
Student Aid	27	3%	58	7%	40	6%	40	5%	36	5%
<b>Total Operating Expenses</b>	<b>810</b>	<b>99%</b>	<b>811</b>	<b>99%</b>	<b>680</b>	<b>99%</b>	<b>716</b>	<b>99%</b>	<b>724</b>	<b>99%</b>
Nonoperating:										
Interest	8	1%	4	1%	4	1%	4	1%	4	1%
<b>Total Expenses</b>	<b>\$818</b>	<b>100%</b>	<b>\$815</b>	<b>100%</b>	<b>\$684</b>	<b>100%</b>	<b>\$720</b>	<b>100%</b>	<b>\$728</b>	<b>100%</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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Compensation costs were \$379 million in FY23, up 4.7% from the FY22 total of \$362 million while FY23 benefits totaled \$147 million, down \$1 million from the FY22 total of \$148 million. Compensation costs for FY22 saw an increase of 7.7% over the FY21 total of \$336 million and FY22 benefits were up 70% from the FY21 total of \$87 million primarily related to one-time changes in FY21 to the System's OPEB plan.

### ***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 Pension plan
- Maine Maritime Academy (withdrew in spring 2022)
- University of Maine School of Law Foundation
- University of Maine at Fort Kent Foundation
- University of Southern Maine Foundation
- John L. Martin Scholarship Fund, Inc.
- USM Osher Map Library Foundation (withdrew in spring 2023)
- Student government groups

As shown in the Condensed Statements of Fiduciary Net Position in Table 8, the System holds a total of \$235 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 20 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

**DRAFT****Table 8: Condensed Statements of Fiduciary Net Position as of June 30**  
(In millions)**4.1**

	2023	% Change	2022	% Change	2021	% Change	2020
Cash and cash equivalents	\$ 3	50%	\$ 2	0%	\$ 2	0%	\$ 2
Investments - pooled	213	8%	197	-30%	283	30%	218
Investments - other	19	-10%	21	-16%	25	0%	25
<b>Total Assets</b>	<b>235</b>	<b>7%</b>	<b>220</b>	<b>-29%</b>	<b>310</b>	<b>27%</b>	<b>245</b>
<b>Total Liabilities</b>	<b>-</b>	<b>0%</b>	<b>-</b>	<b>0%</b>	<b>-</b>	<b>0%</b>	<b>-</b>
Pensions	19	-5%	20	-20%	25	0%	25
Postemployment benefits other than pensions	174	12%	156	-13%	180	31%	137
Pool participants	39	-5%	41	-60%	102	26%	81
Student and other groups	3	0%	3	0%	3	50%	2
<b>Total Net Position</b>	<b>\$235</b>	<b>7%</b>	<b>\$220</b>	<b>-29%</b>	<b>\$310</b>	<b>27%</b>	<b>\$245</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****Strategic Plan**

The University's new Strategic Plan final structure was approved by the Board of Trustees at its May 2023 meeting. Since then, four general items have been identified as the starting point: Retention, Enrollment, Research, and Economic and Workforce Development with work continuing on goal setting and implementation.

The Strategic Plan will be implemented through an inclusive and transparent process involving faculty, students, staff and leadership. Numerous and ongoing opportunities will exist for members of the University community to take part in the work, and regular public updates will be provided on progress, including reports to the Board's Strategic Planning Committee, the full Board, and related bodies.

The body of the plan is organized around five core commitments:

1. Advancing the state of Maine through teaching, research, and service.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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2. Strengthening our System through financial sustainability and effective academic and infrastructure portfolio management.
3. Making our System a destination for public higher education and a respected, engaging, and rewarding place to work.
4. Creating a sense of belonging in our System through our commitments to justice, equity, diversity, and inclusion, including opportunities for learning presented through multiple modalities (i.e., types of course delivery).
5. Expanding the ability of our universities and law school to collaborate and flourish through our unified accreditation.

Under each Commitment is a set of Actions indicating what we will do to grow and improve our student-focused, innovative, and financially sustainable universities and law school over the next five years. Under each Action is a set of 3 Goals: the steps we will take to operationalize our Actions in the service of our Commitments. In short:

- Our Commitments are what we value.
- Our Actions are the ways we express our values.
- Our Goals are how we will achieve measurable results.

Guided by this plan, our Board of Trustees, Chancellor, presidents, faculty, students, staff, administrators, alumni, and external stakeholders will work together to lead the University of Maine System to a vibrant and sustainable future.

We invite you to learn more about our plan by reviewing the full Strategic Plan located on the University's [website](#).

### **Research and Innovation**

The need to grow the size and skill of Maine's workforce is paramount to the success of Maine's economic development goals. The University is doing its part in this journey. Research and development-based experiential learning is preparing our students for the Maine workforce and beyond, allowing our students to be problem-solvers and innovators. Affordable, high-quality baccalaureate and graduate education provided by our public universities is the most proven path to social mobility for Mainers and to economic prosperity for our state.

### **Increase Statewide University Research Activity to Diversify and Grow Maine's Economy**

Governor Mills' proposed FY24–25 biennial budget includes a \$3 million increase in commercially promising public university research and innovation through the Maine Economic Improvement Fund (MEIF). In 2022, MEIF had a 6:1 rate of return for the state and allowed UMS universities — led by the R1 flagship UMaine — to directly support hundreds of Maine

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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companies and provide high-impact, hands-on paid research learning experiences for over a thousand students. Additional investment will enable UMS to better prepare more graduates to be problem-solvers and innovators in the Maine workforce and help companies here grow and create more great-paying jobs while sustaining the state's abundant natural resources.

Private enterprise in Maine is almost entirely comprised of small businesses, many of which lack their own R&D capacity and rely on UMS expertise and facilities to develop the talent, technology, and new and improved products and processes they need to be competitive.

### **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 Maine Jobs and Recovery Plan (MJRP) 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.

The UMS MJRP Initiative, called Talent, Research & Innovation for Maine (TRI-Maine), includes various projects and a small grants process, with a portion of each budget directly targeted for workforce development. Projects include those related to Green Engineering, Sustainable Aquaculture, Food Innovation and Quality, Early Childhood Education, a Farm Research and Education Center, Digital Science and Innovation, Rural Career Pathways, and Marine Sciences.

### **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 May 2023, S&P affirmed its AA-rating with a negative outlook for the UMS' revenue bonds. In its overview, S&P assessed UMS' enterprise profile as strong, characterized by our breadth and depth of institutions and with offsetting factors including persistent weakness across demand metrics, with retention, matriculation, and graduation rates falling short of many similarly rated peers and UMS' enrollment, which had generally remained stable, but have recently seen some softening due, in part, to unfavorable state demographics and strong regional competition. Further, they assessed UMS' financial profile as very strong, recognizing our robust financial resources and healthy financial management policies, while noting a history of full-accrual operating deficits and significant future debt plans as a limiting factor. Historically, they viewed UMS' short debt amortization as an additional strength, although the series 2022 bonds extended debt service to 2062.

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**UNIVERSITY OF MAINE SYSTEM**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2023 AND 2022 (IN THOUSANDS)**

	2023	2022 Restated
<b>Assets</b>		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 6,588	\$ 7,441
Operating investments (Note 3)	258,542	307,077
Accounts, grants, and pledges receivable, net (Note 4)	75,867	64,482
Inventories and prepaid expenses	7,286	6,288
Notes and leases receivable, net (Note 5)	340	351
<b>Total Current Assets</b>	<b>348,623</b>	<b>385,639</b>
Noncurrent Assets		
Deposits with trustees (Notes 3 and 6)	26,443	3,659
Accounts, grants and pledges receivable, net (Note 4)	1,952	5,858
Notes and leases receivable, net (Note 5)	22,839	26,172
Net OPEB asset (Note 14)	21,169	-
Endowment investments (Note 3)	150,432	141,168
Capital assets, net (Note 6)	934,857	812,529
Irrevocable split interest agreements	218	470
<b>Total Noncurrent Assets</b>	<b>1,157,910</b>	<b>989,856</b>
<b>Total Assets</b>	<b>1,506,533</b>	<b>1,375,495</b>
<b>Deferred Outflows of Resources (Note 15)</b>	<b>17,193</b>	<b>31,707</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 1,523,726</b>	<b>\$ 1,407,202</b>
<b>Liabilities</b>		
Current Liabilities		
Accounts payable	\$ 31,787	\$ 36,104
Unearned revenue and deposits (Note 8)	34,041	29,181
Accrued liabilities - current portion (Notes 7, 11 and 13)	28,395	47,384
Obligations for right of use assets - current portion (Note 7)	5,997	5,759
Long-term debt - current portion (Note 7)	19,931	55,755
<b>Total Current Liabilities</b>	<b>120,151</b>	<b>174,183</b>
Noncurrent Liabilities		
Unearned revenue and other liabilities - noncurrent (Note 8)	7,228	4,174
Accrued liabilities (Notes 7, 11, 13)	49,635	70,079
Obligations for right of use assets (Note 7)	65,564	46,656
Long-term debt (Note 7)	216,808	96,138
Government advances refundable (Note 9)	10,008	14,152
<b>Total Noncurrent Liabilities</b>	<b>349,243</b>	<b>231,199</b>
<b>Total Liabilities</b>	<b>469,394</b>	<b>405,382</b>
<b>Deferred Inflows of Resources (Note 15)</b>	<b>53,617</b>	<b>32,540</b>
<b>Net Position</b>		
Net investment in capital assets (Note 10)	634,614	589,331
Restricted nonexpendable (Note 10)	72,410	71,249
Restricted expendable (Notes 3 and 10)	152,055	147,419
Unrestricted (Notes 3 and 10)	141,636	161,281
<b>Total Net Position</b>	<b>1,000,715</b>	<b>969,280</b>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<b>\$ 1,523,726</b>	<b>\$ 1,407,202</b>

See accompanying notes to the basic financial statements.



**DRAFT****4.1**

**UNIVERSITY OF MAINE SYSTEM**  
**STATEMENTS OF FINANCIAL POSITION – DISCRETELY PRESENTED COMPONENT UNIT**  
**DECEMBER 31, 2022 AND 2021 (IN THOUSANDS)**

	2022	2021
<b>Assets</b>		
Cash and cash equivalents	\$ 4,831	\$ 4,128
Other receivables	-	49
Promises to give, less allowance for uncollectible pledges of \$40 and \$140, respectively	3,726	4,303
Short-term investments	12,971	32,499
Cash surrender value of life insurance	244	238
Long-term investments, endowment	283,942	329,042
Long-term investments, life income plans	5,170	6,454
Notes receivable	-	21
Equity in Buchanan Alumni House	2,582	2,625
Investment real estate	5,558	5,516
Property and equipment, net of accumulated depreciation of \$280 and \$252, respectively	128	131
Other assets	594	520
Irrevocable trusts	6,490	7,045
<b>Total Assets</b>	<b>\$ 326,236</b>	<b>\$ 392,571</b>
<b>Liabilities</b>		
Accounts payable	\$ 694	\$ 1,806
Liabilities under split-interest agreements	2,038	1,869
Accrued expenses	1,170	988
Deferred revenue	1,891	1,857
Custodial accounts payable	3,569	4,116
<b>Total Liabilities</b>	<b>9,362</b>	<b>10,636</b>
<b>Net Assets</b>		
Without donor restrictions	16,974	17,480
With donor restrictions	299,900	364,455
<b>Total Net Assets</b>	<b>316,874</b>	<b>381,935</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 326,236</b>	<b>\$ 392,571</b>

See accompanying notes to the basic financial statements.

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4.1

**UNIVERSITY OF MAINE SYSTEM**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED JUNE 30, 2023 AND 2022 (IN THOUSANDS)**

	2023	2022 restated
<b>Operating Revenues</b>		
Tuition and fees	\$ 314,122	\$ 328,080
Residence and dining fees	67,278	65,160
Less: scholarship allowances	(129,910)	(130,416)
<b>Net student fees</b>	251,490	262,824
Federal, state and private grants and contracts	143,399	139,545
Recovery of indirect costs	24,924	23,498
Educational sales and services and other revenues	34,576	30,520
Other auxiliary enterprises	10,101	10,327
<b>Total Operating Revenues</b>	464,490	466,714
<b>Operating Expenses</b>		
Instruction	199,123	201,957
Research	110,061	99,531
Public service	71,507	65,217
Academic support	78,554	78,274
Student services	76,111	69,190
Institutional support	71,919	66,188
Operation and maintenance of plant	55,405	61,238
Depreciation and amortization (Note 6)	50,335	46,873
Student aid	27,263	57,578
Auxiliary enterprises	70,204	64,552
<b>Total Operating Expenses</b>	810,482	810,598
<b>Operating Loss</b>	(345,992)	(343,884)
<b>Nonoperating Revenues (Expenses)</b>		
Noncapital State of Maine appropriations	247,992	229,357
Federal Pell Grants	32,131	33,735
Coronavirus relief funding	3,020	62,886
Gifts currently expendable	28,544	19,883
Endowment return used for operations (Note 3)	6,494	6,154
Investment income (loss) (Note 3)	13,475	(13,664)
Interest expense, net (Note 7)	(8,877)	(4,193)
<b>Net Nonoperating Revenues (Expenses)</b>	322,779	334,158
<b>Loss Before Other Changes in Net Position</b>	(23,213)	(9,726)
<b>Other Changes in Net Position</b>		
State of Maine capital appropriations	21,301	25,392
Capital grants and gifts	26,355	34,437
Endowment return (loss), net of amount used for operations (Note 3)	7,937	(26,295)
True and quasi endowment gifts	1,222	2,782
Loss on disposal of capital assets	(2,167)	(558)
<b>Total Other Changes in Net Position</b>	54,648	35,758
<b>Change in Net Position</b>	31,435	26,032
<b>Net Position - Beginning of the Year-As Restated</b>	969,280	943,248
<b>Net Position - End of Year - As Restated (Note 17)</b>	\$ 1,000,715	\$ 969,280

See accompanying notes to the basic financial statements.

**DRAFT****4.1**

**UNIVERSITY OF MAINE SYSTEM**  
**STATEMENTS OF ACTIVITIES – DISCRETELY PRESENTED COMPONENT UNIT**  
**YEAR ENDED DECEMBER 31, 2022 AND SIX MONTHS ENDED DECEMBER 31, 2021**  
**(IN THOUSANDS)**

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues, Gains, Losses, and Reclassification</b>						
Contributions	\$ 7,045	\$ 17,931	\$ 24,976	\$ 4,461	\$ 8,231	\$ 12,692
Advancement services	3,745	-	3,745	1,857	-	1,857
Investment returns (loss) and other revenue	(984)	(49,093)	(50,077)	622	17,284	17,906
Reinvestment of donor funds	-	-	-	78	(78)	-
Net assets released from restrictions pursuant to endowment spending distribution	7,163	(7,163)	-	3,532	(3,532)	-
Net assets released from restrictions - other	26,230	(26,230)	-	2,883	(2,883)	-
<b>Total Revenues, Gains, Losses, and Reclassification</b>	<b>43,199</b>	<b>(64,555)</b>	<b>(21,356)</b>	<b>13,433</b>	<b>19,022</b>	<b>32,455</b>
<b>Expenses and Losses</b>						
Program services	38,823	-	38,823	9,272	-	9,272
Management and general	1,307	-	1,307	540	-	540
Fundraising	3,575	-	3,575	1,555	-	1,555
<b>Total Expenses</b>	<b>43,705</b>	<b>-</b>	<b>43,705</b>	<b>11,367</b>	<b>-</b>	<b>11,367</b>
<b>Change in Net Assets</b>	<b>(506)</b>	<b>(64,555)</b>	<b>(65,061)</b>	<b>2,066</b>	<b>19,022</b>	<b>21,088</b>
<b>Net Assets - Beginning of Year</b>	<b>17,480</b>	<b>364,455</b>	<b>381,935</b>	<b>15,414</b>	<b>345,433</b>	<b>360,847</b>
<b>Net Assets - End of Year</b>	<b>\$ 16,974</b>	<b>\$ 299,900</b>	<b>\$ 316,874</b>	<b>\$ 17,480</b>	<b>\$ 364,455</b>	<b>\$ 381,935</b>

See accompanying notes to the basic financial statements.

