Maine's Public Universities

UNIVERSITY OF MAINE SYSTEM

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2012

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

Maine's Public Universities

UNIVERSITY OF MAINE SYSTEM

Office of the Chancellor
16 Central Street
Bangor, ME 04401-5106

Tel: 207-973-3205
Fax: 207-973-3221
TDD/TDY: 207-973-3262
www.maine.edu

November 2012

Dear Friend:

The University of Maine System is a critical, statewide educational and economic resource for the people of Maine. The enclosed Annual Financial Report for fiscal year 2012 provides a detailed financial analysis of our System. I trust you will find it useful in helping to understand how we steward Maine's investment in our public universities.

Since becoming Chancellor in March of this year, I have worked to sharpen our focus on mission excellence in our three core areas. We must provide first-class, accessible, and affordable education; R&D that better positions Maine's economy in the 21st century; and critical service to our communities.

A series of goals and actions adopted by the UMS Board of Trustees in January 2012 laid the foundation for a major change effort to meet our challenges and achieve success in these core areas. Drawing our priorities from the Board's goals and actions, we are working to streamline administration, enhancing students' ability to transfer between campuses without compromising their prior efforts and investments, and by changing the model by which we allocate campus resources to become more responsive to our business and community needs. These changes and others to follow will better position Maine's public universities to remain competitive while meeting our core responsibilities. They are also steps towards crafting a public university system that is more vibrant, innovative, and relevant for our students and the citizens of Maine. I look forward to sharing more information about these projects in the coming weeks and months.

We work always to better serve Maine's families, businesses, and communities.

Sincerely,

James H. Page

Dr. James H. Page
Chancellor

AS OF JUNE 30, 2012

CHANCELLOR

James H. Page

SENIOR STAFF

Tracy B. Bigney	Chief Human Resources and Organization Development Officer
John Lisnik	Assistant to the Chancellor for Governmental Relations
Ryan W. Low	Executive Director of Governmental & External Affairs
Rosa S. Redonnett	Chief Student Affairs Officer
David A. Stevens	Executive Director of Organizational Effectiveness
J. Kelley Wiltbank	University Counsel and Clerk, Board of Trustees
Rebecca M. Wyke	Vice Chancellor for Finance and Administration and Treasurer

UNIVERSITY PRESIDENTS

Paul W. Ferguson	University of Maine
Allyson Hughes Handley	University of Maine at Augusta
Kathryn A. Foster	University of Maine at Farmington
Wilson G. Hess	University of Maine at Fort Kent
Cynthia E. Huggins	University of Maine at Machias
Linda K. Schott	University of Maine at Presque Isle
Theodore J. Kalikow	University of Southern Maine

BerryDunn

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 year ended June 30, 2012, which collectively comprise the System's basic financial statements as shown on pages 23 through 59. 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 audit. 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 opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports of the other auditors. The financial statements of the System, as of and for the year ended June 30, 2011, were audited by other auditors, whose report dated November 4, 2011 expressed an unqualified opinion on those financial statements after placing reliance on reports of other auditors for the aggregate discretely presented component units.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 5 through 22, and Schedules of Funding Progress and Employers' Contributions on page 60, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to

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the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's financial statements as a whole. The supplementary information presented in the Schedules of Activities (Schedules 1 and 2) on page 61 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information for 2012 has been subjected to the auditing procedures applied by us in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The information for 2011 was subjected to the auditing procedures applied by other auditors in the audit of the 2011 financial statements, whose report dated November 4, 2011 expressed an unqualified opinion on the information in relation to the basic financial statements taken as a whole.

Berry Dunn McNeil & Parker, LLC

Bangor, Maine
November 5, 2012

University of Maine System ("the System" or UMS) management has prepared the following unaudited Management's Discussion and Analysis (MD&A) to provide users with a narrative and analysis of the 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, 2012 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 40,000 students annually and is supported by the efforts of 1,316 regular full-time faculty, 85 regular part-time faculty, 3,236 regular full-time staff, and 318 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. Courses are offered on-site, via interactive television (ITV), or online at eight University College Centers:

Bath/Brunswick	East Millinocket	Ellsworth	Houlton
Norway/South Paris	Rockland	Rumford/Mexico	Saco

Students may also participate in ITV and online courses at sites throughout Maine.

STUDENT ENROLLMENT

For Fall 2011, the System experienced a 3% decline in enrollment on both a student headcount and full-time equivalent (FTE) basis. For Fall 2010, the System experienced a 1% decline in enrollment on a headcount basis and a full-time equivalent basis. 31,108 students were enrolled for the Fall 2011 semester, compared to 32,009 for Fall 2010. On a full-time equivalent basis, 22,926 students were enrolled for the Fall 2011 semester, compared to 23,535 for Fall 2010. Consistent with prior years, 64% of the student population was enrolled full-time. For both Fall 2011 and Fall 2010, 86% of students were Maine residents.

Table 1: Fall Student Enrollments

	Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007	
Full-Time	**20,057**	**64%**	**20,542**	**64%**	20,739	64%	20,593	63%	20,812	62%
Part-Time	**11,051**	**36%**	**11,467**	**36%**	11,601	36%	12,015	37%	12,814	38%
Headcount	**31,108**	**100%**	**32,009**	**100%**	32,340	100%	32,608	100%	33,626	100%
In-State	**19,608**	**86%**	**20,133**	**86%**	20,175	85%	19,853	84%	20,232	84%
Out-of-State	**3,318**	**14%**	**3,402**	**14%**	3,536	15%	3,835	16%	3,824	16%
Full-Time Equivalent	**22,926**	**100%**	**23,535**	**100%**	23,711	100%	23,688	100%	24,056	100%

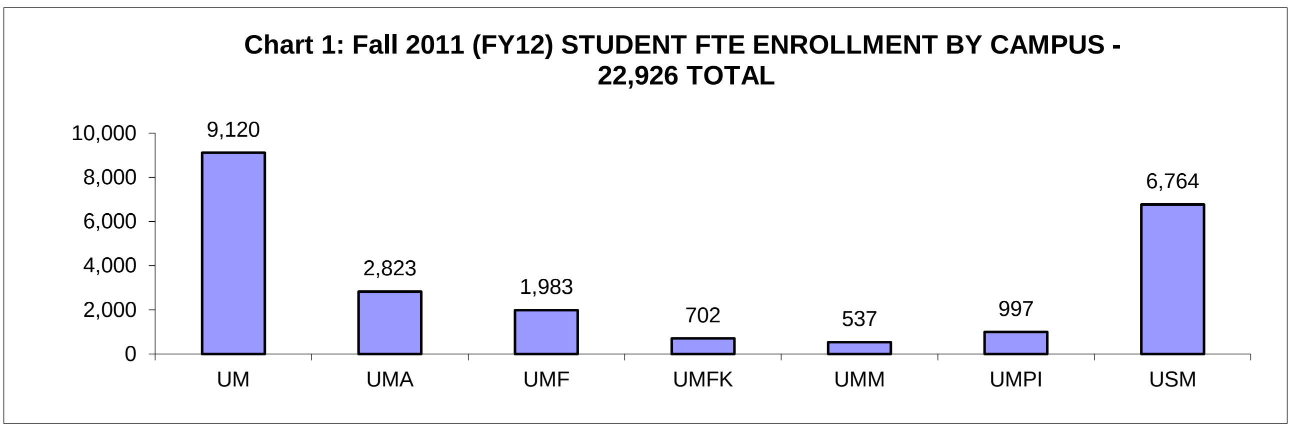


Table 2: Fall Student Enrollments - FTE

	% Change Fall 2007 to 2011	Fall 2011	% Change	Fall 2010	% Change	Fall 2009	% Change	Fall 2008	% Change	Fall 2007	% Change
UM	**-4%**	**9,120**	**-2.5%**	**9,358**	**-3.1%**	9,653	0.3%	9,620	0.8%	9,548	1.6%
UMA	**7%**	**2,823**	**0.6%**	**2,805**	**1.0%**	2,776	5.2%	2,639	0.1%	2,637	-1.9%
UMF	**-1%**	**1,983**	**-1.0%**	**2,003**	**2.5%**	1,954	-0.5%	1,964	-1.9%	2,002	-5.8%
UMFK	**-23%**	**702**	**-0.4%**	**705**	**-3.8%**	733	-2.7%	753	-17.3%	910	-4.6%
UMM	**-8%**	**537**	**-5.6%**	**569**	**1.4%**	561	-2.4%	575	-1.0%	581	-5.8%
UMPI	**-18%**	**997**	**-4.5%**	**1,044**	**-1.7%**	1,062	-3.7%	1,103	-9.7%	1,221	-3.1%
USM	**-5%**	**6,764**	**-4.1%**	**7,051**	**1.1%**	6,972	-0.9%	7,034	-1.7%	7,157	-0.3%
Total	**-5%**	**22,926**	**-2.6%**	**23,535**	**-0.7%**	23,711	0.1%	23,688	-1.5%	24,056	-0.7%

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' continued commitment to providing affordable higher education. Tempering increases in this revenue source has been increasingly challenging given the decline in State appropriations since FY08 and the pressures of operating cost increases.

