ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2013

Electronic statements are available at http://www.maine.edu/about-the-system/system-office/finances/annual-financial-reports/
or by contacting:

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

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 2013

Dear Friend:

Wherever you travel in Maine, you see businesses, schools and communities positively impacted by the University of Maine System. Whether it is the presence of one of our seven universities, the law school, or our more than 35 research, outreach, and Cooperative Extension centers and facilities throughout Maine—the University of Maine System and its students, faculty and staff are an integral part of our state.

During the past 18 months we have made steady progress in promoting mission excellence at Maine's public universities. This year, for example, we launched a new transfer portal on our website to ease the transition for the more than 1,000 students who transfer to UMS from other institutions annually.

We are also working to strengthen relationships with Maine's business community and help meet workforce needs with initiatives such as Project Login, that will double the number of computer science and IT graduates each year.

Many more initiatives are underway or soon to be launched, including a plan to help Maine meet its workforce needs by focusing on degree completion among an estimated 230,000 adults with some college credit but no degree. This will be achieved by enhancing prior learning assessment, certificate programs, online and hybrid online and classroom programs and developing targeted financial assistance for part-time adult students.

Finally, I encourage you to visit the University of Maine System website at www.maine.edu to learn more about our universities, our talented faculty and staff, and their accomplishments.

Sincerely,

James H. Page

James H. Page, Ph.D.
Chancellor

BerryDunn

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
University of Maine System

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the University of Maine System (the System), a component unit of the State of Maine, which collectively comprise the System's statements of net position and net assets as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit. Those statements were audited by another auditor, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component unit, are based solely on the reports of the other auditor. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

Portland, ME • Bangor, ME • Manchester, NH
www.berrydunn.com

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

Opinions

In our opinion, based on our audits and the reports of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of the System as of June 30, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 6 through 23, and Schedules of Funding Progress and Employers' Contributions on page 61, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements as a whole. The supplementary information presented in the Schedules of Activities on page 62 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 basic financial statements. The information has been subjected to the auditing procedures applied by us in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated November 18, 2013 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over reporting and compliance.

Berry Dunn McNeil & Parker, LLC

Bangor, Maine
November 18, 2013

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, 2013 and prior years. As this presentation includes highly summarized information, it should be read in conjunction with the accompanying basic financial statements and related notes.

MISSION

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

UNIVERSITY OF MAINE SYSTEM UNIVERSITIES, CAMPUSES & CENTERS

The University of Maine System is a comprehensive public institution of higher education serving nearly 41,000 students annually and is supported by the efforts of 1,279 regular full-time faculty, 102 regular part-time faculty, 3,162 regular full-time staff, and 329 regular part-time staff members.

Created in 1968 by the Maine State Legislature, the System consists of seven public universities, each with a distinctive mission and character. From Maine's largest city to its rural northern borders, our universities are known for excellence in teaching and research. Those universities are:

University of Maine (UM):	Maine's land and sea-grant institution
University of Maine at Augusta (UMA):	Central Maine's baccalaureate and associate degree institution
University of Maine at Farmington (UMF):	Maine's selective liberal arts college
University of Maine at Fort Kent (UMFK):	Baccalaureate university in the St. John Valley
University of Maine at Machias (UMM):	Eastern Maine's baccalaureate institution
University of Maine at Presque Isle (UMPI):	Baccalaureate education for the Northeastern region
University of Southern Maine (USM):	A comprehensive public university

The University of Maine School of Law, a freestanding institution within the System, is located in Portland and is Maine's only law school. 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 provides online and community access to the courses and degree programs of the System. 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

Throughout the System, 31,012 students were enrolled on a headcount basis for the Fall 2012 semester, down 0.3% from Fall 2011 and 4.9% since Fall 2008.

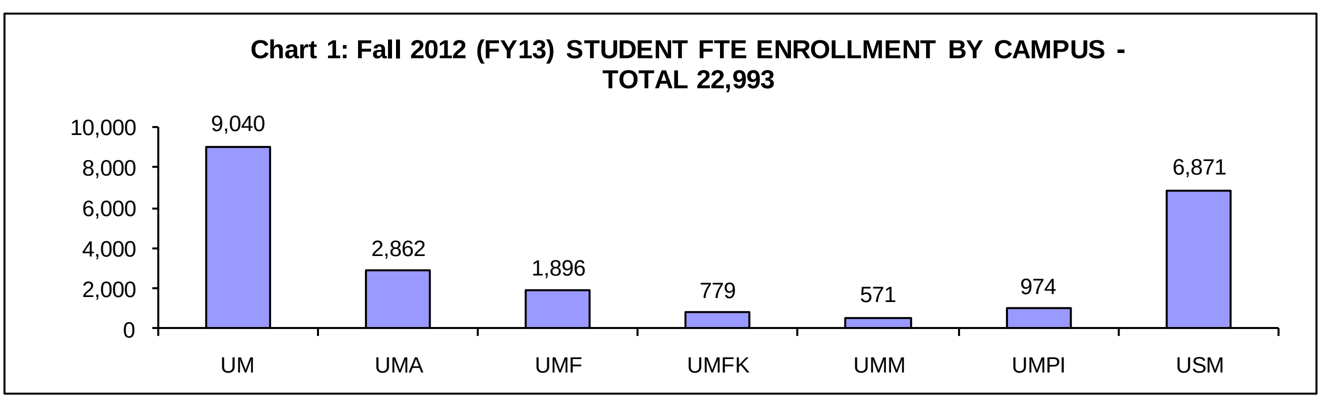
Table 1: Fall Student Enrollments by Headcount

	Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008	
Full-Time	**20,153**	**65%**	**20,057**	**64%**	20,542	64%	20,739	64%	20,593	63%
Part-Time	**10,859**	**35%**	**11,051**	**36%**	11,467	36%	11,601	36%	12,015	37%
Headcount	**31,012**	**100%**	**31,108**	**100%**	32,009	100%	32,340	100%	32,608	100%

As seen in Table 2 below, on a full-time equivalent (FTE) basis, 22,993 students were enrolled for the Fall 2012 semester, up 0.3% from Fall 2011. FTE enrollments were down 2.6% from Fall 2010 to Fall 2011. Since Fall 2008, enrollments have declined by 695 students or 3%. For Fall 2012, 65% of the student population was enrolled full-time and 85% were Maine residents.

Table 2: Fall Student FTE Enrollments

	% Change Fall 2008 to 2012	Fall 2012	% Change	Fall 2011	% Change	Fall 2010	% Change	Fall 2009	% Change	Fall 2008	% Change
UM	**-6%**	**9,040**	**-0.9%**	**9,120**	**-2.5%**	9,358	-3.1%	9,653	0.3%	9,620	0.8%
UMA	**8%**	**2,862**	**1.4%**	**2,823**	**0.6%**	2,805	1.0%	2,776	5.2%	2,639	0.1%
UMF	**-3%**	**1,896**	**-4.4%**	**1,983**	**-1.0%**	2,003	2.5%	1,954	-0.5%	1,964	-1.9%
UMFK	**3%**	**779**	**11.0%**	**702**	**-0.4%**	705	-3.8%	733	-2.7%	753	-17.3%
UMM	**-1%**	**571**	**6.3%**	**537**	**-5.6%**	569	1.4%	561	-2.4%	575	-1.0%
UMPI	**-12%**	**974**	**-2.3%**	**997**	**-4.5%**	1,044	-1.7%	1,062	-3.7%	1,103	-9.7%
USM	**-2%**	**6,871**	**1.6%**	**6,764**	**-4.1%**	7,051	1.1%	6,972	-0.9%	7,034	-1.7%
Total	**-3%**	**22,993**	**0.3%**	**22,926**	**-2.6%**	23,535	-0.7%	23,711	0.1%	23,688	-1.5%



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 pressures of operating cost increases and the decline in the State appropriations which peaked in FY08 at $201M and stood at $194M in FY13 and $198M in FY12.

Across the board, students in 2013 saw the lowest increase in the comprehensive cost of education in 5 years. Percentage increases in 2013 range from a high of 2.6% for Undergraduate Out-of-State students to a decrease of 0.1% for New England Board of Higher Education (NEBHE) students. Percentage increases in 2012 range from a high of 5.3% for Graduate students receiving the NEBHE rate to a low of 3.0% for Undergraduate Out-of-State students.

Table 3: Student Comprehensive Cost of Education

Tuition, Mandatory Fees, and Room and Board
Weighted Averages

	2013		2012		2011		2010		2009	
	Cost	% Change	Cost	% Change	Cost	% Change	Cost	% Change	Cost	% Change
Undergraduate										
In-State	**$17,802**	**0.4%**	**$17,731**	**3.3%**	$17,172	**4.5%**	$16,431	**5.3%**	$15,598	**8.3%**
Out-of-State	**32,250**	**2.6%**	**31,418**	**3.0%**	30,505	**4.4%**	29,211	**6.2%**	27,514	**8.5%**
NEBHE	**22,213**	**-0.1%**	**22,239**	**3.8%**	21,428	**5.7%**	20,266	**5.2%**	19,269	**15.0%**
Canadian	**20,725**	**0.7%**	**20,572**	**4.0%**	19,786	**5.3%**	18,796	**4.9%**	17,917	**6.9%**
Graduate										
In-State	**$16,721**	**0.5%**	**$16,634**	**3.2%**	$16,116	**4.8%**	$15,375	**5.4%**	$14,582	**8.4%**
Out-of-State	**30,757**	**2.2%**	**30,099**	**3.5%**	29,072	**4.5%**	27,816	**5.5%**	26,365	**8.7%**
NEBHE	**20,552**	**0.8%**	**20,389**	**5.3%**	19,361	**4.6%**	18,503	**4.7%**	17,675	**8.0%**
Canadian	**20,572**	**0.4%**	**20,492**	**3.3%**	19,843	**4.7%**	18,959	**5.0%**	18,052	**10.3%**
Law School										
In-State	**$31,989**	**0.4%**	**$31,857**	**4.1%**	$30,606	**5.3%**	$29,052	**5.8%**	$27,464	**6.5%**
Out-of-State	**43,059**	**0.7%**	**42,777**	**3.2%**	41,436	**4.8%**	39,552	**4.2%**	37,964	**5.8%**
NEBHE/Canadian	**40,119**	**0.6%**	**39,897**	**3.5%**	38,556	**4.2%**	37,002	**3.2%**	35,864	**4.0%**

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The University of Maine Foundation is a legally separate tax-exempt component unit of the University of Maine System. This entity's financial position and activities are discretely presented in the University's financial statements as required by Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an Amendment of GASB Statements No. 14 and No. 34.* The MD&A includes information only for the System, not its component unit. These financial statements are prepared in accordance with U.S. generally accepted accounting principles.

