Maine's Public Universities

UNIVERSITY OF MAINE SYSTEM

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2011

Additional copies are available at http://www.maine.edu/system/oft/AnnualFinancialReports.php or by contacting:

Office of Finance and Treasurer
16 Central Street
Bangor, ME 04401-5106

In complying with the letter and spirit of applicable laws and in pursuing its own goals of diversity, the University of Maine System shall not discriminate on the grounds of race, color, religion, sex, sexual orientation, including transgender status or gender expression, national origin or citizenship status, age, disability, or veterans status in employment, education, and all other areas of the University. The University provides reasonable accommodations to qualified individuals with disabilities upon request.

Questions and complaints about discrimination in any area of the University should be directed to Sally Dobres, Director of Equity and Diversity, University of Maine System, Office of Human Resources, 16 Central Street, Bangor, Maine 04401-5106 (207) 973-3372 (voice) or (207) 973-3262 (TTY/TDD). Inquiries or complaints about discrimination in employment or education may also be referred to the Maine Human Rights Commission. Inquiries or complaints about discrimination in employment may be referred to the U.S. Equal Employment Opportunity Commission.

Inquiries about the University's compliance with Title VI of the Civil Rights Act of 1964, which prohibits discrimination on the basis of race, color, and national origin; Section 504 of the Rehabilitation Act of 1973 and Title II of the Americans with Disabilities Act of 1990, which prohibit discrimination on the basis of disability; Title IX of the Education Amendments of 1972, which prohibits discrimination on the basis of sex; and the Age Discrimination Act of 1975, which prohibits discrimination on the basis of age, may also be referred to the U.S. Department of Education, Office for Civil Rights (OCR), Boston, MA 02110-1491, telephone (617) 289-0111 (voice) or (617) 289-0150 (TTY/TDD). Generally, an individual may also file a complaint with OCR within 180 days of alleged discrimination.

UNIVERSITY OF MAINE SYSTEM

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The University of Maine

University of Maine at Augusta

University of Maine at Farmington

University of Maine at Fort Kent

University of Maine at Machias

University of Maine at Presque Isle

University of Southern Maine

November 2011

Dear Friend:

The University of Maine System has a widespread impact on our state. It is a major economic driver and Maine's largest single provider of an educated workforce. Nearly 41,000 students attend our seven universities. On average 5,300 students graduate each year, and an estimated 120,000 alumni live in Maine and contribute to the quality of life in their local communities. Thousands more Mainers and Maine-based businesses benefit from university research and development, business development, Cooperative Extension programs, community and cultural events, and a wide range of other activities.

The enclosed Annual Financial Report for fiscal year 2011 provides a detailed financial snapshot of Maine's public universities. In fiscal year 2011 we made great progress with our *New Challenges, New Directions* initiative and put in place significant steps to move the university forward:

- Introduced the system's first-ever comprehensive enrollment plan—our universities are functioning in a more coordinated, strategic, and tactical manner as they work toward achieving enrollment goals, ensuring student success, and fulfilling each university's mission;
- Created new learning opportunities for Maine students and found new ways for more efficient program delivery mechanisms such as our Online.Maine.edu online portal;
- Designed programs which match students with the skills and knowledge that meet the current and future needs of Maine businesses, developed the entrepreneurial skills of students and faculty, and provided technical support and capacity that Maine businesses require to be competitive in the national and global markets; and,
- Continued one of our most significant new initiatives in recent years, the Strategic Investment Fund, which provides support for campus leaders to propose innovative projects for consideration and an opportunity to obtain funds to invest in ideas and programs that campuses otherwise could not do.

During challenging economic times, the leadership across the University of Maine System and our seven universities has worked hard to provide affordable education, balanced budgets and needed programs. If you have any questions or concerns, please contact my office.

Sincerely,

Rich

Richard L. Pattenaude
Chancellor

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As of June 30, 2011

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Selma Botman	University of Southern Maine

KPMG

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Independent Auditors' Report

The Board of Trustees
University of Maine System:

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units 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, 2011 and 2010, which collectively comprise the System's basic financial statements as shown on pages 23 through 57. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the aggregate discretely presented component units, are based on the reports of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of the System as of June 30, 2011 and 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2011 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 22 and the schedules of funding progress and employer's contributions on page 58 are not a required part of the financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedules of activities (Schedules 1 and 2) on page 59 for the years ended June 30, 2011 and 2010 are presented for purposes of additional analysis as requested by the State of Maine and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

KPMG LLP

November 4, 2011

Management's Discussion and Analysis (unaudited)
June 30, 2011 and 2010

The following unaudited Management's Discussion and Analysis (MD&A) has been prepared by University of Maine System ("the System" or UMS) management to provide users with a narrative and analysis of the System's financial position based on currently known facts, decisions, and conditions. This discussion includes an analysis of the financial condition and results of activities of the System for the fiscal years ended June 30, 2011 and prior years. As this presentation includes highly summarized information, it should be read in conjunction with the accompanying basic financial statements and related notes.

MISSION

The University of Maine System unites seven distinctive public universities in the common purposes of providing first-rate higher education at reasonable cost in order to improve the quality of life for the citizens of Maine. The System, through its Universities, carries out the traditional tripartite mission – teaching, research, and public service. As a System, it extends its mission as a major resource for the State, linking economic growth, the education of its people, and the application of research and scholarship.

UNIVERSITY OF MAINE SYSTEM UNIVERSITIES, CAMPUSES & CENTERS

The University of Maine System is a comprehensive public institution of higher education serving nearly 41,000 students annually and is supported by the efforts of 1,308 regular full-time faculty, 82 regular part-time faculty, 3,201 regular full-time staff, and 337 regular part-time staff members. Nationally recognized as a leader in combining excellence with access in public higher education, the System consists of the following seven universities:

University of Maine (UM)
University of Maine at Augusta (UMA)
University of Maine at Farmington (UMF)
University of Maine at Fort Kent (UMFK)
University of Maine at Machias (UMM)
University of Maine at Presque Isle (UMPI)
University of Southern Maine (USM)

Lewiston-Auburn College is a campus of the University of Southern Maine. University of Maine at Augusta-Bangor is a campus of the University of Maine at Augusta. The Hutchinson Center in Belfast is a campus of the University of Maine.

University College offers access to quality public higher education statewide. Students may participate by interactive television (ITV) at dozens of sites throughout the State or may attend one of the nine University College locations below that offers both on-site and ITV instruction:

Bath/Brunswick
Penquis Dover-Foxcroft
East Millinocket
Ellsworth
Houlton
Norway/South Paris
Rockland
Rumford/Mexico
Saco

STUDENT ENROLLMENT

For Fall 2010, the System experienced a 1% decline in enrollment on both a student headcount and full-time equivalent (FTE) basis. For Fall 2009, the System experienced a less than 1% decline in enrollment on a headcount basis and a less than 1% increase on a full-time equivalent basis. 32,009 students were enrolled for the Fall 2010 semester, compared to 32,340 for Fall 2009. On a full-time equivalent basis, 23,535 students were enrolled for the Fall 2010 semester, compared to 23,711 for Fall 2009. For Fall 2010 and 2009, 64% of the student population was enrolled full-time. For Fall 2010, 86% of students were Maine residents, compared to 85% in Fall 2009.

Table 1: Fall Student Enrollments

	Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006	
Full-Time	**20,542**	**64%**	**20,739**	**64%**	20,593	63%	20,812	62%	20,838	61%
Part-Time	**11,467**	**36%**	**11,601**	**36%**	12,015	37%	12,814	38%	13,371	39%
Headcount	**32,009**	**100%**	**32,340**	**100%**	32,608	100%	33,626	100%	34,209	100%
In-State	**20,133**	**86%**	**20,175**	**85%**	19,853	84%	20,232	84%	20,299	84%
Out-of-State	**3,402**	**14%**	**3,536**	**15%**	3,835	16%	3,824	16%	3,928	16%
Full-Time Equivalent	**23,535**	**100%**	**23,711**	**100%**	23,688	100%	24,056	100%	24,227	100%

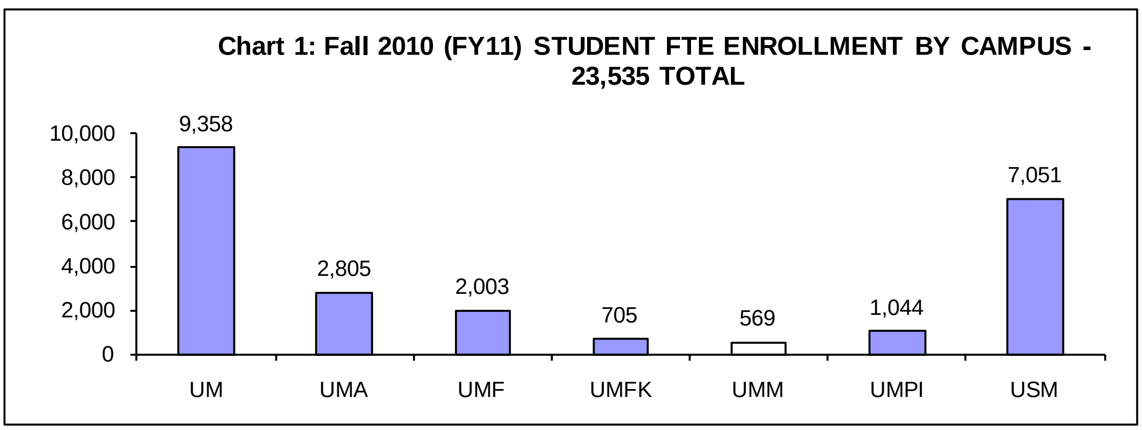


Table 2: Fall Student Enrollments - FTE

	% Change Fall 2006 to 2010	Fall 2010	% Change	Fall 2009	% Change	Fall 2008	% Change	Fall 2007	% Change	Fall 2006	% Change
UM	**0%**	**9,358**	**-3.1%**	**9,653**	**0.3%**	9,620	0.8%	9,548	1.6%	9,401	2.1%
UMA	**4%**	**2,805**	**1.0%**	**2,776**	**5.2%**	2,639	0.1%	2,637	-1.9%	2,689	-2.5%
UMF	**-6%**	**2,003**	**2.5%**	**1,954**	**-0.5%**	1,964	-1.9%	2,002	-5.8%	2,126	-1.1%
UMFK	**-26%**	**705**	**-3.8%**	**733**	**-2.7%**	753	-17.3%	910	-4.6%	954	3.8%
UMM	**-8%**	**569**	**1.4%**	**561**	**-2.4%**	575	-1.0%	581	-5.8%	617	-1.4%
UMPI	**-17%**	**1,044**	**-1.7%**	**1,062**	**-3.7%**	1,103	-9.7%	1,221	-3.1%	1,260	1.4%
USM	**-2%**	**7,051**	**1.1%**	**6,972**	**-0.9%**	7,034	-1.7%	7,157	-0.3%	7,180	-2.3%
Total	**-3%**	**23,535**	**-0.7%**	**23,711**	**0.1%**	23,688	-1.5%	24,056	-0.7%	24,227	-0.1%

STUDENT COMPREHENSIVE COST OF EDUCATION

The weighted average comprehensive cost of education for UMS undergraduate, graduate and Law School students is shown in Table 3 below. The modest increases in the student cost of education compared with prior years reflect UMS' commitment to providing affordable higher education. Tempering increases in this revenue source has been increasingly challenging given eroding State appropriations as a percentage of overall revenues and the pressures of operating cost increases.

Percentage increases in 2011 range from a high of 5.7% for students receiving the New England Board of Higher Education (NEBHE) rate to a low of 4.2% for NEBHE/Canadian Law School students. Percentage increases in 2010 range from a high of 6.2% for out-of-state undergraduate students to a low of 3.2% for NEBHE/Canadian Law School students.

Table 3: Student Comprehensive Cost of Education

Tuition, Mandatory Fees, and Room and Board
Weighted Averages

	2011		2010		2009		2008		2007	
	Cost	% Change	Cost	% Change	Cost	% Change	Cost	% Change	Cost	% Change
Undergraduate										
In-State	**$17,172**	**4.5%**	**$16,431**	**5.3%**	$15,598	**8.3%**	$14,399	**8.2%**	$13,313	**7.3%**
Out-of-State	**30,505**	**4.4%**	**29,211**	**6.2%**	27,514	**8.5%**	25,360	**9.5%**	23,150	**7.2%**
NEBHE	**21,428**	**5.7%**	**20,266**	**5.2%**	19,269	**15.0%**	16,762	**9.0%**	15,385	**7.8%**
Canadian	**19,786**	**5.3%**	**18,796**	**4.9%**	17,917	**6.9%**	16,762	**9.0%**	15,385	**7.8%**
Graduate										
In-State	**$16,116**	**4.8%**	**$15,375**	**5.4%**	$14,582	**8.4%**	$13,446	**8.0%**	$12,452	**7.2%**
Out-of-State	**29,072**	**4.5%**	**27,816**	**5.5%**	26,365	**8.7%**	24,260	**9.7%**	22,111	**7.1%**
NEBHE	**19,361**	**4.6%**	**18,503**	**4.7%**	17,675	**8.0%**	16,365	**7.9%**	15,171	**8.9%**
Canadian	**19,843**	**4.7%**	**18,959**	**5.0%**	18,052	**10.3%**	16,365	**7.9%**	15,171	**8.9%**
Law School										
In-State	**$30,606**	**5.3%**	**$29,052**	**5.8%**	$27,464	**6.5%**	$25,794	**7.4%**	$24,017	**7.6%**
Out-of-State	**41,436**	**4.8%**	**39,552**	**4.2%**	37,964	**5.8%**	35,874	**7.1%**	33,507	**7.3%**
NEBHE/Canadian	**38,556**	**4.2%**	**37,002**	**3.2%**	35,864	**4.0%**	34,494	**7.4%**	32,106	**7.6%**

Management's Discussion and Analysis (unaudited)
June 30, 2011 and 2010

OVERVIEW OF THE FINANCIAL STATEMENTS

The University of Maine System's financial statements include three primary components, the:

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

The University of Maine Foundation and the University of Maine Pulp and Paper Foundation are legally separate tax-exempt component units of the University of Maine System. Each of these entities' financial position and activities are discretely presented in the University's financial statements as required by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The MD&A includes information only for the System, not its component units. These financial statements are prepared in accordance with U.S. generally accepted accounting principles.