In 2012, most students saw the lowest increase in the comprehensive cost of education in 5 years. Percentage increases in 2012 range from a high of 5.3% for Graduate students receiving the New England Board of Higher Education (NEBHE) rate to a low of 3.0% for Out-of-State Undergraduate students. Percentage increases in 2011 range from a high of 5.7% for Undergraduate students receiving the NEBHE rate to a low of 4.2% for NEBHE/Canadian Law School students.

Table 3: Student Comprehensive Cost of Education

Tuition, Mandatory Fees, and Room and Board
Weighted Averages

	2012		2011		2010		2009		2008	
	Cost	% Change	Cost	% Change	Cost	% Change	Cost	% Change	Cost	% Change
Undergraduate										
In-State	$17,731	3.3%	$17,172	4.5%	$16,431	5.3%	$15,598	8.3%	$14,399	8.2%
Out-of-State	31,418	3.0%	30,505	4.4%	29,211	6.2%	27,514	8.5%	25,360	9.5%
NEBHE	22,239	3.8%	21,428	5.7%	20,266	5.2%	19,269	15.0%	16,762	9.0%
Canadian	20,572	4.0%	19,786	5.3%	18,796	4.9%	17,917	6.9%	16,762	9.0%
Graduate										
In-State	$16,634	3.2%	$16,116	4.8%	$15,375	5.4%	$14,582	8.4%	$13,446	8.0%
Out-of-State	30,099	3.5%	29,072	4.5%	27,816	5.5%	26,365	8.7%	24,260	9.7%
NEBHE	20,389	5.3%	19,361	4.6%	18,503	4.7%	17,675	8.0%	16,365	7.9%
Canadian	20,492	3.3%	19,843	4.7%	18,959	5.0%	18,052	10.3%	16,365	7.9%
Law School										
In-State	$31,857	4.1%	$30,606	5.3%	$29,052	5.8%	$27,464	6.5%	$25,794	7.4%
Out-of-State	42,777	3.2%	41,436	4.8%	39,552	4.2%	37,964	5.8%	35,874	7.1%
NEBHE/Canadian	39,897	3.5%	38,556	4.2%	37,002	3.2%	35,864	4.0%	34,494	7.4%

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. 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 of $1,180 million at June 30, 2012 have increased $167 million, or 16%, since June 30, 2008. 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 $244 million and $224 million at June 30, 2012 and 2011, respectively.

Noncurrent assets consist mainly of endowment investments and capital assets, net of depreciation. Endowment investments total $121 million at June 30, 2012, a decrease of $4 million or 3% from the FY11 year-end balance, and a $6 million or 5% increase since June 30, 2008. Capital assets total $684 million and $668 million at June 30, 2012 and 2011, respectively. The System's progress in upgrading older facilities and meeting new facilities needs is addressed later in this report.

Current liabilities of $79 million and $73 million at June 30, 2012 and 2011, respectively, consist primarily of accounts payable and various accrued liabilities including those for the System's workers compensation, health, and retirement plans. Accounts payable and accrued liabilities are impacted by the timing of the last check cycle for the fiscal year, the level of construction activity in progress, timing of the funding of the Other Post Employment Benefits (OPEB) Trust, and budget constraints.

At $276 million, total noncurrent liabilities declined $4 million or 1% from June 30, 2011 to 2012. Noncurrent liabilities consist primarily of bonds and notes payable which totaled $179 million at June 30, 2012, declining $3 million or 2% from the FY11 balance as the System paid down its debt.

Net assets at $825 million increased $38 million or 5% from June 30, 2011 to 2012.

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

($ in millions)

	2012	% Change	2011	% Change	2010	2009	2008
Current Assets	**$315**	**7%**	**$295**	**14%**	$259	$207	$203
Noncurrent Assets							
Endowment investments	**121**	**-3%**	**125**	**20%**	104	95	115
Capital assets, net	**684**	**2%**	**668**	**4%**	644	645	621
Other	**60**	**15%**	**52**	**4%**	50	58	74
Total Assets	**$1,180**	**4%**	**$1,140**	**8%**	$1,057	$1,005	$1,013
Current Liabilities	**$79**	**8%**	**$73**	**7%**	$68	$64	$81
Noncurrent Liabilities:							
Bonds and Notes Payable	**179**	**-2%**	**182**	**-5%**	192	201	209
Other	**97**	**-1%**	**98**	**9%**	90	88	82
Total Liabilities	**355**	**1%**	**353**	**1%**	350	353	372
Invested in Capital Assets, net of debt	**500**	**5%**	**474**	**7%**	444	436	418
Restricted:							
Nonexpendable	**55**	**6%**	**52**	**6%**	49	47	49
Expendable	**93**	**-2%**	**95**	**10%**	86	85	97
Unrestricted	**177**	**7%**	**166**	**30%**	128	84	77
Total Net Assets	**825**	**5%**	**787**	**11%**	707	652	641
Total Liabilities and Net Assets	**$1,180**	**4%**	**$1,140**	**8%**	$1,057	$1,005	$1,013

Investment Pool

The System pools certain funds for investment purposes including the System's endowment; endowment monies held by the System on behalf of three affiliated organizations; and monies of two outside entities which joined the investment pool in FY09 - the UMS OPEB Trust and Maine Maritime Academy.

Table 5 below shows the June 30, 2012 and 2011 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)

	2012	2011
University of Maine System & Affiliates Endowments	$121	$125
Other Post Employment Benefits Trust	53	50
Maine Maritime Academy	17	18
Total	**$191**	**$193**

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 Managed Investment Pool at June 30

	2012	2011
Domestic Equities	**31%**	**29%**
International Equities	**20%**	**20%**
Fixed Income	**16%**	**15%**
Global Asset Allocation	**16%**	**16%**
Hedge Funds	**15%**	**16%**
Timber	**2%**	**2%**
Cash	**0%**	**2%**
Total	**100%**	**100%**

The markets were volatile and struggled during FY12, resulting in a net of fees return of -2.0% for the pool. The market had appreciated during FY11 with the pool experiencing a net of fees return of 21.9%. The pooled investments have a 5-year annualized net of fees return of 1.8%.

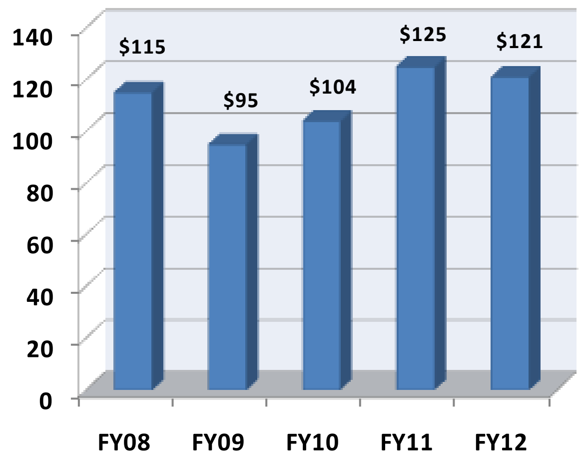
Endowments (Including Affiliates)

Endowments are gifts received from donors where the original amount of the gift (corpus) 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 three affiliates. Affiliates investing in the pool include: the University of Maine at Fort Kent Foundation, the University of Southern Maine Foundation, and the John L. Martin Scholarship Fund, Inc. The University of Maine at Farmington Alumni Foundation had participated in the pool up until January 31, 2012, when its members voted to dissolve the corporation. At that time, the Foundation gifted their $1 million of assets to the University of Maine at Farmington for continued endowment of scholarships.

As shown in Table 5 on page 9, the System's pooled endowment investments (including affiliates) had a market value of $121 million at June 30, 2012, a $4 million decrease from the prior year end market value of $125 million. The net decrease includes $3 million of negative 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 FY12 was 4.75%, down from 5% in FY11. Reducing the rate by .25% brings UMS more in line with other educational institutions' endowments and enables better preservation of corpus.

Capital Assets and Debt Activities

Table 7 on page 12 shows the status of major capital construction projects, including related equipment, as of June 30, 2012 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 continually considers its long-term capital needs, upgrading older facilities and constructing new facilities when necessary. These types of activities are funded with State bonds, gifts, grants, educational and general funds, and System revenue bonds.

The FY12 capital asset additions of $47 million consist of $40 million related to construction in progress and $7 million in equipment and software. 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 System strives to manage all of its financial resources effectively including the prudent use of debt to finance construction projects that support the System's mission; thereby, placing the System in a better position to achieve its strategic goals. Capital leases, bonds, and notes payable as of June 30, 2012 and 2011 were $194 million and $197 million, respectively.