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4.1

**UNIVERSITY OF MAINE SYSTEM**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2023 AND 2022 (IN THOUSANDS)**

	2023	2022
<b>Cash Flows From Operating Activities</b>		
Tuition, residence, dining, and other student fees	\$ 254,940	\$ 261,234
Grants and contracts	162,980	167,867
Educational sales and services and other auxiliary enterprise revenues	40,130	39,080
Payments to and on behalf of employees	(548,831)	(501,215)
Financial aid paid to students	(32,619)	(62,334)
Payments to suppliers	(202,110)	(195,892)
Loans issued to students	(1,981)	(1,778)
Collection of loans to students	3,617	4,774
<b>Net Cash Used for Operating Activities</b>	<b>(323,874)</b>	<b>(288,264)</b>
<b>Cash Flows From Noncapital Financing Activities</b>		
State appropriations	247,992	229,357
Federal Pell Grants	31,985	34,602
Coronavirus relief funding	7,573	73,915
Noncapital grants and gifts	28,228	20,920
Agency transactions	(1,144)	655
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>314,634</b>	<b>359,449</b>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Proceeds from capital debt issuances	90,875	-
Capital appropriations	30,479	23,832
Capital grants and gifts	17,598	31,454
Proceeds from sale of capital assets	1,073	45
Acquisition and construction of capital assets	(141,153)	(102,823)
Principal paid on capital debt and obligations of right of use assets	(25,652)	(15,218)
Interest paid on capital debt and leases	(9,073)	(5,223)
<b>Net Cash Used for Capital and Related Financing Activities</b>	<b>(35,853)</b>	<b>(67,933)</b>
<b>Cash Flows From Investing Activities</b>		
Proceeds from sales and maturities of investments	713,778	562,486
Purchases of investments	(672,499)	(568,421)
Earnings from investments	2,961	7,094
<b>Net Cash Provided by Investing Activities</b>	<b>44,240</b>	<b>1,159</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(853)</b>	<b>4,411</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>7,441</b>	<b>3,030</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 6,588</b>	<b>\$ 7,441</b>

See accompanying notes to the basic financial statements.

**DRAFT****4.1**

**UNIVERSITY OF MAINE SYSTEM**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2023 AND 2022 (IN THOUSANDS)**

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

	<b>2023</b>	<b>2022 Restated</b>
Operating Loss	\$ (345,992)	\$ (343,884)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation and amortization	50,335	46,873
Changes in assets, liabilities, deferred outflows and deferred inflows:		
Accounts and grants receivable, net	(6,871)	924
Inventories and prepaid expenses	(998)	(726)
Notes and leases receivable, net	3,017	4,579
Net OPEB (asset) liability	(21,169)	18,058
Irrevocable split interest agreements	252	377
Deferred outflows related to pensions	1,127	(794)
Deferred outflows related to OPEB	11,976	(13,556)
Accounts payable	3,050	2,224
Unearned revenue and deposits	5,624	2,993
Accrued liabilities	(41,158)	24,892
Grants refundable	(4,144)	(5,208)
Deferred inflows related to pensions	(102)	(923)
Deferred inflows related to OPEB	21,406	(23,775)
Deferred inflows related to split interest agreements	(252)	(377)
Deferred inflows related to leases	25	59
<b>Net Cash Used for Operating Activities</b>	<b>\$ (323,874)</b>	<b>\$ (288,264)</b>

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

Capital asset additions included in accounts payable and accrued liabilities as of June 30

	\$ 15,088	\$ 22,459
Capital asset additions acquired through long-term debt	\$ 812	\$ 105
Capital asset additions acquired through obligations of right of use assets	\$ 25,177	\$ 22,587
Bond issuance costs financed with bond payable	\$ 420	\$ -
Refunding of debt through new bond issuance	\$ 81,582	\$ -
Liquidation of debt service reserve	\$ 45	\$ -

See accompanying notes to the basic financial statements.

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4.1

**UNIVERSITY OF MAINE SYSTEM**  
**STATEMENTS OF FIDUCIARY NET POSITION**  
**JUNE 30, 2023 AND 2022 (IN THOUSANDS)**

	2023			2022		
	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>Assets</b>						
Cash and cash equivalents (Note 2)	\$ -	\$ -	\$ 2,662	\$ -	\$ -	\$ 2,687
Investment in UMS managed investment pool (Note 3)	174,427	5,073	-	156,012	10,683	-
Investment in UMS endowment pool (Note 3)	-	33,912	-	-	30,150	-
Other investments (Note 3)	18,986	391	-	20,392	168	-
Prepaid expenses	-	-	24	-	-	5
<b>Total Assets</b>	<b>193,413</b>	<b>39,376</b>	<b>2,686</b>	<b>176,404</b>	<b>41,001</b>	<b>2,692</b>
<b>Liabilities</b>						
Accounts payable and other liabilities	-	-	80	-	-	6
Requested by beneficiaries	-	391	-	-	168	-
<b>Total Liabilities</b>	<b>-</b>	<b>391</b>	<b>80</b>	<b>-</b>	<b>168</b>	<b>6</b>
<b>Net Position Restricted for:</b>						
Pensions	18,986	-	-	20,392	-	-
Postemployment benefits other than pensions	174,427	-	-	156,012	-	-
Pool participants	-	38,985	39	-	40,833	27
Student and other groups	-	-	2,567	-	-	2,659
<b>Total Net Position</b>	<b>\$ 193,413</b>	<b>\$ 38,985</b>	<b>\$ 2,606</b>	<b>\$ 176,404</b>	<b>\$ 40,833</b>	<b>\$ 2,686</b>

See accompanying notes to the basic financial statements.

**DRAFT****4.1**

**UNIVERSITY OF MAINE SYSTEM**  
**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION**  
**YEARS ENDED JUNE 30, 2023 AND 2022 (IN THOUSANDS)**

	2023			2022		
	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>Additions</b>						
Contributions						
Employer contributions	\$ 9,721	\$ -	\$ -	\$ 5,609	\$ -	\$ -
Retiree contributions	1,770	-	-	1,688	-	-
Contributions to investment pools	-	1,935	-	-	10,722	-
Private donations	-	-	-	-	-	29
<b>Total contributions</b>	<b>11,491</b>	<b>1,935</b>	<b>-</b>	<b>7,297</b>	<b>10,722</b>	<b>29</b>
Investment income (loss)						
Interest and dividends	3,981	875	92	2,312	1,019	2
Net increase (decrease) in fair value of investments	15,252	3,459	-	(25,461)	(7,885)	-
<b>Total investment income (loss)</b>	<b>19,233</b>	<b>4,334</b>	<b>92</b>	<b>(23,149)</b>	<b>(6,866)</b>	<b>2</b>
Less investment expense	(1,235)	(250)	-	(1,269)	(396)	-
<b>Net investment income (loss)</b>	<b>17,998</b>	<b>4,084</b>	<b>92</b>	<b>(24,418)</b>	<b>(7,262)</b>	<b>2</b>
Other additions						
Student activity fees	-	-	2,102	-	-	2,172
Endowment income distribution	-	-	1,167	-	-	1,100
Other income	-	-	300	-	-	280
<b>Total other additions</b>	<b>-</b>	<b>-</b>	<b>3,569</b>	<b>-</b>	<b>-</b>	<b>3,552</b>
<b>Total additions</b>	<b>29,489</b>	<b>6,019</b>	<b>3,661</b>	<b>(17,121)</b>	<b>3,460</b>	<b>3,583</b>
<b>Deductions</b>						
Beneficiary payments	12,470	-	-	12,018	-	-
Investment pool distributions	-	7,867	-	-	62,664	-
Distribute activity fees	-	-	1,336	-	-	1,407
Distribute amount requested	-	-	53	-	-	-
Distribute other revenues	-	-	-	-	-	29
Donations and sponsorships	-	-	1,151	-	2,111	1,084
Purchases by student and other groups	-	-	1,201	-	-	1,027
Administrative costs	10	-	-	18	-	-
<b>Total deductions</b>	<b>12,480</b>	<b>7,867</b>	<b>3,741</b>	<b>12,036</b>	<b>64,775</b>	<b>3,547</b>
<b>Change in Fiduciary Net Position</b>	<b>17,009</b>	<b>(1,848)</b>	<b>(80)</b>	<b>(29,157)</b>	<b>(61,315)</b>	<b>36</b>
<b>Net Position - Beginning of the Year</b>	<b>176,404</b>	<b>40,833</b>	<b>2,686</b>	<b>205,561</b>	<b>102,148</b>	<b>2,650</b>
<b>Net Position - End of Year</b>	<b>\$ 193,413</b>	<b>\$ 38,985</b>	<b>\$ 2,606</b>	<b>\$ 176,404</b>	<b>\$ 40,833</b>	<b>\$ 2,686</b>

See accompanying notes to the basic financial statements.

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4.1

**UNIVERSITY OF MAINE SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2023 AND 2022 (IN THOUSANDS)**

**1. SIGNIFICANT ACCOUNTING POLICIES**

**a. Organization**

The University of Maine System ("the System"), a discretely presented component unit of the State of Maine, consists of seven universities, eight centers, and a central administrative office. All activities of the System are included in the accompanying financial statements, including those of its discretely presented component unit, the University of Maine Foundation, which is a not-for-profit entity controlled by a separate governing board whose goal is to support the System (see Note 16). The component unit receives funds primarily through donations and contributes funds to the System for student scholarships, institutional support and capital construction 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, federal pell grants, coronavirus relief funding, gifts currently expendable, endowment return used for operations, net investment income, and interest expense.

In FY23, the System adopted GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, (PPPs), (GASB No. 94). This statement increases the usefulness of governments' financial statements by requiring disclosures that will allow users to understand the scale and important aspects of the System's PPPs and evaluate future obligations and assets resulting from PPPs.

The System adopted the provisions of GASB No. 94 retroactive to July 1, 2021. The implementation resulted in no restatement of FY22 revenues and expenses; however, service concession arrangements formerly reported in conformity with GASB No. 60, *Accounting and*



**1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Financial Reporting for Service Concession Arrangements*, were reclassified from Deferred Inflows of Resources to current and noncurrent Unearned Revenue in the Statements of Net Position in the FY22 financial statements, in accordance with the provisions of GASB No. 94.

In FY23, the System also adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs) (GASB No. 96). This statement increases the usefulness of governments' financial statements by requiring the recognition of a right of use subscription asset, an intangible asset, and a corresponding subscription liability based on the payment provisions of the arrangement, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The System adopted the provisions of GASB No. 96 retroactive to July 1, 2021, and has restated its FY22 financial statements in accordance with the provisions of GASB No. 96. The adoption of GASB No. 96 is described further in Note 17.

**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** – The respective Trust includes assets of the System's Defined Benefit Pension 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 managed investment and endowment pools.

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

**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:

**1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Net investment in capital assets:** Capital assets, net of accumulated depreciation and amortization and outstanding principal balances of debt, leases and SBITAs 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:** During FY23 three outside entities, the UMS Other Postemployment Benefit (OPEB) Trust, the USM Osher Map Library Foundation and the University of Maine School of Law Foundation, pooled 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. The USM Osher Map Library Foundation withdrew from the pool during FY23. During FY22, Maine Maritime Academy withdrew from the pool.

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

**1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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 FY23 and FY22. The percentage was applied to a twelve-quarter market value average to determine expendable income.

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

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

- **Liquidity Pool** – The purpose of this pool is to meet the day-to-day obligations of the System. It consists of funds that are invested in a portfolio of highest quality short-term fixed-income securities (e.g., Treasury obligations, agency securities, repurchase agreements, money market funds, commercial paper, and/or short-term bond mutual funds) with adequate liquidity. The average quality of the pool will be rated at least "A-1" by Standard and Poor's (or equivalent).
- **Income Pool** – The purpose of this pool is to provide sufficient income to meet budgetary goals and provide additional diversification to minimize downside risk. This pool invests in a diversified portfolio which may include items such as, but not limited to, fixed income securities, Federal Deposit Insurance Corporation insured or adequately collateralized certificates of deposit (CDs), or unconstrained, short or intermediate term bond funds with a normal average duration of -2 to 7 years. The pool may invest in funds rated from BB to AAA quality. The overall average quality rating of this pool will be at least "A-" by Standard and Poor's (or equivalent).

1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

**Authorized Investment Vehicles - Endowment Investments:** The fund is diversified both by asset class and within asset classes. To have a reasonable probability of consistently achieving the Fund’s return objectives, the following asset allocation policy ranges were applicable as of June 30, 2023 and 2022.

	2023	2022
Equity securities	49-69%	49-69%
Fixed income securities	16-36%	16-36%
Other	5-25%	5-25%
Cash	0-10%	0-10%

**Authorized Investment Vehicles - Deposits with 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, at net present value of lease and SBITA agreements and at acquisition value at date of donation. Costs for maintenance,

**1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

repairs and minor renewals and replacements are expensed as incurred; major renewals and replacements are capitalized.

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

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

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

A capitalization threshold of \$50 is used for buildings, building additions and improvements, land improvements, internally generated intangibles and SBITA agreements. Equipment (including equipment acquired under 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. Obligations for Right of Use Assets and Subscription Based Information Technology Arrangements**

The System is a lessee and a lessor for various noncancelable leases of buildings and has noncancelable SBITAs or the right to use information technology hardware and software.

**Short-term Leases and SBITAs:** For leases and SBITAs with a maximum possible term of 12 months or less at commencement, the System recognizes expense based on the provisions of the contract.

**Leases and SBITAs Other Than Short-term:** For all other leases and SBITAs (i.e. those that are not short-term), the System recognizes an obligation for right of use assets and an intangible right of use asset or a lease receivable and deferred inflow of resources.

**Measurement of Lease and SBITA Amounts:** At lease or SBITA commencement, the System initially measures the liability or receivable at the present value of payments expected to be made during the term. Subsequently, the lease or SBITA liability is reduced by the principal portion of payments made and the underlying asset is amortized on a straight-line basis over the shorter of the lease or SBITA term or the useful life of the underlying asset. The lease receivable is reduced by the principal portion of payments received and the related deferred inflows are amortized under the interest method to recognize rental revenue.

**1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Key Estimates and Judgments:** Key estimates and judgments include how the System determines (1) the discount rate it uses to calculate the present value of the expected lease or SBITA payments, and (2) lease or SBITA term. The System generally uses its estimated incremental borrowing rate as the discount rate for lease and SBITA arrangements unless the rate that the lessor/vendor charges is known.

- The lease or SBITA term includes the noncancelable period of the lease or SBITA arrangement plus any additional periods covered by either the System or lessor/vendor option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both the System and the lessor/vendor have a unilateral option to terminate (or if both parties have to agree to extend) are excluded from the lease or SBITA term.
- Payments are evaluated by the System to determine if they should be included in the measurement of the lease or SBITA liabilities, including those payments that require a determination of whether they are reasonably certain of being made, such as residual value guarantees, purchase options, payments for termination penalties, and other payments.

**Remeasurement of Lease and SBITA Amounts:** The System monitors changes in circumstances that may require remeasurement of a lease or SBITA arrangement. When certain changes occur that are expected to significantly affect the amount of the lease or SBITA liability, the liability is remeasured and a corresponding adjustment is made to the right of use asset.

**l. 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.

**m. Unearned Revenue and Deposits**

Unearned revenue and deposits in the Statements of Net Position consists primarily of grant and contract advances and deposits and advance payments received for tuition and fees related to certain summer programs and tuition received for the following academic year. Unearned revenue for summer programs is presented net of waivers. Other expenses related to unearned revenue for summer programs are presented as prepaids in the Statements of Net Position (e.g., scholarships, supplies).

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

**o. 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. 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.
3. An offsetting credit to the net present value of the System's lease receivables. These amounts will be recognized as rental income over the life of the agreement.

**p. 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.

**DRAFT****4.1****1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED****q. 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.

**r. 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.

**s. Reclassifications**

Certain FY22 items in the accompanying financial statements have been reclassified, without effect on total net position, to conform with GASB No. 94 by reclassifying service concession arrangements from deferred inflows of resources to current and noncurrent unearned revenue; and to conform to the FY23 presentation by reclassifying Lease Liabilities in the Statements of Net Position to Obligations for Right of Use Assets.

**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, 2023 and 2022, bank balances with uninsured or uncollateralized operating cash deposits were \$2,270 and \$4,561, respectively.