STATEMENTS OF NET ASSETS

The Statements of Net Assets present the financial position of the System at one point in time – June 30 – and include all assets, liabilities, and net assets of the System. This statement is the primary statement used to report financial condition. Net assets represent the residual interest in the System's assets after liabilities are deducted. The change in net assets is an indicator of whether the overall financial condition has improved or deteriorated during the year. Table 4 on the following page shows Condensed Statements of Net Assets for the past five years.

Total assets increased by $216 million, or 23%, over the past five years to a total of $1,140 million at June 30, 2011. Total assets are categorized as either current or noncurrent. Current assets are available to satisfy current liabilities, which in turn are those amounts expected to be payable within the next year. The major component of current assets is short-term investments which total $224 million and $196 million at June 30, 2011 and 2010, respectively.

Noncurrent assets consist mainly of endowment investments and capital assets, net of depreciation. Endowment investments total $125 million at June 30, 2011, an increase of $21 million or 20% from the FY10 year-end balance, and a $17 million or 16% increase over the five year period since FY06. Capital assets total $668 million and $644 million at June 30, 2011 and 2010, respectively. The System's progress in upgrading older facilities and meeting new facilities needs is addressed later in this report.

Current liabilities of $73 million and $68 million at June 30, 2011 and 2010, respectively, consist primarily of accounts payable and various accrued liabilities including those for the System's workers compensation, health, and retirement plans. Accounts payable balances are impacted by the timing of the last check cycle for the fiscal year, the level of construction activity in progress, and budget constraints.

At $280 million, total noncurrent liabilities declined $2 million or 1% from June 30, 2010 to 2011. Noncurrent liabilities consist primarily of bonds and notes payable which totaled $182 million at June 30, 2011, declining $10 million or 5% from the FY10 balance as the System paid down its debt.

Net assets at $787 million increased $80 million or 11% from June 30, 2010 to 2011.

Management's Discussion and Analysis (unaudited)

June 30, 2011 and 2010

Table 4: Condensed Statements of Net Assets as of June 30

($ in millions)

	2011	% Change	2010	% Change	2009	2008	2007
Current Assets	**$295**	**14%**	**$259**	**25%**	$207	$203	$188
Noncurrent Assets							
Endowment investments	**125**	**20%**	**104**	**9%**	95	115	123
Capital assets, net	**668**	**4%**	**644**	**0%**	645	621	577
Other	**52**	**4%**	**50**	**-14%**	58	74	107
Total Assets	**$1,140**	**8%**	**$1,057**	**5%**	$1,005	$1,013	$995
Current Liabilities	**$73**	**7%**	**$68**	**6%**	$64	$81	$66
Noncurrent Liabilities:							
Bonds and Notes Payable	**182**	**-5%**	**192**	**-4%**	201	209	216
Other	**98**	**9%**	**90**	**2%**	88	82	81
Total Liabilities	**353**	**1%**	**350**	**-1%**	353	372	363
Invested in Capital Assets, net of debt	**474**	**7%**	**444**	**2%**	436	418	396
Restricted:							
Nonexpendable	**52**	**6%**	**49**	**4%**	47	49	49
Expendable	**95**	**10%**	**86**	**1%**	85	97	111
Unrestricted	**166**	**30%**	**128**	**52%**	84	77	76
Total Net Assets	**787**	**11%**	**707**	**8%**	652	641	632
Total Liabilities and Net Assets	**$1,140**	**8%**	**$1,057**	**5%**	$1,005	$1,013	$995

Investment Pool

The University pools certain funds for investment purposes including the System's endowment; endowment monies held by the System on behalf of four affiliated organizations; and funds of two outside entities - the UMS Other Post Employment Benefit (OPEB) Trust and Maine Maritime Academy, which joined the investment pool during FY09.

Table 5 below shows the June 30, 2011 and 2010 market values of the pooled investments, including the amounts held on behalf of each entity.

Table 5: Market Value of Pooled Investments by Entity

($ in millions)

	2011	2010
University of Maine System & Affiliates Endowments	$125	$104
Other Post Employment Benefits Trust	50	30
Maine Maritime Academy	18	15
Total	**$193**	**$149**

The accompanying Statements of Net Assets and Statements of Revenues, Expenses, and Changes in Net Assets include only the System's and affiliates' share of the pooled investments and related investment activity. The OPEB Trust and Maine Maritime Academy investments are not included in those Statements.

The pooled investments are diversified among the following asset classes to minimize risk while optimizing return.

Table 6: Asset Allocation Percentages for Pooled Investments at June 30

	2011	2010	2009	2008	2007
Equity:					
Domestic Equities	**29%**	**36%**	35%	40%	44%
International Equities	**20%**	**15%**	15%	15%	20%
Fixed Income:					
Multi-Strategy Bond	**15%**	**14%**	14%	13%	15%
High Yield Bond	**0%**	**0%**	0%	0%	4%
Cash	**2%**	**5%**	5%	0%	0%
Alternative:					
Global Absolute Return	**16%**	**14%**	15%	9%	8%
Hedge Funds	**16%**	**10%**	8%	10%	0%
Market Neutral	**0%**	**3%**	4%	8%	6%
Timber	**2%**	**3%**	4%	5%	3%
Total	**100%**	**100%**	100%	100%	100%

The market continued to appreciate during FY11 with the pool experiencing a net of fees return of 21.9%. Nonetheless, the economic recovery going forward remains weak with continued high unemployment, high governmental debt levels, general market uncertainty and volatility, and a recovery largely based on governmental actions. As a result, forward-looking expected returns have declined.

The market had also rallied for most of FY10 with the pool experiencing a net of fees return of 11.5%. These positive results allowed the investments to regain some of the losses experienced as a result of the global economic crisis of FY09. The pooled investments have a 5-year annualized net of fees return of 5.5%.

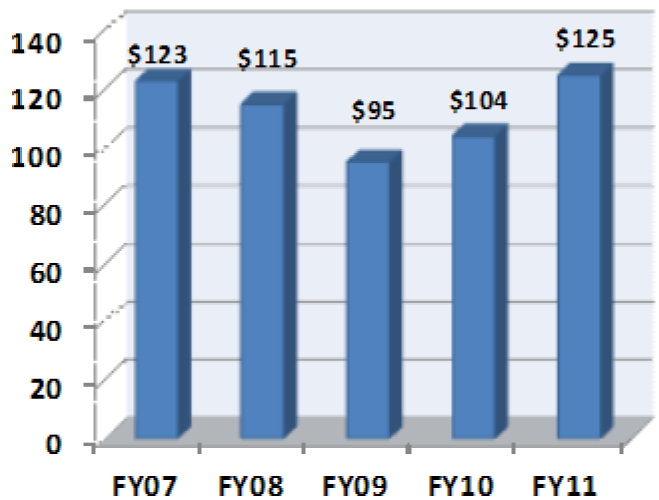
Endowments (Including Affiliates)

Endowments are gifts received from donors where the original amount of the gift (principal) cannot be expended while the income earned and related appreciation can be expended. If the donor established criteria to determine how the expendable amounts can be used, then such amounts are considered restricted expendable. If the use of funds is left to the discretion of the System, the endowment income and appreciation is considered unrestricted.

As mentioned above, the System continues to use a pooled investment approach for its endowments, unless otherwise required by the donor, and the endowments of four affiliates. Affiliates investing in the pool include: the University of Maine at Farmington Alumni Foundation, 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 Table 5 on page 9, the System's pooled endowment investments (including affiliates) had a market value of $125 million at June 30, 2011, a $21 million increase from the prior year end market value of $104 million. The net increase includes $22 million in positive net performance, plus $4 million in endowment contributions, less $5 million distributed for scholarships and operating activities.

Chart 2: Market Values of UMS & Affiliates Endowments Invested in Pool ($ in millions)



The System manages its endowment with the goal of generating a fairly consistent stream of annual support for current needs, while at the same time preserving the endowment as a whole to ensure funds for future years.

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 FY11 and FY10 was 5%.

Capital Assets and Debt Activities

Table 7 on page 13 shows the status of major capital projects as of June 30, 2011 along with the Board of Trustees (BOT) approved budget.

The System's facilities are critical to accomplishing the mission of the System as they provide the physical framework and environment for educational, research, and cultural programs and residential life. The System is continually focusing on long-term capital needs, upgrading older facilities and constructing new facilities when necessary. In FY11 and FY10 these types of activities were funded with State bonds, gifts, grants, educational and general funds, and System revenue bonds.

The FY11 capital asset additions of $53 million consist of $43 million related to construction in progress and $10 million in equipment and software. The FY10 capital asset additions of $28 million consist of $22 million related to land and replacement, renovation, and new construction activities and $6 million in equipment and software.

The System strives to manage all of its financial resources effectively including the prudent use of debt to finance capital projects that support the System's mission; thereby, placing the System in a better position to achieve its strategic goals. Capital leases, bonds, and notes payable as of June 30, 2011 and 2010 were $197 million and $203 million, respectively.

Table 7: Major Capital Projects Completed During FY11 or In Progress at June 30, 2011
($ in millions)

Project	Funding Source	Status	BOT Approved Budget
UMA			
College Center/Dental Health Clinic	State Bond, Grant, Educational & General	In Progress	$ 3.00
Water Street/Gannett Hall	State Bond, Educational & General	In Progress	1.00
UMF			
Emery Arts Center	Gifts, Educational & General	In Progress	6.15
Ricker Addition Renovations	State Bond, Educational & General	In Progress	2.20
UMFK			
Renewable Biomass Heating Plant	Grant	Design	.86
UM			
Estabrook/UPark Sprinklers	State Bond, Auxiliary Educational & General	Design	.60
Advanced Engineered Wood Composites Center Expansion	Grants	In Progress	17.42
Center for Cooperative Aquaculture Research Tank Enclosure	Grant	Design	1.90
Aubert Hall Lab Updates Phase II	State Bond	In Progress	6.00
Fogler Library HVAC Upgrades Phase I	State Bond, Educational & General	In Progress	1.47
Forest Bioproducts Research Initiative (FBRI) Technology Center	Grant	Design	2.10
FBRI Tech Center Equipment	Grant	Design	1.50
FBRI Campus Office- Jenness	Grant, Educational & General	Design	1.35
Stewart New Media/Art Complex	Gift, State Bond, Grant, & Educational & General	Design	9.30
Bike Path Rehabilitation	Grant, Educational & General	Design	.51
Heat Plant Boiler 8 Design	Grant, Educational & General	Design	2.76
Bennett Hall Renovation	Grant, Educational & General	In Progress	.88
Alfond Arena Renovation	Gifts, Educational & General	In Progress	4.85
Nutting Hall Renovation	State Bond, Education & General	Design	3.75
Aquaculture Research Center Fish Lab	Grant	Design	.60
USM			
School of Nursing Simulation Center	Grant, Educational & General	In Progress	.76
Science Technology Research Center	Grant	Design	.85
Science Building – Energy Upgrades	State Bond	In Progress	.70
Luther Bonney Hall – Energy Efficiency Enhancements	State Bond, Educational & General	In Progress	.87
Bailey Hall – Energy Efficiency Enhancements	State Bond, Educational & General	In Progress	.80
Bailey Hall – Student Services Renovation	Educational & General	Design	1.00
Gorham Athletic Field Improvements	Gifts, Educational & General	Design	1.16
UMPI			
Pullen Hall Renovations	State Bond, Grant, Educational & General	In Progress	2.30
UMS			
Data Center Projects	Educational & General	Design	4.99
		TOTAL	$81.63

Net Assets

Invested in capital assets, net of related debt, represents the historical cost of the System's capital assets reduced by total accumulated depreciation and outstanding principal balances on debt attributable to the acquisition, construction, or improvement of those assets. As seen in Table 4, the System had $474 million invested in capital assets, net of debt, at June 30, 2011. The FY11 increase of $30 million was primarily the result of approximately $24 million in net additions to capital assets after annual depreciation and $6 million in changes to related debt. The FY10 increase of $8 million in this category of net assets primarily reflects the payments made on related debt.

Restricted-nonexpendable net assets represent the System's permanent endowment funds. Items that impact this category of net assets include new endowment gifts and fair market value fluctuations for those endowments whose fair value has fallen below the endowment corpus. For this net asset category, there was a $3 million increase from FY10 to FY11 compared with a $2 million increase from FY09 to FY10.

Restricted-expendable net assets include unexpended gifts and System endowment appreciation subject to externally imposed conditions on spending. These net assets are restricted for a wide variety of purposes including student financial aid, capital asset acquisitions, research, and public service. The $9 million increase in FY11 is primarily the result of favorable market conditions net of expenditure of gift monies on capital construction at UMF. The $1 million increase in FY10 is primarily the result of favorable market conditions net of a $4 million and a $1 million decrease in gift balances restricted for capital assets and athletics, respectively.