Table 7: Major Capital Construction Projects Completed During FY12 or In Progress at June 30, 2012
($ in millions)

Project	Funding Source	Status	BOT Approved Budget
UMA			
College Center/Dental Health Clinic	State Bond, Grant, Educational & General	Completed	$ 3.00
Water Street/Gannett Hall	State Bond, Educational & General	Completed	1.54
UMF			
Emery Community Arts Center	Gifts, Educational & General	Completed	6.15
Ricker Hall Phase II	State Bond, Educational & General	In Progress	2.20
UMFK			
Renewable Biomass Heating Plant	Grant, Educational & General	In Progress	.91
Renewable Biomass District Heating Plant	Grant, Educational & General	Pre-design	3.00
UM			
University Park-Demolition/Renovation/ Sprinklers	State Bond, Auxiliary, Educational & General	Design	1.50
Advanced Engineered Wood Composites Center Expansion	Grant, Educational & General	Completed	17.42
Center for Cooperative Aquaculture Research - Tank Building	Grant	In Progress	1.90
Aubert Hall Lab Updates Phase II	State Bond, Auxiliary, Educational & General	Completed	6.00
Fogler Library HVAC Upgrades Phase I	State Bond, Educational & General	In Progress	1.47
Forest Bioproducts Research Initiative (FBRI) Technology Center	Grant	In Progress	2.10
FBRI Tech Center Equipment	Grant	Completed	1.50
FBRI Campus Office- Jenness	Grant, Educational & General	Completed	1.35
Stewart New Media/Art Complex	Gift, State Bond, Grant, & Educational & General	In Progess	9.50
Bike Path Rehabilitation	Grant, Educational & General	Completed	.51
Heat Plant Boiler 8 Design	Grant, Educational & General	In Progress	3.20
Bennett Hall Renovation	Grant, Educational & General	In Progress	.90
Alfond Arena Renovation	Gifts, Grant, Educational & General	Completed	4.85
Nutting Hall Renovation	State Bond, Education & General	In Progress	3.95
Aquaculture Research Center Fish Lab Addition	Grant	Design	.60
Planetarium and Observatory	Gifts, Educational & General	Design	5.20
Memorial Gym Field House Renovation	University Bond, Gifts, Educational & General	Design	14.00
USM			
School of Nursing Simulation Center	Grant, Educational & General	Completed	.77
Science Technology Research Center	Grant, Educational & General	Substantially Completed	.85
Science Building – Energy Upgrades	State Bond, Educational & General	Completed	.99
Luther Bonney Hall – Energy Efficiency Enhancements	Educational & General	In Progress	1.14
Bailey Hall – Energy Efficiency Enhancements	State Bond, Educational & General	Completed	1.17
Bailey Hall – Student Services Renovation	Educational & General	Completed	1.00
Gorham Athletic Field Improvements	Grant, Gift, Educational & General	Completed	1.20
Science Technology Research Center	Grant	In Progress	.90
UMPI			
Pullen Hall Renovations	State Bond, Grant, Educational & General	Completed	2.03
UMS			
Data Center Projects	Educational & General	In Progress	4.99
		TOTAL	$107.79

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 on page 9, the System had $500 million invested in capital assets, net of debt, at June 30, 2012. The FY12 increase of $26 million was primarily the result of approximately $16 million in net additions to capital assets after annual depreciation and $10 million in changes to related debt. 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.

Restricted-nonexpendable net assets of $55 million 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 both in FY12 and FY11.

Restricted-expendable net assets of $93 million 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 $2 million net decrease in FY12 is the result of a number of factors with the major contributors being a $6M decline in endowment market value due to unfavorable market conditions, a $2M decrease in gift balances restricted for capital assets, and a positive increase of $5M as a result of a gift for capital construction. The June 30, 2011 restricted-expendable net assets balance of $95 million saw a $9 million increase over the prior year and was primarily the result of favorable market conditions net of expenditure of gift monies on capital construction at UMF.

Unrestricted net assets of $177 million 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 $11 million from FY11 to FY12 compared with $38 million from FY10 to FY11.

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 $38 million in FY12 and $80 million in FY11. 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.

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.

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

	2012	% Change	2011	% Change	2010	2009	2008
Net Student Fees	$241	1%	$239	1%	$236	$235	$215
Grants, Contracts and Indirect Cost Recovery	178	-4%	186	9%	171	152	150
Other Operating Revenues	57	-3%	59	-5%	62	61	63
Operating Revenues	476	-2%	484	3%	469	448	428
Operating Expenses	(672)	-1%	(667)	-3%	(648)	(647)	(642)
Operating Loss	(196)	-7%	(183)	-2%	(179)	(199)	(214)
Nonoperating Revenues (Expenses)							
Noncapital State of Maine Appropriations	198	2%	195	3%	190	194	201
State Fiscal Stabilization Funds	0	-100%	6	-14%	7	7	0
Gifts Currently Expendable	12	9%	11	0%	11	16	15
Endowment Return Used for Operations	5	0%	5	0%	5	6	5
Investment Income	5	-55%	11	0%	11	(3)	4
Interest Expense	(8)	0%	(8)	11%	(9)	(10)	(9)
Net Nonoperating Revenue	212	-4%	220	2%	215	210	216
Income Before Other Changes in Net Assets	16	-57%	37	3%	36	11	2
Other Changes in Net Assets							
State of Maine Capital Appropriation	5	25%	4	-43%	7	9	9
Capital Grants and Gifts	20	-9%	22	175%	8	14	6
Endow. Return, Net of Amt. Used for Operations	(6)	-143%	14	180%	5	(23)	(8)
Other	3	0%	3	400%	(1)	0	0
Total Other Changes in Net Assets	22	-49%	43	126%	19	0	7
Change in Net Assets	$38	-53%	$80	45%	$55	$11	$9

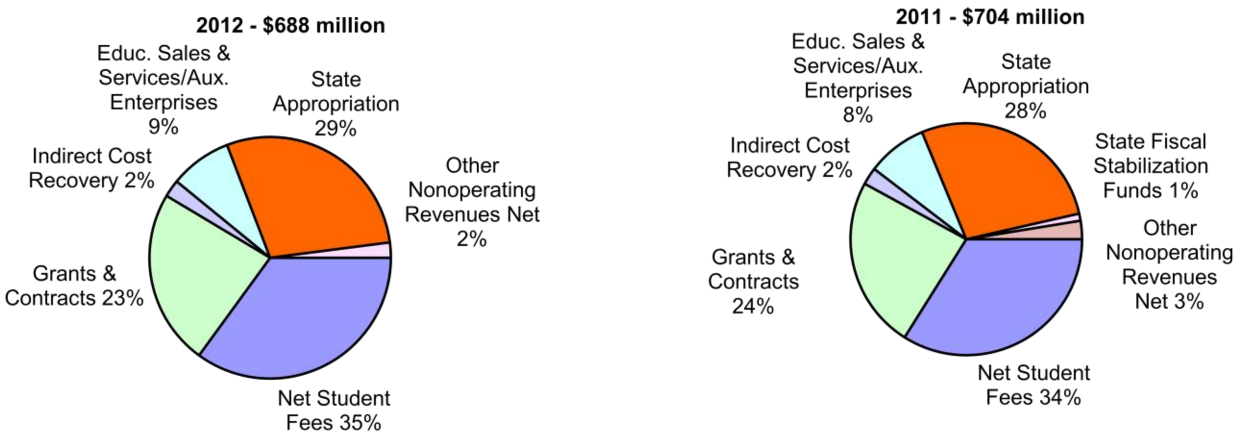
Operating and Nonoperating Revenue

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. During FY12, the System received the final $0.2 million disbursement for a total of $20.3 million over the life of the grant. 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 past several years.

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

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, 2012 and 2011.

CHART 3: TOTAL OPERATING & NET NONOPERATING REVENUE



Net student revenues of $241 million for FY12 is the primary source of operating revenues. The portion of total operating and net nonoperating revenues funded by net student revenues was flat over a two year period – increasing 1 percentage point in FY12 after a 1 percentage point decline in FY11. Net student revenues comprised 35% of total revenue for FY12 and 34% for FY11.

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

- Tuition and fees totaled $266 million in FY12, increasing $5 million (or 2%) over FY11. 88% of enrolled students are in-state undergraduates; therefore, a 4.1% weighted average increase in undergraduate in-state tuition and mandatory fees is the primary contributor to increased revenues here. The increase however was partially offset by a 2% decline in credit hour enrollments from FY11 to FY12.
- Residence and dining fees of $57 million in FY12 decreased $2 million (3%) from FY11 primarily the result of a 5% decline each in diners and residents from FY11 to FY12, with about 90% of the decline occurring at the University of Southern Maine.
- Scholarship allowances of $82 million increased $1 million or 1% over FY11 primarily due to $3 million in increased institutional support and despite a loss of almost $3 million in the federal Academic Competitiveness Grant (ACG) and the National Science and Mathematics Access to Retain Talent (SMART) Grant.