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

The System uses a pooled investment approach for its endowments (including Affiliates’ endowments invested with the System) unless otherwise required by the donor. As previously noted, four outside entities - the UMS OPEB Trust, Maine Maritime Academy (ended FY22), the



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**3. INVESTMENTS - CONTINUED**

University of Maine School of Law Foundation, and the USM Osher Map Library Foundation (new FY22 and ended FY23) - 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 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 Trustees:** Deposits with 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 (\$1,981 and \$1,851 at June 30, 2023 and 2022, 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, 2023 and 2022, respectively are \$33,912 and \$30,150, and are reported as investment 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:

	2023	2022
Restricted - expendable	\$59,463	\$52,519
Unrestricted	18,328	17,183
Total available for spending	\$77,791	\$69,702

**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 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".

**3. INVESTMENTS - CONTINUED****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)

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**3. INVESTMENTS - CONTINUED**

The System's operating investments and deposits with trustees were composed of the following at June 30, 2023:

	Total	Fair Value Measurements Using:			Credit Rating	Interest Rate Risk	
		Level 1	Level 2	Level 3			
<b>Operating Investments measured at fair value:</b>							
Equities:							
Multi-strategy funds	\$ 52,246	\$ 23,255	\$ 28,991	\$ -			
Fixed income funds:							
Bonds	124,993	43,725	81,268	-	Not rated	3.4-6.31 years	Duration
							Weighted Average
Money markets	21,319	21,319	-	-	Not rated	16-33 days	Maturity
<b>Total operating investments at fair value level</b>	<b>198,558</b>	<b>\$ 88,299</b>	<b>\$ 110,259</b>	<b>\$ -</b>			
Operating investments measured at NAV							
Equities: Multi-Strategy	16,387						
Bank loans	19,601				Not rated	.12 years	Duration
Total operating investments measured at NAV	35,988						
Total operating investments measured at fair value plus NAV	234,546						
State pool measured at amortized cost	23,996				Not rated	.65 years	Duration
<b>Total operating investments</b>	<b>\$ 258,542</b>						
<b>Deposits with Trustees:</b>							
Bonds and money markets	\$ 26,443	\$ 26,443	\$ -	\$ -	Not rated	16-39 days	Weighted Average Maturity

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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**3. INVESTMENTS – CONTINUED**

The **System's DB Plan, MIP and separately invested endowments** were composed of the following at June 30, 2023:

	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	\$ 9,049	\$ 9,049	\$ -	\$ -			
Equity funds	121,380	27,067	94,313	-			
Multi-strategy funds	27,359	27,359	-	-	Not rated	Not rated	
Fixed income funds:							
Money markets	18,899	18,899	-	-	Not rated	31 days	Weighted Average Maturity
Bonds	41,206	41,206	-	-	Not rated	2.7-7.3 years	Duration
Real assets	1,789	-	-	1,789	Not rated	Not rated	
Total DB Plan, MIP and separately held at fair value level	219,682	\$ 123,580	\$ 94,313	\$ 1,789			
<b>Investments measured at NAV:</b>							
Equity securities	56,500						
Equity funds	32,829						
Multi-strategy funds	28,159						
Fixed income funds - bonds	23,390						
Bank loans	20,466				Not rated	0.12 years	Duration
Total DB Plan and MIP investments measured at NAV	161,344						
<b>Total DB Plan, MIP and separately held investments</b>	<b>\$ 381,026</b>						

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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**3. INVESTMENTS – CONTINUED**

Breakdown of investments by portfolio at June 30, 2023:

		Fair Value Measurements Using:			
	Total	Level 1	Level 2	Level 3	
Breakdown of above investments by portfolio plus separately invested endowments:					
DB Plan at fair value level	\$ 10,614	\$ 8,825	\$ -	\$ 1,789	
DB Plan at NAV	8,372				
Total DB Plan Investments	\$ 18,986				
Fiduciary funds separately invested at fair level	\$ 391	\$ 391			
MIP held on behalf of outside entities at fair level	\$ 103,575	\$ 56,764	\$ 46,811	\$ -	
MIP held on behalf of outside entities at NAV	75,925				
Total MIP held on behalf of outside entities	\$ 179,500				
Fiduciary Funds held in Endowment Pool at fair value level	\$ 19,583	\$ 10,749	\$ 8,834	\$ -	
Fiduciary Funds held in Endowment Pool at NAV	14,329				
Total Fiduciary Funds held in Endowment Pool	\$ 33,912				
Endowment pool investments included in the MIP at fair value	\$ 85,520	\$ 46,852	\$ 38,668	\$ -	
Endowment pool investments included in the MIP at NAV	62,718				
Total endowment pool investments included in the MIP	148,238				
Endowment investments - separately invested	2,194	\$ 2,194	\$ -	\$ -	
Total endowment investments	\$ 150,432				

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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**3. INVESTMENTS - CONTINUED**

Additional disclosures for **System investments**, including the DB Plan and MIP, measured at NAV at June 30, 2023:

	Fair Value	Redemption Frequency (If Currently Eligible)	Redemption Period Notice
<b>Operating Investments measured at NAV:</b>			
Equities: Multi-strategy <sub>1</sub>	\$16,387	Quarterly, Monthly	60, 90 days
Bank loans <sub>2</sub>	19,601	Bi-monthly	15 days
<b>Total operating investments measured at NAV</b>	<b>\$35,988</b>		
<b>Investments measured at NAV:</b>			
Equity securities	\$56,500	Monthly	30 days
Equity funds	32,829	Monthly	30 days
Multi-strategy funds <sub>1</sub>	28,159	Quarterly, Monthly	30, 45, 60, 90 days
Fixed income funds - bonds	23,390	Monthly	5 days
Bank loans <sub>2</sub>	20,466	Monthly	30 days
<b>Total DB Plan and MIP investments measured at NAV</b>	<b>\$161,344</b>		
<b>Further breakdown of above DB Plan and MIP investments:</b>			
DB Plan at NAV	\$8,372		
MIP held on behalf of outside entities at NAV	75,925		
Fiduciary funds held in the Endowment Pool for others	14,329		
Endowment pool investments included in the MIP at NAV	62,718		
<b>Total investments measured at NAV by portfolio</b>	<b>\$161,344</b>		

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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**3. INVESTMENTS - CONTINUED**

The System's operating investments and deposits with trustees were composed of the following at June 30, 2022:

	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	\$ 47,207	\$ 47,207	\$ -	\$ -			
Fixed income funds:							
Bonds	123,279	43,398	79,881	-	Not rated	1.3-6.44 years	Duration
Money markets	43,826	43,826	-	-	Not rated	16-33 days	Weighted Average Maturity
<b>Total operating investments at fair value level</b>	<b>214,312</b>	<b>\$134,431</b>	<b>\$79,881</b>	<b>\$ -</b>			
Operating investments measured at NAV							
Equities: Multi-Strategy	15,557						
Bank loans	17,910				Not rated	.30 years	Duration
Total operating investments measured at NAV	33,467						
Total operating investments measured at fair value plus NAV	247,779						
State pool measured at amortized cost	59,298				Not rated	.74 years	Duration
<b>Total operating investments</b>	<b>\$ 307,077</b>						
<b>Deposits with Trustees:</b>							
Bonds and money markets	\$ 3,659	\$ 3,659	\$ -	\$ -	Not rated	16-48 days	Weighted Average Maturity

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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**3. INVESTMENTS - CONTINUED**

The **System's DB Plan, MIP and separately invested endowments** were composed of the following at June 30, 2022:

	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	\$ 9,200	\$ 9,200	\$ -	\$ -			
Equity funds	42,652	20,198	22,454	-			
Multi-strategy funds	29,347	29,347	-	-	Not rated	Not rated	
Fixed income funds:							
Money markets	2,031	2,031	-	-	Not rated	14 days	Weighted Average Maturity
Bonds	37,674	37,674	-	-	Not rated	1.8-7.6 years	Duration
Real assets	2,004	-	-	2,004	Not rated	Not rated	
Total DB Plan, MIP and separately held at fair value level	122,908	\$ 98,450	\$ 22,454	\$ 2,004			
<b>Investments measured at NAV:</b>							
Equity securities	48,406						
Equity funds	87,098						
Multi-strategy funds	32,837						
Fixed income funds - bonds	45,040						
Bank loans	18,976				Not rated	0.3 years	Duration
Total DB Plan and MIP investments measured at NAV	232,357						
<b>Total DB Plan, MIP and separately held investments</b>	<b>\$ 355,265</b>						



## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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**3. INVESTMENTS - CONTINUED**

Breakdown of investments by portfolio at June 30, 2022:

		Fair Value Measurements Using:			
	Total	Level 1	Level 2	Level 3	
Breakdown of above investments by portfolio plus separately invested endowments:					
DB Plan at fair value level	\$ 11,681	\$ 9,677	\$ -	\$ 2,004	
DB Plan at NAV	8,711				
Total DB Plan Investments	\$ 20,392				
Fiduciary funds separately invested at fair level	\$ 168	\$ 168	\$ -	\$ -	
MIP held on behalf of outside entities at fair level	\$ 55,312	\$ 44,129	\$ 11,183	\$ -	
MIP held on behalf of outside entities at NAV	111,383				
Total MIP held on behalf of outside entities	\$ 166,695				
Fiduciary Funds held in Endowment Pool at fair value level	\$ 10,004	\$ 7,981	\$ 2,023	\$ -	
Fiduciary Funds held in Endowment Pool at NAV	20,146				
Total Fiduciary Funds held in Endowment Pool	\$ 30,150				
Endowment pool investments included in the MIP at fair value	\$ 45,743	\$ 36,495	\$ 9,248	\$ -	
Endowment pool investments included in the MIP at NAV	92,117				
Total endowment pool investments included in the MIP	137,860				
Endowment investments - separately invested	3,308	\$ 3,308	\$ -	\$ -	
Total endowment investments	\$ 141,168				

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

DRAFT

4.1

**3. INVESTMENTS - CONTINUED**

Additional disclosures for **System investments**, including the DB Plan and MIP, measured at NAV at June 30, 2022:

	Fair Value	Redemption Frequency (If Currently Eligible)	Redemption Period Notice
<b>Operating Investments measured at NAV:</b>			
Equities: Multi-strategy <sup>1</sup>	\$ 15,557	Quarterly, Monthly	60, 90 days
Bank loans <sup>2</sup>	17,910	Bi-monthly	15 days
<b>Total operating investments measured at NAV</b>	<b>\$ 33,467</b>		
<b>Investments measured at NAV:</b>			
Equity securities	\$ 48,406	Monthly	30 days
Equity funds	87,098	Monthly	30 days
Multi-strategy funds <sup>1</sup>	32,837	Quarterly, Monthly	30, 45, 60, 90 days
Fixed income funds - bonds	45,040	Monthly	5 days
Bank loans <sup>2</sup>	18,976	Monthly	30 days
<b>Total DB Plan and MIP investments measured at NAV</b>	<b>\$ 232,357</b>		
<b>Further breakdown of above DB Plan and MIP investments:</b>			
DB Plan at NAV	\$ 8,711		
MIP held on behalf of outside entities at NAV	111,383		
Fiduciary funds held in the Endowment Pool for others	20,146		
Endowment pool investments included in the MIP at NAV	92,117		
<b>Total investments measured at NAV by portfolio</b>	<b>\$ 232,357</b>		

Additional information for investments measured at NAV at June 30, 2023 and 2022 is as follows:

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

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

**3. INVESTMENTS - CONTINUED****b. Interest Rate Risk**

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

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

**Endowment Investments:** To limit interest rate exposure, the endowment investment policy restricts the average effective duration of the fixed income portfolio to no more than 1 year from the duration of the applicable benchmark (e.g., the Barclays Capital Aggregate Bond Index was 6.30 years and 6.40 years at June 30, 2023 and 2022, 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 6.30 years and 6.40 years at June 30, 2023 and 2022, 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 \$20,785 and \$15,687 at June 30, 2023 and 2022, 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 \$36,241 and \$37,055 at June 30, 2023 and 2022, respectively. This includes \$8,291 and \$6,650 at June 30, 2023 and 2022, 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 \$3,227 and \$3,151 at June 30, 2023 and 2022, respectively.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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**3. INVESTMENTS - CONTINUED****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>2023</b>				
	<b>Net Gains</b>	<b>Interest and Dividends</b>	<b>Investment Fees</b>	<b>Net Income (Loss)</b>
Endowment investment income and fees	\$ 12,326	\$ 3,051	\$ (907)	\$ 14,470
Net income allocated to annuities payable to others				(39)
System endowment net income				\$ 14,431
Reported as endowment return used for operations				\$ 6,494
Reported as endowment return, net of amount used for operations				7,937
System endowment income				\$ 14,431
Operating investments	\$ 2,475	\$ 10,488	\$ (1,234)	\$ 11,729
Lease Receivables	-	39	-	39
Perkins savings account	-	65	-	65
Deposits with trustees	-	1,642	-	1,642
Total other investment income (loss)	\$ 2,475	\$ 12,234	\$ (1,234)	\$ 13,475
<b>2022</b>				
	<b>Net Losses</b>	<b>Interest and Dividends</b>	<b>Investment Fees</b>	<b>Net Income (Loss)</b>
Endowment investment income and fees	\$ (20,996)	\$ 1,770	\$ (949)	\$ (20,175)
Net loss allocated to annuities payable to others				34
System endowment net loss				\$ (20,141)
Reported as endowment return used for operations				\$ 6,154
Reported as endowment return, net of amount used for operations				(26,295)
System endowment loss				\$ (20,141)
Operating investments	\$ (18,697)	\$ 5,962	\$ (991)	\$ (13,726)
Lease Receivables	-	41	-	41
Perkins savings account	-	8	-	8
Deposits with trustees	-	13	-	13
Total other investment income (loss)	\$ (18,697)	\$ 6,024	\$ (991)	\$ (13,664)

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

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**DRAFT****4. ACCOUNTS, GRANTS, AND PLEDGES RECEIVABLE****4.1**

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

	2023			2022		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Student and other accounts receivable	\$53,842	\$53,093	\$749	\$46,725	\$46,200	\$ 525
Grants receivable	42,284	42,047	237	41,835	37,101	4,734
Pledges receivable	2,044	955	1,089	1,513	812	701
Total gross receivables	98,170	96,095	2,075	90,073	84,113	5,960
Less allowance for doubtful accounts	(20,248)	(20,228)	(20)	(19,643)	(19,631)	(12)
Less discount on pledges receivable	(103)	-	(103)	(90)	-	(90)
Total receivables, net	\$77,819	\$75,867	\$1,952	\$70,340	\$64,482	\$5,858

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:

	2023			2022		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Perkins loans	\$ 6,624	\$ -	\$ 6,624	\$10,422	\$ -	\$10,422
Nursing loans	2,025	-	2,025	2,095	-	2,095
Institutional loans	11,621	-	11,621	11,121	-	11,121
Leases receivable (a)	3,783	340	3,443	3,759	351	3,408
Total notes and leases receivable	24,053	340	23,713	27,397	351	27,046
Less allowance for doubtful accounts	(874)	-	(874)	(874)	-	(874)
Total notes and leases receivable, net	\$23,179	\$340	\$22,839	\$26,523	\$351	\$26,172

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.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**DRAFT****5. NOTES AND LEASES RECEIVABLE - CONTINUED****4.1**

- (a) The System, acting as lessor, leases building space for various terms under long-term noncancelable lease agreements. The original lease terms expire at various dates through 2027 and provide for renewal options (ranging from 1-20 years) which extend them to 2047. During the years ended June 30, 2023 and 2022, the System recognized \$327 and \$353 in lease revenue and \$39 and \$41 in lease interest, respectively, pursuant to these contracts.

Certain leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases.

The System leases office space to a related party, and a related lease receivable and deferred inflow of resources have been recorded. The lease provides for minimum semi annual lease payments of \$13 through January 2030.