Unrestricted net assets are not subject to externally imposed stipulations; however, these net assets are necessary for the financial stability of the University and have been designated for specific areas, including operational and capital needs, operating investment fluctuations, and benefits costs. Given both the physical and financial size of the University of Maine System, funds must be readily available to cover various situations including emergency expenditures, strategic priorities, operating losses, over-expenditures on capital or other projects, and benefits costs. Unrestricted net assets grew by $38 million from FY10 to FY11 compared with $44 million from FY09 to FY10.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The total change in the System's net assets for the year is reported in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement reports total operating revenues, operating expenses, nonoperating revenues (expenses), and other changes in net assets. The System's total net assets increased $80 million in FY11 and $55 million in FY10. Table 8 on the next page shows Condensed Statements of Revenues, Expenses, and Changes in Net Assets for the past five fiscal years ended June 30.

Other Changes in Net Assets:

There are three major components which management considers when analyzing the change in net assets:

- net income (loss) from recurring activities, which includes both operating and nonoperating revenues and expenses;
- capital appropriations and other plant changes; and
- endowment gifts and undistributed returns.

Management's Discussion and Analysis (unaudited)

June 30, 2011 and 2010

Table 8: Condensed Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30
($ in millions)

	2011	% Change	2010	% Change	2009	2008	2007
Net Student Fees	**$239**	**1%**	**$236**	**0%**	$235	$215	$200
Grants, Contracts and Indirect Cost Recovery	**186**	**9%**	**171**	**13%**	152	150	149
Other Operating Revenues	**59**	**-5%**	**62**	**2%**	61	63	57
Operating Revenues	**484**	**3%**	**469**	**5%**	448	428	406
Operating Expenses	**(667)**	**-3%**	**(648)**	**0%**	(647)	(642)	(605)
Operating Loss	**(183)**	**-2%**	**(179)**	**10%**	(199)	(214)	(199)
Nonoperating Revenues (Expenses)							
Noncapital State of Maine Appropriations	**195**	**3%**	**190**	**-2%**	194	201	192
State Fiscal Stabilization Funds	**6**	**-14%**	**7**	**0%**	7	0	0
Gifts Currently Expendable	**11**	**0%**	**11**	**-31%**	16	15	13
Endowment Return Used for Operations	**5**	**0%**	**5**	**-17%**	6	5	5
Investment Income	**11**	**0%**	**11**	**467%**	(3)	4	10
Interest Expense	**(8)**	**11%**	**(9)**	**10%**	(10)	(9)	(5)
Net Nonoperating Revenue	**220**	**2%**	**215**	**2%**	210	216	215
Income Before Other Changes in Net Assets	**37**	**3%**	**36**	**227%**	11	2	16
Other Changes in Net Assets							
State of Maine Capital Appropriation	**4**	**-43%**	**7**	**-22%**	9	9	10
Capital Grants and Gifts	**22**	**175%**	**8**	**-43%**	14	6	8
Endow. Return, Net of Amt. Used for Operations	**14**	**180%**	**5**	**122%**	(23)	(8)	11
Other	**3**	**-**	**(1)**	**-**	0	0	(2)
Total Other Changes in Net Assets	**43**	**-**	**19**	**-**	0	7	27
Change in Net Assets	**$80**	**45%**	**$55**	**400%**	$11	$9	$43

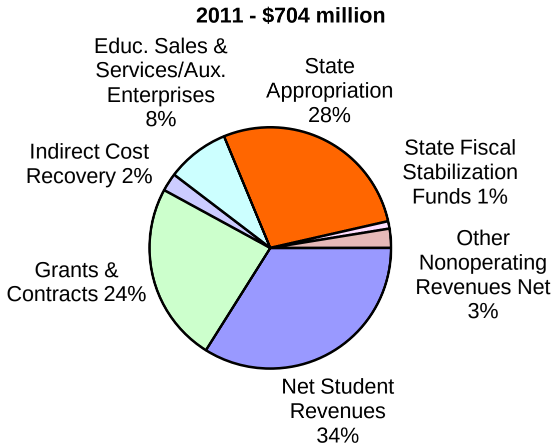
Operating and Nonoperating Revenue

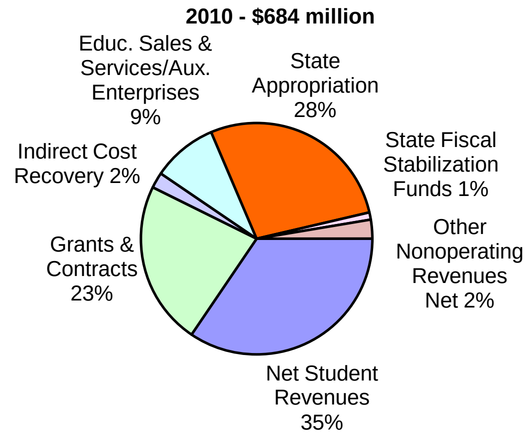
In addition to receiving tuition and fees, the System receives revenue from other sources such as governmental and privately funded grants and contracts; gifts from individuals, foundations, and corporations; state appropriations; and investment income. In FY09, the UMS was awarded $20.3 million in State Fiscal Stabilization Funds under the American Recovery and Reinvestment Act (ARRA) of 2009. The award was for a three year period. Through the end of FY11, UMS has received $20.1 million, leaving a balance of $.2 to be received in FY12. With decreased support from State appropriations and investment losses sustained during FY09, these ARRA funds were critical to stabilizing the System's financial condition over the last three years.

UMS revenues and expenses are categorized as either operating or non-operating. Certain significant recurring revenues and expenses including state appropriations, gifts, investment income or loss, and interest expense are considered non-operating.

The following pie charts illustrate both the operating and net non-operating revenue sources used to fund the System's activities for the years ended June 30, 2011 and 2010.

CHART 3: TOTAL OPERATING & NET NONOPERATING REVENUE





Net student revenues of $239 million for FY11, is the primary source of operating revenues. The portion of total operating and net nonoperating revenues funded by net student revenues declined by 1 percentage point in each of the last two years, comprising 34% of total revenue for FY11 and 35% for FY10.

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

- Tuition and fees totaled $261 million in FY11, increasing $10 million over FY10. The increase is primarily the result of a 4.7% weighted average increase in undergraduate in-state tuition and fees.
- Residence and dining fees of $59 million in FY11 increased nearly $1 million from FY10 primarily the result of a 4.2% weighted average increase in room and board rates.
- Scholarship allowances of $81 million increased $8 million or 11% over FY10 largely due to an increase in Pell funding and an increase in institutional aid to partially offset the increase in the students' cost of education.

With respect to the prior year:

- Tuition and fees of $251 million in FY10, increased $13 million over FY09. The increase was primarily the result of a 6.0% weighted average increase in undergraduate in-state tuition and fees.
- Residence and dining fees of $59 million in FY10 declined $1 million from FY09 despite a 4.7% weighted average increase in room and board rates.
- Scholarship allowances of $73 million increased $10 million or 16% over FY09 largely due to an increase in Pell grants.

Student Financial Aid:

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

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

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

In FY11, total financial aid provided to students was $109 million, which was an $11 million or 11% increase over FY10 aid of $98 million. This increase is primarily the result of an increase in Pell funding and an increase in institutional aid to partially offset the increase in the students' cost of education. Financial aid provided in FY10 had increased 17% over FY09 aid of $84 million. $12 million of that increase was the result of increased Pell grants primarily due to the change in federal legislation which allows students who qualify to receive up to two Pell grants in one award year to accelerate their program.

Grants, Contracts, and Indirect Cost Recovery:

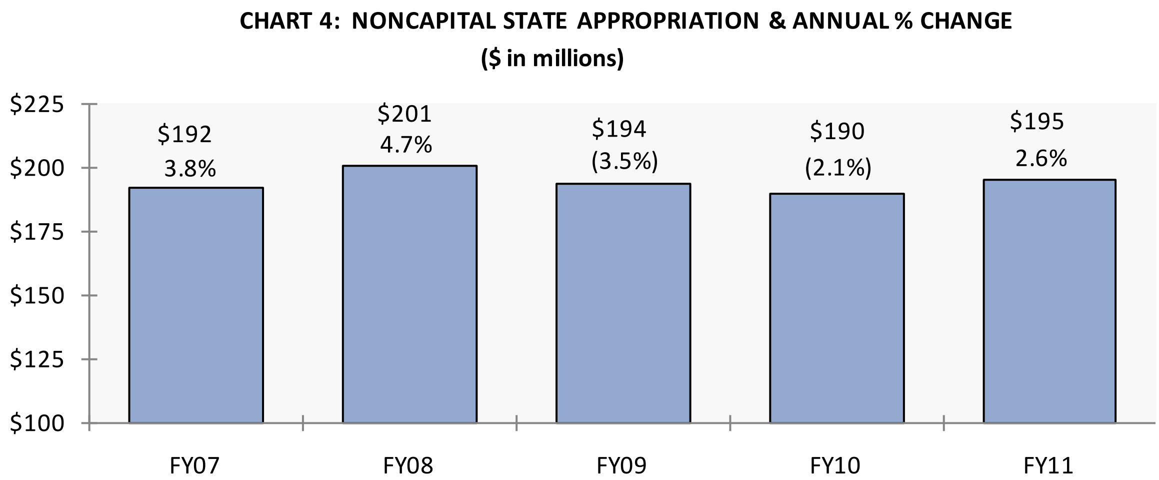
Grants and contracts revenues totaled $169 million in FY11, increasing $13 million over FY10. Pell grant revenue accounted for nearly $6 million, or 46%, of this increase. Grants and contracts revenues totaled $156 million in FY10, increasing $19 million over FY09. Pell grant revenue accounted for 63%, or $12 million, of the FY10 mentioned increase. Grants and contracts revenues are recognized to the extent of related expenses. Consequently, reported revenues will fluctuate based on the timing of expenses across fiscal years. The System receives funding from federal, state, and private sources with the majority of funding being provided by the federal government for research activities. State research and development funding is often used to leverage federal dollars.

In addition to providing for direct costs, grants and contract sponsors also provide for recovery of Facilities and Administrative (F&A) costs which are also known as indirect costs. The amount of allowable F&A costs is calculated on each grant and contract using the applicable negotiated rate. Recovery of indirect costs totaled $17 million and $15 million for FY11 and FY10, respectively.

State Appropriations:

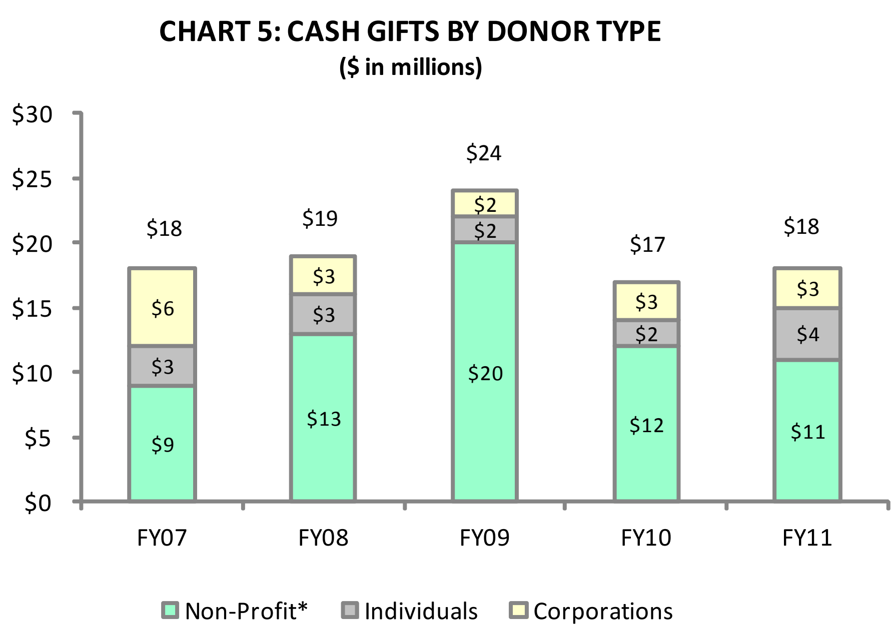
State appropriation revenue includes amounts for general operations as well as amounts legislatively earmarked for research and development, financial aid, and various other areas. Although not considered operating revenue under GASB reporting requirements, the noncapital State appropriation was the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

The System received $195 million in noncapital State appropriation revenue during FY11, up $5 million or 2.7% over FY10. The System received $190 million in noncapital State appropriation in FY10, for a $4 million or 2% decline from FY09. For both FY11 and FY10, the noncapital state appropriation covered 107% of the net operating loss.



Cash Gifts:

Total gifts received increased $1 million during FY11 compared with a decrease of $7 million during FY10. The decline from FY09 to FY10 is primarily due to the significant contribution of nearly $8 million in FY09 by the USM Foundation for construction of the Wishcamper Center and the Osher Map Library.