With respect to the prior year:

- 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.

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 one of two components:

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

Federal financial aid awards are based on a student's financial need 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 FY12, total financial aid provided to students was $110 million, which was a $1 million or 1% increase over FY11 aid of $109 million. This increase is primarily the result of an increase in institutional aid to partially offset the increase in the students' cost of education less a decrease in federal aid as a result of the discontinuance of the ACG and SMART grants.

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.

Grants, Contracts, and Indirect Cost Recovery:

Grants and contracts revenues are recognized to the extent of related expenses. Consequently, reported revenues will fluctuate based on the timing of expenses across fiscal years. The System receives funding from federal, state, and private sources with the majority of funding being provided by the federal government for research activities. State research and development funding is often used to leverage federal dollars.

Grants and contracts revenues totaled $162 million in FY12, decreasing $7 million from FY11. This decrease includes an almost $4 million decline in ARRA funding, a decline of $3 million from the discontinuance of federal SMART and ACG grant programs, and a $1 million decline in Maine Technology Institute funding. These decreases are partially offset by a $2 million increase in the Public Utilities Commission funding for the Maine School and Library Network.

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.

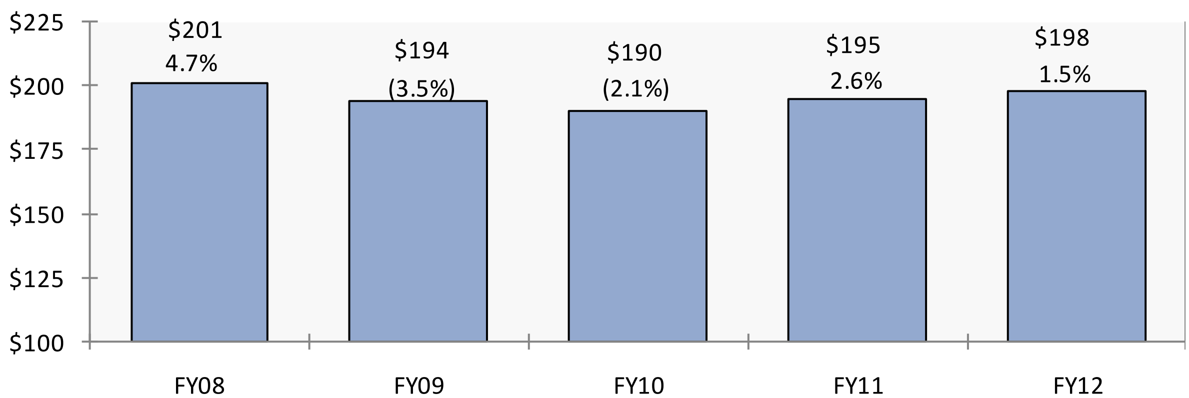
In addition to providing for direct costs, grants and contract sponsors also provide for recovery of Facilities and Administrative (F&A) costs which are also known as indirect costs. The amount of allowable F&A costs is calculated for each grant and contract using the applicable negotiated rate subject to specific sponsor limitations and other proposal and award conditions. Recovery of indirect costs totaled $16 million and $17 million for FY12 and FY11, 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 Fees.

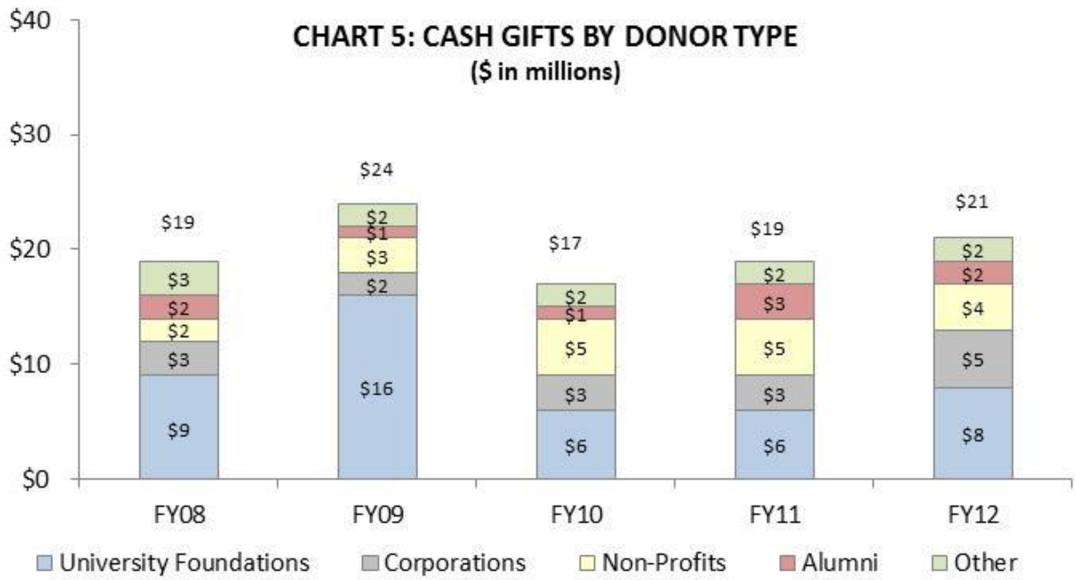
The System received $198 million in noncapital State appropriation revenue during FY12, up $3 million or 1.5% over FY11. The System received $195 million in noncapital State appropriation revenue during FY11, up $5 million or 2.6% over FY10. The noncapital state appropriation covered 101% of the net operating loss in FY12 and 107% in FY11.

CHART 4: NONCAPITAL STATE APPROPRIATION & ANNUAL % CHANGE
($ in millions)



Cash Gifts:

Total gifts received of $21 million increased $2 million during FY12 compared with $1 million during FY11. The $7 million decline from FY09 to FY10 was 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.



Operating Expenses

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

	2012		2011		2010		2009		2008	
Instruction	**$179**	**27%**	**$178**	**27%**	$180	28%	$179	28%	$176	28%
Research	**73**	**11%**	**79**	**12%**	75	12%	73	11%	75	12%
Public Service	**64**	**10%**	**61**	**9%**	60	9%	57	9%	54	8%
Academic support	**77**	**12%**	**73**	**11%**	67	10%	66	10%	66	10%
Student services	**48**	**7%**	**47**	**7%**	47	7%	48	7%	48	7%
Institutional support	**56**	**8%**	**50**	**8%**	47	7%	48	7%	54	8%
Operation and maintenance of plant	**47**	**7%**	**49**	**7%**	46	7%	51	8%	49	8%
Depreciation and amortization	**30**	**4%**	**29**	**4%**	27	4%	26	4%	23	4%
Student aid	**28**	**4%**	**28**	**4%**	25	4%	21	4%	20	3%
Auxiliary enterprises	**70**	**10%**	**73**	**11%**	74	12%	78	12%	77	12%
Total Operating Expenses	**$672**	**100%**	**$667**	**100%**	$648	100%	$647	100%	$642	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)

	2012		2011		2010		2009		2008	
Operating:										
Compensation and benefits	**$434**	**64%**	**$427**	**63%**	$424	65%	$425	65%	$417	64%
Utilities	**32**	**5%**	**32**	**5%**	27	4%	32	5%	32	5%
Supplies and services	**148**	**22%**	**151**	**23%**	144	22%	143	22%	150	23%
Depreciation	**30**	**4%**	**29**	**4%**	28	4%	26	4%	23	4%
Student aid	**28**	**4%**	**28**	**4%**	25	4%	21	3%	20	3%
Total Operating Expenses	**672**	**99%**	**667**	**99%**	648	99%	647	99%	642	99%
Nonoperating:										
Interest	**8**	**1%**	**8**	**1%**	9	1%	10	1%	9	1%
Total Expenses	**$680**	**100%**	**$675**	**100%**	$657	100%	$657	100%	$651	100%

As shown in Table 10, compensation and benefits expenses increased by $7 million or nearly 2% in FY12. Compensation and benefits expenses had increased by $3 million or nearly 1% in FY11. Of these totals, compensation increased by $5 million in FY12 or almost 2% and decreased $1 million in FY11 or less than 1%; benefits increased $2 million or almost 2% in FY12 and increased $4 million or slightly more than 3% in FY11.

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 and will continue to work collaboratively to shape the future of UMS.

Enrollment and Retention Considerations

Enrollments within the System had steadily increased from 1997 until the Fall of 2005. From Fall of 2006 through Fall 2011, on a headcount basis, enrollments have declined by 3,101 students or 9% while on a full-time equivalent basis enrollments have declined 1,301 or 5%.