STATEMENTS OF NET POSITION

The Statements of Net Position presents the financial position of the System at one point in time – June 30 – and include all assets, liabilities, and the net position of the System. This statement is the primary statement used to report financial condition. Net position represents the residual interest in the System's assets after liabilities are deducted. The change in net position is an indicator of whether the overall financial condition has improved or deteriorated during the year. Table 4 on page 10 shows Condensed Statements of Net Position for the past five years.

Total assets of $1,186 million at June 30, 2013 have increased $181 million, or 18%, since June 30, 2009. 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 at June 30, 2013 and 2012.

Noncurrent assets consist mainly of endowment investments and capital assets, net of depreciation. Endowment investments total $133 million at June 30, 2013, an increase of $12 million or 10% from the FY12 year-end balance $121 million and a $38 million or 40% increase since June 30, 2009. Capital assets total $688 million and $684 million at June 30, 2013 and 2012, respectively. The System's progress in upgrading older facilities and meeting new facilities needs is addressed later in this report.

Current liabilities of $71 million and $79 million at June 30, 2013 and 2012, 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 $262 million, total noncurrent liabilities declined $14 million or 5% from June 30, 2012 to 2013 following a decline of $4 million from June 30, 2011 to 2012, primarily the result of the system paying down bonds and notes payable.

The total net position at $853 million increased $28 million or 3% from June 30, 2012 to 2013 and $38 million or 5% from June 30, 2011 to 2012.

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

($ in millions)

	2013	% Change	2012	% Change	2011	2010	2009
Current Assets	**$307**	**-3%**	**$315**	**7%**	$295	$259	$207
Noncurrent Assets							
Endowment investments	**133**	**10%**	**121**	**-3%**	125	104	95
Capital assets, net	**688**	**1%**	**684**	**2%**	668	644	645
Other	**58**	**-3%**	**60**	**15%**	52	50	58
Total Assets	**$1,186**	**1%**	**$1,180**	**4%**	$1,140	$1,057	$1,005
Current Liabilities	**$71**	**-10%**	**$79**	**8%**	$73	$68	$64
Noncurrent Liabilities:							
Bonds and Notes Payable	**165**	**-8%**	**179**	**-2%**	182	192	201
Other	**97**	**0%**	**97**	**-1%**	98	90	88
Total Liabilities	**333**	**-6%**	**355**	**1%**	353	350	353
Net investment in capital assets	**514**	**3%**	**500**	**5%**	474	444	436
Restricted:							
Nonexpendable	**56**	**2%**	**55**	**6%**	52	49	47
Expendable	**100**	**8%**	**93**	**-2%**	95	86	85
Unrestricted	**183**	**3%**	**177**	**7%**	166	128	84
Total Net Position	**853**	**3%**	**825**	**5%**	787	707	652
Total Liabilities and Net Position	**$1,186**	**1%**	**$1,180**	**4%**	$1,140	$1,057	$1,005

Investment Pool

The System pools certain funds for investment purposes including the System's endowment monies and monies on behalf of the following entities: the University of Maine at Fort Kent Foundation, the University of Southern Maine Foundation, the John L. Martin Scholarship Fund, Inc., the UMS OPEB Trust, Maine Maritime Academy, and the University of Maine School of Law Foundation.

Table 5 below shows the June 30, 2013, 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)

	2013	2012	2011
University of Maine System & Affiliates Endowments	$133	$121	$125
Other Post Employment Benefits Trust	73	53	50
Maine Maritime Academy	25	17	18
University of Maine School of Law Foundation	3	0	0
Total	**$234**	**$191**	**$193**

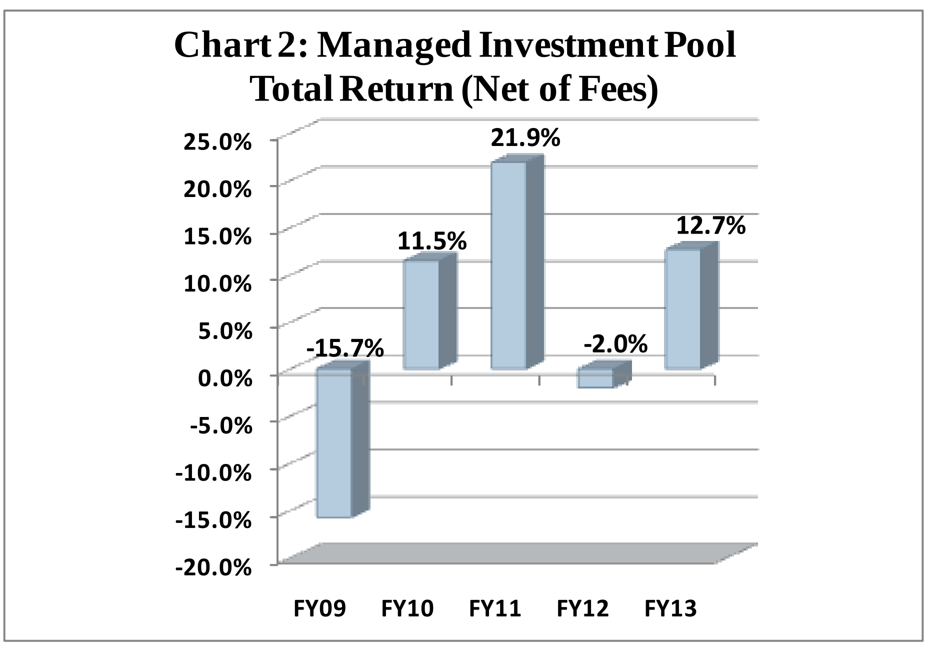
The accompanying Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position include only the System's and affiliates' share of the pooled investments and related investment activity. The OPEB Trust, Maine Maritime Academy, and the University of Maine School of Law Foundation 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

	2013	2012	2011
Domestic Equities	23%	31%	29%
International Equities	23%	20%	20%
Fixed Income	14%	16%	15%
Global Asset Allocation	25%	16%	16%
Hedge Funds	12%	15%	16%
Timber	2%	2%	2%
Cash	1%	0%	2%
Total	100%	100%	100%

As shown below, the markets continued their volatility with the pool experiencing a net of fees return of 12.7% in FY13, up from -2.0% in FY12, after experiencing a return of 21.9% in FY11. The pooled investments have a 5-year annualized net of fees return of 4.8%.



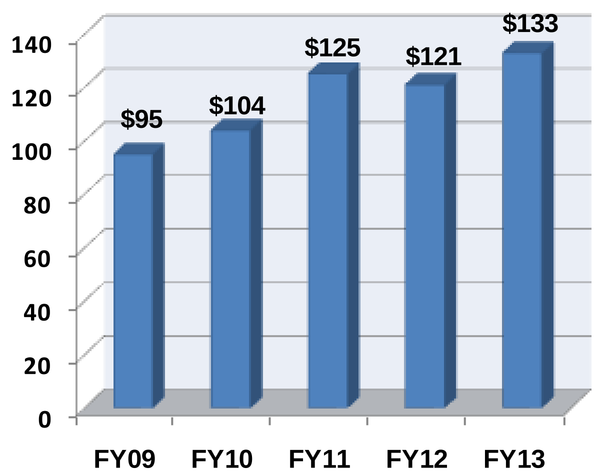
Endowments (Including Affiliates)

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 specified by the donor, and the endowments of three affiliates. Affiliates investing in the endowment pool include: the University of Maine at Fort Kent Foundation, the University of Southern Maine Foundation, and the John L. Martin Scholarship Fund, Inc. 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 below, these pooled investments had a market value of $133 million at June 30, 2013, increasing $12 million from the prior year end market value of $121 million. This growth included $15 million in net performance, plus $2 million in endowment contributions, less $5 million distributed for scholarships and operating activities. The FY12 market value of $121 million had decreased $4 million from the prior year which included $3 million from negative net performance, plus $4 million in endowment contributions, less $5 million distributed for scholarships and operating activities.

Chart 3: 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 FY13 was 4.5%, down from 4.75% in FY12 and 5% in FY11. The rate was reduced over a two year period to bring UMS in line with other educational institutions' endowments and to better enable preservation of corpus.

Capital Assets and Debt Activities

Table 7 on page 14 shows the status of major capital construction projects, including related equipment, as of June 30, 2013 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, 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.

During FY13, the System had capital asset additions of $36 million which included $32 million related to construction in progress and $4 million in equipment and software. FY12 capital asset additions of $47 million included $40 million in construction in progress and $7 million in equipment and software; while FY11 additions of $53 million consisted of $43 million in 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, 2013 and 2012 were $181 million and $194 million, respectively.