*Non-Profit includes foundations, governmental agencies, and other non-profit groups

Operating Expenses

Table 9: Operating Expenses, Classified by Function
For the Years Ended June 30
($ in millions)

	2011		2010		2009		2008		2007	
Instruction	**$178**	**27%**	**$180**	**28%**	$179	28%	$176	28%	$168	28%
Research	**79**	**12%**	**75**	**12%**	73	11%	75	12%	71	12%
Public Service	**61**	**9%**	**60**	**9%**	57	9%	54	8%	53	9%
Academic support	**73**	**11%**	**67**	**10%**	66	10%	66	10%	66	11%
Student services	**47**	**7%**	**47**	**7%**	48	7%	48	7%	45	7%
Institutional support	**50**	**8%**	**47**	**7%**	48	7%	54	8%	43	7%
Operation and maintenance of plant	**49**	**7%**	**46**	**7%**	51	8%	49	8%	46	8%
Depreciation and amortization	**29**	**4%**	**27**	**4%**	26	4%	23	4%	21	3%
Student aid	**28**	**4%**	**25**	**4%**	21	4%	20	3%	20	3%
Auxiliary enterprises	**73**	**11%**	**74**	**12%**	78	12%	77	12%	72	12%
Total Operating Expenses	**$667**	**100%**	**$648**	**100%**	$647	100%	$642	100%	$605	100%

Table 9 shows expenses on a functional basis; Table 10 presents a comparative summary of the System's expenses based on a natural classification.

Table 10: Total Expenses by Natural Classification
For the Years Ended June 30
($ in millions)

	2011		2010		2009		2008		2007	
Operating:										
Compensation and benefits	**$427**	**63%**	**$424**	**65%**	$425	65%	$417	64%	$388	64%
Utilities	**32**	**5%**	**27**	**4%**	32	5%	32	5%	30	5%
Supplies and services	**151**	**23%**	**144**	**22%**	143	22%	150	23%	146	24%
Depreciation	**29**	**4%**	**28**	**4%**	26	4%	23	4%	21	3%
Student aid	**28**	**4%**	**25**	**4%**	21	3%	20	3%	20	3%
Total Operating Expenses	**667**	**99%**	**648**	**99%**	647	99%	642	99%	605	99%
Nonoperating:										
Interest	**8**	**1%**	**9**	**1%**	10	1%	9	1%	5	1%
Total Expenses	**$675**	**100%**	**$657**	**100%**	$657	100%	$651	100%	$610	100%

As shown in Table 10, compensation and benefits expenses increased by $3 million or nearly 1% in FY11. Compensation and benefits expenses had decreased by $1 million in FY10 or less than 1% from the prior year. Of these totals, compensation decreased $1 million in FY11 or less than 1% and $5 million or nearly 2% in FY10; benefits increased $4 million or slightly more than 3% in both FY11 and FY10.

CURRENT AND FUTURE CONSIDERATIONS

The System views the work ahead as an opportunity to craft a system that continues to be vibrant, innovative, and relevant – meeting the evolving knowledge, research, public service, and education needs of our students and Maine citizens and its communities. Negative financial and demographic forces require the System to undergo transformative change to assure financial sustainability. Many stakeholders have worked collaboratively over the past year to shape the work that lies ahead. First, administrative, service delivery, and academic efficiencies will be undertaken to slow the rate of cost increases. Second, fundamental changes in structure and operations will be reviewed and a course set to organize the System and our work in a more effective manner.

Enrollments within the System had steadily increased from 1997 until the Fall of 2005. From Fall of 2005 through Fall 2011, on a headcount basis, enrollments have declined by 2,236 students or 6.5% while on a full-time equivalent basis enrollments have declined 712 or nearly 3%.

Fall 2010 full-time equivalent enrollments totaled 23,535 and 32,009 on a headcount basis, each representing a decline of approximately 1% from the 2009 levels. Early Fall 2011 enrollment levels are indicating enrollments will be slightly below Fall 2010.

Projections indicate that the number of Maine high school graduates will decline over the next few years; therefore, the System is proactively pursuing increased in-state, out-of-state, and international student enrollments, both traditional age and adult enrollment. Additionally, each institution is focusing on retention efforts while assisting prospective students with the transition to university life.
Recruitment efforts include expansions and/or enhancements in the following areas:

- Strategic use of financial aid
- On-line application capabilities
- Increased marketing and outreach in-state and out-of-state
- Out of state recruitment activity
- Web tools and institutional web sites
- Specialty area recruitments (e.g., music, sports)
- Advising and student success efforts on all campuses
- Recruitment and advising of students intending to transfer from community colleges
- Exposing high school students to UMS institutions through early-study and early-college opportunities
- Expanded veterans recruitment (due to implementation of new GI bill)
- Expanded international recruitment efforts in China and domestically and at Maine's private academies

Retention efforts include:

- Continued development and implementation of student success programs – these include first and second year student success programs and programs geared toward increasing the graduation rates at UMS campuses.
- Pursuit of grant opportunities to fund expanded services for veterans – for example, UMA received a $100 thousand grant from the Walmart Foundation for the development of an expanded veterans services office.
- Participation in the National Survey of Student Engagement (students surveyed as freshmen and then again as seniors)

- Alignment and expansion of curricular and co-curricular experiences to further engage students and enhance course work

In January 2009 the System commenced the "New Challenges, New Directions Initiative" to address challenges faced by the System. Projects out of this initiative include:

- Study of tuition and pricing strategies for UMS and its campuses
- Formation of enrollment management teams on every campus and an executive level team at UMS
- Development of enrollment plans for every campus which include annual and long term goals and targets
- Annual summit on access, affordability and enrollment – an Enrollment Summit was held in May 2010, and an Enrollment Planning Workshop was held in September 2010
- The UMS is embarking on a major branding and marketing initiative focused on the importance of baccalaureate and graduate education for the future economic and workforce development of Maine. This initiative rolled out on September 26, 2011
- Enhanced Services:
    - Implementation of campus one stops
    - Exploration of a portal for on line student service
    - Development of strategies for more seamless transfer into and across UMS
    - Development of web based student services such as on line bill payment
    - Enhanced data retrieval capability through the implementation of a data warehouse for enrollment (to be "live" April 2013)

Economic factors within the State of Maine, including the State's fiscal performance, significantly impact the System. The world financial crisis of FY09 required the State to make significant adjustments for losses in revenue. After various adjustments, UMS unrestricted educational and general appropriations ended down $8 million in FY09. FY10 was another difficult year with an appropriation reduction of $7 million and an additional curtailment of $7.5 million of which $1.5 million was restored. Although the FY10 curtailment of $6.0 million was restored, no additional funds were appropriated for FY11.

The global economic recovery continues to be weak with persisting concerns over the European debt crisis, muted growth expectations, and continued high unemployment. Faced with State budget challenges the Governor has formed a Task Force to reduce State spending by $25 million. The Task Force has not yet made final recommendations, so any impact on the UMS is unknown at this time.

Even with past increases State funding is not sufficient to offset rising costs. For FY12, the System held undergraduate in-state tuition increases to an average 4.3%, down from 4.8% in the prior year. The System consistently looks at various budget scenarios, including tuition increases that provided for revenue needs but remain sensitive to affordability and the impact on enrollments.

The System continues to work hard to reduce costs and control tuition increases. There have been no cost of living increases for employees since FY09 and no executive pay increases since FY08. The UMS workforce has been reduced by 7% since 2007 through the elimination of 397 full-time equivalent positions. Over the past three years, the UMS has diligently worked to reduce the projected financial structural gap for FY13 from $43 million to $10 million. In May 2011, the BOT approved the lowest weighted average tuition increase in ten years, with comprehensive student charges (weighted average of tuition, mandatory fees, and room and board) for FY12 rising just 3.3% for in-state undergraduates. Global financial volatility and economic uncertainty persist, challenging both Maine and the nation, and will further limit revenues from state appropriation and tuition. In the face of these challenges, the UMS will continue to work hard to reduce the cost of delivering education.

Implementation of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* in FY08 continues to be a major cost driver for the System. Under GASB Statement 45, the System accounts for postemployment health costs on an accrual basis rather than the pay-as-you-go basis which had been used up until FY08. Over the past several years, to reduce its liability and the annual required contribution (ARC), the System has made changes in retiree health plan eligibility rules and premium contributions, replaced the Medicare supplement plan by a Medicare Advantage Plan, and continues to fund an irrevocable OPEB Trust which was established in FY09.

At $427 million in FY11, compensation and benefits constitutes 63% of all operating expenses [72% of the educational and general budget]. A significant portion of the benefits costs is attributed to health care. With significant projected cost increases, the Chancellor convened an Employee Health Plan Task Force in FY11 to provide leadership to the UMS and to the collective bargaining process in recommending actions that would contribute to continuing a competitive employee health care benefit while reducing the cost trend for the employee health plan in order to improve the financial sustainability of UMS. The BOT approved the Task Force recommendations at its September 2011 meeting. Actions go into effect in January 2012 for all non-represented employees and for employees in any bargaining units that have agreed to implement the Task Force recommendations. Recommended actions include quality, cost and payment reform; plan design changes; health improvement; communication and education; and ongoing stakeholder involvement. Key factors necessary to successfully achieve the cost trend targets include: support from the BOT, senior management and unions; continued work by a successor Task Force to monitor and adapt the work to the changing environment; and effective communication and education to consumers of the UMS health benefit.

Currently campus budgets do not fully fund depreciation with facilities capital maintenance needs being funded primarily with operating surpluses, which has resulted in a depreciation "gap" that is increasing annually. To address this situation the System issues revenue bonds when prudent and possible. The System also continues to seek State bond funding. Voters approved State bond funding of $9 million for UMS in June 2010 for energy and infrastructure upgrades.

The UMS anticipates issuing revenue bonds to refinance $30 million of debt that comes due in FY12. This principal payment relates to revenue bonds issued in 2002 with a 10 year maturity to take advantage of low interest rates on the short end of the yield curve resulting in reduced debt service costs. The UMS also anticipates borrowing $7 million in new money to finance construction and renovation at the UM Field House/Memorial Gym Complex. The debt service related to this portion of the bond will be funded by the State of Maine as committed by the 124th Legislature.

The issues noted above, ranging from enrollments to global economic challenges to rising health care costs and deferred maintenance continue to present fiscal challenges. Nonetheless, the UMS *New Challenges and New Directions Initiative* allowed the System to make great progress and continues to guide our work. UMS will continue to be vigilant in controlling costs at the same time we work to increase enrollment and maintain affordable access.

UNIVERSITY OF MAINE SYSTEM
Statements of Net Assets
June 30, 2011 and 2010
($ in thousands)

	2011 University of Maine System	2010 University of Maine System	2011 Component Units	2010 Component Units
ASSETS				
Current Assets:				
Cash and cash equivalents (Note 2)	$ 2,335	$ 373	$ 171	$ 97
Short-term investments (Note 3)	224,077	196,195	3,123	2,959
Accounts, grants, and pledges receivable, net (Note 4)	63,439	54,249	1,168	620
Inventories and prepaid expenses	4,728	7,654	-	-
Notes and lease receivable, net (Note 5)	63	63	-	-
Total Current Assets	294,642	258,534	4,462	3,676
Noncurrent Assets:				
Deposits with bond trustees (Notes 3 and 6)	3,374	5,211	-	-
Accounts, grants, and pledges receivable, net (Note 4)	8,219	4,475	657	1,532
Notes and lease receivable, net (Note 5)	38,934	38,699	906	1,062
Endowment and other investments (Note 3)	124,999	104,393	181,833	156,192
Bond issuance costs, net (Note 7)	1,601	1,812	-	-
Capital assets, net (Note 6)	668,362	644,150	120	121
Other assets	-	-	14,568	13,168
Total Noncurrent Assets	845,489	798,740	198,084	172,075
Total Assets	$ 1,140,131	$ 1,057,274	$ 202,546	$ 175,751
LIABILITIES				
Current Liabilities:				
Accounts payable	$ 19,047	$ 15,391	$ 10	$ 36
Deferred revenue and deposits (Note 8)	13,780	13,537	-	-
Accrued liabilities (Notes 7, 11 and 14)	28,739	28,829	-	-
Funds held for others	1,254	1,015	-	-
Current portion of capital lease obligations (Note 7)	611	283	-	-
Current portion of bonds and notes payable (Note 7)	9,802	8,987	127	123
Total Current Liabilities	73,233	68,042	137	159
Noncurrent Liabilities:				
Accrued liabilities (Notes 7 and 11)	43,505	41,438	842	902
Funds held for others (Note 3)	18,494	15,055	-	-
Capital lease obligations (Note 7)	3,989	2,219	-	-
Bonds and notes payable, net (Note 7)	182,164	191,966	1,014	1,130
Government advances refundable (Note 9)	31,371	31,348	-	-
Other liabilities	-	-	5,799	5,275
Total Noncurrent Liabilities	279,523	282,026	7,655	7,307
Total Liabilities	352,756	350,068	7,792	7,466
NET ASSETS				
Invested in capital assets, net of related debt	474,556	444,471	95	93
Restricted:				
Nonexpendable (Note 10)	51,984	48,602	12,991	125,916
Expendable (Notes 3 and 10)	94,978	86,301	50,852	36,262
Unrestricted (Note 10)	165,857	127,832	130,816	6,014
Commitments and contingencies (Note 11)	-	-	-	-
Total Net Assets	787,375	707,206	194,754	168,285
Total Liabilities and Net Assets	$ 1,140,131	$ 1,057,274	$ 202,546	$ 175,751

See accompanying notes to the basic financial statements.