Fall 2011 full-time equivalent enrollments totaled 22,926 and 31,108 on a headcount basis, each representing a decline of approximately 3% from the 2010 levels. Early Fall 2012 enrollment levels are indicating enrollments will be level compared with Fall 2011.

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 included:

- 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
- The implementation of several system wide initiatives related to admissions, expanded outreach to the guidance community in Maine and a variety of initiatives related to adult degree completion.
- 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 and continues through 2013.
- 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)

Compensation and Benefits Considerations

At $434 million in FY12, compensation and benefits constitutes 64% of all operating expenses [73% 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 and actions went 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. Plan changes are expected to be effective November 1, 2012 for two additional bargaining units. At that time, approximately three-quarters of health plan participants will be included in the new plans. 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. To this end, the task force reconvened in Fall 2012 to continue its work.

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.

Capital Considerations

UMS owns more than 650 buildings providing just over 9 million square feet of space located throughout the state. 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. While bonds have been absent from the statewide ballots since June 2010, Maine voters will see several bond issues on the November 2012 ballot including $7.8 million for capital improvements at UMS.

While UMS issued revenue bonds in FY12 to refinance $30 million of debt that came due as well as $7 million in new money to finance construction and renovation at the UM Field House/Memorial Gym Complex, the System does not anticipate issuing additional revenue bonds in the near future.

World and State Economic Considerations

Monetary easing by central banks around the work continue to underscore the persistence of weak economic growth globally. The US Federal Reserve recently launched its third round of quantitative easing with efforts continuing until the outlook for the job market improves as unemployment remains near 8%. The aggressive monetary stimulus by central banks has boosted markets, aiding sluggish economies as they continue to pursue recovery. Nonetheless, significant fundamental fiscal challenges remain including the US "fiscal cliff", Euro-zone debt problems, and potential global repercussions from China's slowing economy.

Economic factors, especially the State's fiscal performance, significantly impact the System. Since the world financial crisis hit in FY09, the State has had to make significant adjustments for losses in revenue. As shown previously in Chart 4, Noncapital State Appropriations have decreased from $201M to $198M in FY12. As a result of the Governor's Task Force to reduce State spending, the System will see another $2M reduction in Educational and General Appropriations for FY13.

Despite fiscal challenges, the System held undergraduate in-state tuition increases for FY12 to an average 4.3%, down from 4.8% in the prior year. For FY13, the System froze in-state undergraduate tuition and the mandatory unified fee at FY12 levels; the first time in a quarter century that there has been no tuition increase. Further, the System has committed that if it receives level funding from the State of Maine for FY14 and FY15 it will likewise freeze tuition for those two years. This is a clear recognition of not only the State's fiscal struggles, but also those of Maine families as the System recognizes the need to keep tuition affordable and continues to look at how it can most efficiently and effectively spend its resources.

The Work Ahead

During FY12, the BOT adopted a new set of goals and actions to move the System forward in key areas of student success, workforce development, and cost control; soon after, a new Chancellor was hired to lead Maine's public universities to the next level. As part of the BOT goals and actions, the university presidents, System staff, and others are currently undertaking a System-wide review of administrative costs and structures which looks at several areas in the System, with the goal of improved administrative efficiencies and services. Those savings will be reinvested in the System's core mission critical areas of education, research and public services. The administrative areas currently under review are information technology, human resources, and strategic procurement.

With unprecedented economic challenges and a constantly evolving world, the system will move forward with its focus on mission excellence, in three core areas:

- first-class, accessible, and affordable education for our students;
- research and economic development that positions Maine more favorably economically and socially; and
- critical service to our communities.

Economic conditions, unfavorable trends in demographics, and increased competition in higher education delivery mechanisms are all factors that call for transformational changes requiring stakeholder engagement as we move forward as a system together.

University of Maine System

Statements of Net Assets

June 30, 2012 and 2011

($ in thousands)

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	$ 1,125	$ 2,335
Short-term investments (Note 3)	244,412	224,077
Accounts, grants, and pledges receivable, net (Note 4)	63,889	63,439
Inventories and prepaid expenses	5,106	4,728
Notes and lease receivable, net (Note 5)	63	63
Total Current Assets	314,595	294,642
Noncurrent Assets		
Deposits with bond trustees (Notes 3 and 6)	10,191	3,374
Accounts, grants, and pledges receivable, net (Note 4)	9,318	8,219
Notes and leases receivable, net (Note 5)	39,344	38,934
Endowment investments (Note 3)	121,077	124,999
Bond issuance costs, net (Note 7)	2,052	1,601
Capital assets, net (Note 6)	683,724	668,362
Total Noncurrent Assets	865,706	845,489
Total Assets	**$ 1,180,301**	**$ 1,140,131**
Liabilities		
Current Liabilities		
Accounts payable	$ 18,011	$ 19,047
Deferred revenue and deposits (Note 8)	12,300	13,780
Accrued liabilities (Notes 7, 11 and 14)	37,089	28,739
Funds held for others	1,380	1,254
Current portion of capital lease obligations (Note 7)	339	611
Current portion of bonds and notes payable (Note 7)	10,197	9,802
Total Current Liabilities	79,316	73,233
Noncurrent Liabilities		
Accrued liabilities (Notes 7 and 11)	44,660	43,505
Funds held for others (Note 3)	16,829	18,494
Capital lease obligations (Note 7)	3,754	3,989
Bonds and notes payable, net (Note 7)	179,390	182,164
Government advances refundable (Note 9)	31,009	31,371
Total Noncurrent Liabilities	275,642	279,523
Total Liabilities	354,958	352,756
Net Assets		
Invested in capital assets, net of related debt (Note 10)	500,486	474,556
Restricted		
Nonexpendable (Note 10)	55,362	51,984
Expendable (Notes 3 and 10)	92,863	94,978
Unrestricted (Notes 3 and 10)	176,632	165,857
Commitments and contingencies (Notes 6,7 and 11)	-	-
Total Net Assets	825,343	787,375
Total Liabilities and Net Assets	**$ 1,180,301**	**$ 1,140,131**

See accompanying notes to the basic financial statements.

University of Maine System

Statements of Financial Position – Aggregate Discretely Presented Component Units

June 30, 2012 and 2011

($ in thousands)

		2012		2011
Assets				
Cash and cash equivalents	$	240	$	171
Other receivables		572		452
Promises to give, less allowance for uncollectible pledges of $50 for 2012 and 2011		482		1,295
Investments		183,072		184,956
Notes receivable		979		984
Property and equipment, net of accumulated depreciation of $101 and $136, respectively		138		120
Other assets		444		461
Irrevocable trusts		11,324		13,552
Assets managed for Buchanan Alumni House		319		290
Net funding to be provided from Buchanan Alumni House		192		265
Total Assets	**$**	**197,762**	**$**	**202,546**
Liabilities				
Accounts payable	$	41	$	10
Distributions due income beneficiaries		1,890		2,086
Accrued expenses		801		842
Notes payable		1,030		1,141
Custodial accounts payable		2,910		3,713
Total Liabilities		6,672		7,792
Net Assets				
Unrestricted net assets		9,948		13,087
Temporarily restricted net assets		37,648		50,851
Permanently restricted net assets		143,494		130,816
Total Net Assets		191,090		194,754
Total Liabilities and Net Assets	**$**	**197,762**	**$**	**202,546**

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, 2012 and 2011

($ in thousands)

	2012	2011
Operating Revenues		
Tuition and fees	$ 266,043	$ 260,703
Residence and dining fees	57,401	59,499
Less: scholarship allowances	(81,999)	(81,458)
Net student fees	241,445	238,744
Federal, state, and private grants and contracts	161,877	168,649
Recovery of indirect costs	16,130	17,150
Educational sales and services and other revenues	31,294	31,404
Other auxiliary enterprises	25,778	27,924
Total Operating Revenues	476,524	483,871
Operating Expenses		
Instruction	178,722	178,121
Research	73,026	79,142
Public service	63,622	61,215
Academic support	77,048	72,879
Student services	47,769	46,938
Institutional support	56,216	50,290
Operation and maintenance of plant	46,957	48,762
Depreciation and amortization	30,422	28,739
Student aid	28,291	27,795
Auxiliary enterprises	70,349	72,905
Total Operating Expenses	672,422	666,786
Operating Loss	(195,898)	(182,915)
Nonoperating Revenues (Expenses)		
Noncapital State of Maine appropriations	197,656	195,327
State Fiscal Stabilization Fund	62	6,541
Gifts currently expendable	12,448	10,922
Endowment return used for operations (Note 3)	4,862	4,860
Investment income (Note 3)	4,596	10,663
Interest expense, net (Note 7)	(8,032)	(8,485)
Net Nonoperating Revenue	211,592	219,828
Income Before Other Changes in Net Assets	**15,694**	**36,913**
Other Changes in Net Assets		
State of Maine capital appropriations	5,450	4,104
Capital grants and gifts	19,695	22,556
Endowment return (loss), net of amount used for operations (Note 3)	(6,419)	14,358
True and quasi endowment gifts	3,582	2,291
Loss on disposal of capital assets	(34)	(53)
Total Other Changes in Net Assets	22,274	43,256
Change in Net Assets	**37,968**	**80,169**
Net Assets - Beginning of Year	787,375	707,206
Net Assets - End of Year	$ 825,343	$ 787,375

See accompanying notes to the basic financial statements.