Total future minimum lease payments to be received under lease agreements are as follows:

<b>Year Ending June 30:</b>	<b>Principal</b>	<b>Interest</b>
2024	\$ 340	\$ 51
2025	294	47
2026	289	44
2027	276	41
2028	281	38
2029-2033	860	145
2034-2038	809	76
2039-2043	470	22
2044-2047	164	2
<b>Total Payments</b>	<b>\$ 3,783</b>	<b>\$ 466</b>

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**DRAFT****6. CAPITAL ASSETS**

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

<b>2023</b>					
	<b>Beginning Balance</b>				<b>Ending Balance</b>
	<b>Restated</b>	<b>Additions</b>	<b>Reclassifications</b>	<b>Retirements</b>	
Land	\$ 18,376	\$ -	\$ -	\$ -	\$ 18,376
Library materials	25,687	-	-	-	25,687
Construction in progress	147,161	143,396	(123,297)	-	167,260
Total nondepreciable assets	191,224	143,396	(123,297)	-	211,323
Land improvements	66,789	-	4,933	-	71,722
Buildings & improvements	972,317	-	109,501	(4,879)	1,076,939
Equipment	171,409	7,030	8,863	(4,801)	182,501
Software	31,216	-	-	(186)	31,030
Right of use assets, buildings (Note 7)	39,077	23,837	-	-	62,914
Subscription based IT arrangements	21,107	1,663	-	-	22,770
Total depreciable assets	1,301,915	32,530	123,297	(9,866)	1,447,876
Less accumulated depreciation:					
Land improvements	46,716	2,516	-	-	49,232
Buildings & improvements	464,928	30,504	-	(1,755)	493,677
Equipment	131,193	10,604	-	(4,662)	137,135
Software	30,391	583	-	(186)	30,788
Right of use assets, buildings (Note 7)	4,055	2,426	-	-	6,481
Subscription based IT arrangements	3,327	3,702	-	-	7,029
Total accumulated depreciation	680,610	50,335	-	(6,603)	724,342
Net depreciable assets	621,305	(17,805)	123,297	(3,263)	723,534
Total capital assets, net	\$ 812,529	\$ 125,591	\$ -	\$ (3,263)	\$ 934,857

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**DRAFT****4.1****6. CAPITAL ASSETS - CONTINUED**

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

	2022 Restated				
	Beginning Balance	Additions	Reclassifications	Retirements	Ending Balance
Land	\$ 18,376	\$ -	\$ -	\$ -	\$ 18,376
Library materials	25,687	-	-	-	25,687
Construction in progress	50,455	114,000	(17,294)	-	147,161
Total nondepreciable assets	94,518	114,000	(17,294)	-	191,224
Land improvements	63,597	-	3,498	(306)	66,789
Buildings & improvements	961,281	-	12,235	(1,199)	972,317
Equipment	167,685	4,605	1,561	(2,442)	171,409
Software	31,311	6	-	(101)	31,216
Right of use assets, buildings (Note 7)	16,490	22,587	-	-	39,077
Subscription based IT arrangements	17,056	4,051	-	-	21,107
Total depreciable assets	1,257,420	31,249	17,294	(4,048)	1,301,915
Less accumulated depreciation:					
Land improvements	44,688	2,325	-	(297)	46,716
Buildings & improvements	438,259	27,421	-	(752)	464,928
Equipment	122,998	10,490	-	(2,295)	131,193
Software	29,613	879	-	(101)	30,391
Right of use assets, buildings (Note 7)	1,624	2,431	-	-	4,055
Subscription based IT arrangements	-	3,327	-	-	3,327
Total accumulated depreciation	637,182	46,873	-	(3,445)	680,610
Net depreciable assets	620,238	(15,624)	17,294	(603)	621,305
Total capital assets, net	\$ 714,756	\$ 98,376	\$ -	\$ (603)	\$ 812,529

As of June 30, 2023 and 2022, \$26,443 and \$3,659, respectively, in proceeds from debt issuances remain unspent. These amounts are included in the accompanying Statements of Net Position as part of deposits with trustees along with amounts restricted for debt service.

Also remaining unspent as of June 30, 2023 and 2022 is \$4,257 and \$15,756, 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 \$46,730 and \$69,160 at June 30, 2023 and 2022, respectively.



## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**DRAFT****7. ACCRUED LIABILITIES, LEASE LIABILITIES AND LONG-TERM DEBT****4.1**

Changes in accrued liabilities, obligations for right of use assets and long-term debt during the year ended June 30 include the following:

	<b>2023</b>				
	<b>Beginning Balance Restated</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Accrued liabilities:					
Workers' compensation (Note 11)	\$ 1,926	\$ 373	\$ (568)	\$ 1,731	\$ 490
Health insurance (Note 11)	6,382	90,580	(90,320)	6,642	6,642
Postemployment health plan (Note 14)	17,782	27,188	(44,970)	-	-
Other employee benefit programs (Note 13)	67,458	75,689	(82,644)	60,503	12,109
Other	23,915	9,154	(23,915)	9,154	9,154
Total accrued liabilities	\$ 117,463	\$ 202,984	\$ (242,417)	\$ 78,030	\$ 28,395
Obligations for right of use assets	\$ 52,415	\$ 25,182	\$ (6,036)	\$ 71,561	\$ 5,997
Long-term debt:					
Bonds payable <sup>(b)</sup>	\$ 105,227	\$ 173,963	\$ (56,568)	\$ 222,622	\$ 18,305
Direct borrowings <sup>(b)</sup>	46,666	11,812	(44,361)	14,117	1,626
Total long-term debt	\$ 151,893	\$ 185,775	\$ (100,929)	\$ 236,739	\$ 19,931

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

	<b>2022 Restated</b>				
	<b>Beginning Balance Restated</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Accrued liabilities:					
Workers' compensation (Note 11)	\$ 2,201	\$ 249	\$ (524)	\$ 1,926	\$ 533
Health insurance (Note 11)	6,287	85,666	(85,571)	6,382	6,382
Postemployment health plan (Note 14)	-	29,255	(11,473)	17,782	-
Other employee benefit programs (Note 13)	55,538	82,870	(70,950)	67,458	16,554
Other	27,124	23,915	(27,124)	23,915	23,915
Total accrued liabilities	\$ 91,150	\$ 221,955	\$ (195,642)	\$ 117,463	\$ 47,384
Obligations for right of use assets	\$ 31,405	\$ 26,642	\$ (5,632)	\$ 52,415	\$ 5,759
Long-term debt:					
Bonds payable <sup>(b)</sup>	\$ 117,502	\$ -	\$ (12,275)	\$ 105,227	\$ 11,473
Direct borrowings <sup>(b)</sup>	47,870	104	(1,308)	46,666	44,282
Total long-term debt	\$ 165,372	\$ 104	\$ (13,583)	\$ 151,893	\$ 55,755

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**DRAFT****4.1****7. ACCRUED LIABILITIES, LEASE LIABILITIES AND LONG-TERM DEBT - CONTINUED****a. Obligations for right of use assets**

The System leases building space for various terms under long-term noncancelable lease agreements. The original lease terms expire at various dates through 2036 and provide for renewal options (ranging from 1-15 years) which extend them to 2043. The System also has noncancelable SBITAs for the right to use information technology hardware and software. The original lease terms expire at various dates through 2028 and provide for renewal options (ranging from 2-10 years) which extend them to 2035.

Lease liabilities include leases with options to purchase after three to five years. Monthly installments for FY23 total \$958 including interest at rates of 1.02% to 2.96%.

Certain leases and SBITA liabilities provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases.

Total future minimum lease and SBITA payments as of June 30, 2023 are as follows:

Year Ending June 30:	Lease Liabilities		Subscription Based IT Liabilities	
	Principal	Interest	Principal	Interest
2024	\$ 2,471	\$ 840	\$ 3,526	\$ 199
2025	2,322	1,013	2,657	159
2026	2,391	983	2,421	114
2027	38,594	404	1,485	70
2028	1,474	173	1,210	48
2029-2033	6,025	607	2,678	143
2034-2038	2,318	265	754	10
2039-2043	1,235	74	-	-
<b>Total Payments</b>	<b>\$56,830</b>	<b>\$4,359</b>	<b>\$14,731</b>	<b>\$ 743</b>

As of June 30, 2023 and 2022, right of use lease assets acquired through outstanding leases consisting of building and office space totalled \$56,433 (net of \$6,481 accumulated amortization) and \$35,021 (net of \$4,056 accumulated amortization), respectively (*Note 6*).

As of June 30, 2023 and 2022, subscription based IT arrangements for the right to use information technology hardware and software totaled \$15,740 (net of \$7,029 accumulated amortization) and \$17,780 (net of \$3,327 accumulated amortization), respectively (*Note 6*).

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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

4.1

**b. Bonds Payable and Direct Borrowings**

Bonds payable and direct borrowings consist of the following at June 30:

	2023	2022
<b>Bonds Payable:</b>		
2023 Series A Revenue Bonds (original principal \$37,510) Serial bonds, maturing from 2024 to 2034, with annual principal payments from \$2,150 to \$4,615 and coupon interest rate of 5.0%. Issued to refund 2013 Series A Revenue bonds and to provide funding for capital projects. Includes premiums of \$4,139 and \$0 respectively.	\$41,649	\$ -
2022 Series A Revenue Bonds (original principal \$120,325) Serial and Term bonds, maturing from 2024 to 2062, with annual principal payments from \$1,165 to \$6,050 and coupon interest rates from 5.0% to 5.5%. Issued to provide funding for capital projects. Includes premiums of \$10,867 and \$0, respectively.	126,562	-
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 \$319 and \$637, respectively.	8,954	13,032
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 \$791 and \$1,099, respectively.	32,941	35,754
2013 Series A Revenue Bonds (original principal of \$65,255) Serial and Term bonds, refinanced May 2023 with 2023 Series A Revenue Serial bonds; 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 \$0 and \$1,568 respectively.	-	42,818
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 \$271 and \$308, respectively.	12,516	13,623
<b>Total bonds payable, net</b>	<b>222,622</b>	<b>105,227</b>

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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**b. Bonds Payable and Direct Borrowings - continued**

4.1

<b>Direct Borrowings:</b>		
TD Bank, N.A.: \$43,000 bond anticipation note, Series 2021, monthly interest only payments at .31%, matured July 2022.	\$ -	\$ 43,000
Key Government Finance Inc. (KGF): \$832 loan secured by five-year software license agreement, annual payments of \$182, including interest at 3.78%, matured July 2023. The loan agreement contains a provision that in the event of default, KGF may exercise one or more of the following remedies in its sole discretion: a) terminate the agreement and all of the UMS' rights to the software license agreement, b) seek court action to enforce payment, c) cause the Licensor to terminate the license with the UMS, d) declare all unpaid installment payments to be immediately due and payable. Late charges will be assessed on any delinquent payments from the due date of the payment until paid at the rate of 5% per annum or the highest rate permitted by law, whichever is less.	176	346
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.  The promissory note contains a provision that in the event of default, all outstanding principal shall be immediately due and payable, and interest on the unpaid principal balance shall thereafter accrue at an interest rate equal to 12%.	714	973
Banc of America Public Capital Corp. (BOAPCC): 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. The master lease purchase agreement contains a provision that in the event of default, BOAPCC has the right, at its sole option, to take one or any combination of the following steps: a) declare all remaining payments due and payable, b) repossess the financed property, c) whatever action at law or in equity may appear necessary or desirable to enforce its rights under the agreement.	13,227	2,347
Total direct borrowings	14,117	46,666
Total bonds payable and direct borrowings	\$236,739	\$151,893
Total par value of bonds payable and direct borrowings	\$220,352	\$148,281
Total unamortized premiums and discounts	16,387	3,612
Total bonds payable and direct borrowings	\$236,739	\$151,893

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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4.1

**b. Bonds Payable and Direct Borrowings - continued**

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 payable and direct borrowings for the next five years and in subsequent five-year periods are as follows at June 30, 2023:

Year Ending June 30:	Bonds Payable		Direct Borrowings	
	Principal	Interest	Principal	Interest
2024	\$ 16,120	\$ 9,961	\$ 1,626	\$ 425
2025	14,885	9,579	906	385
2026	15,615	8,828	758	347
2027	13,855	7,757	566	10
2028	14,460	7,438	491	329
2029-2033	48,385	28,957	2,600	1,422
2034-2038	11,910	21,407	3,271	963
2039-2043	8,565	18,689	3,899	403
2044-2048	10,930	15,919	-	-
2049-2053	14,165	12,691	-	-
2054-2058	18,520	8,344	-	-
2059-2062	18,825	2,658	-	-
<b>Total Payments</b>	<b>\$ 206,235</b>	<b>\$ 152,228</b>	<b>\$ 14,117</b>	<b>\$4,284</b>

Interest costs related to the revenue bonds for FY23 and FY22 were \$7,970 and \$3,408, respectively.

***Issuance of 2022 Series A Revenue Bonds***

On July 20, 2022, the System issued \$120,325 of 2022 Series A Revenue Bonds to pay off \$43,000 of bond anticipation notes and to provide \$83,396 for new projects. An escrow account was not needed because the bond anticipation notes matured in July 2022 and could be paid off in advance of the final maturity date without penalty.

***Issuance of 2023 Series A Revenue Bonds***

On May 24, 2023, the System issued \$37,510 of 2023 Series A Revenue Bonds to currently refund \$38,190 of 2013 Series A Revenue Bonds and to provide \$2,850 for projects. The System completed the refunding to reduce its total debt service payments over the following twelve years by \$3,023 and to obtain economic gain (difference between the present values of the old and new debt service payments) of \$2,174. The principal amount of debt refunded through in-substance defeasance was \$38,190. The amount still outstanding at June 30, 2023 was \$0. Refunding bond

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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4.1

**b. Bonds Payable and Direct Borrowings - continued**

proceeds of \$38,582 were placed in an escrow account to pay the interest due on the refunded bonds and to retire the bonds on their respective call dates, which was June 23, 2023.

The refunding of the 2013 Series A bonds resulted in a deferred amount on refunding of (\$869) which represents the difference between the reacquisition price and the carrying value of the refunded bonds. Amortization of this deferred amount on refunding will be charged to operations as additional interest expense through the year FY34. The unamortized portion of the deferred amount on refunding, which was (\$869) and \$0 as of June 30, 2023 and 2022, respectively, is included in deferred outflows in the accompanying Statements of Net Position.

**8. UNEARNED REVENUE AND DEPOSITS**

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

	2023			2022 Restated		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Unearned grant advances	\$14,386	\$14,386	\$ -	\$14,618	\$14,618	\$ -
Unearned summer session revenue	8,223	8,223	-	7,730	7,730	-
Student deposits and advance payments	6,196	6,196	-	4,546	4,546	-
Funds Held for Others	594	476	118	1,811	1,735	76
Unearned revenue, dining	6,797	850	5,947	4,196	513	3,683
Other unearned revenue and deposits	5,073	3,910	1,163	454	39	415
Total unearned revenue, deposits and other liabilities	\$41,269	\$34,041	\$ 7,228	\$33,355	\$29,181	\$ 4,174

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 (see unearned grant advances in the above table) which is a current liability in the Statements of Net Position.

The vast majority of grant and contract awards made to the System pay 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, 2023 and 2022, the portion of outstanding awards excluded from the financial statements totaled \$99,747 and \$71,848, respectively.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**DRAFT****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, 2023 and 2022 has been included in the accompanying Statements of Net Position as a noncurrent liability.

**10. NET POSITION**

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

	2023	2022 Restated
Net investment in capital assets	\$ 634,614	\$ 589,331
Restricted - Nonexpendable:		
Endowment funds	72,410	71,249
Restricted - Expendable:		
Student financial aid	57,111	52,241
Capital assets and retirement of debt	9,923	21,414
Loans	17,319	17,096
Academic support	20,390	16,917
Research and public service	16,035	11,675
Library	4,648	4,059
Other	26,629	24,017
Total restricted - expendable	152,055	147,419
Unrestricted:		
Educational and general reserves	53,577	83,858
Risk management	4,022	3,603
Budget stabilization	4,997	4,873
Auxiliary enterprises	2,054	7,643
Benefit pool carryover	35,909	28,732
Implementation of GASB 75 for OPEB	(33,795)	(33,795)
Information technology initiatives	2,932	2,695
Internally designated projects	20,251	21,499
Facility projects	29,117	36,418
Quasi endowment corpus	12,051	11,347
Endowment appreciation	6,276	5,836
Cost sharing and other	4,245	(11,428)
Total unrestricted	141,636	161,281
Total Net Position	\$ 1,000,715	\$ 969,280

**11. COMMITMENTS AND CONTINGENCIES****a. Grant Program Involvement**

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

**b. Risk Management – Insurance Programs**

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

The System's retention obligation for the general liability and vehicle liability is capped at \$400 per claim, with an aggregate limit of \$25,000 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, 2023 and 2022 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. 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, 2023 and 2022 of \$1,731 and \$1,926, 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 UMS' insurable 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 agreement with a commercial carrier. The System purchases stop-loss insurance which limits the exposure to \$1,000 per individual. For retirees who are Medicare eligible, effective for calendar year 2021, the System began offering two health plan options. The legacy option is a fully insured Medicare Advantage Private Fee for Service program with a commercial carrier. The new option is a Medicare Exchange program including a funded Health Reimbursement Account (HRA). As of June 30, 2023 and 2022, the estimated liability for claims incurred but not reported is included in total health insurance accrued liabilities in the accompanying Statements of Net Position (see Note 7).



## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**DRAFT****4.1****11. COMMITMENTS AND CONTINGENCIES - CONTINUED**

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

	2023	2022
Claims incurred but not reported	\$5,816	\$5,418
Reported claims	826	964
<u>Total health insurance liability (Note 7)</u>	<u>\$6,642</u>	<u>\$6,382</u>

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 until the end of the calculation period, which was December 31, 2022. As of June 30, 2023 and 2022 the estimated liability for the premium rebate of \$1,321 and \$0, respectively, has been included in the accompanying Statements of Net Position as a current liability.

**12. PASS THROUGH GRANTS**

During FY23 and FY22, the System distributed \$92,110 and \$96,450, respectively, for student loans through the U.S. Department of Education Federal Direct Lending Program. These distributions and related funding sources are not included as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements.

**13. PENSION PLANS**

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

	2023	2022
Faculty and Professional Employees:		
Contributory retirement plan*	\$ 33,084	\$ 24,046
Incentive retirement plan	1,474	1,315
Hourly Employees:		
Basic retirement plan	3,578	3,353
Defined benefit plan	431	1,014
<u>Total pension expense</u>	<u>\$ 38,567</u>	<u>\$ 29,728</u>

\*Includes early retirement incentives (See Note13f).

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**13a. 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 has 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 \$10,158 in FY23 and \$9,618 in FY22.

**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 may elect to retire at any age on or after 55.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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4.1

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

**Plan Membership:** At June 30, 2023 and 2022, active plan participants consisted of 608 and 699, 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, 2023 and 2022 was \$17,206 and \$19,090, 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 as of June 30, 2023 and 2022 was determined by an actuarial valuation as of July 1, 2023 and July 1, 2021 rolled forward to the measurement date of June 30, 2022, 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	3.65% as of June 30, 2023
	3.54% as of June 30, 2022
Life expectancy	2023 and 2022: Mortality rates were based on the Pub-2010 Mortality Table projected with Scale MP-2021 and Scale MP2020, respectively.

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

For the Incentive Plan, which does not hold assets, the total pension liability is based on the discount rate of 3.65% and 3.54% as of June 30, 2023 and 2022, respectively. The rates are based on the municipal bond rates as of the measurement dates. The municipal bond rates for 2023 and 2022 are based on the Bond Buyer 20-Bond General Obligation (GO) Index published for the weeks of June 30, 2023 and June 30, 2022, respectively.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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

**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, 2023			June 30, 2022		
	1% Decrease (2.65%)	Current Discount Rate (3.65%)	1% Increase (4.65%)	1% Decrease (2.54%)	Current Discount Rate (3.54%)	1% Increase (4.54%)
Total pension liability	\$17,758	\$17,206	\$16,651	\$19,667	\$19,090	\$18,510

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

Fiscal Year Ended June 30	2023	2022
Total pension liability – beginning	\$ 19,090	\$ 21,208
Changes for the year:		
Service cost	503	616
Interest	645	446
Differences between expected and actual experience	(216)	-
Changes of assumptions and other inputs	(59)	(792)
Benefit payments	(2,757)	(2,388)
Total pension liability – ending (a)	17,206	19,090
Fiduciary net position – beginning	-	-
Contributions – employer	2,757	2,388
Benefit payments	(2,757)	(2,388)
Fiduciary net position – ending (b)	-	-
Net pension liability – ending (a)-(b)	\$ 17,206	\$ 19,090
Plan fiduciary net position as a percentage of the total pension liability	0.00%	0.00%
Covered payroll	\$ 51,931	\$ 59,119
Net pension liability as a percentage of covered payroll	33.13%	32.29%
Contributions as a percentage of covered payroll	5.31%	4.04%

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**13c. 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 achieve the equivalent of five years of continuous, full-time regular service. Since June 1, 2014, all contributions have been directed to TIAA as the sole record-keeper.

Employees hired prior to July 1, 1998 and who have more than five years of completed service may voluntarily contribute up to 4% of base pay to the 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%.

Employees hired before January 1, 2010 were fully and immediately vested in the employer matching contribution. 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. 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 \$1,563 in FY23 and \$1,422 in FY22.

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**13d. 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 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:

	2023	2022
Inactive plan participants or beneficiaries currently receiving benefits	637	669
Inactive plan participants entitled to but not yet receiving benefits	178	187
Active plan participants	1	1
Total plan participants	816	857

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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

**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 \$880 through and including FY53, at which point the projected fiduciary net position is estimated to be sufficient to meet annual benefit payments. The required employer contribution will be re-determined with each actuarial valuation as market performance and other factors will impact the required funding amount. Funding the Plan over the long-term allows the System to minimize contribution volatility.

Employees do not make contributions under this 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.

**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 in effect as of June 20, 2023 and 2022:

	2023	2022
Equity securities	25-45%	25-45%
Fixed income securities	38-58%	35-55%
Other	10-20%	15-35%
Cash	0-10%	0-10%

**Rate of Return:** For the years ended June 30, 2023 and 2022, the annual money-weighted rate of return, net of investment expenses, was 6.53% and -7.21%, respectively.

**Net Pension Liability**

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

	2023	2022
Total pension liability	\$ 29,698	\$ 32,044
Fiduciary net position	(18,987)	(20,392)
Net pension liability	\$ 10,711	\$ 11,652
Fiduciary net position as a percentage of the total pension liability	63.9%	63.6%

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

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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

**Actuarial Assumptions:** The total pension liability as of June 30, 2023 and 2022 was determined by an actuarial valuation as of July 1, 2023 and as of July 1, 2021 rolled forward to the measurement date of June 30, 2022, 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	2.7% and 2.5% as of June 30, 2023 and 2022 respectively
Salary increases	3.5% for all years
Investment rate of return	6.25% net of investment expenses, including inflation
Life expectancy	2023 and 2022: Pre-retirement and post-retirement mortality rates were based on the Pub-2010 Mortality Table projected with Scale MP-2021 and Scale MP2020, respectively. For disabled lives, the mortality rates were based on the Pub-2010 amount-weighted Disabled Mortality Table with Scale MP-2021 and Scale MP2020, respectively.

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.

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	2023		2022	
	Target Allocation	Long-Term Expected Real Rates of Return	Target Allocation	Long-Term Expected Real Rates of Return
Global Equity	30%	4.70%	30%	5.20%
Emerging Market Equity	3%	6.60%	3%	7.10%
Fixed Income	48%	2.21%	43%	1.82%
Global Asset Allocation	8%	3.50%	8%	3.60%
Real Estate	3%	3.10%	8%	2.70%
Alternative Investments	5%	3.40%	5%	3.80%
Cash	3%	0.70%	3%	0.40%
Total	100%		100%	



## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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

**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, 2023 and 2022 was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from the System will be made in accordance with the Plan's funding policy adopted on February 27, 2014. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected benefit payments of current plan participants. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

**Sensitivity of the net pension liability to changes in the discount rate:** The following presents the net pension liability as of June 30 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, 2023			June 30, 2022		
	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	\$ 31,678	\$ 29,698	\$ 27,944	\$ 34,202	\$ 32,044	\$ 30,134
Fiduciary net position	18,987	18,987	18,987	20,392	20,392	20,392
Net pension liability	\$ 12,691	\$ 10,711	\$ 8,957	\$ 13,810	\$ 11,652	\$ 9,742

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**DRAFT****4.1****13d. Defined Benefit Plan – Classified Employees - continued**Changes in Net Pension Liability for the **Defined Benefit Pension Plan**:

<b>Fiscal Year Ended June 30</b>	<b>2023</b>	<b>2022</b>
Total pension liability – beginning	\$ 32,044	\$ 33,840
Changes for the year:		
Service cost	1	1
Interest	1,891	1,996
Differences between expected and actual experience	(748)	-
Changes of assumptions	95	-
Benefit payments	(3,585)	(3,793)
Total pension liability – ending (a)	29,698	32,044
Fiduciary net position – beginning	20,392	25,291
Contributions – employer	948	672
Net investment income	1,241	(1,760)
Benefit payments	(3,585)	(3,793)
Administrative expenses	(9)	(18)
Fiduciary net position – ending (b)	18,987	20,392
Net pension liability – ending (a)-(b)	\$ 10,711	\$ 11,652
Plan fiduciary net position as a percentage of the total pension liability	63.93%	63.64%
Covered payroll	\$ 59	\$ 48
Net pension liability as a percentage of covered payroll	18283.28%	24138.26%
Contributions as a percentage of covered payroll	1618.13%	1392.86%
Plan assets measured at fair value	\$ 18,987	\$ 20,392

**13e. 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.

**13f. Early retirement incentives**

In FY23, the System offered a second phase of early retirement incentives to eligible faculty who made the election to retire during FY24. Eligibility was based on the member attaining the age of 62 and having 10 or more years of consecutive service at the time of retirement; or age 60 or older and having 20 or more years of service. The incentives are equal to 50% of the employee's annual salary and is to be paid as a lump-sum contribution to the participant's retirement account in FY24, subject to IRS limits, unless the retirement date is deferred upon request of the System's administrators.

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**13f. Early retirement incentives - continued**

In FY22, the System offered early retirement incentives to eligible faculty members who made the election to retire during FY23. Eligibility was based on the member attaining the age of 62 and having 10 or more years of consecutive service at the time of retirement; or age 60 or older and having 20 or more years of service. The incentives are equal to 100% of the employee's annual salary and is to be paid as a lump-sum contribution to the participant's retirement account in FY23, subject to IRS limits, unless the retirement date is deferred upon request of the System's administrators.

The System's early incentive retirement expense for FY23 and FY22 was \$2,505 and \$9,657, respectively, and is included in pension expense. The related liability at June 30, 2023 and 2022 was \$5,448 and \$9,657, respectively, and is included in accrued liabilities in the accompanying Statements of Net Position.

**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 Exchange 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 may vary depending on plan selected, retirement incentive programs, retirement date and years of service. The System also provides a subsidy for eligible spouses and dependents. With certain restrictions, spouses and dependents are eligible to continue coverage after the death of a retiree meeting the above criteria.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**DRAFT****4.1****14. POSTEMPLOYMENT HEALTH PLAN - CONTINUED**

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

The System's OPEB expense for June 30, 2023 and 2022 was \$3,205 and \$3,444, respectively.

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

	2023	2022
Inactive plan participants or beneficiaries currently receiving benefits	2,252	2,166
Active plan participants	4,058	4,036
Total plan participants	6,310	6,202

**Contributions:** The System annually makes 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 and limit contribution volatility. The required contribution amount will be re-determined with each actuarial valuation as market performance, experience, assumptions, and other factors will impact the funding needed.

**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 MIP which includes this OPEB Trust with balances as reported below as Fiduciary net position.

**Net OPEB Liability**

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

	2023	2022
Total OPEB liability	\$153,258	\$173,794
Fiduciary net position	(174,427)	(156,012)
Net OPEB liability (asset)	\$(21,169)	\$ 17,782
Fiduciary net position as a percentage of the total OPEB liability	113.81%	89.77%

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

DRAFT

**14. POSTEMPLOYMENT HEALTH PLAN - CONTINUED**

4.1

**Actuarial Assumptions:** The total OPEB liability as of June 30, 2023 was determined by an actuarial valuation as of July 1, 2023. The results of the June 30, 2022 measurement date are based on a roll forward of the liabilities developed for the June 30, 2021 valuation. The following actuarial assumptions, applied to all periods included in the measurement.

Actuarial cost method	Entry age normal
Actuarial asset method	Market value
Inflation	2.5% as of June 30, 2023; 2.4% as of June 30, 2022
Investment rate of return	7.25% net of investment expenses, including inflation as of June 30, 2023 and 2022
Healthcare cost trend rate (Cigna Plans)	8% for 2023 decreasing .5% per year to 5.5%, then grading down to an ultimate trend rate of 4.1%, utilizing the Society of Actuaries Getzen Medical Trend Model. The ultimate medical inflation rate is reached in 2075.
Healthcare cost trend rates (Aetna Medicare Advantage)	Annual increases of 6% in year 1 grading down 0.5% per year to an ultimate trend rate of 4%, recognizing that over the last several years there have been plan design changes that have impacted the premium rates.
Healthcare cost trend rates	2021 to 2022: 6% for 2022 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.
Prescription drug trend rates (Catastrophic prescription Drug HRA)	20% for year 1, 19% for year 2, 18% for year 3, decreasing at varying rates per year to an ultimate trend rate of 6%. The ultimate prescription trend rate is reached in 2042. 2021 to 2022: 6.5% for 2022, decreasing .25% per year to an ultimate trend rate of 5 percent.
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-2021 for 2023 and Scale MP-2020 for 2021. 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-2021 for 2023 and Scale MP-2020 for 2021.

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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4.1

**14. POSTEMPLOYMENT HEALTH PLAN - CONTINUED**

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	2023		2022	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Equities	25.0%	4.00%	22.0%	4.40%
Domestic Small/Mid Cap	5.0%	4.80%	6.0%	5.00%
International Equities	10.0%	3.80%	10.0%	4.50%
International Small Cap Equities	2.0%	5.10%	4.0%	5.30%
Emerging Market Equities	5.0%	6.70%	3.5%	7.00%
Emerging Small Cap Market Equities	2.0%	6.60%	3.5%	7.10%
Global Equity	10.0%	4.70%	10.0%	5.20%
Domestic Core Bonds	6.5%	2.00%	9.5%	1.50%
Treasury Inflation Protected Sec (TIPS)	5.0%	1.40%	3.5%	1.10%
Short-term TIPS	5.0%	1.70%	3.5%	0.70%
Bank Loans	5.0%	4.10%	5.0%	3.80%
Absolute Return Fixed Income	5.0%	3.00%	5.0%	2.80%
Global Asset Allocation	7.5%	3.50%	7.5%	3.60%
Hedge Funds	7.0%	3.40%	7.0%	3.80%
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.

The discount rate used to measure the total OPEB liability at the measurement dates of June 30, 2023 and 2022 was 7.25%. The projection of cash flows used to determine the discount rate

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**DRAFT****14. POSTEMPLOYMENT HEALTH PLAN - CONTINUED****4.1**

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, 2023			June 30, 2022		
	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	\$169,518	\$153,258	\$139,458	\$194,701	\$173,794	\$156,357
Fiduciary net position	174,427	174,427	174,427	156,012	156,012	156,012
Net OPEB liability (asset)	\$(4,909)	\$(21,169)	\$(34,969)	\$ 38,689	\$ 17,782	\$ 345

**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, 2023			June 30, 2022		
	1% Decrease 7% Year 1 Decreasing to 3.1%	Healthcare Cost Trend Rates 8% Year 1 Decreasing to 4.1%	1% Increase 9% Year 1 Decreasing to 5.1%	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%
Total OPEB liability	\$137,740	\$153,258	\$171,881	\$153,076	\$173,794	\$199,108
Fiduciary net position	174,427	174,427	174,427	156,012	156,012	156,012
Net OPEB liability (asset)	\$(36,687)	\$(21,169)	\$(2,546)	\$ (2,936)	\$ 17,782	\$ 43,096

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

**DRAFT****14. POSTEMPLOYMENT HEALTH PLAN - CONTINUED****4.1**

Changes in the net OPEB liability:

<b>Fiscal Year Ended June 30</b>	<b>2023</b>	<b>2022</b>
Total OPEB liability – beginning	\$ 173,794	\$ 162,212
Changes for the year:		
Service cost	6,364	6,150
Interest	12,803	11,969
Changes of benefit terms	4,499	-
Differences between expected and actual experience	(27,303)	-
Changes of assumptions	(9,784)	-
Benefit payments	(7,115)	(6,537)
Total OPEB liability – ending (a)	153,258	173,794
Fiduciary net position – beginning	156,012	180,270
Contributions – employer	8,774	4,937
Net investment income (loss)	16,756	(22,658)
Benefit payments	(7,115)	(6,537)
Fiduciary net position – ending (b)	174,427	156,012
Net OPEB liability (asset)– ending (a)-(b)	\$ (21,169)	\$ 17,782
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	113.81%	89.77%
Covered payroll	\$ 292,603	\$ 267,061
Net OPEB liability (asset) as a percentage of covered employee payroll	-7.23%	6.66%
Contributions as a percentage of covered payroll	3.00%	1.85%
Plan assets measured at fair value	\$ 174,427	\$ 156,012



## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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

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

<b>2023</b>						
	<b>Pension Liability</b>	<b>OPEB</b>	<b>Deferred Amount on Debt Refunding</b>	<b>Irrevocable Split-Interest Agreements</b>	<b>Leases</b>	<b>Total</b>
Deferred outflows of resources	\$ 2,329	\$13,094	\$ 1,770	\$ -	\$ -	\$17,193
Deferred inflows of resources	\$ 891	\$48,725	\$ -	\$ 218	\$ 3,783	\$53,617