UNIVERSITY OF MAINE SYSTEM
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2011 and 2010
($ in thousands)

	2011 University of Maine System	2010 University of Maine System	2011 Component Units	2010 Component Units
OPERATING REVENUES				
Tuition and fees	$ 260,703	$ 250,826	$ -	$ -
Residence and dining fees	59,499	58,763	-	-
Less: scholarship allowances	(81,458)	(73,331)	-	-
Net student fees	238,744	236,258	-	-
Federal, state, and private grants and contracts	168,649	156,441	-	-
Recovery of indirect costs	17,150	15,174	-	-
Educational sales and services and other revenues	31,404	32,367	139	173
Other auxiliary enterprises	27,924	29,258	-	-
Total Operating Revenues	483,871	469,498	139	173
OPERATING EXPENSES				
Instruction	178,121	179,975	-	-
Research	79,142	74,729	-	-
Public service	61,215	60,004	-	-
Academic support	72,879	67,394	-	-
Student services	46,938	46,692	-	-
Institutional support	50,290	47,159	2,850	2,715
Operation and maintenance of plant	48,762	45,527	-	-
Depreciation and amortization	28,739	27,401	49	47
Student aid	27,795	25,156	742	751
Auxiliary enterprises	72,905	73,886	-	-
Total Operating Expenses	666,786	647,923	3,641	3,513
Operating Loss	(182,915)	(178,425)	(3,502)	(3,340)
NONOPERATING REVENUES (EXPENSES)				
Noncapital State of Maine appropriations	195,327	190,078	-	-
State Fiscal Stabilization Fund	6,541	7,152	-	-
Gifts currently expendable	10,922	11,382	667	1,496
Payments to the System	-	-	(4,962)	(4,715)
Endowment return used for operations (Note 3)	4,860	4,622	-	-
Investment income (Note 3)	10,663	10,733	14,561	10,761
Interest expense, net (Note 7)	(8,485)	(9,046)	(3)	(6)
Net Nonoperating Revenue	219,828	214,921	10,263	7,536
Income Before Other Changes in Net Assets	36,913	36,496	6,761	4,196
OTHER CHANGES IN NET ASSETS				
State of Maine capital appropriations	4,104	6,879	-	-
Capital grants and gifts	22,556	7,784	-	-
Endowment return, net of amount used for operations (Note 3)	14,358	4,864	-	-
Restricted investment income	-	-	14,299	2,155
True and quasi endowment gifts	2,291	321	5,409	3,932
Loss on disposal of capital assets	(53)	(643)	-	-
Total Other Changes in Net Assets	43,256	19,205	19,708	6,087
Increase in Net Assets	80,169	55,701	26,469	10,283
NET ASSETS				
Net Assets - beginning of year	707,206	651,505	168,285	158,002
Net Assets - end of year	$ 787,375	$ 707,206	$ 194,754	$ 168,285

See accompanying notes to the basic financial statements.

UNIVERSITY OF MAINE SYSTEM
Statements of Cash Flows
Years Ended June 30, 2011 and 2010
($ in thousands)

	2011 University of Maine System	2010 University of Maine System
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition, residence, dining, and other student fees	$ 240,610	$ 236,729
Grants and contracts	183,737	161,451
Educational sales and services and other auxiliary enterprise revenues	56,241	61,066
Payments to and on behalf of employees	(420,434)	(415,042)
Financial aid paid to students	(34,270)	(31,157)
Payments to suppliers	(180,703)	(164,476)
Loans issued to students	(6,715)	(3,778)
Collection of loans to students	5,677	6,517
Interest collected on loans to students	733	750
Net Cash Used for Operating Activities	(155,124)	(147,940)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	195,327	190,078
State Fiscal Stabilization Program	6,541	7,016
Noncapital grants and gifts	14,240	10,221
Agency transactions	(1,058)	(1,487)
Net Cash Provided by Noncapital Financing Activities	215,050	205,828
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital appropriations	2,432	8,355
Capital grants and gifts	16,366	5,799
Proceeds from sale of capital assets	-	49
Acquisition and construction of capital assets	(42,205)	(27,266)
Principal paid on capital debt and leases	(10,950)	(8,591)
Interest paid on capital debt and leases	(8,609)	(9,154)
Net Cash Used for Capital and Related Financing Activities	(42,966)	(30,808)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	534,774	438,722
Purchases of investments	(556,222)	(471,228)
Earnings from investments	6,450	4,807
Net Cash Used by Investing Activities	(14,998)	(27,699)
Net increase (decrease) in cash and cash equivalents	1,962	(619)
Cash and cash equivalents - beginning of year	373	992
Cash and cash equivalents - end of year	$ 2,335	$ 373

See accompanying notes to basic financial statements.

UNIVERSITY OF MAINE SYSTEM
Statements of Cash Flows
Years Ended June 30, 2011 and 2010
($ in thousands)

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

	2011 University of Maine System	2010 University of Maine System
Operating loss	$ (182,915)	$ (178,425)
Adjustments to reconcile net operating loss to net cash used by operating activities:		
Depreciation and amortization	28,739	27,401
Changes in assets and liabilities:		
Accounts and grants receivable, net	(2,971)	(5,186)
Inventories and prepaid expenses	2,926	(195)
Notes receivable, net	(298)	3,302
Accounts payable	(945)	4,771
Deferred revenue and deposits	300	(1,811)
Accrued liabilities	17	2,617
Grants refundable	23	(414)
Net Cash Used for Operating Activities	$ (155,124)	$ (147,940)

Noncash investing, capital, and financing activities:

	2011	2010
Capital asset additions included in accounts payable as of June 30	$ 5,540	$ 942
Capital asset additions acquired through capital leases	$ 3,823	$ 111
Capital asset additions acquired through long-term debt	$ 1,195	$ 23
Book value of capital asset sold and financed through lease receivable	$ -	$ 785

See accompanying notes to basic financial statements.

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, nine 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 units (see Note 15). Those organizations are not-for-profit entities controlled by separate governing boards whose goals are to support the System. They receive funds primarily through donations and contribute funds to the System for student scholarships and institutional support.

b. Basis of Presentation

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

The System's policy for defining operating activities in the Statements of Revenues, Expenses, and Changes in Net Assets 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. These nonoperating activities include the System's operating appropriations from the State of Maine, net investment income, gifts, and interest expense.

The System applies all pronouncements issued by the Financial Accounting Standards Board (FASB) on or before November 30, 1989, to the extent they do not conflict with GASB pronouncements.

c. Net Assets

The System's net assets (assets minus liabilities) are classified for accounting purposes in the following four categories:

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

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

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

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

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

d. Cash and Cash Equivalents

The System considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

e. Investments

All investments are reported at fair value. University 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 balance sheet date are reasonable.

Third party investments: Two outside entities, the UMS Other Post Employment Benefit (OPEB) Trust and Maine Maritime Academy, pool monies with the System's endowment pool. Investment performance results of these pooled monies are allocated on a pro rata basis based on the numbers of pool shares held by each entity. Contributions to and withdrawals from the pool are allowed only on the first business day of a calendar quarter. Investment of these monies follows guidelines approved by the Board of Trustees Investment 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 5% for FY11 and FY10. The 5% was applied to a 3-year market value average to determine expendable income.

Under State of Maine law, the System may spend realized and unrealized appreciation on endowments in addition to earnings on the funds. It is the System's policy to spend a portion of the endowment earnings on operations and reinvest the balance. The reinvested earnings are presented as other changes in net assets.

($ in thousands)

Authorized Investment Vehicles:

Short-term Investments: The System has a three-tiered approach regarding its short-term investments:

- Cash Pool – This tier is invested in a portfolio of highest quality short-term fixed-income securities (treasury obligations, agency securities, banker's acceptances, money market funds, CD's, commercial paper, short-term bond funds) with adequate liquidity. The average rating of the pool is at least "A1".
- Intermediate Pool – This tier is invested in a diversified portfolio, in accordance with investment manager guidelines, consisting primarily of fixed income securities with a normal average duration 1-5 years. The overall average quality rating of this pool is at least "A-"
- Long-term Pool – This tier consists of funds that will not be required for at least 36 months. Assets should be diversified both by asset class and within asset classes. No minimum quality rating is specified for this pool, since it can invest in non-fixed income securities.

Endowment Investments: The fund will be diversified both by asset class and within asset classes. In order to have a reasonable probability of consistently achieving the Fund's return objectives, the following asset allocation policy has been adopted as of June 30;

	2011	2010
• Equity securities	40-60%	45-65%
• Fixed income securities	10-20%	5-15%
• Other	30-40%	30-40%
• Cash	0-10%	0-10%

Deposits with bond trustees: These monies are invested in accordance with the governing bond resolutions and arbitrage certificates.

f. Inventories

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

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. Since the System cannot fulfill the time requirement for gifts to endowments until the gift is received, pledges to endowments are not reported. Pledges receivable are reported net of amounts deemed uncollectible, and after discounting to the present value of the expected future cash flows. 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 these funding sources at the point all eligibility requirements (e.g., allowable costs are incurred) are met.

i. Capital Assets

Capital assets are recorded at cost when purchased or constructed and at fair value at date of donation. In accordance with the System's capitalization policy, only equipment (including equipment acquired under capital leases) and purchased software with a unit cost of $5 or more and capital projects and internally generated intangibles with a projected cost of $50 or more are capitalized.

Interest costs on debt related to capital assets, net of investment income on unspent bond proceeds, are generally capitalized during the construction period. Software costs are capitalized and depreciated and include amounts paid to third parties and certain internal labor costs incurred to acquire and implement the software.

Depreciation and amortization of assets acquired under capital leases are recorded on a straight-line basis over the estimated useful lives of the related assets, principally as follows:

	Years
Buildings	25 - 60
Improvements	15 - 40
Equipment	4 - 20
Software	4 - 15

Costs for maintenance, repairs and minor renewals and replacements are expensed as incurred; major renewals and replacements are capitalized. Equipment is removed from the financial statements during the fiscal year following the year they become fully depreciated. When land, buildings, and improvements are retired or otherwise disposed of, the asset and accumulated depreciation accounts are adjusted and any resulting gain or loss is reflected in the Statement of Revenues, Expenses, and Changes in Net Assets.

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.
- The proceeds from sales of works of art and historical treasures are to be used to acquire other items for the collections.

j. <u>Deferred Revenue and Deposits</u>

Deferred revenue in the Statements of Net Assets 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. Deferred revenue for summer programs is presented net of related expenses (e.g., student aid).

k. <u>Compensated Absences</u>

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

l. <u>Deferred Amounts on Refunding</u>

Deferred amounts on refunding represent the difference between the reacquisition price and the carrying value of refunded revenue bonds. These amounts are amortized and charged to operations as additional interest expense over the shorter of the remaining life of the refunded bonds or the life of the new bonds. The unamortized portion is reported in the Statements of Net Assets as a reduction of bonds payable.

m. Net Student Fees

Student tuition, dining, residence, and other fees are presented net of scholarships and fellowships applied to students' accounts. Certain other scholarship amounts are paid directly to, or refunded to, the student and are generally reflected as expenses.

n. Tax Status

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

o. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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. The current economic environment increases the uncertainty of those estimates.

p. Reclassifications

Certain FY10 items in the accompanying financial statements have been reclassified, without effect on total net assets, to conform to the FY11 presentation.

2. CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of bank failure, the System's deposits may not be returned. Deposits are considered uninsured and uncollateralized if they are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the University'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, 2011 and 2010, the bank balances of uninsured and uncollateralized operating cash deposits totaled $0 and $5,175, respectively.

($ in thousands)

3. INVESTMENTS

a. Composition and Purpose of Investments

The System uses a pooled investment approach for its endowments (including Affiliates' endowments invested with the System) unless otherwise required by the donor. Two outside entities, the UMS Other Post Employment Benefit (OPEB) Trust and Maine Maritime Academy, pool monies with the System's endowment. Investment policies and strategies are determined for the combined pool. Fair values, credit ratings, and interest rate risk for the entire investment pool are presented below under 'endowment' investments. The amount held for these two outside entities is then deducted to show only the amount of the System's endowment investment.

Short-term Investments: The System's short-term investments are available to fund operations or other purposes as determined by System management.

Endowment Investments: Except for certain gifts invested separately at the request of the donors ($155 and $147 at June 30, 2011 and 2010, respectively), the System's endowment is managed as a pooled investment fund using external investment managers. The University of Maine at Farmington Alumni Foundation, the University of Maine at Fort Kent Foundation, the University of Southern Maine Foundation, and the John L. Martin Scholarship Fund, Inc. have elected to participate in the System's endowment pool through a management agreement. The fair values of these investments at June 30, 2011 and 2010, respectively are $18,494 and $15,055, and are reported as funds held for others in the accompanying Statements of Net Assets.

Endowed gifts are invested to generate income to be used to fund various activities such as scholarships, research, etc as specified by the donors. Total endowment accumulated income and gains available to the System for spending are as follows at June 30:

	2011	2010
Restricted - expendable	$42,019	$30,136
Unrestricted	12,166	10,244
Total available for spending	$54,185	$40,380

Deposits with bond trustees: Deposits with bond trustees are composed of debt service reserves required by bond covenants and unexpended revenue bond proceeds.