University of Maine System

Statements of Activities – Aggregate Discretely Presented Component Units

Years Ended June 30, 2012 and 2011

(With Comparative Totals for 2011)

($ in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012	Total 2011
Revenues, Gains, Losses, and Reclassification					
Contributions and memberships	$ 523	$ 1,339	$ 10,706	$ 12,568	$ 6,819
Investment income and other revenue	(1,872)	(3,238)	(76)	(5,186)	28,860
Net assets released from restrictions	8,880	(11,284)	2,404	-	-
Total Revenues, Gains, Losses, and Reclassification	7,531	(13,183)	13,034	7,382	35,679
Expenses and Losses					
Program services	8,739	-	-	8,739	6,932
Management and general	1,069	-	-	1,069	873
Fundraising	862	-	-	862	801
Total Expenses	10,670	-	-	10,670	8,606
Uncollectible promises to give	-	20	356	376	604
Total Expenses and Losses	10,670	20	356	11,046	9,210
Change in Net Assets	**(3,139)**	**(13,203)**	**12,678**	**(3,664)**	**26,469**
Net Assets - Beginning of Year	13,087	50,851	130,816	194,754	168,285
Net Assets - End of Year	$ 9,948	$ 37,648	$ 143,494	$ 191,090	$ 194,754

See accompanying notes to the basic financial statements.

University Of Maine System

Statements of Cash Flows

Years Ended June 30, 2012 and 2011

($ in thousands)

	2012	2011
Cash Flows From Operating Activities		
Tuition, residence, dining, and other student fees	$ 240,419	$ 240,610
Grants and contracts	180,770	183,737
Educational sales and services and other auxiliary enterprise revenues	56,225	56,241
Payments to and on behalf of employees	(416,849)	(420,434)
Financial aid paid to students	(34,588)	(34,270)
Payments to suppliers	(178,677)	(180,703)
Loans issued to students	(6,738)	(6,715)
Collection of loans to students	5,754	5,677
Interest collected on loans to students	734	733
Net Cash Used for Operating Activities	(152,950)	(155,124)
Cash Flows From Noncapital Financing Activities		
State appropriations	197,656	195,327
State Fiscal Stabilization Program	62	6,541
Noncapital grants and gifts	16,337	14,240
Agency transactions	(2,512)	(1,058)
Net Cash Provided by Noncapital Financing Activities	211,543	215,050
Cash Flows From Capital and Related Financing Activies		
Proceeds from capital debt issuances and escrow restructurings	7,202	-
Capital appropriations	6,117	2,432
Capital grants and gifts	14,966	16,366
Proceeds from sale of capital assets	801	-
Acquisition and construction of capital assets	(47,276)	(42,205)
Issuance costs on capital debt	(170)	-
Principal paid on capital debt and leases	(10,723)	(10,950)
Interest paid on capital debt and leases	(9,251)	(8,609)
Net Cash Used for Capital and Related Financing Activities	(38,334)	(42,966)
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	160,156	534,774
Purchases of investments	(189,308)	(556,222)
Earnings from investments	7,683	6,450
Net Cash Used by Investing Activities	(21,469)	(14,998)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,210)	1,962
Cash and cash equivalents - Beginning of Year	2,335	373
Cash and cash equivalents - End of Year	$ 1,125	$ 2,335

See accompanying notes to basic financial statements.

University Of Maine System

Statements of Cash Flows

Years Ended June 30, 2012 and 2011

($ in thousands)

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

	2012	2011
Operating loss	$ (195,898)	$ (182,915)
Adjustments to reconcile net operating loss to net cash used by operating activities:		
Depreciation and amortization	30,422	28,739
Changes in assets and liabilities:		
Accounts and grants receivable, net	3,214	(2,971)
Inventories and prepaid expenses	(378)	2,926
Notes receivable, net	(472)	(298)
Accounts payable	599	(945)
Deferred revenue and deposits	(1,410)	300
Accrued liabilities	11,335	17
Grants refundable	(362)	23
Net Cash Used for Operating Activities	$ (152,950)	$ (155,124)

Noncash investing, capital, and financing activities:

	2012	2011
Capital asset additions included in accounts payable as of June 30	$ 3,914	$ 5,540
Capital asset additions acquired through capital leases	$ 598	$ 3,823
Capital asset additions acquired through long-term debt	$ 76	$ 1,195
Bond issuance costs financed with bond payable	$ 401	$ -
Refunding of debt	$ 29,950	$ -

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, eight centers, and a central administrative office. All activities of the System are included in the accompanying financial statements, including those of its discretely presented component 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 4.75% and 5% for FY12 and FY11, respectively. The percentage 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;

	2012	2011
• Equity securities	40-60%	40-60%
• Fixed income securities	10-20%	10-20%
• 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 are recorded on a straight-line basis over the estimated useful lives of the related assets, principally as follows:

	Years
Buildings	20 - 60
Improvements	15 - 40
Equipment	4 - 15
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. Deferred Revenue and Deposits

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. Compensated Absences

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. Deferred Amounts on Refunding

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 FY11 items in the accompanying financial statements have been reclassified, without effect on total net assets, to conform to the FY12 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, 2012 and 2011, the bank balances had no uninsured or uncollateralized operating cash deposits.

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 ($145 and $155 at June 30, 2012 and 2011, respectively), the System's endowment is managed as a pooled investment fund using external investment managers. The University of Maine at Fort Kent Foundation, the University of Southern Maine Foundation, and the John L. Martin Scholarship Fund, Inc. participate in the System's endowment pool through a management agreement. The University of Maine at Farmington Alumni Foundation had participated in the endowment pool until January 31, 2012, when its members voted to dissolve the corporation. At that time, the Foundation gifted $1,300 of assets to the University of Maine at Farmington for continued endowment of scholarships. The fair values of the investments held for these affiliated organizations at June 30, 2012 and 2011, respectively are $16,829 and $18,494, 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:

	2012	2011
Restricted - expendable	$36,750	$42,019
Unrestricted	11,822	12,166
Total available for spending	$48,572	$54,185

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, 2012:

	Fair Value	Credit Rating	Interest Rate Risk	
Short-term Investments:				
Equities:				
Multi strategy funds	$ 53,988			
Fixed Income Funds:				
Bank loans	18,545	Not rated	.1 years	Duration
Bonds	124,033	Not rated	-.07 - 5.1 years	Duration
Money markets	5,853	Not rated	39-42 days	Ave maturity
State pool	41,993	Not rated	.64 years	Duration
Total	$ 244,412			
Deposits With Bond Trustees:				
Guaranteed investment contracts	$ 2,870	Not rated		
Money funds, savings, CDs	119			
Fixed Income Funds:				
Bonds	190	Aaa-Moody's	52	Ave maturity
Money markets	6,990	Not rated	39 days	Ave maturity
State pool	22	Not rated	.64 years	Duration
Total	$ 10,191			
Endowment Investments:				
Pooled Investments:				
Money funds, savings, CDs	$ 2			
Equities:				
Equities	42,075			
Equity funds	67,528			
Multi-strategy funds	60,868			
Fixed Income Funds:				
Money markets	151	Not rated	41 days	Ave maturity
Bonds	20,651	Not rated	3.7 years	Duration
Total Pooled Investments	191,275			
Less portion held on behalf of outside entities	(70,343)			
Endowment portion of pooled investments	120,932			
Separately Invested Assets:				
Money funds, savings, CDs	68			
Equities	77			
Total	$ 121,077			

($ 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	.3 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			

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 4.88 years and 5.12 years at June 30, 2012 and 2011, 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 6.6 years and 6.4 years at June 30, 2012 and 2011, 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, 2012 and 2011.