Table 7: Major Capital Construction Projects Completed During FY13 or In Progress at June 30, 2013

($ in millions)

	Project	Funding Source	Status	BOT Approved Budget
UMA				
	Jewett Hall Roof Replacement	Educational & General	Pre-Design	$0.54
UMF				
	Merrill Hall Heating Boiler Replacement	Educational & General	In Progress	0.71
	Mantor Green Geothermal Well Field	Educational & General	In Progress	1.55
	Ricker Hall Phase II	State Bond, Educational & General	Complete	2.20
UMFK				
	Renewable Biomass Heating Plant	Grant, Educational & General	Complete	0.93
	Renewable Biomass District Heating Plant	Grant, Educational & General	Pre-Design	3.00
UM				
	University Park-Demolition/Renovation/Sprinklers	State Bond, Auxiliary, Educational & General	In Progress	1.50
	Advanced Structures and Composites Center Expansion	Grant, Educational & General	In Progress	6.40
	Center for Cooperative Aquaculture Research - Tank Building	Grant	Complete	1.90
	Estabrooke Repurposing & Renovation and International Study Center	Educational & General	In Progress	4.20
	Fogler Library HVAC Upgrades Phase I	State Bond, Educational & General	In Progress	1.47
	Forest Bioproducts Research Initiative (FBRI) Technology Center	Grant	Complete	2.10
	Stewart New Media/Art Complex	Gifts, State Bond, Grant, Educational & General	Complete	10.00
	Heat Plant Boiler 8 Design	Grant, Educational & General	Complete	3.20
	Bennett Hall Renovations	Grant, Educational & General	Complete	0.97
	Nutting Hall Renovation	State Bond, Education & General	Complete	3.95
	Aquaculture Research Center Fish Lab Addition	Grant	In Progress	0.60
	Planetarium and Observatory	Gifts & Fund Raising, Educational & General	In Progress	5.20
	Memorial Gym Field House Renovation	2012 Revenue Bond, Gifts, Educational & General	In Progress	15.00
USM				
	Science Technology Research Center	Grant	Complete	0.85
	Luther Bonney Hall – Energy Efficiency Enhancements	State Bond, Educational & General	Complete	1.14
	Gorham Central Heat Plant Replacement	Educational & General	Design in Progress	2.70
	Gorham Water Tank Refurbishment	Educational & General	Design in Progress	0.63
	International Study Center	Educational & General	Pre-Design	0.80
	Science Technology Research Center	Grant	In Progress	0.90
UMS				
	Data Center Projects	Educational & General	Complete	4.99
			TOTAL	$77.43

Net Position

Net investment in capital assets 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 10, the System's net investment in capital assets was $514 million at June 30, 2013. The FY13 increase of $14 million was primarily the result of $4 million in net additions to capital assets after annual depreciation and a $10 million decline in related debt. The FY12 increase of $26 million was the result of $16 million in net additions to capital assets after annual depreciation and $10 million in changes to related debt; while the FY11 increase of $30 million was primarily the result of $24 million in net additions to capital assets after annual depreciation and $6 million in changes to related debt.

The restricted-nonexpendable net position of $56 million represents 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 position category, there was a $1 million increase in FY13, and a $3 million increase in both FY12 and in FY11.

The restricted-expendable net position of $100 million includes unexpended gifts and System endowment appreciation, above corpus, subject to externally imposed conditions on spending. This category of net position is restricted for a wide variety of purposes including student financial aid, capital asset acquisitions, research, and public service. The $7 million net increase in FY13 is primarily the result of an $8 million increase in endowment market values from positive financial market conditions, a $2 million increase in State appropriated scholarship funding generated from increased Maine casino revenue, and a $2 million reduction in debt service reserves as a result of the System refinancing bonds in 2013 to achieve savings. The $2 million net decrease in FY12 is the result of a number of factors with the major contributors being a $6 million decline in endowment market values due to unfavorable market conditions, a $2 million decrease in gift balances restricted for capital assets, and a positive increase of $5 million as a result of a gift for capital construction. The FY11 restricted-expendable balance of $95 million saw a $9 million increase over the prior year which was primarily the result of favorable markets net of gift money expenditures for capital construction at UMF.

The unrestricted net position of $183 million grew by $6 million, $11 million, and $38 million in FY13, FY12 and FY11, respectively. This net position category is not subject to externally imposed stipulations; however, these resources are critical for the financial stability of the UMS and have been designated for specific areas, including operational and capital needs, operating investment and other budget fluctuations, and benefits costs including covering the risks associated with self insured plans. Given both the physical and financial size of the 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.

Statements of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position reports total operating revenues, operating expenses, nonoperating revenues (expenses), other changes in net position, and the resulting change in net position for the fiscal year.

The System's total net position increased $28 million in FY13 and $38 million in FY12. Table 8 shows Condensed Statements of Revenues, Expenses, and Changes in Net Position for the past five fiscal years ended June 30.

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

	2013	% Change	2012	% Change	2011	2010	2009
Net Student Fees	**$243**	**1%**	**$241**	**1%**	$239	$236	$235
Grants, Contracts and Indirect Cost Recovery	**161**	**-10%**	**178**	**-4%**	186	171	152
Other Operating Revenues	**56**	**-2%**	**57**	**-3%**	59	62	61
Operating Revenues	**460**	**-3%**	**476**	**-2%**	484	469	448
Operating Expenses	**(669)**	**0%**	**(672)**	**1%**	(667)	(648)	(647)
Operating Loss	**(209)**	**7%**	**(196)**	**7%**	(183)	(179)	(199)
Nonoperating Revenues (Expenses)							
Noncapital State of Maine Appropriations	**194**	**-2%**	**198**	**2%**	195	190	194
State Fiscal Stabilization Funds	**0**	**0%**	**0**	**-100%**	6	7	7
Gifts Currently Expendable	**11**	**-8%**	**12**	**9%**	11	11	16
Endowment Return Used for Operations	**5**	**0%**	**5**	**0%**	5	5	6
Investment Income	**10**	**100%**	**5**	**-55%**	11	11	(3)
Interest Expense	**(7)**	**-13%**	**(8)**	**0%**	(8)	(9)	(10)
Net Nonoperating Revenues	**213**	**0%**	**212**	**-4%**	220	215	210
Income Before Other Changes in Net Position	**4**	**-75%**	**16**	**-57%**	37	36	11
Other Changes in Net Position							
State of Maine Capital Appropriation	**6**	**20%**	**5**	**25%**	4	7	9
Capital Grants and Gifts	**8**	**-60%**	**20**	**-9%**	22	8	14
Endow. Return, Net of Amt. Used for Operations	**8**	**233%**	**(6)**	**-143%**	14	5	(23)
Other	**2**	**-33%**	**3**	**0%**	3	(1)	0
Total Other Changes in Net Position	**24**	**9%**	**22**	**-49%**	43	19	0
Change in Net Position	**$28**	**-26%**	**$38**	**-53%**	$80	$55	$11

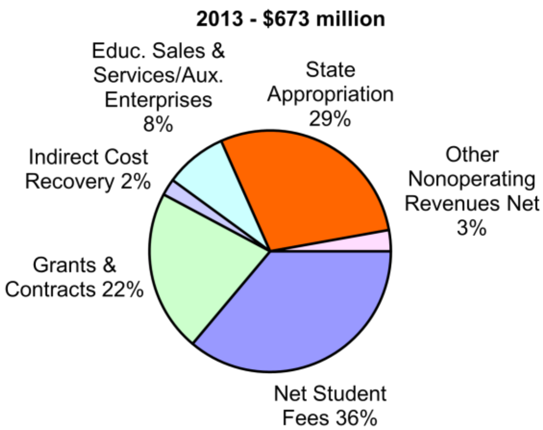
Operating and Nonoperating Revenue

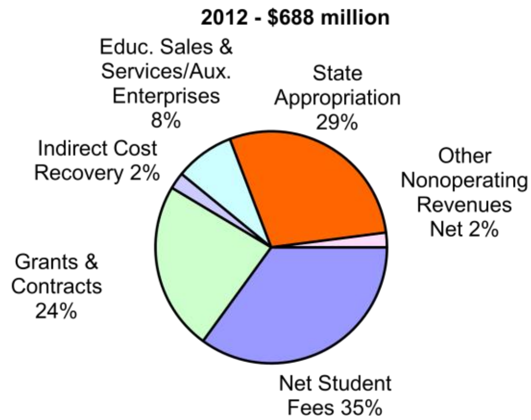
In addition to receiving tuition and fees, the System receives revenue from other sources such as governmental and privately funded grants and contracts; gifts from individuals, foundations, and corporations; state appropriations; and investment income.

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

The following pie charts illustrate both the operating and net nonoperating revenue sources used to fund the System's activities for FY13 and FY12.

CHART 4: TOTAL OPERATING & NET NONOPERATING REVENUE





Net student fees revenues of $243 million for FY13 are the primary source of operating revenues. The portion of total operating and net nonoperating revenues funded by net student revenues increased by 1% in FY13 and in FY12 after declining 1% in FY11. Net student revenues comprised 36% of total revenue for FY13 and 35% for FY12.

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

- Tuition and fees totaled $269 million in FY13, increasing $3 million (or 1%) over the prior year. FY12 and FY11 saw increases in revenues of 2% and 4%, respectively, compared to their prior year.
- Residence and dining fees of $58 million in FY13 was up less than $1 million compared with the prior year, following a decrease of $2 million (3%) from FY11. FY11 had increased nearly $1 million over FY10.
- Scholarship allowances of $83 million increased $1 million or 1% in FY13 and 1% in FY12 after increasing $8 million or 11% in FY11.

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 Position while the distribution of aid from all sources is shown as one of two components:

1. Scholarship Allowances – financial aid retained by the System to cover students' tuition, fees, and on-campus housing and meals. These amounts are reported as a direct offset to operating revenues.
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 FY13, total financial aid provided to students was $111 million, which was a $1 million or 1% increase over FY12 aid. This change is the net result of a number of factors with the most notable being an increase in institutional aid.

In FY12, total financial aid of $110 million also saw a $1 million or 1% increase over FY11 aid. 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 was $109 million, increasing $11 million or 11% 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 $146 million in FY13, decreasing $16 million from FY12. This decrease includes a $3 million decline in ARRA funding, a decline of $7 million from the Maine Department of Health and Human Services, a $1 million decline in federal student financial aid, and a $1 million decline from the Maine Technology Institute. With the exception of UMFK, all campuses shared in the decline of grant funding in FY13, with UM experiencing the largest dollar loss at over $7 million or an 11% reduction from the prior year. USM saw the greatest percentage decline at 14% or almost $7 million. UMF's grant revenue also declined by almost $1 million or 11% from the prior year.

In FY12, grants and contracts revenues totaled $162 million, 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 were 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 $15 million, $16 million, and $17 million for FY13, FY12 and FY11, respectively.