($ in thousands)

The System's investments are composed of the following at June 30, 2011:

	Fair Value	Credit Rating	Interest Rate Risk	
Short-term Investments:				
Equities:				
Multi strategy funds	$ 42,672			
Fixed Income Funds:				
Bank loans	17,772	Not rated	.1 years	Duration
Bonds	116,669	Not rated	.41 - 5.2 years	Duration
Money markets	146	Not rated	34 days	Ave maturity
State pool	46,818	Not rated	.03 years	Duration
Total	$ 224,077			
Deposits With Bond Trustees:				
Guaranteed investment contracts	$ 2,870	Not rated		
Money funds, savings, CDs	59			
Fixed Income Funds:				
Bonds	166	Aaa-Moody's	35	Ave maturity
Money markets	184	Not rated	29 days	Ave maturity
State pool	95	Not rated	.3 years	Duration
Total	$ 3,374			
Endowment Investments:				
Pooled Investments:				
Money funds, savings, CDs	$ 9,121			
Equities:				
Equities	40,244			
Equity funds	57,184			
Multi-strategy funds	60,948			
Fixed Income Funds:				
Money markets	46	Not rated	28 days	Ave maturity
Bonds	24,975	Not rated	4.0 years	Duration
Total Pooled Investments	192,518			
Less portion held on behalf of outside entities	(67,674)			
Endowment portion of pooled investments	124,844			
Separately Invested Assets:				
Money funds, savings, CDs	68			
Equities	87			
Total	$ 124,999			

($ in thousands)

The System's investments are composed of the following at June 30, 2010:

	Fair Value	Credit Rating	Interest Rate Risk	
Short-term Investments:				
Money funds, savings, CDs	$ 137			
Equities:				
Multi strategy funds	22,983			
Fixed Income Funds:				
Bank loans	10,464	Not rated	.1 years	Duration
Bonds	84,961	Not rated	.77 - 5 years	Duration
Money markets	30,550	Not rated	32 - 36 days	Ave maturity
State pool	47,100	Not rated	.01 years	Duration
Total	$ 196,195			
Deposits With Bond Trustees:				
Guaranteed investment contracts	$ 2,870	Not rated		
Fixed Income Funds:				
Bonds	166	Aaa-Moody's	38 days	Ave maturity
Money markets	2,042	Not rated	55 days	Ave maturity
State pool	133	Not rated	.01 years	Duration
Total	$ 5,211			
Endowment Investments:				
Pooled Investments:				
Money funds, savings, CDs	$ 7,472			
Equities:				
Equities	37,664			
Equity funds	46,627			
Multi-strategy funds	36,411			
Fixed Income Funds:				
Money markets	240	Not rated	48 days	Ave maturity
Bonds	20,338	Not rated	3.5 years	Duration
Total Pooled Investments	148,752			
Less portion held on behalf of outside entities	(44,506)			
Endowment portion of pooled investments	104,246			
Separately Invested Assets:				
Money funds, savings, CDs	68			
Equities	79			
Total	$ 104,393			

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:

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

Endowment Investments: To limit interest rate exposure, the Endowment investment policy restricts:

- The average effective duration of the investment grade fixed income portfolio to no more than 1 year greater than the duration of the Barclays Capital Aggregate Bond Index which is 5.12 years and 4.06 years at June 30, 2011 and 2010, respectively.
- The average effective duration for the high yield bond portfolio to no more than 1 year greater than the duration of the Citigroup BB/B Bond Index which is 6.4 years and 6.6 years at June 30, 2011 and 2010, respectively.

c. Foreign Currency Risk

Short-term Investments: Several of the institutional funds in which the System invests include holdings in various foreign currencies, with some funds hedging against foreign currency risk. Foreign currency holdings represent 3% or less of the total dollar value of short-term investments at June 30, 2011 and 2010.

Endowment Investments: University policy is that up to 20% of the endowment portfolio may be invested in international equity assets and currency exposure may be hedged or unhedged. Additionally, 15% may be invested in a diversified global asset portfolio, which may be hedged or unhedged at the investment manager's discretion.

($ in thousands)

d. Investment Income

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

2011

	Net Gains	Interest and Dividends	Investment Fees	Net Earnings
Endowment investments	$ 19,919	$ 2,004	$ (1,088)	$ 20,835
Less managed funds distributed				(1,617)
University endowment income				$ 19,218
Reported as endowment return used for operations				$ 4,860
Reported as endowment gain, net of amount used for operations				14,358
Net gain from endowment investments				$ 19,218
Short-term investments	$ 5,585	$ 6,066	$ (1,130)	$ 10,521
Deposits with bond trustees	-	142	-	142
Total other investment income	$ 5,585	$ 6,208	$ (1,130)	$ 10,663

2010

	Net Gains	Interest and Dividends	Investment Fees	Net Earnings
Endowment investments	$ 9,108	$ 2,189	$ (872)	$ 10,425
Less managed funds distributed				(939)
University endowment income				$ 9,486
Reported as endowment return used for operations				$ 4,622
Reported as endowment gain, net of amount used for operations				4,864
Net gain from endowment investments				$ 9,486
Short-term investments	$ 7,176	$ 4,309	$ (922)	$ 10,563
Deposits with bond trustees	-	170	-	170
Total other investment income	$ 7,176	$ 4,479	$ (922)	$ 10,733

($ in thousands)

4. ACCOUNTS, GRANTS, AND PLEDGES RECEIVABLE

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

	2011			2010		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Student and other accounts receivable	$ 30,800	$ 30,730	$ 70	$ 25,807	$ 25,736	$ 71
Grants receivable	37,754	36,012	1,742	31,290	31,206	84
Pledges receivable	8,320	1,433	6,887	7,166	2,328	4,838
Total gross receivables	76,874	68,175	8,699	64,263	59,270	4,993
Less allowance for doubtful accounts	(4,983)	(4,736)	(247)	(5,188)	(5,021)	(167)
Less discount on pledges receivable	(233)	-	(233)	(351)	-	(351)
Total receivables, net	$ 71,658	$ 63,439	$ 8,219	$ 58,724	$ 54,249	$ 4,475

In accordance with GASB 35, grants receivable related to the acquisition of capital assets are 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:

	2011			2010		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Perkins Loans	$ 30,139	$ -	$ 30,139	$ 30,453	$ -	$ 30,453
Nursing Loans	1,673	-	1,673	1,563	-	1,563
Institutional Loans	7,460	-	7,460	6,842	-	6,842
Lease receivable **(a)**	1,126	63	1,063	1,189	63	1,126
Total notes and leases receivable	40,398	63	40,335	40,047	63	39,984
Less allowance for doubtful accounts	(1,401)	-	(1,401)	(1,285)	-	(1,285)
Total notes and leases receivable, net	$ 38,997	$ 63	$ 38,934	$ 38,762	$ 63	$ 38,699

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 Assets as noncurrent assets.

($ in thousands)

(a) Lease receivable consists of the following:

	2011	2010
University of New Hampshire		
Secured by equipment; monthly payments of $5, including interest at 4.85% per annum; matures 2029	$ 1,126	$ 1,189

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 is as follows:

	Beginning Balance	Additions	Reclasses	Retirements	Ending Balance
Land	$ 17,229	$ -	$ -	$ -	$ 17,229
Library Materials	25,686	-	-	-	25,686
Construction in Progress	11,162	42,397	(31,616)	-	21,943
Total Nondepreciable Assets	54,077	42,397	(31,616)	-	64,858
Land Improvements	43,451	-	608	-	44,059
Buildings & Improvements	719,782	-	26,452	-	746,234
Equipment	79,465	9,271	3,688	(3,043)	89,381
Software	24,835	1,125	868	(408)	26,420
Total Depreciable Assets	867,533	10,396	31,616	(3,451)	906,094
Less Accumulated Depreciation:					
Land Improvements	25,114	1,422	-	-	26,536
Buildings & Improvements	209,055	16,680	-	-	225,735
Equipment	35,614	8,267	-	(2,990)	40,891
Software	7,677	2,159	-	(408)	9,428
Total Accumulated Depreciation	277,460	28,528	-	(3,398)	302,590
Net Depreciable Assets	590,073	(18,132)	31,616	(53)	603,504
Total Capital Assets	$ 644,150	$ 24,265	$ -	$ (53)	$ 668,362

($ in thousands)

Capital asset activity for the year ended June 30, 2010 is as follows:

	Beginning Balance	Additions	Reclasses	Retirements	Ending Balance
Land	$ 16,073	$ 1,050	$ 106	$ -	$ 17,229
Library Materials	25,686	-	-	-	25,686
Construction in Progress	10,846	20,696	(19,935)	(445)	11,162
Total Nondepreciable Assets	52,605	21,746	(19,829)	(445)	54,077
Land Improvements	41,895	-	1,556	-	43,451
Buildings & Improvements	704,371	-	15,455	(44)	719,782
Equipment	75,506	5,691	2,779	(4,511)	79,465
Software	24,996	487	39	(687)	24,835
Total Depreciable Assets	846,768	6,178	19,829	(5,242)	867,533
Less Accumulated Depreciation:					
Land Improvements	23,638	1,476	-	-	25,114
Buildings & Improvements	192,726	16,344	-	(15)	209,055
Equipment	31,543	7,567	-	(3,496)	35,614
Software	6,491	1,870	-	(684)	7,677
Total Accumulated Depreciation	254,398	27,257	-	(4,195)	277,460
Net Depreciable Assets	592,370	(21,079)	19,829	(1,047)	590,073
Total Capital Assets	$ 644,975	$ 667	$ -	$ (1,492)	$ 644,150

Additions to capital assets include assets acquired through capital leases of $3,823 and $111 for the years ended June 30, 2011 and 2010, respectively.

As of June 30, 2011 and 2010, $279 and $2,174, respectively, in proceeds from revenue bond issuances remain unspent. These amounts are included in the accompanying Statements of Net Assets as part of deposits with bond trustees.

Also remaining unspent as of June 30, 2011 is $19,803 in capital appropriations awarded by the State of Maine. These amounts are not included in the accompanying financial statements because the System has not met all eligibility requirements, e.g., incurred costs.

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

Outstanding commitments on uncompleted construction contracts totaled $19,121 and $21,601 at June 30, 2011 and 2010, respectively.

($ in thousands)

7. LONG-TERM LIABILITIES

Changes in long-term liabilities during the year ended June 30, 2011 consist of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases and bonds payable:					
Capital lease obligations **(a)**	$ 2,502	$ 3,823	$ (1,725)	$ 4,600	$ 611
Bonds and notes payable **(b)**	200,953	-	(8,987)	191,966	9,802
Total leases and bonds payable	203,455	3,823	(10,712)	196,566	10,413
Accrued liabilities:					
Workers' compensation - Note 11	5,803	1,034	(933)	5,904	1,521
Health insurance - Note 11	3,866	53,373	(53,027)	4,212	4,212
Postemployment health plan - Note 14	5,587	19,741	(21,990)	3,338	3,338
Other employee benefit programs - Note 13	40,420	55,796	(54,820)	41,396	3,613
Other	14,591	16,880	(14,077)	17,394	16,055
Total accrued liabilities	70,267	146,824	(144,847)	72,244	28,739
Total long-term liabilities	$ 273,722	$ 150,647	$ (155,559)	$ 268,810	$ 39,152

Changes in long-term liabilities during the year ended June 30, 2010 consist of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases and bonds payable:					
Capital lease obligations **(a)**	$ 2,956	$ 111	$ (565)	$ 2,502	$ 283
Bonds and notes payable **(b)**	209,229	23	(8,299)	200,953	8,987
Total leases and bonds payable	212,185	134	(8,864)	203,455	9,270
Accrued liabilities:					
Workers' compensation - Note 11	5,546	1,732	(1,475)	5,803	1,730
Health insurance - Note 11	4,165	49,812	(50,111)	3,866	3,866
Postemployment health plan - Note 14	3,033	18,880	(16,326)	5,587	5,587
Other employee benefit programs - Note 13	40,427	56,415	(56,422)	40,420	3,988
Other	14,185	14,036	(13,630)	14,591	13,658
Total accrued liabilities	67,356	140,875	(137,964)	70,267	28,829
Total long-term liabilities	$ 279,541	$ 141,009	$ (146,828)	$ 273,722	$ 38,099

($ in thousands)

(a) Lease Obligations

The System leases certain equipment and real estate under leases with terms exceeding one year. Future minimum lease payments under capital leases and under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2011 are as follows:

Year Ending June 30:	Capital Leases Principal	Capital Leases Interest	Operating Leases	Total
2012	$ 611	$ 240	$ 1,192	$ 2,043
2013	298	195	663	1,156
2014	330	155	602	1,087
2015	328	142	589	1,059
2016	377	128	332	837
2017-2021	1,190	451	35	1,676
2022-2026	885	240	6	1,131
2027-2031	581	43	-	624
Total minimum lease payments	$ 4,600	$ 1,594	$ 3,419	$ 9,613

The rent expense related to operating leases amounted to $1,577 for the year ended June 30, 2011 and $2,017 for the year ended June 30, 2010.