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:

	2012			
	Net Gains (Losses)	Interest and Dividends	Investment Fees	Net Earnings
Endowment investments	$ (4,022)	$ 2,068	$ (1,078)	$ (3,032)
Less managed funds distributed				1,475
University endowment loss				$ (1,557)
Reported as endowment return used for operations				$ 4,862
Reported as endowment loss, net of amount used for operations				(6,419)
Net loss from endowment investments				$ (1,557)
Short-term investments	$ (791)	$ 6,530	$ (1,313)	$ 4,426
Deposits with bond trustees	-	170	-	170
Total other investment income	$ (791)	$ 6,700	$ (1,313)	$ 4,596

	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 return, 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

($ in thousands)

4. ACCOUNTS, GRANTS, AND PLEDGES RECEIVABLE

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

	2012			2011		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Student and other accounts receivable	$ 33,385	$ 33,314	$ 71	$ 30,800	$ 30,730	$ 70
Grants receivable	35,375	34,016	1,359	37,754	36,012	1,742
Pledges receivable	9,721	1,528	8,193	8,320	1,433	6,887
Total gross receivables	78,481	68,858	9,623	76,874	68,175	8,699
Less allowance for doubtful accounts	(5,123)	(4,969)	(154)	(4,983)	(4,736)	(247)
Less discount on pledges receivable	(151)	-	(151)	(233)	-	(233)
Total receivables, net	$ 73,207	$ 63,889	$ 9,318	$ 71,658	$ 63,439	$ 8,219

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:

	2012			2011		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Perkins Loans	$ 30,249	$ -	$ 30,249	$ 30,139	$ -	$ 30,139
Nursing Loans	1,661	-	1,661	1,673	-	1,673
Institutional Loans	7,816	-	7,816	7,460	-	7,460
Lease receivable **(a)**	1,063	63	1,000	1,126	63	1,063
Total notes and leases receivable	40,789	63	40,726	40,398	63	40,335
Less allowance for doubtful accounts	(1,382)	-	(1,382)	(1,401)	-	(1,401)
Total notes and leases receivable, net	$ 39,407	$ 63	$ 39,344	$ 38,997	$ 63	$ 38,934

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:

	2012	2011
University of New Hampshire		
Secured by equipment; monthly payments of $5, including interest at 4.85% per annum; matures 2029	$ 1,063	$ 1,126

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 is as follows:

	Beginning Balance	Additions	Reclasses	Retirements	Ending Balance
Land	$ 17,229	$ -	$ 231	$ -	$ 17,460
Library materials	25,686	-	-	-	25,686
Construction in progress	21,943	39,670	(39,829)	-	21,784
Total nondepreciable assets	64,858	39,670	(39,598)	-	64,930
Land improvements	44,059	-	3,047	-	47,106
Buildings & improvements	746,234	-	33,292	(2,475)	777,051
Equipment	89,381	6,599	3,214	(2,494)	96,700
Software	26,420	232	45	(702)	25,995
Total depreciable assets	906,094	6,831	39,598	(5,671)	946,852
Less accumulated depreciation:					
Land improvements	26,536	1,537	-	-	28,073
Buildings & improvements	225,735	17,632	-	(1,698)	241,669
Equipment	40,891	8,913	-	(2,434)	47,370
Software	9,428	2,220	-	(702)	10,946
Total accumulated depreciation	302,590	30,302	-	(4,834)	328,058
Net depreciable assets	603,504	(23,471)	39,598	(837)	618,794
Total capital assets	$ 668,362	$ 16,199	$ -	$ (837)	$ 683,724

($ in thousands)

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

Additions to capital assets for the years ended June 20, 2012 and 2011 include the following:

- Assets acquired through capital leases of $598 and $3,823, respectively.
- Capitalized interest costs of $120 and $0, respectively, less $5 and $0, respectively, of interest earnings on unexpended bond proceeds.

As of June 30, 2012 and 2011, $7,013 and $ 279, 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, 2012 is $13,838 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 $14,619 and $19,121 at June 30, 2012 and 2011, respectively.

($ in thousands)

7. LONG-TERM LIABILITIES

Changes in long-term liabilities during the year ended June 30, 2012 consist of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases and bonds payable:					
Capital lease obligations **(a)**	$ 4,600	$ 598	$ (1,105)	$ 4,093	$ 339
Bonds and notes payable **(b)**	191,966	37,553	(39,932)	189,587	10,197
Total leases and bonds payable	196,566	38,151	(41,037)	193,680	10,536
Accrued liabilities:					
Workers' compensation - Note 11	5,904	1,246	(1,406)	5,744	1,519
Health insurance - Note 11	4,212	57,750	(53,431)	8,531	8,531
Postemployment health plan - Note 14	3,338	15,262	(11,583)	7,017	7,017
Other employee benefit programs - Note 13	41,396	55,881	(53,512)	43,765	4,384
Other	17,394	15,451	(16,153)	16,692	15,638
Total accrued liabilities	72,244	145,590	(136,085)	81,749	37,089
Total long-term liabilities	$ 268,810	$ 183,741	$ (177,122)	$ 275,429	$ 47,625

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

($ 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, 2012 are as follows:

	Capital Leases		Operating	
Year Ending June 30:	Principal	Interest	Leases	Total
2013	$ 339	$ 174	$ 1,027	$ 1,540
2014	347	159	696	1,202
2015	345	144	580	1,069
2016	395	130	333	858
2017	338	113	4	455
2018-2022	1,025	405	33	1,463
2023-2027	925	192	4	1,121
2028-2032	379	19	-	398
Total minimum lease payments	$ 4,093	$ 1,336	$ 2,677	$ 8,106

The rent expense related to operating leases amounted to $1,576 for the year ended June 30, 2012 and $1,577 for the year ended June 30, 2011.

($ in thousands)

(b) Bonds and Notes Payable

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

	2012	2011
2012 Series A Revenue Bonds (original principal of $34,975)		
Serial bonds, maturing from 2013 to 2028, and 2031, wth annual principal payments from $1,070 to $2,540 and coupon interest rates from 2.0% to 4.0%. Issued to refund balloon on the 2002A Series Revenue bonds and to provide funding for a capital project.	$ 29,815	$ -
3.0% Term Bonds due March 1, 2030	2,540	-
3.0% Term Bonds due March 1, 2033	2,620	-
Add: unamortized premium	2,448	-
Total 2012 Series A Bonds	37,423	-
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.	43,505	44,310
Add: unamortized premium	596	638
Total 2007 Series A Bonds	44,101	44,948
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.	61,980	63,690
Add: unamortized premium	335	357
Less: unamortized deferred amount on refunding of 1998A, 2000A, 2002A, and 2003A bonds	(290)	(309)
Total 2005 Series A Bonds	62,025	63,738
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.	27,125	31,160
4.25% Term Bonds, due March 1, 2034	6,410	6,410
Add: unamortized premium	533	777
Total 2004 Series A Bonds	34,068	38,347
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.	9,560	10,320
Add: unamortized premium	95	104
Less: unamortized deferred redemption fee on 1993 bonds	(129)	(144)
Total 2003 Series A Bonds	9,526	10,280

($ in thousands)

	2012	2011
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
Add: unamortized premium	-	216
Total 2002 Series A Bonds	-	32,131
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
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	8	13
Note payable, secured by equipment, matures 2019, with annual principal payments of $75, including interest at 3.94%.	444	517
Total bonds and notes payable, net	$ 189,587	$ 191,966

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 FY12 discounts of ($419) and the premiums of $4,014 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, 2012:

Year Ending June 30:	Principal	Interest	Total
2013	$ 9,609	$ 8,103	$ 17,712
2014	10,031	7,684	17,715
2015	12,124	7,247	19,371
2016	8,559	6,690	15,249
2017	8,954	6,315	15,269
2018-2022	45,165	25,702	70,867
2023-2027	37,740	16,491	54,231
2028-2032	39,360	8,264	47,624
2033-2037	14,450	1,328	15,778
	$ 185,992	$ 87,824	$ 273,816

Interest costs related to the Revenue Bonds for FY12 and FY11 were $7,881 and $8,354, respectively.

Refunding of Debt – FY2012

On February 23, 2012, the System issued 2012 Series A Revenue bonds to currently refund a $29,950 balloon payment for the 2002 Series A Revenue Bonds and to fund a new capital project. Refunding proceeds were temporarily placed into an escrow account and were used to retire the 2002 bonds on March 1, 2012.

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, 2012 and 2011 was $50,475 and $57,064, 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 and reports an offsetting deferred revenue liability in the Statements of Net Assets. Outstanding advances as of June 30, 2012 and 2011 System's totaled $4,164 and $5,720, 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, 2012 and 2011 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:

	2012	2011
Invested in capital assets, net of related debt	$ 500,486	$ 474,556
Restricted - Nonexpendable:		
Endowment funds	55,362	51,984
Restricted - Expendable:		
Student financial aid	30,170	33,538
Capital assets and retirement of debt	12,865	9,529
Loans	13,830	13,186
Academic support	10,732	11,486
Research and public service	6,811	6,993
Library	2,384	2,599
Other	16,071	17,647
Total restricted - expendable	92,863	94,978
Unrestricted:		
Educational and general reserves	54,528	52,384
Risk Management	2,887	2,622
Budget stabilization	10,000	10,000
Auxiliary enterprises	15,262	16,510
Benefit pool carryover	17,593	19,563
IT initiatives	3,533	2,884
Internally designated projects	17,023	15,824
Facility projects	40,402	32,553
Endowment earnings	11,820	12,164
Cost sharing and other	3,584	1,353
Total unrestricted	176,632	165,857
Total net assets	$ 825,343	$ 787,375

11. COMMITMENTS AND CONTINGENCIES

a. Grant Program Involvement

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

b. Risk Management – Insurance Programs

The System is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries; environmental pollution and natural disasters. The System manages these risks through a combination of commercial insurance policies purchased in the name of the System, a 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, 2012 and 2011 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 at June 30, 2012 and 2011 of $5,744 and $5,904, respectively, 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, 2012. As of June 30, 2012 and 2011, 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). The System purchases stop-loss insurance which limits the exposure to $1,000 per individual.