<b>2022 Restated</b>						
	<b>Pension Liability</b>	<b>OPEB</b>	<b>Deferred Amount on Debt Refunding</b>	<b>Irrevocable Split-Interest Agreements</b>	<b>Leases</b>	<b>Total</b>
Deferred outflows of resources	\$ 3,456	\$25,070	\$ 3,181	\$ -	\$ -	\$31,707
Deferred inflows of resources	\$ 993	\$27,319	\$ -	\$ 470	\$ 3,758	\$32,540

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>2023</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	\$ 726	\$ -	\$ 726	\$ 5,180
Difference between expected and actual experience	485	-	485	-
Net difference between projected and actual earnings on plan investments	-	1,118	1,118	7,914
Total deferred outflows of resources	1,211	1,118	2,329	13,094
Deferred inflows of resources				
Changes of assumption or other inputs	652	-	652	12,868
Difference between expected and actual experience	239	-	239	35,857
Total deferred inflows of resources	891	-	891	48,725
Net deferred outflows (inflows)	\$ 320	\$ 1,118	\$ 1,438	\$ (35,631)

## NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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

<b>2022</b>				
	Incentive Retirement Plan	Defined Benefit Plan	Total Pension	OPEB
Deferred outflows of resources				
Changes of assumption or other inputs	\$ 1,120	\$ -	\$ 1,120	\$ 8,290
Difference between expected and actual experience	794	-	794	-
Net difference between projected and actual earnings on plan investments	-	1,542	1,542	16,780
Total deferred outflows of resources	1,914	1,542	3,456	25,070
Deferred inflows of resources				
Changes of assumption or other inputs	846	-	846	6,035
Difference between expected and actual experience	147	-	147	21,284
Total deferred inflows of resources	993	-	993	27,319
Net deferred outflows (inflows)	\$ 921	\$ 1,542	\$ 2,463	\$(2,249)

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
2024	\$218	\$278	\$496	\$(8,856)
2025	179	199	378	(10,072)
2026	121	647	768	(2,199)
2027	(107)	(6)	(113)	(9,610)
2028	(86)	-	(86)	(4,894)
Thereafter	(5)	-	(5)	-
	\$320	\$1,118	\$1,438	\$(35,631)

**16. COMPONENT UNITS**

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

The Foundation is a legally separate, tax-exempt organization, which acts primarily as a fund-raising organization to supplement the resources that are available to the System in support of its programs. The Board of Directors of the Foundation is self-perpetuating and independent of the System's Board of Trustees. Although the System does not control the timing or amount of receipts from the Foundation, the Foundation holds and invests resources almost entirely for the System's benefit (specifically the University of Maine); the System is entitled to access a majority of the economic resources held; and the economic resources held are "significant to the System" based on 5% of net position and 5% of total assets thresholds.

During 2021 the Foundation changed their fiscal year end from June 30, 2021 to December 31, 2021 and has accordingly been discretely presented as a component unit of the System in the accompanying financial statements as of and for the year and six months ended December 31, 2022 and December 31, 2021, respectively, 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 the Foundation's endowments with donor restrictions were \$14,409 for the year ending December 31, 2022 and \$7,409 for the six months ending December 30, 2021.

The Foundation asset category, long-term investments, endowment, comprised 87% and 84% of the Foundation's total assets as of December 31, 2022 and December, 2021, 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% for

**16. COMPONENT UNITS - CONTINUED**

December 31, 2022 and December 31, 2021. Actual returns in any given year may vary from these amounts.

**Endowment spending policy**

The Foundation utilizes a spending policy for its pooled endowment in order to provide for the current and long-term needs of endowment recipients. The spending policy determines the endowment income to be distributed. For the periods ended December 31, 2022 and December 31, 2021 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 year ended December 31, 2022 and the six months ended December 31, 2021 the Foundation distributed \$36,946 and \$8,243, 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)

**DRAFT****4.1****16. COMPONENT UNITS - CONTINUED**

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 December 31, 2022 and December 31, 2021 were \$12,971 and \$32,499, 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 December 31, 2022:

	NAV	Level 1	Level 2	Level 3	Total	Liquidity
U.S. equities	\$ 71,694	\$ 12,976	\$ -	\$ -	\$ 84,670	Daily/Monthly
Non-U.S. equities	19,173	28,251	-	-	47,424	Daily/Monthly/Quarterly
Global equities	28,789	-	-	-	28,789	Monthly/Quarterly
U.S. fixed income	-	32,910	-	-	32,910	Daily
Total private investments	50,968	-	-	-	50,968	Illiquid
Alternative investments	25,355	-	-	-	25,355	Monthly/Quarterly/Semi-Annually
Cash	-	13,826	-	-	13,826	Daily
<b>Total long-term investments, endowment</b>	<b>\$195,979</b>	<b>\$ 87,963</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$283,942</b>	

The following table summarizes the Foundation's long-term endowment investments by class in the fair value hierarchy as of December 31, 2021:

	NAV	Level 1	Level 2	Level 3	Total	Liquidity
U.S. equities	\$ 90,337	\$15,306	\$ -	\$ -	\$105,643	Daily/Monthly
Non-U.S. equities	31,324	27,321	-	-	58,645	Daily/Monthly/Quarterly
Global equities	41,398	-	-	-	41,398	Monthly/Quarterly
U.S. fixed income	-	35,109	-	-	35,109	Daily
Total private investments	49,269	-	-	-	49,269	Illiquid
Alternative investments	38,017	-	-	-	38,017	Monthly/Quarterly/Semi-Annually/Annually
Cash	-	961	-	-	961	Daily
<b>Total long-term investments, endowment</b>	<b>\$250,345</b>	<b>\$78,697</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$329,042</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)

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**17. PRIOR PERIOD ADJUSTMENTS**

The provisions of GASB No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs), are effective for periods beginning after June 15, 2022 and all reporting periods thereafter. This statement applies to the System's SBITA obligations and right of use assets (see Note 1b.) and the System adopted GASB No. 96 for its June 30, 2023 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. 96 are applied retroactively by restating the FY22 financial statements. The effect of the restatement was to reduce the beginning balance of net position (investment in capital assets), decrease the FY22 change in net position and decrease ending net position (unrestricted) by the following amounts.

Net Position – Beginning of year – As previously reported	\$943,517
Cumulative adjustment to Net Position	(269)
Net Position – Beginning of year – As restated	943,248
FY22 Change in Net Position – As previously reported	26,097
FY22 effect on Change in Net Position	
SBITA expenses	
Amortization of right of use assets	(2,639)
Payments applied to interest expense	(239)
Net decrease in other expenses	2,813
Total effect on Change in Net Position	(65)
FY22 Change in Net Position – As restated	26,032
Net Position – At end of year – As restated	\$969,280

**18. SUBSEQUENT EVENTS**

**Public, Private Partnership:** On August 15, 2022, the System entered into a public private partnership (P3) with Radnor Property Group, LLC (RPG). The P3 agreement is for a \$28,000 project including the renovation of Coburn and Holmes Halls and the construction of a new 24,800-square-foot building adjacent to Holmes Hall for the creation of a boutique hotel ensemble and extended stay residence on the University of Maine campus in Orono. This project will provide 95 hotel rooms and a café. The hotel is expected to open in the spring of 2024 under the operation of Olympia Hotel Management, LLC.

Under the 99-year arrangement, the System has agreed to a ground lease, a performance guarantee, and an income sharing arrangement. Commencing with the date of project stabilization, the System will lease ground and buildings to RPG at a base rent of \$38 per annum to be paid quarterly. Base rent is scheduled to increase 5% each fifth year. Once the hotel is operational, revenues will be collected by RPG and to the extent the revenues fall below annual pro forma projections during the first 25 operating years of the arrangement, the System will supplement the shortfall as outlined in the contract. In consideration for services the System will provide under the arrangement the System will receive 20% of all net operating income, on a cumulative basis, earned annually in excess of annual amounts outlined in the contract and subject to an annual maximum of \$600. Both the shortfall supplement and the income sharing are variable in nature and will be recognized as incurred.

The University commitment to the project is \$3,000 with \$1,180 disbursed at closing for the aforementioned parking lot and site improvements and the remaining \$1,320 towards construction of the hotels to be paid following request by the operator. The University has further committed \$515 as a tax reimbursement payment. Both remaining payments are anticipated to be made in December 2023. At the end of fiscal year 2023, UMS has recognized an asset of \$1,180 for construction in progress related to the hotel parking lot. Construction of the hotel is ongoing and the improvements were not yet placed into service at year end.

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**UNIVERSITY OF MAINE SYSTEM**  
**REQUIRED SUPPLEMENTAL INFORMATION – RETIREMENT AND OPEB PLANS**  
**YEAR ENDED JUNE 30, 2022 (UNAUDITED)**  
**(IN THOUSANDS)**

**INCENTIVE RETIREMENT PLAN:**

Changes in Total Pension Liability and Related Ratios									
Fiscal Year Ended June 30	2023	2022	2021	2020	2019	2018	2017	2016	2015
Service cost	\$ 503	\$ 616	\$ 692	\$ 538	\$ 595	\$ 604	\$ 862	\$ 718	\$ 880
Interest	645	446	456	719	813	785	629	877	1,110
Differences between expected and actual experience	(216)	-	833	-	(217)	-	1,287	-	(1,831)
Changes of assumptions and other inputs	(59)	(792)	376	851	562	(225)	(628)	921	505
Benefit payments	(2,757)	(2,388)	(2,198)	(2,141)	(2,175)	(1,972)	(2,084)	(5,260)	(3,114)
Net change in total pension liability	(1,884)	(2,118)	159	(33)	(422)	(808)	66	(2,744)	(2,450)
Total pension liability – beginning	19,090	21,208	21,049	21,082	21,504	22,312	22,246	24,990	27,440
Total pension liability – ending	\$17,206	\$19,090	\$21,208	\$21,049	\$21,082	\$21,504	\$22,312	\$22,246	\$24,990
Covered payroll	\$51,931	\$59,119	\$62,646	\$67,303	\$68,685	\$72,541	\$77,644	\$95,653	\$92,419
Total pension liability as a percentage of covered payroll	33.13%	32.29%	33.85%	31.27%	30.69%	29.64%	28.74%	23.26%	27.04%

Schedule of Employer Contributions									
Fiscal Year Ended June 30	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	2,757	2,388	2,198	2,141	2,175	1,972	2,084	5,260	3,114
Contribution deficiency (excess)	\$(2,757)	\$(2,388)	\$(2,198)	\$(2,141)	\$(2,175)	\$(1,972)	\$(2,084)	\$(5,260)	\$(3,114)
Covered payroll	\$51,931	\$59,119	\$62,646	\$67,303	\$68,685	\$72,541	\$77,644	\$95,653	\$92,419
Contributions as a percentage of covered payroll	5.31%	4.04%	3.51%	3.18%	3.17%	2.72%	2.68%	5.50%	3.37%



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

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

- 2023: The discount rate changed from 3.54% as of the beginning of the measurement period to 3.65% as of the end of the measurement period. The mortality improvement table was updated from MP-2020 to MP-2021.
- 2022: The discount rate changed from 2.16% as of the beginning of the measurement period to 3.54% as of the end of the measurement period.
- 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:**

4.1

Changes in Total Pension Liability and Related Ratios										
Fiscal Year Ended June 30	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014**
Changes for the year:										
Service cost	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 6	\$ 5	\$ 40	\$ -
Interest	1,891	1,996	2,148	2,255	2,270	2,385	2,545	2,769	2,884	
Differences between expected and actual experience	(748)	-	(285)	-	(1,238)	-	(759)	-	12	
Changes of assumptions	95	-	(426)	-	2,828	-	-	1,427	-	
Benefit payments	(3,585)	(3,793)	(3,916)	(4,043)	(4,153)	(4,280)	(4,435)	(4,585)	(4,693)	
Net change in total pension liability	(2,346)	(1,796)	(2,478)	(1,787)	(292)	(1,894)	(2,643)	(384)	(1,757)	
Total pension liability – beginning	32,044	33,840	36,318	38,105	38,397	40,291	42,934	43,318	45,075	
Total pension liability – ending (a)	29,698	32,044	33,840	36,318	38,105	38,397	40,291	42,934	43,318	45,075
Contributions – employer	948	672	907	896	714	695	735	538	1,100	
Net investment income	1,241	(1,760)	3,704	1,213	1,112	1,335	2,173	202	27	
Benefit payments	(3,585)	(3,793)	(3,916)	(4,043)	(4,153)	(4,280)	(4,435)	(4,585)	(4,693)	
Administrative expenses	(9)	(18)	(13)	(33)	(27)	(36)	(20)	(19)	(8)	
Net change in plan fiduciary net position	(1,405)	(4,899)	682	(1,967)	(2,354)	(2,286)	(1,547)	(3,864)	(3,574)	
Fiduciary net position – beginning	20,392	25,291	24,609	26,576	28,930	31,216	32,763	36,627	40,201	
Fiduciary net position – ending (b)	18,987	20,392	25,291	24,609	26,576	28,930	31,216	32,763	36,627	40,201
Net pension liability – ending (a)-(b)	\$10,711	\$11,652	\$ 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	63.93%	63.64%	74.74%	67.76%	69.74%	75.34%	77.48%	76.31%	84.56%	89.19%
Covered payroll*	\$ 59	\$ 48	\$ 65	\$ 68	\$ 156	\$ 105	\$ 168	\$ 312	\$ 301	\$ 692
Net pension liability as a Percentage of covered payroll	18283.28%	24138.26%	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)

DRAFT

**DEFINED BENEFIT PENSION PLAN – CONTINUED:**

4.1

**Schedule of Employer Contributions**

<b>Fiscal Year Ended June 30</b>	<b>2023</b>	<b>2022</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	\$948	\$672	\$907	\$896	\$714	\$695	\$735	\$538	\$550	\$550
Contributions in relation to the actuarially determined contribution	948	672	907	896	714	695	735	538	1,100	550
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$(550)	\$ -
Covered payroll	\$ 59	\$ 48	\$ 65	\$ 68	\$156	\$105	\$168	\$312	\$301	\$692
Contributions as a percentage of covered payroll	1618.13%	1392.86%	1396.00%	1322.06%	458.23%	664.54%	437.48%	172.49%	364.84%	79.47%

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

<b>Fiscal Year Ended June 30</b>	<b>2023</b>	<b>2022</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	6.53%	-7.21%	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)

DRAFT

4.1

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

2023: The mortality improvement table was updated from scale MP-2020 to scale MP-2021.

2022: None

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.

2017: None

2018: 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 2023: Entry age normal 2014: Projected Unit Credit
Asset valuation method	The actuarial value of assets is the market value of assets.
Inflation	2023: 2.7% per year 2021 to 2022: 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 2023: 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

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

DRAFT

**OPEB PLAN:**

4.1

## Changes in Net OPEB Liability and Related Ratios

Fiscal Year Ended June 30	2023	2022	2021	2020	2019	2018	2017	2016**
Changes for the year:								
Service cost	\$ 6,364	\$ 6,150	\$ 6,964	\$ 6,434	\$ 6,583	\$ 6,330	\$ 6,174	\$
Interest	12,803	11,969	15,725	14,769	15,354	14,482	15,567	
Changes in benefit terms	4,499	-	(49,469)	(102)	-	-	(8,670)	
Differences between expected and actual experience	(27,303)	-	(8,908)	-	(30,871)	-	(17,138)	
Changes of assumptions	(9,784)	-	(8,539)	5,938	10,090	-	6,051	
Benefit payments	(7,115)	(6,537)	(6,992)	(8,194)	(9,425)	(9,454)	(10,364)	
Net change in total OPEB liability	(20,536)	11,582	(51,219)	18,845	(8,269)	11,358	(8,380)	
Total OPEB liability – beginning	173,794	162,212	213,431	194,586	202,855	191,497	199,877	
Total OPEB liability – ending (a)	153,258	173,794	162,212	213,431	194,586	202,855	191,497	199,877
Contributions – employer	8,774	4,937	12,473	12,694	11,868	11,942	16,146	
Net investment income	16,756	(22,658)	37,389	1,561	3,546	7,979	11,565	
Benefit payments	(7,115)	(6,537)	(6,992)	(8,194)	(9,425)	(9,454)	(10,364)	
Net change in plan fiduciary net position	18,415	(24,258)	42,870	6,061	5,989	10,467	17,347	
Fiduciary net position – beginning	156,012	180,270	137,400	131,339	125,350	114,883	97,536	
Fiduciary net position – ending (b)	174,427	156,012	180,270	137,400	131,339	125,350	114,883	97,536
Net OPEB liability (asset) – ending (a)-(b)	\$ (21,169)	\$ 17,782	\$ (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)	113.81%	89.77%	111.13%	64.38%	67.50%	61.79%	59.99%	48.80%
Covered payroll	\$ 292,603	\$ 267,061	\$ 258,827	\$ 241,501	\$ 237,125	\$ 220,849	\$ 214,956	
Net OPEB liability (asset) as a percentage of covered payroll	-7.23%	6.66%	-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.