($ in thousands)

(b) **Bonds and Notes Payable**

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

	2011	2010
2007 Series A Revenue Bonds (original principal of $46,740)		
Serial bonds, maturing from 2008 to 2037, with annual principal payments from $195 to $3,380 and coupon interest rates from 4.0% to 5.0%. Issued to partially refund the 1998A and 2004A Series Revenue Bonds and to provide funding for capital projects.	$ 44,310	$ 45,090
Add: unamortized premium	638	679
Total 2007 Series A Bonds	44,948	45,769
2005 Series A Revenue Bonds (original principal of $69,125)		
Serial bonds, maturing from 2006 to 2035, with annual principal payments from $75 to $3,455 and coupon interest rates from 3.5% to 5.0%. Issued to partially refund the 1998A, 2000A, 2002A, and 2003A Series Revenue Bonds and to provide funding for capital projects.	63,690	65,105
Add: unamortized premium	357	378
Less: unamortized deferred amount on refunding of 1998A, 2000A, 2002A, and 2003A bonds	(309)	(327)
Total 2005 Series A Bonds	63,738	65,156
2004 Series A Revenue Bonds (original principal of $43,270)		
Serial bonds, maturing from 2005 to 2029, with annual principal payments from $335 to $5,080 and coupon interest rates from 2.0% to 5.0%. Issued to partially refund the 1998A and 2000A Series Revenue Bonds and to provide funding for capital projects.	31,160	33,985
4.25% Term Bonds, due March 1, 2034	6,410	6,410
Add: unamortized premium	777	1,071
Less: unamortized deferred amount on refunding of 1998A and 2000A bonds	-	(48)
Total 2004 Series A Bonds	38,347	41,418
2003 Series A Revenue Bonds (original principal of $19,970)		
Serial bonds, maturing from 2004 to 2032, with annual principal payments from $145 to $1,610 and coupon interest rates from 3.0% to 4.75%. Issued to refund the 1993A and 1993B Series Revenue Bonds.	10,320	11,050
Add: unamortized premium	104	111
Less: unamortized deferred redemption fee on 1993 bonds	(144)	(157)
Total 2003 Series A Bonds	10,280	11,004
2002 Series A Revenue Bonds (original principal of $43,020)		
Serial Bonds, maturing from 2002 to 2012, with annual principal payments from $310 to $1,525 and coupon interest rates from 2.0% to 5.375%. A balloon payment of $31,915 is due in 2012.	31,915	33,440
Add: unamortized premium	216	531
Total 2002 Series A Bonds	32,131	33,971

($ in thousands)

	2011	2010
2000 Series A Revenue Bonds (original principal of $41,725)		
Serial Bonds, maturing from 2001 to 2015, with annual principal payments from $1,490 to $4,465 and coupon interest rates from 4.5% to 5.75%.	$ 1,985	$ 1,985
Add: unamortized premium	7	7
Total 2000 Series A Bonds	1,992	1,992
1998 Series A Revenue Bonds (original principal of $29,540)		
Serial Bonds, maturing from 2000 to 2011, with annual principal payments from $660 to $1,050 and coupon interest rates from 3.95% to 4.75%.	-	1,050
Less: unamortized discount	-	(14)
Total 1998 Series A Bonds	-	1,036
University of Maine Foundation		
Note payable, drawn against $300 line of credit, unsecured, semi-annual payments of $3, including interest at 3.67%, matures 2013	13	18
Note payable, secured by equipment, matures 2019, with annual principal payments of $75, including interest at 3.94%.	517	589
Total bonds and notes payable, net	$ 191,966	$ 200,953

Costs associated with the issuance of revenue bonds have been reported in the accompanying Statements of Net Assets as bond issuance costs, net and are being amortized over the life of the related bond issuance as part of depreciation and amortization expense. The FY11 discounts of ($453) and the premiums of $2,099 on the revenue bonds are also being amortized over the life of the respective bond issuances as part of interest expense using the effective interest method.

Principal and interest payments on bonds and notes payable for the next five years and in subsequent five-year periods are as follows at June 30, 2011:

Year Ending June 30:	Principal	Interest	Total
2012	$ 39,303 *	$ 8,983	$ 48,286
2013	7,488	6,952	14,440
2014	7,836	6,600	14,436
2015	9,858	6,228	16,086
2016	6,204	5,762	11,966
2017-2021	34,669	24,323	58,992
2022-2026	32,665	16,381	49,046
2027-2031	33,100	9,000	42,100
2032-2036	18,645	2,143	20,788
2037	552	27	579
	$ 190,320	$ 86,399	$ 276,719

* - includes a $30,000 balloon payment due in FY12 on the 2002 bonds. The System believes it has the ability and intent to refinance the balloon over a period of up to 20 years. As such, this short-term obligation is classified as a non-current liability on the Statements of Net Assets.

Interest costs related to the Revenue Bonds for FY11 and FY10 were $8,354 and $8,942, respectively.

Refunding of Debt – Prior Years

Prior to FY08, the System defeased certain revenue bonds by placing the proceeds of new bonds in escrow accounts to provide for all future debt service payments on the old bonds. These transactions met the requirements of an “in-substance defeasance” as defined by U.S. generally accepted accounting principles, and as a result, neither the escrow accounts nor the liability for the refunded bonds is included in the accompanying Statements of Net Assets. As of June 30, 2011 all refunded bonds are considered defeased.

8. UNEXPENDED GRANTS

Generally, grants and contracts awarded to the System, but for which it has not fulfilled the eligibility requirements (e.g., incur allowable costs) are not included in the System’s financial statements. The total of such awards as of June 30, 2011 and 2010 was $57,064 and $71,505, respectively.

In certain circumstances, however, the System receives cash in advance of fulfilling its obligations. In such situations the System reports the cash as an asset deferred revenue in the Statements of Net Assets. Outstanding advances as of June 30, 2011 and 2010 System’s totaled $5,720 and $5,622, respectively.

9. GOVERNMENT ADVANCES REFUNDABLE

The System participates in the Federal Perkins Loan and Nursing Loan Programs. These programs are funded through a combination of Federal and Institutional resources. The portion of these programs that has been funded with Federal funds is ultimately refundable to the U.S. Government upon the termination of the System’s participation in the programs. The portion that would be refundable if the programs were terminated as of June 30, 2011 and 2010 has been included in the accompanying Statements of Net Assets as a noncurrent liability.

($ in thousands)

10. NET ASSETS

The System's net assets are composed of the following as of June 30:

	2011	2010
Invested in capital assets, net of related debt	$ 474,556	$ 444,471
Restricted - Nonexpendable:		
Endowment funds	51,984	48,602
Restricted - Expendable:		
Student financial aid	33,538	26,630
Capital assets and retirement of debt	9,529	11,896
Loans	13,186	12,583
Academic support	11,486	10,138
Research and public service	6,993	7,482
Library	2,599	2,258
Other	17,647	15,314
Total restricted - expendable	94,978	86,301
Unrestricted		
Educational and general reserves	53,293	41,503
Risk Management	2,622	2,313
Budget stabilization	10,000	5,000
Auxiliary enterprises	16,510	14,969
Benefit pool carryover	19,563	16,146
IT initiatives	1,975	1,649
Internally designated projects	15,824	15,107
Facility projects	32,553	19,489
Endowment earnings	12,164	10,244
Cost sharing and other	1,353	1,412
Total unrestricted	165,857	127,832
Total net assets	$ 787,375	$ 707,206

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; and natural disasters. The System manages these risks through a combination of commercial insurance policies purchased in the name of the System, a self-insurance program for workers' compensation claims, and a retention program for physical damage to vehicles and mobile equipment.

The System's annual retention obligation for general liability is capped at $400, plus a $5 per claim deductible once the retention obligation is met. Educator's legal liability risks are subject to a $100 per loss retention with no annual cap. The System's estimate of the amount payable under these retention levels has been included in the accompanying Statements of Net Assets as part of current accrued liabilities. As of June 30, 2011 and 2010 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.

It is the policy of the System not to purchase primary commercial insurance for the risk of loss related to workers' compensation. Instead, the System's management believes it is more economical to manage its risk internally and to set aside assets for claims settlement. The liability for 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 of $5,904 for workers' compensation claims is included in accrued liabilities in the accompanying Statements of Net Assets (see note 7). The System purchases commercial specific and aggregate excess workers' compensation insurance which limits the exposure for any one incident to $1,000 and provides coverage in the event that total claims exceed expectations.

The System's active employee and under age 65 retiree health plans are self-funded with an Administrative Services Only (ASO) agreement with a commercial carrier. The System's Medicare eligible retiree health plan is a fully insured Medicare Advantage Private Fee for Service program with a commercial carrier. Both contracts are in effect from January 1 through December 31, 2011. As of June 30, 2011 and 2010, the estimated liability for claims incurred but not reported is included in total health insurance accrued liabilities in the accompanying Statements of Net Assets (see note 7).

($ in thousands)

The System's health insurance liability for the years ended June 30, consists of the following:

	2011	2010
Claims incurred but not reported	$ 3,425	$ 3,355
Reported claims	787	511
Total health insurance liability - Note 7	$ 4,212	$ 3,866

The System continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

c. Pollution Remediation Obligations

The system follows GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* which requires recognition of liabilities, recoveries and related disclosures, as appropriate.

During FY11, the System received from the Environmental Protection Agency a Findings of Violation and Order for compliance regarding wetlands at UM. A Wetland Restoration Plan was developed and remediation began during FY11. The project is expected to be completed in FY12.

Also during FY11, the UM and USM campuses became obligated to commence cleanup and monitoring activities regarding polychlorinated biphenyls (PCBs) that were identified during renovations to various buildings. The identified projects have either been completed in FY11 or are expected to be completed in FY12.

As of June 30, 2011 and 2010, the System's estimated liability for pollution remediation is $1,482 and $0, respectively, and is included in other accrued liabilities in the accompanying Statements of Net Assets (see note 7).

12. PASS THROUGH GRANTS

During FY11 and FY10, the System distributed $151,771 and $29,669, 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. Prior to FY11, only two of the System's seven universities participated in the Direct Lending Program. In FY11, all seven universities participated.

($ in thousands)

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 (income) for each of these plans was as follows for the years ended June 30:

	2011	2010
Faculty and Professional Employees:		
Contributory Retirement Plan	$ 19,463	$ 19,671
Incentive Plan	2,584	2,607
Hourly Employees:		
Basic Retirement Plan	3,459	3,522
Defined Benefit Plan	673	723
Total net pension expense	$ 26,179	$ 26,523

Faculty and Professional Employee Plans

Contributory Retirement Plan

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/College Retirement Equities Fund (TIAA/CREF). The Board of Trustees and collective bargaining agreements establish 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. The System implemented a five year vesting schedule for the employer matching contribution for certain salaried employees hired on or after January 1, 2010. Employees hired before January 1, 2010 were fully and immediately vested in the employer matching contribution. All participant contributions are fully and immediately vested. Participants may direct up to 100% of existing accumulations and/or future contributions to selected investment vehicles outside of TIAA/CREF. Upon separation from the System, participants may withdraw up to 100% of their vested account balances, or transfer funds to other investment alternatives subject to Internal Revenue Service limitations and the contractual provisions of the Contributory Plan.

Employee contributions made to the Contributory Plan were $7,776 in FY11 and $7,860 in FY10.

($ in thousands)

Incentive Retirement Plan

The Incentive Retirement Plan is a single employer plan administered by the University of Maine System. The Plan does not issue stand alone financial statements. Employees enrolled in the Contributory Plan may elect to retire at any age after 55. Such employees, except for represented faculty who became employed on or after July 1, 1996 and other professional employees who became employed on or after July 1, 2006, also 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 service immediately prior to retirement will receive a benefit equivalent to 1½% times their completed years of service times their final annual base salary (up to a maximum of 27 years). This amount is to be paid as a lump-sum contribution to the participant's TIAA or CREF account. Employees do not make contributions under the Incentive Plan.

The Incentive Plan, which is funded on a termination basis (i.e., when costs become due and payable), holds no assets. Actuarial valuations, utilizing the projected unit credit actuarial cost method and 30-year declining-period, dollar amortization, were performed as of July 1, 2011 and 2009. Interest was assumed to compound at an annual rate of 5.00% and 5.75%, respectively, and salaries were assumed to increase at an annual rate of 3.5%.

Summarized below are the actuarial liability and actuarial value of assets at July 1, 2011:

Actuarial accrued liability	$ 27,120
Actuarial value of assets	-
Underfunded actuarial accrued liability	$ 27,120

The net pension obligation (NPO) represents the cumulative difference between annual pension cost and employer contributions to the plan. The NPO is included in the accompanying Statements of Net Assets in noncurrent accrued liabilities (see other employee benefit programs in Note 7). Three-year trend information through June 30, 2011, including changes in the NPO, was as follows:

Year Ended June 30	Required Contribution (ARC)	Interest on NPO	ARC Adjustment	Annual Pension Cost (APC)	Employer Contributions Made	Percentage of APC Contributed	Change in NPO	Ending NPO Balance
2011	$ 3,235	$ 1,129	$ 1,779	$ 2,584	$ 1,666	64%	$ 918	$20,547
2010	$ 3,235	$ 1,089	$ 1,717	$ 2,607	$ 1,912	72%	$ 695	$19,629
2009	$ 3,104	$ 1,127	$ 1,604	$ 2,627	$ 1,726	66%	$ 901	$18,934

Hourly Employees

Basic Retirement Plan

The Basic Retirement Plan is a single employer plan administered by the University of Maine System. The Plan does not issue stand alone financial statements. The Defined Contribution Program of the Basic Retirement Plan for Classified Employees (Basic Plan) was created on July 1, 1998 in accordance with Section 403(b) of the Internal Revenue Code. Hourly employees hired July 1, 1998 or later participate in the Basic Plan. Most eligible employees who were hired before July 1, 1998 and who were younger than age 50 as of June 30, 1998 rolled over to the Basic Plan the value of their accrued benefit in the Defined Benefit Retirement Plan for Classified Staff (Defined Benefit Plan, as described further below), which until that time was the primary pension plan for classified employees. Eligible employees who were hired before July 1, 1998 and aged 50 or older on June 30, 1998 could elect to roll over to the Basic Plan the value of their accrued benefit in the Defined Benefit Plan or remain in the Defined Benefit Plan.

Full-time employees are eligible to participate in the Basic Plan once employment begins. Part-time employees are eligible once they have achieved the equivalent of five years of continuous, full-time regular service. Participants may direct up to 100% of existing accumulations and/or future contributions to selected investment vehicles outside of TIAA-CREF. 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.