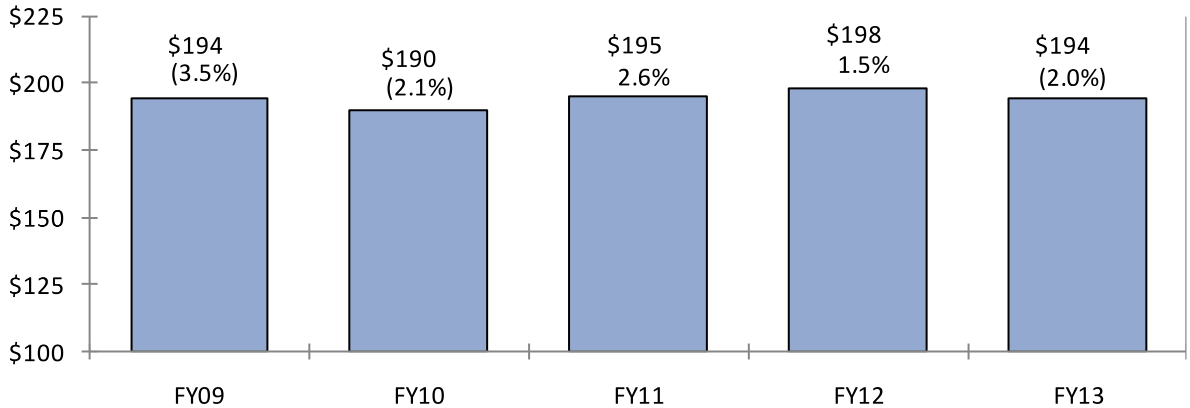
Noncapital State of Maine Appropriations:

State noncapital 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.

As shown in Chart 5 below, the System received $194 million in noncapital State appropriation revenue during FY13, down $4 million or 2.0% from FY12, and flat compared with FY09. The System received $198 million in noncapital State appropriation revenue during FY12, up $3 million or 1.5% over FY11.

At $194 million, noncapital state appropriation covered 93% of the $209 million net operating loss in FY13, down from net operating loss coverage levels of 101% in FY12 and 107% in FY11.

CHART 5: NONCAPITAL STATE APPROPRIATION & ANNUAL % CHANGE
($ in millions)

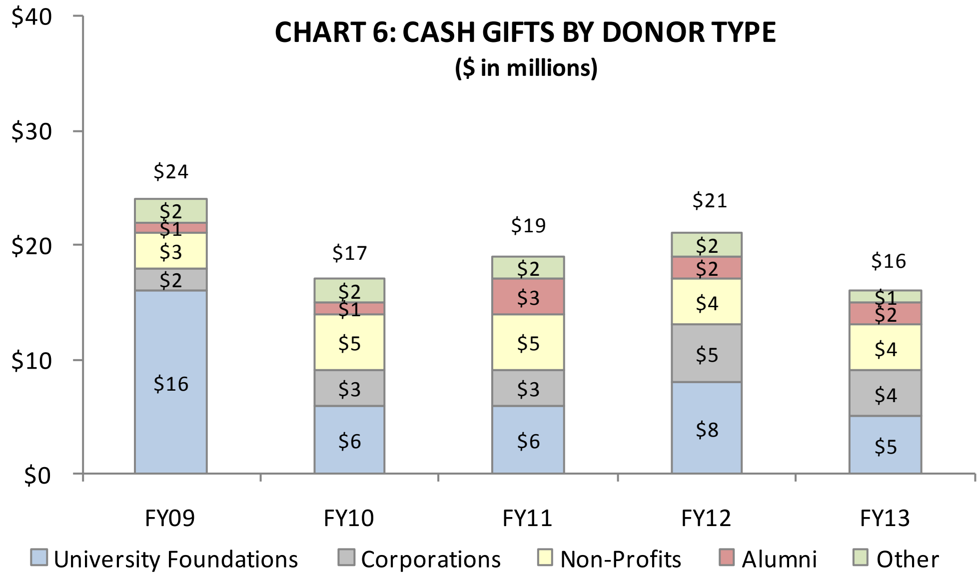


State Fiscal Stabilization Funds:

A notable revenue category in Table 8 on page 16 is State Fiscal Stabilization Funds which resulted from an award of $20.3 million 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 the investment losses sustained during FY09, these ARRA funds were critical to stabilizing the System's financial condition over the past several years allowing the System time to initiate administrative reviews and other cost saving measures.

Cash Gifts:

As shown in Chart 6 on page 20, gifts received in FY13 are down $5 million from the prior year. This decline is largely the result of UM having received several large gifts for athletic facility renovations in FY12. $14 million or 91% of gifts received in FY13 were restricted compared with 95% in FY12 and 92% in FY11. The donor type consistently contributing the most gift dollars is University Foundations.



Operating Expenses

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

	2013		2012		2011		2010		2009	
Instruction	**$180**	**27%**	**$179**	**27%**	$178	27%	$180	28%	$179	28%
Research	**69**	**10%**	**73**	**11%**	79	12%	75	12%	73	11%
Public service	**60**	**9%**	**64**	**10%**	61	9%	60	9%	57	9%
Academic support	**77**	**12%**	**77**	**12%**	73	11%	67	10%	66	10%
Student services	**51**	**8%**	**48**	**7%**	47	7%	47	7%	48	7%
Institutional support	**54**	**8%**	**56**	**8%**	50	8%	47	7%	48	7%
Operation and maintenance of plant	**49**	**7%**	**47**	**7%**	49	7%	46	7%	51	8%
Depreciation and amortization	**32**	**5%**	**30**	**4%**	29	4%	27	4%	26	4%
Student aid	**28**	**4%**	**28**	**4%**	28	4%	25	4%	21	4%
Auxiliary enterprises	**69**	**10%**	**70**	**10%**	73	11%	74	12%	78	12%
Total Operating Expenses	**$669**	**100%**	**$672**	**100%**	$667	100%	$648	100%	$647	100%

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

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

	2013		2012		2011		2010		2009	
Operating:										
Compensation and Benefits	**$433**	**64%**	**$434**	**64%**	$427	63%	$424	65%	$425	65%
Utilities	**34**	**5%**	**32**	**5%**	32	5%	27	4%	32	5%
Supplies and Services	**142**	**21%**	**148**	**22%**	151	23%	144	22%	143	22%
Depreciation & Amortization	**32**	**5%**	**30**	**4%**	29	4%	28	4%	26	4%
Student Aid	**28**	**4%**	**28**	**4%**	28	4%	25	4%	21	3%
Total Operating Expenses	**669**	**99%**	**672**	**99%**	667	99%	648	99%	647	99%
Nonoperating:										
Interest	**7**	**1%**	**8**	**1%**	8	1%	9	1%	10	1%
Total Expenses	**$676**	**100%**	**$680**	**100%**	$675	100%	$657	100%	$657	100%

As shown in Table 10, compensation and benefits expense declined $1 million in FY13 after increasing by $7 million in FY12 and $3 million in FY11.

Since FY09, compensation and benefits are up $8 million or 2%. Due to financial and program reasons UMS has eliminated a substantial number of positions over the past several years. From Fall 2008 to Fall 2012, total employment from all sources decreased by 311 full-time equivalent employees which included 162 full-time equivalent employees funded by educational and general sources.

CURRENT AND FUTURE CONSIDERATIONS

The System continues to work on the Goals and Actions for achieving mission excellence as outlined by the Board of Trustees in January 2012. System leadership was directed to move quickly forward in reviewing key areas of program and workforce development, cost control, and student success 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 service. Administrative reviews in information technology, strategic procurement, human resources, and facilities are in various stages while other priority initiatives are underway including work on:

- Credit transfer. The System launched a new transfer portal on its website to ease the transition for the more than 1,000 students who transfer to UMS from other institutions annually. Work has begun on an alignment of general education requirements across the UMS campuses and with the Maine Community College System. In November 2013, focused work will begin on specific high demand majors like business, nursing and Science, Technology, Engineering and Math (STEM) to better align major requirements. The goal is for all of this work to be completed by September 2014.

- Adult Baccalaureate Completion/Distance Education (ABCDE). The goal is to help Maine meet its workforce needs by focusing on degree completion among an estimated 230,000 adults with some college credit but no degree. This will be achieved by enhancing prior learning assessment, certificate programs, online and hybrid online and classroom programs and developing targeted financial assistance for part-time adult students.

- Project Login. These efforts are intended to double the number of computer science, computer engineering and information technology graduates by 2016 to meet the workforce needs of Maine businesses.

Compensation and Benefits Considerations

At $433 million in FY13, compensation and benefits constituted 64% of all operating expenses [74% of the educational and general budget]. Of this total, compensation was $308 million and benefits were $125 million.

Salary and wage compensation increases are significant cost drivers for the System. All groups except full-time faculty received adjustments for FY13 in accordance with collective bargaining agreements or Board of Trustee approved action. The collective bargaining agreement for the full-time faculty remains unsettled since its expiration at the end of FY11.

As a significant portion of benefits costs is attributed to health care, the System Employee Health Plan Task Force continues the work it began in FY11 to provide leadership to the UMS and to the collective bargaining process by recommending actions that support a competitive employee health care benefit while reducing the cost trend for the employee health plan. These actions are necessary for the financial sustainability of UMS. 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 Board of Trustees, senior management and unions; ongoing monitoring and adjustment to a changing environment; and effective communication and education to consumers of the UMS health benefit.

Postemployment Benefits also continue to be a major cost driver for the System. 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 more than 9 million square feet of space located across 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". To address this situation the System issues revenue bonds when prudent and possible. The System also continues to seek State bond funding. In the November 2013 election, Maine voters approved a $15.5 million bond issue to enhance educational and employment opportunities for Maine citizens and students by updating and improving existing laboratory and classroom facilities of the System.

World and State Economic Considerations

Risks from financial market volatility continue as uncertainty persists regarding the Federal Reserve's plans to taper its accommodative monetary policy and as the country faces ongoing budget and debt limit challenges.

With 29% of the System's revenues coming from State of Maine appropriation, the health of Maine's economy plays a crucial role in the stability of revenues. The State continues to make significant adjustments to UMS' appropriation and other fiscal support as it balances its own budget. As shown previously in Chart 5, Noncapital State Appropriations at $194 million are flat when compared with FY09 levels. In February 2012, the State enacted legislation following the work of the Streamline and Prioritize Core Government Services Task Force which resulted in a $2.3 million permanent reduction to the UMS appropriation starting in FY13. In addition, the System experienced a $2.5 million one-time curtailment of appropriation in FY13. Further still, the Maine Office of Policy and Management issued recommendations to permanently reduce the UMS appropriation by another $2 million in FY15; however, no legislative action has occurred to date.