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

DRAFT

**OPEB PLAN - CONTINUED:**

Fiscal Year Ended June 30	Schedule of Employer Contributions						
	2023	2022	2021	2020	2019	2018	2017
Actuarially determined contribution	\$ 8,009	\$ 6,595	\$ 13,564	\$ 11,942	\$ 13,216	\$ 12,819	\$ 14,970
Contributions in relation to the actuarially determined contribution	8,774	4,937	12,473	12,694	11,868	11,942	16,146
Contribution deficiency (excess)	\$ (765)	\$ 1,658	\$ 1,091	\$ (752)	\$ 1,348	\$ 877	\$ (1,176)
Covered payroll	\$292,603	\$267,061	\$258,827	\$241,501	\$237,125	\$220,849	\$214,956
Contributions as a percentage of covered payroll	3.00%	1.85%	4.82%	5.26%	5.00%	5.41%	7.51%

**DRAFT****4.1****OPEB PLAN - CONTINUED:****Notes to Required Supplementary Information:***Changes of benefit terms:*

2023: A Special Retirement Plan was offered to faculty age 62 with 10 full-time years of service or age 60 with 20 full-time consecutive years of service. In addition to a lump sum contribution to the 403(b) retirement plan, benefits included continuation of medical insurance coverage at the active employee rate for individuals not yet Medicare eligible, until reaching age 65 and/or becoming Medicare eligible, whichever is earlier.

2022: None

2021: 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 or the UMS sponsored group coverage. The total OPEB liability decreased \$51,219 from the prior year including changes of benefit terms of \$49,469.

*Changes of assumptions:*

2023: The inflation assumption was increased from 2.2% per year to 2.5% per year, based on current economic data; analyses from economists and other experts, and professional judgement. The medical trend rates were increased in the short term to reflect expected future increases in the Cigna group plans and updated to the recent Getzen trend rates reflecting the adjusted inflation rate. The medical trend rates were reduced for the Aetna Medicare Advantage plan to reflect plan design changes that have impacted the premium rates. Mortality improvement scales were updated to the MP-2021 tables.

2022: The amortization method was changed from the level dollar amount over 30 years on a closed period to level dollar amount over 30 years on an open amortization period. The amortization period was reset at 30 years starting in FY23.

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.

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

DRAFT

4.1

**OPEB PLAN - CONTINUED:***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 2023: Entry age normal 2016: Projected Unit Credit
Amortization method	2023: Level dollar amount over 30 years on an open amortization period. Pursuant to Section 5 of the UMS OPEB Funding Policy adopted October 7, 2022, when the OPEB Plan funded status, which equals the market value of assets divided by the Total OPEB Liability, is greater than 100% but less than 130%, UMS will contribute a modified actuarially determined employer contribution, determined without regard to the surplus assets. 2022: Level dollar amount over 30 years on an open amortization period 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



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

**DRAFT****OPEB PLAN - CONTINUED:**

Amortization period	2022 to 2023: 30 years 2021: 25 years 2020: 26 years 2019: 28 years 2017 to 2018: 30 years
Asset valuation method	Market value
Inflation	2023: 2.5% 2022: 2.4% 2021: 2.2% 2020: 2.4% 2019: 2.6% 2017 to 2018: 3% per year
Medical trend rates (Cigna Plans)	2023: 8% decreasing .5% per year to 5.5%, then grading down to an ultimate trend rate of 4.1%, utilizing the Society of Actuaries Getzen Medical Trend Model. The ultimate medical inflation rate is reached in 2075.
Medical trend rates (Aetna Medicare Advantage Plan)	2023: 6% in year 1 grading down .5% per year to an ultimate trend rate of 4%, recognizing that over the last several years there have been plan design changes that have impacted the premium rates.
Healthcare cost trend rate	2021 to 2022: 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
Prescription drug trend rates (Catastrophic Prescription Drug HRA)	2023: 20% for year 1, 19% for year 2, 18% for year 3, decreasing at varying rates per year to an ultimate trend rate of 6%. The ultimate prescription drug trend rate is reached in 2042.
Investment rate of return/ discount rate	2020 to 2023: 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

**4.1**

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

DRAFT

**OPEB PLAN - CONTINUED:**

4.1

<b>Investment Returns:</b>							
<b>Fiscal Year Ended June 30</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Annual money-weighted rate of return, net of investment expenses	10.67%	-12.59%	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.

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

**DRAFT**

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

**4.1**

Year Ended June 30, 2023						
Functions/Programs	Expenses	Charges for Services	Program Investment Income	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue
University of Maine System	\$ 819,359	\$ 296,167	\$ 7,937	\$ 203,361	\$ 26,355	\$ (285,539)
<b>General Revenues:</b>						
Unrestricted interest and investment income						13,475
Additions to endowments - gifts						1,222
State of Maine noncapital appropriation						247,992
State of Maine capital appropriation						21,301
Federal Pell grants						32,131
Coronavirus relief funding						3,020
Loss on disposal of capital assets						(2,167)
Total Revenues and Extraordinary Items						316,974
Change in Net Position						31,435
Net Position, Beginning of Year						969,280
Net Position, End of Year						\$ 1,000,715

Year Ended June 30, 2022 Restated						
Functions/Programs	Expenses	Charges for Services	Program Investment Income	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue
University of Maine System	\$ 814,791	\$ 303,671	\$ (26,295)	\$ 189,080	\$ 34,437	\$ (313,898)
<b>General Revenues:</b>						
Unrestricted interest and investment income						(13,664)
Additions to endowments - gifts						2,782
State of Maine noncapital appropriation						229,357
State of Maine capital appropriation						25,392
Federal Pell grants						33,735
Coronavirus relief funding						62,886
Loss on disposal of capital assets						(558)
Total Revenues and Extraordinary Items						339,930
Change in Net Position						26,032
Net Position, Beginning of Year						943,248
Net Position, End of Year						\$ 969,280

DRAFT

4.1



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees  
University of Maine System  
Orono, Maine

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, the discretely presented component unit, and the aggregate remaining fund information of the University of Maine System (the System) (a component unit of the state of Maine), as of and for the year ended June 30, 2023 for the business-type activities and the aggregate remaining fund information, and as of and for the year ended December 31, 2022 for the discretely presented component unit, 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*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

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

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**DRAFT****4.1**

Board of Trustees  
University of Maine System

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 or significant deficiencies may exist that were not identified.

***Report on Compliance and Other Matters***

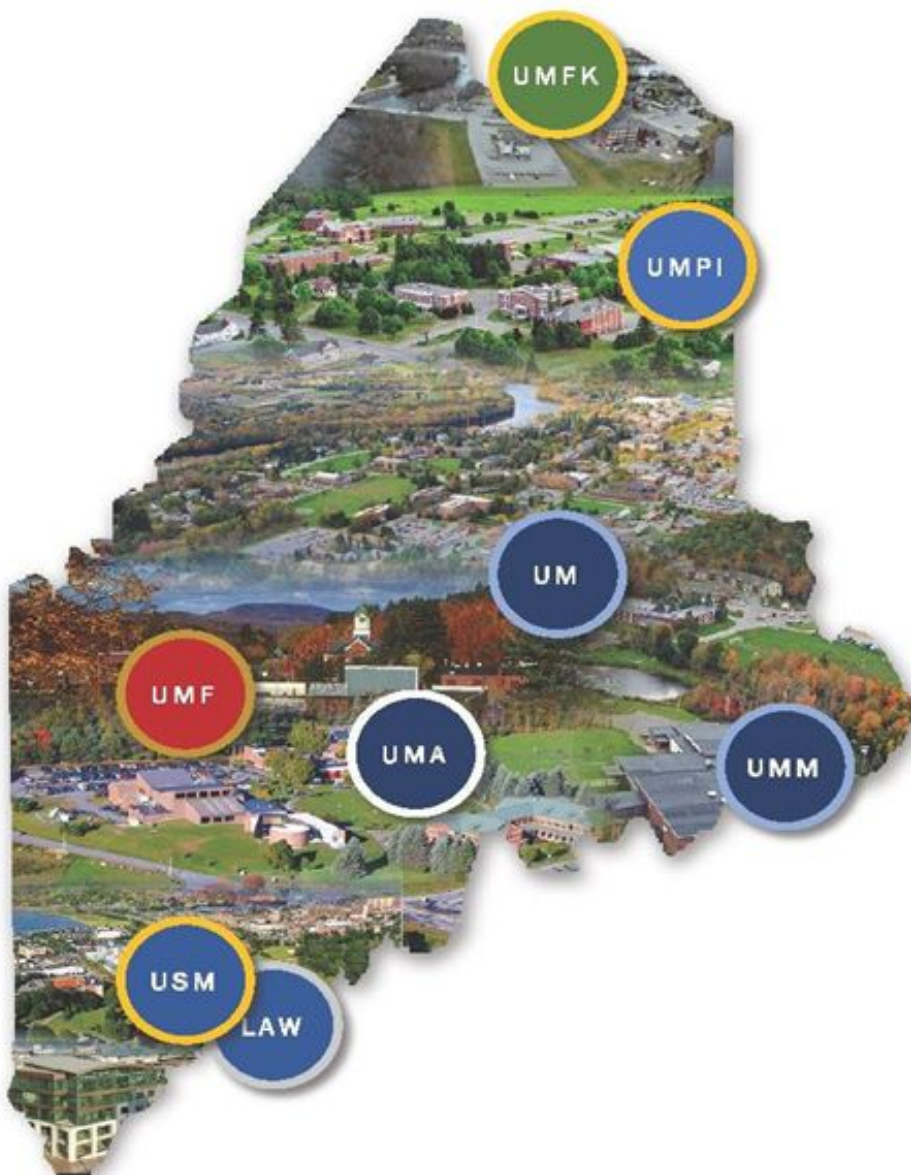
As part of obtaining reasonable assurance about whether System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**CliftonLarsonAllen LLP**

Quincy, Massachusetts  
REPORT DATE



## UNIVERSITY OF MAINE SYSTEM

### Discussion of the DRAFT 2023 ANNUAL FINANCIAL REPORT

Audit Committee Meeting  
October 27, 2023

## Table of Contents

4.2

Slide	Topic
3	Required Financial Statements
4	Independent Auditor's Report
5	What's New??
6	Impact of Other Postemployment Benefit (OPEB) Plan
7	Statements of Revenues, Expenses and Changes in Net Position (SRECNP)
10	Statements of Net Position (SNP)
13	Statements of Fiduciary Net Position
14	Statements of Changes in Fiduciary Net Position
15	Questions?

## Required Financial Statements

4.2

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



## Independent Auditor's Report

4.2

### ***Opinions***

In our opinion, based on our audits and the reports of 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, 2023 and 2022 for the business-type activity and the aggregate remaining fund information, and as of December 31, 2022 and December 31, 2021 for the discretely presented component unit, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended for the business-type activities and the aggregate remaining fund information, and the year and 6 month period then ended for the discretely presented component unit, in accordance with accounting principles generally accepted in the United States of America.

## What's New??

4.2

**2022 Revenue Bonds**

**UMF ESCO**

**2023 Revenue Bonds**

**GASB Statement No. 94**

***Public-Private and  
Public-Public  
Partnerships and  
Availability Payment  
Arrangements***

**GASB Statement No. 96**

***Subscription-Based  
Information Technology  
Arrangements***

## Impact of Other Postemployment Benefit (OPEB) Plan (\$ in thousands)

4.2

	2023	2022	\$ Variance	OPEB Portion of \$ Variance
<b>STATEMENTS OF NET POSITION</b>				
<b>Assets</b>				
Current Assets				
Cash and cash equivalents	\$ 6,588	\$ 7,441	\$ (853)	\$ (8,774)
Noncurrent Assets				
Net OPEB asset (Note 14)	\$ 21,169	\$ -	\$ 21,169	\$ 21,169
<b>Deferred Outflows of Resources (Note 15)</b>	<b>\$ 17,193</b>	<b>\$ 31,707</b>	<b>\$ (14,514)</b>	<b>\$ (11,976)</b>
<b>Liabilities</b>				
Noncurrent Liabilities				
Accrued liabilities (Notes 7, 11 and 13)	\$ 49,635	\$ 70,079	\$ (20,444)	\$ (17,782)
<b>Deferred Inflows of Resources (Note 15)</b>	<b>\$ 53,617</b>	<b>\$ 32,540</b>	<b>\$ 21,077</b>	<b>\$ 21,406</b>
<b>Net Position</b>				
Unrestricted (Notes 3 and 10)	\$ 141,636	\$ 161,281	\$ (19,645)	\$ (3,205)
<b>STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</b>				
<b>Operating Expenses</b>				
Institutional Support	\$ 71,919	\$ 66,188	\$ 5,731	\$ (239)

## SRECNP – Operating Revenues Thru Operating Loss

(\$ in thousands)

4.2

	2023	2022 Restated	\$ Variance	% Variance
<b>Operating Revenues</b>				
Tuition and fees	\$ 314,122	\$ 328,080	\$ (13,958)	-4%
Residence and dining fees	67,278	65,160	2,118	3%
Less: scholarship allowances	(129,910)	(130,416)	506	0%
<b>Net student fees</b>	251,490	262,824	(11,334)	-4%
Federal, state and private grants and contracts	143,399	139,545	3,854	3%
Recovery of indirect costs	24,924	23,498	1,426	6%
Educational sales and services and other revenues	34,576	30,520	4,056	13%
Other auxiliary enterprises	10,101	10,327	(226)	-2%
<b>Total Operating Revenues</b>	464,490	466,714	(2,224)	0%
<b>Operating Expenses</b>				
Instruction	199,123	201,957	(2,834)	-1%
Research	110,061	99,531	10,530	11%
Public service	71,507	65,217	6,290	10%
Academic support	78,554	78,274	280	0%
Student services	76,111	69,190	6,921	10%
Institutional support	71,919	66,188	5,731	9%
Operation and maintenance of plant	55,405	61,238	(5,833)	-10%
Depreciation and amortization (Note 6)	50,335	46,873	3,462	7%
Student aid	27,263	57,578	(30,315)	-53%
Auxiliary enterprises	70,204	64,552	5,652	9%
<b>Total Operating Expenses</b>	810,482	810,598	(116)	0%
<b>Operating Loss</b>	(345,992)	(343,884)	(2,108)	-1%

## Operating Expenses – Natural Classification

(\$ in thousands)

4.2

		<b>Restated</b>		<b>%</b>
	<b>2023</b>	<b>2022</b>	<b>\$ Variance</b>	<b>Variance</b>
Compensation	\$ 379,218	\$362,187	\$ 17,031	5%
Benefits	147,067	147,613	(546)	0%
Utilities	27,198	29,908	(2,710)	-9%
Supplies and Services	179,401	166,439	12,962	8%
Depreciation and amortization	50,335	46,873	3,462	7%
Student Aid	27,263	57,578	(30,315)	-53%
Total Operating Expenses	\$ 810,482	\$810,598	\$ (116)	0%

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

4.2

	2023	2022 Restated	\$ Variance	% Variance
<b>Operating Loss</b>	(345,992)	(343,884)	(2,108)	-1%
<b>Nonoperating Revenues (Expenses)</b>				
Noncapital State of Maine appropriations	247,992	229,357	18,635	8%
Federal Pell Grants	32,131	33,735	(1,604)	-5%
Coronavirus relief funding	3,020	62,886	(59,866)	-95%
Gifts currently expendable	28,544	19,883	8,661	44%
Endowment return used for operations (Note 3)	6,494	6,154	340	6%
Investment income (loss) (Note 3)	13,475	(13,664)	27,139	199%
Interest expense, net (Note 7)	(8,877)	(4,193)	(4,684)	-112%
<b>Net Nonoperating Revenues (Expenses)</b>	322,779	334,158	(11,379)	-3%
<b>Loss Before Other Changes in Net Position</b>	(23,213)	(9,726)	(13,487)	-139%
<b>Other Changes in Net Position</b>				
State of Maine capital appropriations	21,301	25,392	(4,091)	-16%
Capital grants and gifts	26,355	34,437	(8,082)	-23%
Endowment return, net of amount used for operations (Note 3)	7,937	(26,295)	34,232	130%
True and quasi endowment gifts	1,222	2,782	(1,560)	-56%
Loss on disposal of capital assets	(2,167)	(558)	(1,609)	-288%
<b>Total Other Changes in Net Position</b>	54,648	35,758	18,890	53%
<b>Change in Net Position</b>	31,435	26,032	5,403	21%
<b>Net Position - Beginning of the Year-As Restated</b>	969,280	943,248	26,032	3%
<b>Net Position - End of Year - As Restated (Note 17)</b>	\$ 1,000,715	\$ 969,280	\$ 31,435	3%