Employees hired July 1, 1998 or later are required to contribute 1% and may contribute up to 4% of base pay to the Basic Plan. Their contributions are matched 100% by the System. 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 and receive a 100% match from the System.

Employees who (1) have four or more years of completed service and (2) do not participate in the Defined Benefit Plan automatically receive System contributions equal to 6% of their base pay. These employees contribute 1%, but may contribute up to 4% of their base pay and receive a 100% match from the System.

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

Employee contributions made to the Basic Plan were $1,452 in FY11 and $1,516 in FY10.

($ in thousands)

Defined Benefit Plan

The Defined Benefit Plan is maintained for eligible employees who chose not to join the Basic Plan. Normal retirement benefits are paid to participants who attain age 65 and retire. The monthly retirement benefit is based on a formula specified by policy in collective bargaining agreements.

Early retirement benefits are paid to participants who retire upon the attainment of age 55 and who have completed five years of continuous service. The benefit is computed in accordance with the normal retirement 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. Deferred vested benefits are paid to participants who have attained five or more years of continuous service. Participants are also eligible for disability and death benefits.

Employees who participate in the Defined Benefit 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-CREF.

The Defined Benefit Plan holds investment assets consisting principally of equities, bonds and cash equivalents to fund benefits. At June 30, 2011 and 2010 the value of these assets was less than the Defined Benefit Plan's actuarial accrued liability. Because the Defined Benefit Plan is a separate trust, its assets and liabilities are not included in the accompanying financial statements. The actuarial accrued liability is a standardized measure representing the actuarial present value of credited projected pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits estimated to be payable in the future, as a result of employee service rendered to date.

An actuarial valuation was performed as of July 1, 2011. The following methods and assumptions were used for those valuations:

Actuarial cost method	Projected Unit Credit
Amortization method	10-year level dollar
Asset Valuation method	5-year smoothing of differences between actual and expected returns
Actuarial Assumptions:	
Investment rate of return	7.25%
Projected salary increases	3.5%
Cost-of-living adjustments	5% to 10% depending on the retirement date

Below are the accrued actuarial liability and actuarial value of assets at July 1, 2011:

Actuarial accrued liability	$ 49,214
Actuarial value of assets	47,658
Underfunded actuarial accrued liability	$ 1,556

($ in thousands)

Funding of Basic and Defined Benefit Plans

While the Basic Plan and Defined Benefit Plan are administratively separate, they are both part of the Retirement Plan for Classified Employees and 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 excess assets in the Defined Benefit Plan, subject to certain limitations. The System used $2 million in this manner during FY09. This amount is reflected as a negative contribution in the three-year trend information that follows.

The NPO balance of the Defined Benefit Plan at transition was zero, since all actuarially determined required contributions were made by the System prior to that date. Annual required contributions and other metrics shown below accordingly reflect the funded status of the Defined Benefit Plan, as well as expected benefits attributable to the Basic Plan and ORSP.

Three-year trend information through June 30, 2011, including changes in the NPO, was as follows:

Fiscal Year Ended June 30	(a) Annual Required Contribution (ARC)	(b) Interest on NPO	(c) ARC Adjustment	(d) (a)+(b)-(c) Annual Pension Cost (APC)	(e) Employer Contributions Made	(f) (e)/(d) Percentage of APC Contributed	(g) (d)-(e) Change in NPO	Ending NPO Balance
2011	$ 674	$ 2	$ 3	$ 673	$ -	0%	$ 673	$ 690
2010	$ 674	$ (57)	$ (105)	$ 722	$ -	0%	$ 722	$ 17
2009	$ (2,018)	$ (59)	$ (110)	$ (1,967)	$ (2,000)	102%	$ 33	$ (705)

As of June 30, 2011 and 2010 the NPO is included in the accompanying Statement of Net Assets as part of the current portion of accrued liabilities.

14. POSTEMPLOYMENT HEALTH PLAN

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

The System provides postemployment health insurance to retirees meeting certain age and years-of-service requirements. The Postemployment Health Plan is a defined benefit, single employer plan, administered by the University of Maine System. The Plan does not produce stand alone financial statements. As of June 30, 2011 and 2010, there were approximately 7,200 persons covered by the System's postemployment health plan.

The System subsidizes the cost of insurance for the following persons:

- Retired from the System with at least 10 years of full-time regular service and have reached age 65 or
- Former employees approved for long-term disability benefits regardless of age or service

The subsidy for those meeting the above requirements is 100% of the cost for the retiree and 50% of the costs for eligible dependents. For employees retiring on or after July 1, 2010, the subsidy will be 90% of the cost for the retiree and 50% of the costs for the eligible dependents. With certain restrictions, dependents are eligible to continue coverage at the 50% rate after the death of a retiree meeting the above criteria. As of June 30, 2011 and 2010, there were approximately 1,883 and 1,600 persons receiving a subsidy from the System.

The following persons may also participate in the System's health insurance plan after retirement; however, they must pay 100% of the cost for themselves and their dependents:

- Retired from the System with at least 10 years of full-time regular service and have reached age 55 but is under age 65 **or**
- Retired from the System at age 65 or older but had not met the years of service requirement

As of June 30, 2011 and 2010, there were 95 and 239 persons, respectively, participating in the plan but not receiving a subsidy from the System.

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

The System's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

($ in thousands)

The following table shows the components of the System's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the net OPEB obligation as of June 30:

Fiscal Year Ended June 30	(a) Annual Required Contribution (ARC)	(b) Interest on OPEB Obligation	(c) ARC Adjust-ment	(d) (a)+(b)-(c) Annual OPEB Cost	(e) Employer Contributions Made	(f) (e)/(d) Percentage of ARC Contributed	(g) (d)-(e) Change in Net OPEB Obligation	Net OPEB Obligation Balance
2011	$ 19,741	$ -	$ -	$ 19,741	$ 21,990	111%	$ (2,249)	$ 3,338
2010	$ 18,880	$ -	$ -	$ 18,880	$ 16,326	86%	$ 2,554	$ 5,587
2009	$ 17,975	$ -	$ -	$ 17,975	$ 24,061	134%	$ (6,086)	$ 3,033

Employer contributions made are comprised of the following:

	Pay-as-you-go	(OPEB) Irrevocable Trust	Total Employer Contributions
2011	$ 8,402	$ 13,588	$ 21,990
2010	$ 7,291	$ 9,035	$ 16,326
2009	$ 5,770	$ 18,291	$ 24,061

The net OPEB obligation of $3,338 and $5,587 at June 30, 2011 and 2010, respectively, is recorded as an accrued liability in the accompanying Statements of Net Assets. The System is committed to funding the June 30, 2011 net obligation by December 31, 2011. The Other Post Employment Benefits Trust pools its assets with the System's endowment investments and follows the investment guidelines described in Note 3 of these financial statements.

As of July 1, 2010, the most recent actuarial valuation, the actuarial accrued liability for benefits was $179,513 and the actuarial value of assets was $29,940 resulting in an unfunded actuarial accrued liability (UAAL) of $149,573. The covered payroll (annual payroll of active employees covered by the plan) was $221,153 and the ratio of the UAAL to the covered payroll was 67.6%.

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

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

In the July 1, 2010 actuarial valuations, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 8.25 percent investment rate of return (net of administrative expenses), which is the rate of the expected long-term investment returns on plan assets calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent after ten years. Eventually, the actuarial value of assets will be determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized on a level dollar basis over a thirty year period.

15. 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 two of those entities meet the criteria under GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* for inclusion as discretely presented component units of the System and, accordingly, has presented them in the accompanying financial statements as of and for the years ended June 30, 2011 and 2010.

The discretely presented component units are private, not-for-profit organizations that report under FASB standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the component units' financial information in the System's financial reporting entity for these differences.

The System's major discretely presented component unit is the University of Maine Foundation ("the Foundation"), which is a legally separate, tax-exempt organization that 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 majority of resources or income thereon that the Foundation holds and invests are restricted to the activities of the System by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the System (specifically the University of Maine), the Foundation is considered a component unit of the System and is discretely presented in the System's financial statements.

($ in thousands)

Condensed financial information of the Foundation is as follows as of and for the year ended June 30:

	2011	2010
Assets		
Current assets	$ 4,296	$ 3,532
Noncurrent assets	179,435	154,111
Total Assets	$ 183,731	$ 157,643
Liabilities and Net Assets		
Current liabilities	$ 137	$ 159
Noncurrent liabilities	7,654	7,308
Total Liabilities	7,791	7,467
Net Assets:		
Invested in capital assets, net of related debt	95	92
Restricted nonexpendable	120,010	114,658
Restricted expendable	48,585	35,058
Unrestricted	7,250	368
Total Net Assets	175,940	150,176
Total Liabilities and Net Assets	$ 183,731	$ 157,643
Operating Revenues	$ -	$ -
Operating Expenses	2,526	2,372
Operating Loss	(2,526)	(2,372)
Nonoperating Revenues (Expenses)		
Payments to the System	(4,849)	(4,626)
Other nonoperating revenues (expenses)	14,260	11,198
Net Nonoperating Revenue	9,411	6,572
Income (loss) before other changes in net assets	6,885	4,200
Other Changes in Net Assets	18,879	4,262
Increase (decrease) in Net Assets	25,764	8,462
Net assets, beginning of year	150,176	141,714
Net assets, end of year	$ 175,940	$ 150,176

Complete financial statements for the Foundation in its FASB format can be obtained from the Foundation's offices at Two Alumni Place, Orono, ME 04469-5792.

UNIVERSITY OF MAINE SYSTEM
Required Supplemental Information – Retirement Plans
Schedules of Funding Progress and Employers' Contributions
Year ended June 30, 2011
(Unaudited)
($ in thousands)

Schedules of Funding Progress

Actuarial valuation (date as of July 1)	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll (b-a)/(c)
Incentive Retirement Plan for Faculty and Professionals						
2011	$ —	$ 27,120	$ 27,120	—	$ 119,334	22.7%
2009	$ —	$ 25,460	$ 25,460	—	$ 133,609	19.1%
2007	$ —	$ 23,982	$ 23,982	—	$ 141,137	17.0%
2006	$ —	$ 21,034	$ 21,034	—	$ 134,672	15.6%
2005	$ —	$ 20,271	$ 20,271	—	$ 135,017	15.0%
2004	$ —	$ 21,219	$ 21,219	—	$ 130,216	16.3%
Retirement Plan for Classified Staff - Classified Plan Only						
2011	$ 47,658	$ 49,214	$ 1,556	96.8%	$ 1,420	109.6%
2009	$ 44,477	$ 47,380	$ 2,903	93.9%	$ 3,340	86.9%
2007	$ 63,941	$ 47,733	$ (16,208)	134.0%	$ 4,906	(330.4%)
2006	$ 59,521	$ 52,974	$ (6,547)	112.4%	$ 4,203	(155.8%)
2005	$ 58,988	$ 53,024	$ (5,964)	111.2%	$ 6,235	(95.7%)
2004	$ 59,248	$ 56,804	$ (2,444)	104.3%	$ 7,279	(33.6%)
Post Employment Health Plan						
2010	$ 29,940	$ 179,513	$ 149,573	—	$ 221,153	67.6%
2009	$ 18,870	$ 163,799	$ 144,929	—	$ 221,275	65.5%
2008	$ —	$ 120,481	$ 120,481	—	$ 226,391	53.2%

Schedules of Employers' Contributions

Year ended June 30	Annual required contribution	Percentage contributed	Annual required contribution	Percentage contributed
	Incentive Retirement Plan for Faculty and Professionals		**Retirement Plan for Classified Staff**	
2011	$ 3,235	51%	$ 674	—
2010	$ 3,235	58%	$ 674	—
2009	$ 3,104	56%	$ (2,018)	99%
2008	$ 3,104	49%	$ (2,018)	99%
2007	$ 2,501	38%	$ (409)	—
2006	$ 2,356	47%	$ (268)	—

* = This is the initial year of the plan.

UNIVERSITY OF MAINE SYSTEM
Supplemental Information Required by the State of Maine
Schedules of Activities
($ in thousands)

Year Ended June 30, 2011

Schedule 1

Functions/Programs	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue
University of Maine System	$ 675,271	$ 298,072	$ 222,480	$ 22,556	$ (132,163)
General Revenues:					
Unrestricted interest and investment earnings					10,663
Additions to endowments - gifts					2,291
State of Maine noncapital appropriation					195,327
State of Maine capital appropriation					4,104
Loss on disposal of capital assets					(53)
Total Revenues and Extraordinary Items					212,332
Change in Net Assets					80,169
Net Assets, Beginning of Year					707,206
Net Assets, End of Year					$ 787,375

Year Ended June 30, 2010

Schedule 2

Functions/Programs	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue
University of Maine System	$ 656,969	$ 297,883	$ 199,635	$ 7,784	$ (151,667)
General Revenues:					
Unrestricted interest and investment earnings					10,733
Additions to endowments - gifts					321
State of Maine noncapital appropriation					190,078
State of Maine capital appropriation					6,879
Loss on disposal of capital assets					(643)
Total Revenues and Extraordinary Items					207,368
Change in Net Assets					55,701
Net Assets, Beginning of Year					651,505
Net Assets, End of Year					$ 707,206

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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*

The Board of Trustees
University of Maine System:

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units 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, 2011 and 2010, which collectively comprise the System's basic financial statements, and have issued our report thereon dated November 4, 2011. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2011 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

KPMG LLP

November 4, 2011