Despite fiscal challenges, the System froze FY13 undergraduate in-state tuition and mandatory unified fees 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

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

The System views the work ahead as an opportunity to improve mission excellence, in three core areas:

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

University of Maine System

Statements of Net Position

June 30, 2013 and 2012
($ in thousands)

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	$ 1,492	$ 1,125
Short-term investments (Note 3)	244,333	244,412
Accounts, grants, and pledges receivable, net (Note 4)	56,616	63,889
Inventories and prepaid expenses	4,806	5,106
Notes and lease receivable, net (Note 5)	63	63
Total Current Assets	307,310	314,595
Noncurrent Assets		
Deposits with bond trustees (Notes 3 and 6)	6,366	10,191
Accounts, grants, and pledges receivable, net (Note 4)	9,938	9,318
Notes and leases receivable, net (Note 5)	40,044	39,344
Endowment investments (Note 3)	132,690	121,077
Bond issuance costs, net (Note 7)	1,844	2,052
Capital assets, net (Note 6)	687,989	683,724
Total Noncurrent Assets	878,871	865,706
Total Assets	**$ 1,186,181**	**$ 1,180,301**
Liabilities		
Current Liabilities		
Accounts payable	$ 16,354	$ 18,011
Deferred revenue and deposits (Note 8)	11,531	12,300
Accrued liabilities (Notes 7, 11, 13 and 14)	28,986	37,089
Funds held for others	1,644	1,380
Current portion of capital lease obligations (Note 7)	375	339
Current portion of bonds and notes payable (Note 7)	12,005	10,197
Total Current Liabilities	70,895	79,316
Noncurrent Liabilities		
Accrued liabilities (Notes 7, 11 and 13)	44,291	44,660
Funds held for others (Note 3)	18,640	16,829
Capital lease obligations (Note 7)	3,410	3,754
Bonds and notes payable, net (Note 7)	164,995	179,390
Government advances refundable (Note 9)	30,743	31,009
Total Noncurrent Liabilities	262,079	275,642
Total Liabilities	332,974	354,958
Net Position		
Net investment in capital assets (Note 10)	513,846	500,486
Restricted		
Nonexpendable (Note 10)	56,187	55,362
Expendable (Notes 3 and 10)	99,955	92,863
Unrestricted (Notes 3 and 10)	183,219	176,632
Commitments and contingencies (Notes 6, 7 and 11)	-	-
Total Net Position	853,207	825,343
Total Liabilities and Net Position	**$ 1,186,181**	**$ 1,180,301**

See accompanying notes to the basic financial statements.

University of Maine System

Statements of Financial Position – Discretely Presented Component Unit

June 30, 2013 and 2012

($ in thousands)

	2013	Restated 2012
Assets		
Cash and cash equivalents	$ 85	$ 168
Other receivables	192	468
Promises to give, less allowance for uncollectible pledges of $50 for 2013 and 2012	514	482
Investments	179,523	165,215
Notes receivable	786	979
Property and equipment, net of accumulated depreciation of $140 and $101, respectively	90	138
Other assets	772	444
Irrevocable trusts	11,032	11,324
Assets managed for Buchanan Alumni House	300	319
Net funding to be provided from Buchanan Alumni House	165	192
Total Assets	**$ 193,459**	**$ 179,729**
Liabilities		
Accounts payable	$ 47	$ 41
Distributions due income beneficiaries	1,851	1,890
Accrued expenses	511	801
Notes payable	910	1,031
Custodial accounts payable	3,006	2,910
Total Liabilities	6,325	6,673
Net Assets		
Unrestricted net assets	6,704	4,492
Temporarily restricted net assets	46,033	37,140
Permanently restricted net assets	134,397	131,424
Total Net Assets	187,134	173,056
Total Liabilities and Net Assets	**$ 193,459**	**$ 179,729**

See accompanying notes to the basic financial statements.

University Of Maine System

Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2013 and 2012

($ in thousands)

	2013	2012
Operating Revenues		
Tuition and fees	$ 268,863	$ 266,043
Residence and dining fees	57,562	57,401
Less: scholarship allowances	(83,014)	(81,999)
Net student fees	243,411	241,445
Federal, state, and private grants and contracts	146,130	161,877
Recovery of indirect costs	14,989	16,130
Educational sales and services and other revenues	31,789	31,294
Other auxiliary enterprises	23,906	25,778
Total Operating Revenues	460,225	476,524
Operating Expenses		
Instruction	179,640	178,722
Research	68,775	73,026
Public service	60,396	63,622
Academic support	76,754	77,048
Student services	50,497	47,769
Institutional support	54,184	56,216
Operation and maintenance of plant	49,361	46,957
Depreciation and amortization	32,414	30,422
Student aid	28,122	28,291
Auxiliary enterprises	69,098	70,349
Total Operating Expenses	669,241	672,422
Operating Loss	(209,016)	(195,898)
Nonoperating Revenues (Expenses)		
Noncapital State of Maine appropriations	194,417	197,656
State Fiscal Stabilization Fund	-	62
Gifts currently expendable	11,020	12,448
Endowment return used for operations (Note 3)	5,015	4,862
Investment income (Note 3)	9,586	4,596
Interest expense, net (Note 7)	(7,240)	(8,032)
Net Nonoperating Revenues	212,798	211,592
Income Before Other Changes in Net Position	**3,782**	**15,694**
Other Changes in Net Position		
State of Maine capital appropriations	6,144	5,450
Capital grants and gifts	8,106	19,695
Endowment return (loss), net of amount used for operations (Note 3)	8,380	(6,419)
True and quasi endowment gifts	1,452	3,582
Loss on disposal of capital assets	-	(34)
Total Other Changes in Net Position	24,082	22,274
Change in Net Position	**27,864**	**37,968**
Net Position - Beginning of Year	825,343	787,375
Net Position - End of Year	$ 853,207	$ 825,343

See accompanying notes to the basic financial statements.

University of Maine System

Statements of Activities – Discretely Presented Component Unit

Years Ended June 30, 2013 and 2012

(With Comparative Totals for 2012)

($ in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2013	Restated Total 2012
Revenues, Gains, Losses, and Reclassification					
Contributions	$ 489	$ 4,717	$ 2,610	$ 7,816	$ 12,360
Investment income and other revenue	3,139	11,109	(207)	14,041	(5,326)
Net assets released from restrictions	6,363	(6,933)	570	-	-
Total Revenues, Gains, Losses, and Reclassification	9,991	8,893	2,973	21,857	7,034
Expenses and Losses					
Program services	6,259	-	-	6,259	7,925
Management and general	653	-	-	653	793
Fundraising	867	-	-	867	824
Total Expenses	7,779	-	-	7,779	9,542
Uncollectible promises to give	-	-	-	-	376
Total Expenses and Losses	7,779	-	-	7,779	9,918
Change in unrestricted net assets	2,212			2,212	(2,854)
Change in temporarily restricted net assets		8,893		8,893	(11,445)
Change in permanently restricted net assets			2,973	2,973	11,415
Total Change in Net Assets	**2,212**	**8,893**	**2,973**	**14,078**	**(2,884)**
Net Assets - Beginning of Year, Previously Reported					194,753
Prior Period Adjustment					(18,813)
Net Assets - Beginning of Year, Restated	4,492	37,140	131,424	173,056	175,940
Net Assets - End of Year	$ 6,704	$ 46,033	$ 134,397	$ 187,134	$ 173,056

See accompanying notes to the basic financial statements.

University Of Maine System
Statements of Cash Flows
Years Ended June 30, 2013 and 2012
($ in thousands)

	2013	2012
Cash Flows From Operating Activities		
Tuition, residence, dining, and other student fees	$ 241,836	$ 240,419
Grants and contracts	165,473	180,770
Educational sales and services and other auxiliary enterprise revenues	54,439	56,225
Payments to and on behalf of employees	(434,053)	(416,849)
Financial aid paid to students	(34,419)	(34,588)
Payments to suppliers	(176,182)	(178,677)
Loans issued to students	(6,712)	(6,738)
Collection of loans to students	5,482	5,754
Interest collected on loans to students	744	734
Net Cash Used for Operating Activities	(183,392)	(152,950)
Cash Flows From Noncapital Financing Activities		
State appropriations	194,417	197,656
State Fiscal Stabilization Program	-	62
Noncapital grants and gifts	14,021	16,337
Agency transactions	2,509	(2,512)
Net Cash Provided by Noncapital Financing Activities	210,947	211,543
Cash Flows From Capital and Related Financing Activities		
Proceeds from capital debt issuances and escrow restructurings	-	7,202
Capital appropriations	3,690	6,117
Capital grants and gifts	10,998	14,966
Proceeds from sale of capital assets	-	801
Acquisition and construction of capital assets	(35,583)	(47,276)
Issuance costs on capital debt	(220)	(170)
Principal paid on capital debt and leases	(10,351)	(10,723)
Interest paid on capital debt and leases	(8,274)	(9,251)
Net Cash Used for Capital and Related Financing Activities	(39,740)	(38,334)
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	418,302	160,156
Purchases of investments	(411,762)	(189,308)
Earnings from investments	6,012	7,683
Net Cash Provided (Used) by Investing Activities	12,552	(21,469)
Net Increase (Decrease) in Cash and Cash Equivalents	367	(1,210)
Cash and cash equivalents - Beginning of Year	1,125	2,335
Cash and cash equivalents - End of Year	$ 1,492	$ 1,125

See accompanying notes to basic financial statements.

University Of Maine System

Statements of Cash Flows

Years Ended June 30, 2013 and 2012

($ in thousands)

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

	2013	2012
Operating loss	$ (209,016)	$ (195,898)
Adjustments to reconcile net operating loss to net cash used for operating activities:		
Depreciation and amortization	32,414	30,422
Changes in assets and liabilities:		
Accounts and grants receivable, net	3,820	3,214
Inventories and prepaid expenses	300	(378)
Notes receivable, net	(763)	(472)
Accounts payable	(1,669)	599
Deferred revenue and deposits	(639)	(1,410)
Accrued liabilities	(7,573)	11,335
Grants refundable	(266)	(362)
Net Cash Used for Operating Activities	$ (183,392)	$ (152,950)

Noncash investing, capital, and financing activities:

	2013	2012
Capital asset additions included in accounts payable and accrued liabilities as of June 30	$ 4,246	$ 3,914
Capital asset additions acquired through capital leases	$ -	$ 598
Capital asset additions acquired through long-term debt	$ 87	$ 76
Bond issuance costs financed with bond payable	$ 653	$ 401
Refunding of debt through new bond issuance	$ 72,030	$ 29,950
Liquidation of debt service reserve	$ 2,905	$ -

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 unit which is a not-for-profit entity controlled by a separate governing board whose goal is to support the System (see Note 15). The component unit receives funds primarily through donations and contributes funds to the System for student scholarships and institutional support.

b. Basis of Presentation

The accompanying financial statements of the System have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles, 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 Position are those that generally result from exchange transactions such as payments received for services and payments made for the purchase of goods and services and certain grants. Certain other transactions are reported as nonoperating activities in accordance with GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities.* These nonoperating activities include the System's operating appropriations from the State of Maine, net investment income, gifts, and interest expense.