## SNP – Assets and Deferred Outflows of Resources

(\$ in thousands)

4.2

	2023	2022 Restated	\$ Variance	% Variance
<b>Assets</b>				
Current Assets				
Cash and cash equivalents <i>(Note 2)</i>	\$ 6,588	\$ 7,441	\$ (853)	-11%
Operating investments <i>(Note 3)</i>	258,542	307,077	(48,535)	-16%
Accounts, grants, and pledges receivable, net <i>(Note 4)</i>	75,867	64,482	11,385	18%
Inventories and prepaid expenses	7,286	6,288	998	16%
Notes and leases receivable, net <i>(Note 5)</i>	340	351	(11)	-3%
<b>Total Current Assets</b>	<b>348,623</b>	<b>385,639</b>	<b>(37,016)</b>	<b>-10%</b>
Noncurrent Assets				
Deposits with trustees <i>(Notes 3 and 6)</i>	26,443	3,659	22,784	623%
Accounts, grants and pledges receivable, net <i>(Note 4)</i>	1,952	5,858	(3,906)	-67%
Notes and leases receivable, net <i>(Note 5)</i>	22,839	26,172	(3,333)	-13%
Net OPEB asset <i>(Note 14)</i>	21,169	-	21,169	-
Endowment investments <i>(Note 3)</i>	150,432	141,168	9,264	7%
Capital assets, net <i>(Note 6)</i>	934,857	812,529	122,328	15%
Irrevocable split interest agreements	218	470	(252)	-54%
<b>Total Noncurrent Assets</b>	<b>1,157,910</b>	<b>989,856</b>	<b>168,054</b>	<b>17%</b>
<b>Total Assets</b>	<b>1,506,533</b>	<b>1,375,495</b>	<b>131,038</b>	<b>10%</b>
<b>Deferred Outflows of Resources <i>(Note 15)</i></b>	<b>17,193</b>	<b>31,707</b>	<b>(14,514)</b>	<b>-46%</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 1,523,726</b>	<b>\$ 1,407,202</b>	<b>\$ 116,524</b>	<b>8%</b>

## SNP – Liabilities, Deferred Inflows of Resources and Net Position

(\$ in thousands)

4.2

	2023	2022 Restated	\$ Variance	% Variance
<b>Liabilities</b>				
Current Liabilities				
Accounts payable	\$ 31,787	\$ 36,104	\$ (4,317)	-12%
Unearned revenue and deposits (Note 8)	34,041	29,181	4,860	17%
Accrued liabilities - current portion (Notes 7, 11 and 13)	28,395	47,384	(18,989)	-40%
Obligations for right of use assets - current portion (Note 7)	5,997	5,759	238	4%
Long-term debt - current portion (Note 7)	19,931	55,755	(35,824)	-64%
Total Current Liabilities	120,151	174,183	(54,032)	-31%
Noncurrent Liabilities				
Unearned revenue and other liabilities - noncurrent (Note 8)	7,228	4,174	3,054	73%
Accrued liabilities (Notes 7, 11, 13)	49,635	70,079	(20,444)	-29%
Obligations for right of use assets (Note 7)	65,564	46,656	18,908	41%
Long-term debt (Note 7)	216,808	96,138	120,670	126%
Government advances refundable (Note 9)	10,008	14,152	(4,144)	-29%
Total Noncurrent Liabilities	349,243	231,199	118,044	51%
<b>Total Liabilities</b>	469,394	405,382	64,012	16%
<b>Deferred Inflows of Resources (Note 15)</b>	53,617	32,540	21,077	65%
<b>Net Position</b>				
Net investment in capital assets (Note 10)	634,614	589,331	45,283	8%
Restricted nonexpendable (Note 10)	72,410	71,249	1,161	2%
Restricted expendable (Notes 3 and 10)	152,055	147,419	4,636	3%
Unrestricted (Notes 3 and 10)	141,636	161,281	(19,645)	-12%
<b>Total Net Position</b>	1,000,715	969,280	31,435	3%
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<b>\$ 1,523,726</b>	<b>\$ 1,407,202</b>	<b>\$ 116,524</b>	<b>8%</b>



## Composition of Net Position at June 30

(\$ in thousands)

4.2

	2023	2022 Restated
Net investment in capital assets	\$ 634,614	\$ 589,331
Restricted - Nonexpendable:		
Endowment funds	72,410	71,249
Restricted - Expendable:		
Student financial aid	57,111	52,241
Capital assets and retirement of debt	9,923	21,414
Loans	17,319	17,096
Academic support	20,390	16,917
Research and public service	16,035	11,675
Library	4,648	4,059
Other	26,629	24,017
Total restricted - expendable	152,055	147,419
Unrestricted:		
Educational and general reserves	53,577	83,858
Risk management	4,022	3,603
Budget stabilization	4,997	4,873
Auxiliary enterprises	2,054	7,643
Benefit pool carryover	35,909	28,732
Implementation of GASB 75 for OPEB	(33,795)	(33,795)
Information technology initiatives	2,932	2,695
Internally designated projects	20,251	21,499
Facility projects	29,117	36,418
Quasi endowment corpus	12,051	11,347
Endowment appreciation	6,276	5,836
Cost sharing and other	4,245	(11,428)
Total unrestricted	141,636	161,281
Total Net Position	\$ 1,000,715	\$ 969,280

## Statements of Fiduciary Net Position

(\$ in thousands)

4.2

	2023			2022		
	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 <i>(Note 2)</i>	\$ -	\$ -	\$ 2,662	\$ -	\$ -	\$ 2,687
Investment in UMS managed investment pool <i>(Note 3)</i>	174,427	5,073	-	156,012	10,683	-
Investment in UMS endowment pool <i>(Note 3)</i>	-	33,912	-	-	30,150	-
Other investments <i>(Note 3)</i>	18,986	391	-	20,392	168	-
Prepaid expenses	-	-	24	-	-	5
<b>Total Assets</b>	<b>193,413</b>	<b>39,376</b>	<b>2,686</b>	<b>176,404</b>	<b>41,001</b>	<b>2,692</b>
<b>Liabilities</b>						
Accounts payable and other liabilities	-	-	80	-	-	6
Requested by beneficiaries	-	391	-	-	168	-
<b>Total Liabilities</b>	<b>-</b>	<b>391</b>	<b>80</b>	<b>-</b>	<b>168</b>	<b>6</b>
<b>Net Position Restricted for:</b>						
Pensions	18,986	-	-	20,392	-	-
Postemployment benefits other than pensions	174,427	-	-	156,012	-	-
Pool participants	-	38,985	39	-	40,833	27
Student and other groups	-	-	2,567	-	-	2,659
<b>Total Net Position</b>	<b>\$ 193,413</b>	<b>\$ 38,985</b>	<b>\$ 2,606</b>	<b>\$ 176,404</b>	<b>\$ 40,833</b>	<b>\$ 2,686</b>



UNIVERSITY OF MAINE SYSTEM

# Statements of Changes in Fiduciary Net Position

(\$ in thousands)

4.2

	2023			2022		
	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>Additions</b>						
Contributions						
Employer contributions	\$ 9,721	\$ -	\$ -	\$ 5,609	\$ -	\$ -
Retiree contributions	1,770	-	-	1,688	-	-
Contributions to investment pools	-	1,935	-	-	10,722	-
Private donations	-	-	-	-	-	29
Total contributions	11,491	1,935	-	7,297	10,722	29
Investment income (loss)						
Interest and dividends	3,981	875	92	2,312	1,019	2
Net increase (decrease) in fair value of investments	15,252	3,459	-	(25,461)	(7,885)	-
Total investment income (loss)	19,233	4,334	92	(23,149)	(6,866)	2
Less investment expense	(1,235)	(250)	-	(1,269)	(396)	-
Net investment income (loss)	17,998	4,084	92	(24,418)	(7,262)	2
Other additions						
Student activity fees	-	-	2,102	-	-	2,172
Endowment income distribution	-	-	1,167	-	-	1,100
Other income	-	-	300	-	-	280
Total other additions	-	-	3,569	-	-	3,552
<b>Total additions</b>	<b>29,489</b>	<b>6,019</b>	<b>3,661</b>	<b>(17,121)</b>	<b>3,460</b>	<b>3,583</b>
<b>Deductions</b>						
Beneficiary payments	12,470	-	-	12,018	-	-
Investment pool distributions	-	7,867	-	-	62,664	-
Distribute activity fees	-	-	1,336	-	-	1,407
Distribute amount requested	-	-	53	-	-	-
Distribute other revenues	-	-	-	-	-	29
Donations and sponsorships	-	-	1,151	-	2,111	1,084
Purchases by student and other groups	-	-	1,201	-	-	1,027
Administrative costs	10	-	-	18	-	-
<b>Total deductions</b>	<b>12,480</b>	<b>7,867</b>	<b>3,741</b>	<b>12,036</b>	<b>64,775</b>	<b>3,547</b>
<b>Change in Fiduciary Net Position</b>	<b>17,009</b>	<b>(1,848)</b>	<b>(80)</b>	<b>(29,157)</b>	<b>(61,315)</b>	<b>36</b>
<b>Net Position - Beginning of the Year</b>	<b>176,404</b>	<b>40,833</b>	<b>2,686</b>	<b>205,561</b>	<b>102,148</b>	<b>2,650</b>
<b>Net Position - End of Year</b>	<b>\$ 193,413</b>	<b>\$ 38,985</b>	<b>\$ 2,606</b>	<b>\$ 176,404</b>	<b>\$ 40,833</b>	<b>\$ 2,686</b>

# QUESTIONS?

University of Maine System  
Board of Trustees

5

**AGENDA ITEM SUMMARY**

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

**INITIATED BY:** Michael H. Michaud, Chair

**BOARD INFORMATION:** X

**BOARD ACTION:**

**BOARD POLICY:**

Bylaws – Section 3

**UNIFIED ACCREDITATION CONNECTION:**

Supports central management and oversight of the University of Maine System's audits.

**BACKGROUND:**

On October 27, 2023, CliftonLarsonAllen LLP (CLA) representatives Michael Johns, Principal, and Andy Kenderdine, Manager, will report to the Committee, including discussion of the 2023 UMS audit results and emerging accounting issues. They will also discuss their Required Communications Letter.

Attachment

[CLA UMS Governance Presentation 2023](#)



*We'll get you there.*

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# University of Maine System

June 30, 2023 Audit Presentation

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

# Agenda

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Audit Process & Scope

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Internal Control Communication

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Governance Communication Letter

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Steps to Finalize

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Emerging Issues

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# Scope

## Scope

- Audit of the financial statements for the year ended June 30, 2023

## Applicable Financial Reporting framework

- U.S. generally accepted accounting principles (GAAP)

## Applicable Auditing Standards

- U.S. generally accepted auditing standards (GAAS)
- Generally accepted government auditing standards (GAGAS)

## Other Terms of Engagement

- Understand and test internal controls for the purposes of determining nature, timing, and extent of substantive audit procedures
- Required communications to governance





# Risk-Based Approach

Internal Controls  
and Information  
Technology

Revenue  
Recognition

Debt and Long-  
Term Liabilities

Federal Awards

New Accounting  
Standards

Investments  
Valuation

Operating  
Expenditures

Significant  
Estimates



# Financial Statement Audit Results



Financial statement audit opinion is unmodified

Emphasis of Matter paragraph for adoption of new accounting standards

Supplementary Information



# Financial Statement Audit Results



No Material Weaknesses

No Significant Deficiencies

Management Recommendations

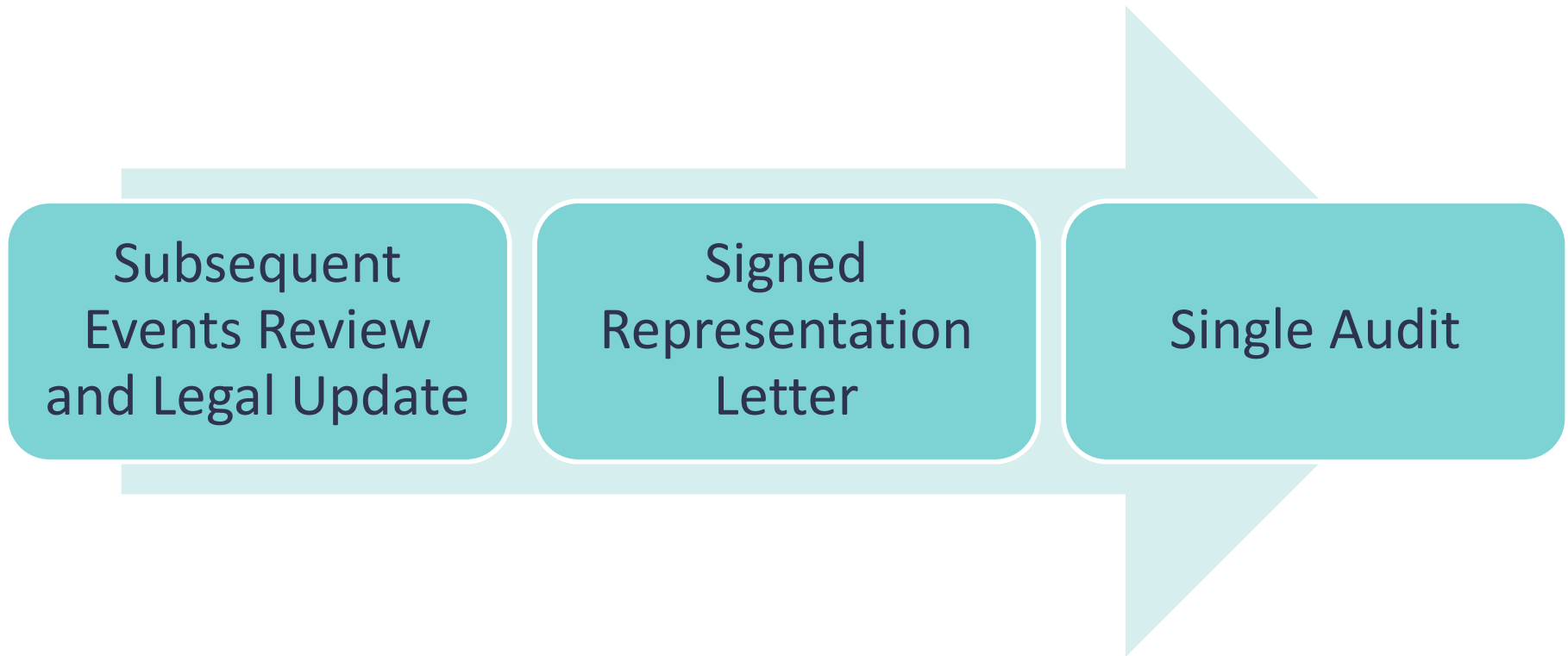


# Required Governance Communication

Overall	Estimates	Difficulties	Other
<ul style="list-style-type: none"> <li>• Purpose is to provide an update on the audit since the planning meeting</li> <li>• No changes in scope of audit</li> <li>• GASB Statements 94 and 96</li> </ul>	<ul style="list-style-type: none"> <li>• Various estimates presented in the financial statements</li> <li>• We are comfortable with management's estimate</li> </ul>	<ul style="list-style-type: none"> <li>• No significant difficulties</li> <li>• No disagreements encountered</li> <li>• No other findings to report</li> </ul>	<ul style="list-style-type: none"> <li>• No audit adjustments</li> <li>• No passed adjustments</li> </ul>



# Steps to Finalization



# Current Events in Higher Education



Enrollment pressures



Increasing costs – student experience



Cyber Security and technology costs



M & A Activity



# Emerging Issues – Significant Audit Changes

## What Changed

- Auditing standards (SAS 143-145) were modernized for evolving business environment
- Effective for 2024 audits

## New Requirements

- Enhanced risk assessment and understanding of estimates
- Deeper IT understanding; more inquiries; data requests and testing

## Audit Impact

- More time evaluating controls; more use of IT specialists
- Potential for additional recommendations
- Greater impact on complex IT systems



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