($ in thousands)

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

	2012	2011
Claims incurred but not reported	$ 6,884	$ 3,425
Reported claims	1,647	787
Total health insurance liability - Note 7	$ 8,531	$ 4,212

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 was completed in FY12. The System is obligated to monitor the restoration for 5 years.

During FY12, the USM campus became obligated to commence cleanup and monitoring activities regarding polychlorinated biphenyls (PCBs) that were identified during building renovations. The identified projects have been completed in FY13.

As of June 30, 2012 and 2011, the System's estimated liability for pollution remediation is $190 and $1,482, respectively, and is included in other accrued liabilities in the accompanying Statements of Net Assets (see note 7).

12. PASS THROUGH GRANTS

During FY12 and FY11, the System distributed $155,525 and $151,771, 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.

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

	2012	2011
Faculty and Professional Employees:		
Contributory Retirement Plan	$ 19,896	$ 19,463
Incentive Plan	2,519	2,584
Hourly Employees:		
Basic Retirement Plan	3,568	3,459
Defined Benefit Plan	328	673
Total net pension expense	$ 26,311	$ 26,179

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 $ 7,996 in FY12 and $7,776 in FY11.

($ 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 standalone 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%.

As of July 1, 2011, the most recent actuarial valuation, the actuarial accrued liability for benefits was $27,120 and the actuarial value of assets was $0 resulting in an unfunded actuarial accrued liability (UAAL) of $27,120 which results in a funded ratio of 0%. The covered payroll (annual payroll of active employees covered by the plan) was $119,334 and the ratio of the UAAL to the covered payroll was 22.7%.

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, 2012, 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
2012	$ 3,387	$ 1,027	$ 1,895	$ 2,519	$ 1,321	52%	$ 1,198	$21,746
2011	$ 3,235	$ 1,129	$ 1,779	$ 2,585	$ 1,666	64%	$ 919	$20,548
2010	$ 3,235	$ 1,089	$ 1,717	$ 2,607	$ 1,912	73%	$ 695	$19,629

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 standalone financial statements. The Defined Contribution Program of the Basic Retirement Plan for Classified Employees (Basic Plan) was created on July 1, 1998 in accordance with Section 403(b) of the Internal Revenue Code. 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 $1,479 in FY12 and $1,452 in FY11.

Defined Benefit Plan

The Defined Benefit Plan is a single employer plan administered by the University of Maine System. The Plan does not issue standalone financial statements. 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.

($ in thousands)

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, 2012 and 2011 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/discount rate	7.25%
Projected salary increases	3.5%
Cost-of-living adjustments	5% to 10% depending on the retirement date

As of July 1, 2011, the most recent actuarial valuation, the actuarial accrued liability for benefits was $49,214 and the actuarial value of assets was $47,658 resulting in an unfunded actuarial accrued liability (UAAL) of $1,556 which results in a funded ratio of 96.8%. The covered payroll (annual payroll of active employees covered by the plan) was $1,420 and the ratio of the UAAL to the covered payroll was 109.6%. 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.

($ 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 are covered by the same plan document. In accordance with Section 414(k) of the Internal Revenue Code, the System may elect to fund employer contributions to the Basic Plan and ORSP from excess assets in the Defined Benefit Plan, subject to certain limitations. The System used $2 million in this manner during FY09.
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, 2012, 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
2012	$ 377	$ 50	$ 99	$ 328	$ -	0%	$ 328	$ 1,018
2011	$ 674	$ 2	$ 3	$ 673	$ -	0%	$ 673	$ 690
2010	$ 674	$ (57)	$ (105)	$ 722	$ -	0%	$ 722	$ 17

As of June 30, 2012 and 2011 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. The Board of Trustees has authority to establish and amend provisions under the Plan. As of June 30, 2012 and 2011, there were approximately 6,957 and 7,200 persons, respectively, 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, 2012 and 2011, there were approximately 1,896 and 1,883 persons receiving a subsidy from the System.

Persons who are retired from the System with at least 10 years of full-time regular service and have reached age 55 but are under age 65 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. As of June 30, 2012 and 2011, there were 96 and 95 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
2012	$ 15,262	$ -	$ -	$ 15,262	$ 11,583	76%	$ 3,679	$ 7,017
2011	$ 19,741	$ -	$ -	$ 19,741	$ 21,990	111%	$ (2,249)	$ 3,338
2010	$ 18,880	$ -	$ -	$ 18,880	$ 16,326	86%	$ 2,554	$ 5,587

Employer contributions made are comprised of the following:

	Pay-as-you-go	(OPEB) Irrevocable Trust	Total Employer Contributions
2012	$ 8,245	$ 3,338	$ 11,583
2011	$ 8,402	$ 13,588	$ 21,990
2010	$ 7,291	$ 9,035	$ 16,326

The net OPEB obligation of $7,017 and $3,338 at June 30, 2012 and 2011, respectively, is recorded as an accrued liability in the accompanying Statements of Net Assets. The System is committed to funding the June 30, 2012 net obligation by December 31, 2012. 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, 2011, the most recent actuarial valuation, the actuarial accrued liability for benefits was $160,336 and the actuarial value of assets was $50,170 resulting in an unfunded actuarial accrued liability (UAAL) of $110,166 which results in a funded ratio of 32%. The covered payroll (annual payroll of active employees covered by the plan) was $232,737 and the ratio of the UAAL to the covered payroll was 47.3%.

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 assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2011 actuarial valuations, the projected unit credit actuarial cost method was used. The actuarial assumptions included an 8.25 percent investment rate of return/discount rate (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 4 percent initially, increasing to an ultimate rate of 5 percent after six years. The actuarial value of assets is based on their fair value at July 1, 2011. 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 an open 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, 2012 and 2011.

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:

	2012	2011
Assets		
Investments at fair value	$ 165,215	$ 166,307
Noncurrent assets	14,515	17,424
Total Assets	$ 179,730	$ 183,731
Liabilities and Net Assets		
Notes payable and other liabilities	$ 6,674	$ 7,791
Net Assets		
Unrestricted	4,546	7,345
Temporarily restricted	35,878	48,585
Permanently restricted	132,632	120,010
Total Net Assets	173,056	175,940
Total Liabilities and Net Assets	$ 179,730	$ 183,731
Revenues, Gains and Losses		
Contributions and memberships	$ 12,359	$ 6,649
Investment loss and other revenue	(5,326)	27,096
Total Revenues, Gains and Losses	7,033	33,745
Expenses and Losses		
Program services	7,924	6,031
Management and general	793	565
Fundraising	824	781
Uncollectible promises to give	376	604
Total Expenses	9,917	7,981
Increase (Decrease) in Net Assets	(2,884)	25,764
Net Assets, Beginning of Year	175,940	150,176
Net Assets, End of Year	$ 173,056	$ 175,940

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, 2012
(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%
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%)
Post Employment Health Plan						
2011	$ 50,170	$ 160,336	$ 110,166	31.3%	$ 232,737	47.3%
2010	$ 29,940	$ 179,513	$ 149,573	16.7%	$ 221,170	67.6%
2009	$ 18,870	$ 163,799	$ 144,929	11.5%	$ 221,275	65.5%

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**	
2012	$ 3,387	39%	$ 377	—
2011	$ 3,235	51%	$ 674	—
2010	$ 3,235	58%	$ 674	—

University of Maine System

Supplemental Information Required by the State of Maine

Schedules of Activities

($ in thousands)

Year Ended June 30, 2012

Functions/Programs	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue
University of Maine System	$ 680,454	$ 298,517	$ 188,960	$ 19,695	$ (173,282)

General Revenues:	
Unrestricted interest and investment earnings	4,596
Additions to endowments - gifts	3,582
State of Maine noncapital appropriation	197,656
State of Maine capital appropriation	5,450
Loss on disposal of capital assets	(34)
Total Revenues and Extraordinary Items	211,250
Change in Net Assets	37,968
Net Assets, Beginning of Year	787,375
Net Assets, End of Year	$ 825,343

Year Ended June 30, 2011

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