In FY13, the System adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. The adoption of Statement No. 61 is described further in Note 15.

In FY13, the System adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standard Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- FASB Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure

Pursuant to the provisions of Statement No. 62, the System has updated references in its financial statements issued for the years ended June 30, 2013 and 2012. The adoption of Statement No. 62 did not impact the System's financial position or results of operations.

In FY13, the System adopted GASB Statement No. 63*, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, retroactive to July 1, 2010. Pursuant to the provisions of Statement No. 63, the System has updated its financial statements to reflect the residual measure in the statement of net position as net position, rather than net assets. The adoption of Statement No. 63 did not impact the System's financial position or results of operations.

c. <u>Net Position</u>

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

Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair or improvement of those assets. It also includes the 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 position 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 position is valued at the lower fair value amount. Such net position includes the historical gift value of restricted true endowment funds.

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

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

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

d. <u>Cash and Cash Equivalents</u>

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. <u>Investments</u>

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 statement of net position date are reasonable.

Third party investments: Three outside entities, the UMS Other Post Employment Benefit (OPEB) Trust, Maine Maritime Academy and University of Maine School of Law Foundation (joined in FY13), 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 4.50% and 4.75% for FY13 and FY12, 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 position.

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, certificates of deposit (CDs), 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.

($ in thousands)

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:

	2013	2012
• Equity securities	35-55%	40-60%
• Fixed income securities	10-20%	10-20%
• Other	30-50%	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 which include property, plant, equipment, intangible assets and library holdings are recorded at cost when purchased or constructed and at fair value at date of donation. Costs for maintenance, repairs and minor renewals and replacements are expensed as incurred; major renewals and replacements are capitalized.

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

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

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

A capitalization threshold of $50 is used for buildings, building additions and improvements, land improvements and internally generated intangibles. Equipment (including equipment acquired under capital leases) and purchased software are capitalized with a unit cost of $5 or more.

These assets, with the exception of land, are depreciated and amortized using the straight-line basis over the estimated useful lives of the related assets, which range from 4 to 60 years.

Interest costs on debt related to capital assets, net of investment income on unspent bond proceeds, are generally capitalized during the construction period.

j. Deferred Revenue and Deposits

Deferred revenue in the Statements of Net Position consists primarily of grant and contract advances and deposits and advance payments received for tuition and fees related to certain summer programs and tuition received for the following academic year. 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 Position 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 Position 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.

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, 2013 and 2012, the bank balances with uninsured or uncollateralized operating cash deposits was $3,610 and $0, respectively.

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. Three outside entities, the UMS Other Post Employment Benefit (OPEB) Trust, Maine Maritime Academy and the University of Maine School of Law Foundation, 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 three 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 ($180 and $145 at June 30, 2013 and 2012, respectively), the System's endowment is managed as a pooled investment fund using external investment managers. The University of Maine at Fort Kent Foundation, the University of Southern Maine Foundation, and the John L. Martin Scholarship Fund, Inc. participate in the System's endowment pool through a management agreement. The fair values of the investments held for these affiliated organizations at June 30, 2013 and 2012, respectively are $18,640 and $16,829, and are reported as funds held for others in the accompanying Statements of Net Position.

($ in thousands)

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:

	2013	2012
Restricted - expendable	$43,824	$36,750
Unrestricted	13,753	11,822
Total available for spending	$57,577	$48,572

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, 2013:

	Fair Value	Credit Rating	Interest Rate Risk	
Short-term Investments:				
Equities:				
Multi-strategy funds	$ 69,080			
Fixed Income Funds:				
Bank loans	22,606	Not rated	.1 years	Duration
Bonds	118,886	Not rated	.61 - 5.5 years	Duration
Money markets	12,390	Not rated	43-47 days	Ave maturity
State pool	21,371	Not rated	.67 years	Duration
Total	$ 244,333			
Deposits with Bond Trustees:				
Fixed Income Funds:				
Bonds	$ 190	Aaa-Moody's	53 days	Ave maturity
Money markets	6,172	Not rated	43-47 days	Ave maturity
State pool	4	Not rated	.67 years	Duration
Total	$ 6,366			
Endowment Investments:				
Pooled Investments:				
Money funds, savings, CDs	$ 563			
Equities:				
Equities	40,048			
Equity funds	85,111			
Multi-strategy funds	86,387			
Fixed Income Funds:				
Money markets	706	Not rated	50 days	Ave maturity
Bonds	21,343	Not rated	4.3 years	Duration
Total Pooled Investments	234,158			
Less portion held on behalf of outside entities	(101,648)			
Endowment portion of pooled investments	132,510			
Separately Invested Assets:				
Money funds, savings, CDs	68			
Equities	112			
Total	$ 132,690			

($ 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 days	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			

b. <u>Interest Rate Risk</u>

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

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

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

- The average effective duration of the investment grade fixed income portfolio to no more than 1 year greater than the duration of the Barclays Capital Aggregate Bond Index which is 5.28 years and 4.88 years at June 30, 2013 and 2012, 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 6.7 years and 6.6 years at June 30, 2013 and 2012, respectively

c. <u>Foreign Currency Risk</u>

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, 2013 and 2012.

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 (loss) related to the System's investments is as follows:

	2013			
	Net Gains (Losses)	Interest and Dividends	Investment Fees	Net Earnings
Endowment investments	$ 12,406	$ 2,263	$ (1,136)	$ 13,533
Managed funds distributed				(138)
University endowment income				$ 13,395
Reported as endowment return used for operations				$ 5,015
Reported as endowment gain, net of amount used for operations				8,380
Net income from endowment investments				$ 13,395
Short-term investments	$ 4,672	$ 6,041	$ (1,265)	$ 9,448
Deposits with bond trustees	-	138	-	138
Total other investment income	$ 4,672	$ 6,179	$ (1,265)	$ 9,586

	2012			
	Net Gains (Losses)	Interest and Dividends	Investment Fees	Net Earnings
Endowment investments	$ (4,022)	$ 2,068	$ (1,078)	$ (3,032)
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

($ in thousands)

4. ACCOUNTS, GRANTS, AND PLEDGES RECEIVABLE

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

	2013			2012		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Student and other accounts receivable	$ 34,368	$ 34,367	$ 1	$ 33,385	$ 33,314	$ 71
Grants receivable	30,223	26,545	3,678	35,375	34,016	1,359
Pledges receivable	7,732	1,192	6,540	9,721	1,528	8,193
Total gross receivables	72,323	62,104	10,219	78,481	68,858	9,623
Less allowance for doubtful accounts	(5,598)	(5,488)	(110)	(5,123)	(4,969)	(154)
Less discount on pledges receivable	(171)	-	(171)	(151)	-	(151)
Total receivables, net	$ 66,554	$ 56,616	$ 9,938	$ 73,207	$ 63,889	$ 9,318

In accordance with GASB Statement No. 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:

	2013			2012		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Perkins Loans	$ 30,593	$ -	$ 30,593	$ 30,249	$ -	$ 30,249
Nursing Loans	1,743	-	1,743	1,661	-	1,661
Institutional Loans	8,183	-	8,183	7,816	-	7,816
Lease receivable **(a)**	1,001	63	938	1,063	63	1,000
Total notes and leases receivable	41,520	63	41,457	40,789	63	40,726
Less allowance for doubtful accounts	(1,413)	-	(1,413)	(1,382)	-	(1,382)
Total notes and leases receivable, net	$ 40,107	$ 63	$ 40,044	$ 39,407	$ 63	$ 39,344

Collections of the notes receivable for Perkins, Nursing, and Institutional loans may not be used to pay current liabilities, as the proceeds are restricted for making new loans. Accordingly, these notes receivable are recorded in the accompanying Statements of Net Position as noncurrent assets.

($ in thousands)

(a) Lease receivable consists of the following:

	2013	2012
University of New Hampshire		
Secured by equipment; monthly payments of $5, including interest at 4.85% per annum; matures 2029	$ 1,001	$ 1,063

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 is as follows:

	Beginning Balance	Additions	Reclasses	Retirements	Ending Balance
Land	$ 17,460	$ 167	$ 74	$ -	$ 17,701
Library materials	25,686	-	-	-	25,686
Construction in progress	21,784	31,966	(32,155)	-	21,595
Total nondepreciable assets	64,930	32,133	(32,081)	-	64,982
Land improvements	47,106	-	1,409	-	48,515
Buildings & improvements	777,051	-	21,829	-	798,880
Equipment	96,700	4,308	8,843	-	109,851
Software	25,995	78	-	-	26,073
Total depreciable assets	946,852	4,386	32,081	-	983,319
Less accumulated depreciation:					
Land improvements	28,073	1,658	-	-	29,731
Buildings & improvements	241,669	18,969	-	-	260,638
Equipment	47,370	9,428	-	-	56,798
Software	10,946	2,199	-	-	13,145
Total accumulated depreciation	328,058	32,254	-	-	360,312
Net depreciable assets	618,794	(27,868)	32,081	-	623,007
Total capital assets	$ 683,724	$ 4,265	$ -	$ -	$ 687,989

($ in thousands)

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

Additions to capital assets for the years ended June 30, 2013 and 2012 include the following:

- Assets acquired through capital leases of $0 and $598, respectively
- Capitalized interest costs of $95 and $120, respectively, less $5 of interest earnings on unexpended bond proceeds

As of June 30, 2013 and 2012, $6,176 and $7,013, respectively, in proceeds from revenue bond issuances remain unspent. These amounts are included in the accompanying Statements of Net Position as part of deposits with bond trustees.

Also remaining unspent as of June 30, 2013 is $8,528 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 Position.

Outstanding commitments on uncompleted construction contracts totaled $24,212 and $14,619 at June 30, 2013 and 2012, respectively.

($ in thousands)

7. LONG-TERM LIABILITIES

Changes in long-term liabilities during the year ended June 30, 2013 consist of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases and bonds payable:					
Capital lease obligations **(a)**	$ 4,093	$ -	$ (308)	$ 3,785	$ 375
Bonds and notes payable **(b)**	189,587	69,837	(82,424)	177,000	12,005
Total leases and bonds payable	193,680	69,837	(82,732)	180,785	12,380
Accrued liabilities:					
Workers' compensation - Note 11	5,744	-	(1,363)	4,381	1,380
Health insurance - Note 11	8,531	61,396	(63,673)	6,254	6,254
Postemployment health plan - Note 14	7,017	16,327	(20,835)	2,509	2,509
Other employee benefit programs - Note 13	43,765	56,197	(54,966)	44,996	4,264
Other	16,692	14,147	(15,702)	15,137	14,579
Total accrued liabilities	81,749	148,067	(156,539)	73,277	28,986
Total long-term liabilities	$ 275,429	$ 217,904	$ (239,271)	$ 254,062	$ 41,366

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

($ 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, 2013 are as follows:

	Capital Leases		Operating	
Year Ending June 30:	Principal	Interest	Leases	Total
2014	$ 375	$ 163	$ 1,516	$ 2,054
2015	345	144	853	1,342
2016	395	130	547	1,072
2017	338	113	279	730
2018	274	101	274	649
2019-2023	920	344	1,330	2,594
2024-2028	967	155	1,294	2,416
2029-2033	171	9	732	912
Total minimum lease payments	$ 3,785	$ 1,159	$ 6,825	$ 11,769

The rent expense related to operating leases amounted to $1,588 for the year ended June 30, 2013 and $1,576 for the year ended June 30, 2012.

($ in thousands)

(b) Bonds and Notes Payable

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

	2013	2012
2013 Series A Revenue Bonds (original principal of $65,255)		
Serial bonds, maturing from 2014 to 2033, wth annual principal payments from $1,275 to $4,425 and coupon interest rates from 2.0% to 5.0%. Issued to refund 2000A, 2003A, 2004A, and 2005A Series Revenue bonds.	$ 60,260	$ -
3.5% Term Bonds due March 1, 2034	2,455	-
3.5% Term Bonds due March 1, 2035	2,540	-
Add: unamortized premium	9,433	-
Less: unamortized deferred amount on refunding of 2000A, 2003A, 2004A, and 2005A bonds	(4,792)	-
Total 2013 Series A Bonds	69,896	-
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.	27,695	29,815
3.0% Term Bonds due March 1, 2030	2,540	2,540
3.0% Term Bonds due March 1, 2033	2,620	2,620
Add: unamortized premium	2,079	2,448
Total 2012 Series A Bonds	34,934	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.	42,655	43,505
Add: unamortized premium	551	596
Total 2007 Series A Bonds	43,206	44,101
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.	12,100	61,980
Add: unamortized premium	105	335
Less: unamortized deferred amount on refunding of 1998A, 2000A, 2002A, and 2003A bonds	(272)	(290)
Total 2005 Series A Bonds	11,933	62,025

($ in thousands)

	2013	2012
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.	$ 9,960	$ 27,125
4.25% Term Bonds, due March 1, 2034	6,410	6,410
Add: unamortized premium	230	533
Total 2004 Series A Bonds	16,600	34,068
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
Add: unamortized premium	-	95
Less: unamortized deferred redemption fee on 1993 bonds	-	(129)
Total 2003 Series A Bonds	-	9,526
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
Add: unamortized premium	-	7
Total 2000 Series A Bonds	-	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	3	8
Note payable, secured by equipment, matures 2019, with annual payments of $75, including interest at 3.94%.	371	444
State of Maine Department of Defense, Veterans and Emergency Management		
Note payable, matures 2015, secured by real estate, with annual payments of $30, including imputed interest of 2.9%.	57	-
Total bonds and notes payable, net	$ 177,000	$ 189,587
Total par value of outstanding bonds and notes payable	$ 169,666	$ 185,992
Total unamortized premiums, discounts, and deferred amounts on refunding	7,334	3,595
Total bonds and notes payable, net	$ 177,000	$ 189,587

Costs associated with the issuance of revenue bonds have been reported in the accompanying Statements of Net Position as bond issuance costs, net and are being amortized over the life of the related bond issuance as part of depreciation and amortization expense. Premiums, discounts, and deferred amounts on refunding are also being amortized over the life of the respective bond issuances as part of interest expense using the effective interest method.

($ in thousands)

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, 2013:

Year Ending June 30:	Principal	Interest	Total
2014	$ 10,520	$ 6,677	$ 17,197
2015	12,023	6,907	18,930
2016	8,214	6,361	14,575
2017	8,529	5,986	14,515
2018	8,970	5,595	14,565
2019-2023	41,990	22,035	64,025
2024-2028	35,750	13,144	48,894
2029-2033	35,175	5,694	40,869
2034-2038	8,495	576	9,071
	$ 169,666	$ 72,975	$ 242,641

Interest costs related to the revenue bonds for FY13 and FY12 were $7,164 and $7,881, respectively.

Refunding of Debt – FY13

On May 23, 2013, the System issued $65,255 of 2013 Series A Revenue Bonds to currently refund $10,760 of 2003 and 2000 Series A Revenue Bonds and to advance refund a total of $61,270 of 2005 and 2004 Series A Revenue Bonds. The System completed the refunding to reduce its total debt service payments over the following twenty-two years by $10,477 and to obtain economic gain (difference between the present values of the old and new debt service payments) of $7,547. The principal amount of debt refunded through in-substance defeasance was $72,030. The amount still outstanding at June 30, 2013 was $61,270.

Refunding bond proceeds of $76,962 were placed in an escrow account to pay the interest due on the refunded bonds and to retire the bonds on their respective maturity dates which range from FY13 to FY15. The escrow is invested to yield enough earnings to pay required future payments, which are $66,268 as of June 30, 2013.

The FY13 refunding resulted in a deferred amount of refunding of $4,809 which represents the difference between the reacquisition price and the carrying value of the refunded bonds. Amortization of this deferred amount on refunding will be charged to operations as additional interest expense through the year FY35. The unamortized portion of the deferred amount on refunding, which is $4,792 as of June 30, 2013, is reported in the accompanying Statements of Net Position as a reduction of the 2013 Series A Revenue Bonds.

Refunding of Debt – FY12

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, 2013 and 2012 was $40,477 and $50,549, 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 Position. The System's outstanding advances as of June 30, 2013 and 2012 totaled $4,183 and $4,164, 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, 2013 and 2012 has been included in the accompanying Statements of Net Position as a noncurrent liability.

($ in thousands)

10. NET POSITION

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

	2013	2012
Net investment in capital assets	$ 513,846	$ 500,486
Restricted - Nonexpendable:		
Endowment funds	56,187	55,362
Restricted - Expendable:		
Student financial aid	36,927	30,170
Capital assets and retirement of debt	10,589	12,865
Loans	14,153	13,830
Academic support	11,074	10,732
Research and public service	7,290	6,811
Library	2,569	2,384
Other	17,353	16,071
Total restricted - expendable	99,955	92,863
Unrestricted:		
Educational and general reserves	56,150	54,528
Risk management	3,088	2,887
Budget stabilization	15,000	10,000
Auxiliary enterprises	15,164	15,262
Benefit pool carryover	20,511	17,593
Information technology initiatives	3,585	3,533
Internally designated projects	15,924	17,023
Facility projects	35,700	40,402
Endowment earnings	13,753	11,820
Cost sharing and other	4,344	3,584
Total unrestricted	183,219	176,632
Total net position	$ 853,207	$ 825,343

11. COMMITMENTS AND CONTINGENCIES

a. <u>Grant Program Involvement</u>

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.

($ in thousands)

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 $150 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 Position as part of current accrued liabilities. As of June 30, 2013 and 2012 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, 2013 and 2012 of $4,381 and $5,744, respectively, for workers' compensation claims is included in accrued liabilities in the accompanying Statements of Net Position (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, 2013. As of June 30, 2013 and 2012, the estimated liability for claims incurred but not reported is included in total health insurance accrued liabilities in the accompanying Statements of Net Position (see Note 7). The System purchases stop-loss insurance which limits the exposure to $1,000 per individual.

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

	2013	2012
Claims incurred but not reported	$ 5,251	$ 6,884
Reported claims	1,003	1,647
Total health insurance liability - Note 7	$ 6,254	$ 8,531

($ in thousands)

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.

12. PASS THROUGH GRANTS

During FY13 and FY12, the System distributed $149,486 and $155,525, respectively, for student loans through the U.S. Department of Education Federal Direct Lending Program. These distributions and related funding sources are not included as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements.

13. PENSION PLANS

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

	2013	2012
Faculty and Professional Employees:		
Contributory Retirement Plan	$ 19,806	$ 19,896
Incentive Plan	2,467	2,519
Hourly Employees:		
Basic Retirement Plan	3,611	3,568
Defined Benefit Plan	305	328
Total net pension expense	$ 26,189	$ 26,311

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 $7,918 in FY13 and $7,996 in FY12.

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.

Represented faculty who were employed before July 1, 1996 and other professional employees who were employed before July 1, 2006, participate in the University of Maine System Incentive Retirement Plan (Incentive Plan), a defined benefit plan, which was established on July 1, 1975. The Board of Trustees has authority to establish and amend provisions under the Incentive Plan subject to collective bargaining.

The Incentive Plan provides that eligible retiring employees with at least 10 years of continuous regular 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 retirement account. Employees do not make contributions under the Incentive Plan. Employees enrolled in the Contributory Plan may elect to retire at any age after 55.

The Incentive Plan, which is funded on a termination basis (i.e., when costs become due and payable), holds no assets. An actuarial valuation, utilizing the projected unit credit actuarial cost method and 30-year declining-open period, level dollar amortization, was performed as of July 1, 2013. Interest was assumed to compound at an annual rate of 4.25% and salaries were assumed to increase at an annual rate of 3.5%. The mortality assumptions as prescribed under §430(h)(3)(A) of the Internal Revenue Code using 2013 static tables, with separate mortality rates for annuitants and nonannuitants, was utilized for all participants.

As of July 1, 2013, the most recent actuarial valuation, the actuarial accrued liability for benefits was $28,900 and the actuarial value of assets was $0 resulting in an unfunded actuarial accrued liability (UAAL) of $28,900 which results in a funded ratio of 0%. The covered payroll (annual payroll of active employees covered by the plan) was $109,224 and the ratio of the UAAL to the covered payroll was 26.5%.

The net pension obligation (NPO), as shown on page 54, represents the cumulative difference between annual pension cost and employer contributions to the plan. The NPO is included in the accompanying Statements of Net Position in noncurrent accrued liabilities (see other employee benefit programs in Note 7). Three-year trend information through June 30, 2013, including changes in the NPO, was as follows:

($ in thousands)

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
2013	$ 3,387	$ 1,089	$ 2,009	$ 2,467	$ 1,730	70%	$ 737	$22,510
2012	$ 3,387	$ 1,027	$ 1,895	$ 2,519	$ 1,294	51%	$ 1,225	$21,773
2011	$ 3,235	$ 1,129	$ 1,779	$ 2,585	$ 1,666	64%	$ 919	$20,548

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.

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 Retirement Plan for Classified Staff (Defined Benefit Plan, as described further below) or remain in the Defined Benefit Plan. Most eligible employees who were younger than age 50 as of June 30, 1998 chose to roll over the value of their accrued benefit to the Basic 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.

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 hired July 1, 1998 or later are required to contribute 1% and may contribute up to 4% of base pay to the Basic Plan. Contributions are matched 100% by the System. In addition, if these employees have four or more years of completed service and do not participate in the Defined Benefit Plan, they automatically receive System contributions equal to 6% of their base pay.

The System implemented a four year vesting schedule for the employer matching contribution for classified employees hired on or after January 1, 2010 and, on January 1, 2013, implemented a five year vesting schedule. Employees hired before January 1, 2010 were fully and immediately vested in the employer matching contribution. All participant contributions are fully and immediately vested.

($ in thousands)

Upon separation from the System, participants may withdraw up to 100% of their vested account balances, or transfer funds to other investment alternatives subject to Internal Revenue Service limitations and the contractual provisions of the Basic Plan.

Employee contributions made to the Basic Plan were $1,487 in FY13 and $1,479 in FY12.

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.

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. 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 funds benefit payments and related costs from assets invested in a diversified portfolio of investments following parameters identified in the investment guidelines approved by the Investment Committee of the Board of Trustees. At June 30, 2013 and 2012 the value of these assets was less than the Defined Benefit Plan's actuarial accrued liability. The Defined Benefit Plan is a separate trust; therefore, 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, 2013. The following methods and assumptions were used for those valuations:

Actuarial cost method	Projected Unit Credit
Amortization method	10-year open period level dollar
Asset Valuation method	5-year smoothing of differences between actual and expected returns

($ in thousands)

Actuarial Assumptions:

Investment rate of return/discount rate	7.25%
Projected salary increases	3.5%
Mortality rates – Healthy participants	As prescribed under §430(h)(3)(A) of the Internal Revenue Code using 2013 static tables with separate mortality rates for annuitants and nonannuitants
Mortality rates – Disabled participants	Disabled tables prescribed for 412(l) purposes under Revenue Ruling 96-7

As of July 1, 2013, the most recent actuarial valuation, the actuarial accrued liability for benefits was $45,132 and the actuarial value of assets was $38,139 resulting in an unfunded actuarial accrued liability (UAAL) of $6,993 which results in a funded ratio of 84.5%. The covered payroll (annual payroll of active employees covered by the plan) was $692 and the ratio of the UAAL to the covered payroll was 1010.5%. 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.

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 any excess assets in the Defined Benefit Plan, subject to certain limitations.

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 in the following table, accordingly reflect the funded status of the Defined Benefit Plan, as well as expected benefits attributable to the Basic Plan and ORSP.

($ in thousands)

Three-year trend information through June 30, 2013, 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
2013	$ 377	$ 74	$ 146	$ 305	$ -	0%	$ 305	$ 1,323
2012	$ 377	$ 50	$ 99	$ 328	$ -	0%	$ 328	$ 1,018
2011	$ 674	$ 2	$ 3	$ 673	$ -	0%	$ 673	$ 690

As of June 30, 2013 and 2012 the NPO is included in the accompanying Statement of Net Position as part of the noncurrent 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 health care, 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 position when future retirees earn their postemployment benefits, rather than when they use their postemployment benefit. To the extent that an entity does not fund its actuarially required contribution, a postemployment benefit liability is recognized in the statement of net position 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 standalone financial statements. The Board of Trustees has authority to establish and amend provisions under the Plan. As of June 30, 2013 and 2012, there were approximately 6,957 persons covered by the System's postemployment health plan.

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

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

The subsidy for those meeting the above requirements is 100% of the cost for the retiree and 50% of the costs for eligible dependents; however, the subsidy for employees who retire on or after July 1, 2010 is reduced to 93%, 90%, or 85%, of the individual health premium, depending on the employee's years of University service. As of June 30, 2013 and 2012, there were approximately 1,830 and 1,896 persons, respectively, receiving a subsidy from the System.

With certain restrictions, dependents are eligible to continue coverage at the 50% rate after the death of a retiree meeting the above criteria.

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, 2013 and 2012, there were 77 and 96 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 of payment to secure coverage under independent plans.

The System's annual 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.

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 for the years June 30:

($ in thousands)

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 Annual OPEB Cost Contributed	(g) (d)-(e) Change in Net OPEB Obligation	Net OPEB Obligation Balance
2013	$ 16,327	$ -	$ -	$ 16,327	$ 20,835	128%	$ (4,508)	$ 2,509
2012	$ 15,262	$ -	$ -	$ 15,262	$ 11,583	76%	$ 3,679	$ 7,017
2011	$ 19,741	$ -	$ -	$ 19,741	$ 21,990	111%	$ (2,249)	$ 3,338

Employer contributions made are comprised of the following:

	Pay-as-you-go	(OPEB) Irrevocable Trust	Total Employer Contributions
2013	$ 7,817	$ 13,018	$ 20,835
2012	$ 8,245	$ 3,338	$ 11,583
2011	$ 8,402	$ 13,588	$ 21,990

The net OPEB obligation of $2,509 and $7,017 at June 30, 2013 and 2012, respectively, is recorded as an accrued liability in the accompanying Statements of Net Position. The System is committed to funding the net obligation balance by December 31 on an annual basis. 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, 2012, the most recent actuarial valuation, the actuarial accrued liability for benefits was $169,921 and the actuarial value of assets was $52,800 resulting in UAAL of $117,121 which results in a funded ratio of 31%. The covered payroll (annual payroll of active employees covered by the plan) was $234,720 and the ratio of the UAAL to the covered payroll was 49.9%.

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 health care 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, 2012 actuarial valuations, the projected unit credit actuarial cost method was used. The actuarial assumptions included an 8.25% 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 health care cost trend rate of 4% initially, increasing to an ultimate rate of 5% after six years. The actuarial value of assets is based on their fair value at July 1, 2012. After the Trust has 5 years in which it has been in existence, 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 one of those entities, the University of Maine Foundation ("the Foundation"), meets the criteria set forth under GASB Statement No. 61 for inclusion as a discretely presented component unit of the System. The System determined that a component unit discretely presented as of and for the year ended June 30, 2012 does not meet the criteria under GASB Statement No. 61 for inclusion as a component unit, and as a result, the beginning net assets for fiscal year ended June 30, 2012 were reduced by $18,813. Additionally, as of and for the year ended June 30, 2012, total assets and total net assets were reduced by $18,034 and the change in net assets increased by $779.

The Foundation is a legally separate, tax-exempt organization, which acts primarily as a fund-raising organization to supplement the resources that are available to the System in support of its programs. The Board of Directors of the Foundation is self-perpetuating and independent of the System's Board of Trustees. Although the System does not control the timing or amount of receipts from the Foundation, the Foundation holds and invests resources almost entirely for the System's benefit (specifically the University of Maine); the System is entitled to access a majority of the economic resources held; and the economic resources held are "significant to the System" based on a 5% of net position threshold. The Foundation has accordingly been discretely presented as a component unit of the System in the accompanying financial statements as of and for the years ended June 30, 2013 and 2012, and is reported in separate financial statements because of the difference in its reporting model.

The Foundation is a private, not-for-profit organization that reports its financial results under Financial Accounting Standards Board 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 unit's financial information in the System's financial reporting entity for these differences.

During the years ended June 30, 2013 and 2012, the Foundation distributed $5,388 and $6,785, respectively, to the System for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundation's office 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, 2013

(Unaudited)

($ in thousands)

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						
2013	$ —	$ 28,900	$ 28,900	—	$ 109,224	26.5%
2011	$ —	$ 27,120	$ 27,120	—	$ 119,334	22.7%
2009	$ —	$ 25,460	$ 25,460	—	$ 133,609	19.1%
Defined Benefit Retirement Plan for Classified Staff						
2013	$ 38,139	$ 45,132	$ 6,993	84.5%	$ 692	1010.5%
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%
Postemployment Health Plan						
2013	$ 52,800	$ 169,921	$ 117,121	31.1%	$ 234,720	49.9%
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%

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	
2013	$ 3,387	51%	$ 377	—
2012	$ 3,387	38%	$ 377	—
2011	$ 3,235	51%	$ 674	—

University of Maine System

Supplemental Information Required by the State of Maine

Schedules of Activities

($ in thousands)

Year Ended June 30, 2013

Functions/Programs	Expenses	Charges for Services	Program Investment Income	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue
University of Maine System	$ 676,481	$ 299,106	$ 8,380	$ 177,154	$ 8,106	$(183,735)

General Revenues:	
Unrestricted interest and investment earnings	9,586
Additions to endowments - gifts	1,452
State of Maine noncapital appropriation	194,417
State of Maine capital appropriation	6,144
Total Revenues and Extraordinary Items	211,599
Change in Net Position	27,864
Net Position, Beginning of Year	825,343
Net Position, End of Year	$ 853,207

Year Ended June 30, 2012

Functions/Programs	Expenses	Charges for Services	Program Investment Loss	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue
University of Maine System	$ 680,454	$ 298,517	$ (6,419)	$ 195,379	$ 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 Position	37,968
Net Position, Beginning of Year	787,375
Net Position, End of Year	$ 825,343

BerryDunn

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

The Board of Trustees
University of Maine System

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the business-type activities and the discretely presented component unit of University of Maine System (the System) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated November 18, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Berry Dunn McNeil & Parker, LLC

Bangor, Maine
November 18, 2013