ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2014

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

Maine's Public Universities

UNIVERSITY OF MAINE SYSTEM

November 2014

Office of the Chancellor
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The University of Maine

University of Maine at Augusta

University of Maine at Farmington

University of Maine at Fort Kent

University of Maine at Machias

University of Maine at Presque Isle

University of Southern Maine

Dear Friend:

Maine is a beautiful state full of natural wonders and inhabited by some of the kindest and talented people in the world. We are artisans, engineers, farmers, fishermen, laborers, professionals, educators and providers. And Maine's Public Universities continue to be the state's most important public asset with seven universities, a law school and more than 35 research, outreach and Cooperative Extension centers across our vast and diverse state.

We have an astounding capacity at our seven statewide public universities and we are working hard to unlock this collective potential. Every day our students, faculty and staff look for opportunities to deploy our intellectual assets and energy, finding new ways to serve students, their families, and taxpayers who have invested so much into public higher education in Maine.

While scholarship will always be first on our campuses, we can be second to none when it comes to public service. An example includes the new cyber security lab at the University of Southern Maine. The first of its kind in Maine, the lab offers students a chance to learn in an emerging field, provides technical support for Maine-based organizations who want to enhance the security of their networks, and the lab helps Mainers better understand how to protect their data and identity from cyber threats.

We are blessed that many of Maine's ablest public servants are leaders in our network of public universities. We work very hard to meet our solemn obligation as stewards of the assets with which we have been entrusted and the expectation that Mainers can turn to our universities to find a quality and affordable path to advancement. The structural and financial reforms we have implemented in Information Technology and Procurement alone will produce nearly $5 million in on going process savings next year.

The tally of savings from our reform efforts will continue to grow as we maintain the uniqueness of each of our universities while aligning administrative functions and practices so we have the resources to support excellence and differentiation at tuition levels the people of Maine can afford.

Please visit the website of Maine's Public Universities at www.maine.edu to learn more about our great state, our universities and the talented faculty and staff who are accomplishing so much in service to our students and our state.

Sincerely,

James H. Page

James H. Page
Chancellor

AS OF JUNE 30, 2014

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 financial position as of June 30, 2014 and 2013, 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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 presentation of the financial statements.

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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, 2014 and 2013, 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.

Emphasis of a Matter

Adoption of New Accounting Pronouncements

As discussed in Note 1 and Note 16 to the financial statements, in 2014, the System adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities.* The 2013 financial statements have been restated for the retrospective application of the new accounting guidance. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 6 through 24, and Schedules of Funding Progress and Employer's Contributions on page 65, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our 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 66 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with 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 17, 2014 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 financial reporting and compliance.

Berry Dunn McNeil & Parker, LLC

Bangor, Maine
November 17, 2014

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 and activities 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, 2014 and prior years. This presentation includes highly summarized information and 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. The System is also 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 with an annual enrollment of nearly 40,000 students and serves over 500,000 individuals annually through educational and cultural offerings. The System is supported by the efforts of 1,246 regular full-time faculty, 93 regular part-time faculty, 3,135 regular full-time staff, and 318 regular part-time staff members.

Established in 1968 by the Maine State Legislature, the System is the State's largest educational enterprise, featuring 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. The 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.

The System also features the following eight University College outreach centers and an additional 31 course sites and Cooperative Extension:

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

STUDENT ENROLLMENT

Throughout the System, 30,365 students were enrolled on a headcount basis for the Fall 2013 semester, down 2.1% from Fall 2012 and 6.1% since Fall 2009.

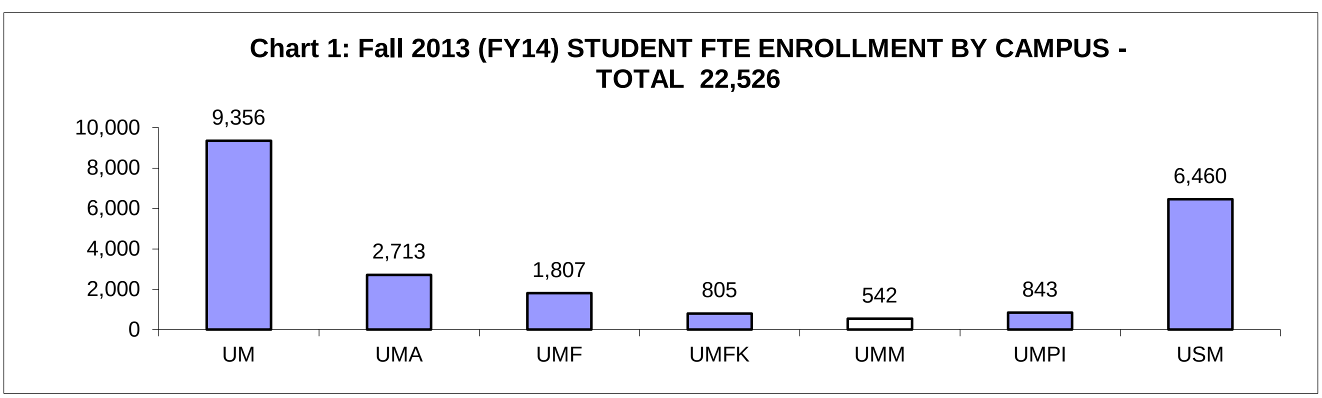
Table 1: Fall Student Enrollments by Headcount

	Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009	
Full-Time	**19,728**	**65%**	**20,153**	**65%**	20,057	64%	20,542	64%	20,739	64%
Part-Time	**10,637**	**35%**	**10,859**	**35%**	11,051	36%	11,467	36%	11,601	36%
Headcount	**30,365**	**100%**	**31,012**	**100%**	31,108	100%	32,009	100%	32,340	100%

Table 2 below shows student enrollment on a full-time equivalent (FTE) basis with 22,526 students enrolled for the Fall 2013 semester, down 2.0% from Fall 2012. FTE enrollments were up 0.3% from Fall 2011 to Fall 2012. Since Fall 2009, enrollments have declined by 1,185 students or 5%. For Fall 2013, 65% of the student population was enrolled full-time and 84% were Maine residents.

Table 2: Fall Student FTE Enrollments

	% Change Fall 2009 to 2013	Fall 2013	% Change	Fall 2012	% Change	Fall 2011	% Change	Fall 2010	% Change	Fall 2009	% Change
UM	**-3%**	**9,356**	**3.5%**	**9,040**	-0.9%	9,120	-2.5%	9,358	-3.1%	9,653	0.3%
UMA	**-2%**	**2,713**	**-5.2%**	**2,862**	1.4%	2,823	0.6%	2,805	1.0%	2,776	5.2%
UMF	**-8%**	**1,807**	**-4.7%**	**1,896**	-4.4%	1,983	-1.0%	2,003	2.5%	1,954	-0.5%
UMFK	**10%**	**805**	**3.3%**	**779**	11.0%	702	-0.4%	705	-3.8%	733	-2.7%
UMM	**-3%**	**542**	**-5.1%**	**571**	6.3%	537	-5.6%	569	1.4%	561	-2.4%
UMPI	**-21%**	**843**	**-13.4%**	**974**	-2.3%	997	-4.5%	1,044	-1.7%	1,062	-3.7%
USM	**-7%**	**6,460**	**-6.0%**	**6,871**	1.6%	6,764	-4.1%	7,051	1.1%	6,972	-0.9%
Total	**-5%**	**22,526**	**-2.0%**	**22,993**	0.3%	22,926	-2.6%	23,535	-0.7%	23,711	0.1%



STUDENT COMPREHENSIVE COST OF EDUCATION

The weighted average comprehensive cost of education for UMS undergraduate, graduate and Law School students is shown in Table 3 below. The modest increases in the student cost of education reflect UMS' continued commitment to providing affordable higher education. Tempering increases in this revenue source continues to be challenging given the pressures of operating cost increases and the decline in Noncapital State of Maine Appropriations which peaked in FY08 at $201 million and was $198 million in FY14 and $194 million in FY13.

FY14 saw weighted average comprehensive cost of education increases that were significantly lower than in FY10 through FY12 while, across the board, FY13 saw the lowest increases in the comprehensive cost of education in 5 years. Percentage increases in FY14 range from a high of 2.5% for Graduate Out-of-State students and Canadian students to a low of 0.4% for Out-of-State Law students. Percentage increases in FY13 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.

Table 3: Student Comprehensive Cost of Education
Tuition, Mandatory Fees, and Room and Board
Fiscal Year Weighted Averages

	2014		2013		2012		2011		2010	
	Cost	% Change	Cost	% Change	Cost	% Change	Cost	% Change	Cost	% Change
Undergraduate										
In-State	**$18,035**	1.3%	**$17,802**	0.4%	$17,731	3.3%	$17,172	4.5%	$16,431	5.3%
Out-of-State	**33,022**	2.4%	**32,250**	2.6%	31,418	3.0%	30,505	4.4%	29,211	6.2%
NEBHE	**22,584**	1.7%	**22,213**	-0.1%	22,239	3.8%	21,428	5.7%	20,266	5.2%
Canadian	**21,116**	1.9%	**20,725**	0.7%	20,572	4.0%	19,786	5.3%	18,796	4.9%
Graduate										
In-State	**$16,937**	1.3%	**$16,721**	0.5%	$16,634	3.2%	$16,116	4.8%	$15,375	5.4%
Out-of-State	**31,517**	2.5%	**30,757**	2.2%	30,099	3.5%	29,072	4.5%	27,816	5.5%
NEBHE	**20,735**	0.9%	**20,552**	0.8%	20,389	5.3%	19,361	4.6%	18,503	4.7%
Canadian	**21,095**	2.5%	**20,572**	0.4%	20,492	3.3%	19,843	4.7%	18,959	5.0%
Law School										
In-State	**$32,180**	0.6%	**$31,989**	0.4%	$31,857	4.1%	$30,606	5.3%	$29,052	5.8%
Out-of-State	**43,250**	0.4%	**43,059**	0.7%	42,777	3.2%	41,436	4.8%	39,552	4.2%
NEBHE/Canadian	**40,310**	0.5%	**40,119**	0.6%	39,897	3.5%	38,556	4.2%	37,002	3.2%

OVERVIEW OF THE FINANCIAL STATEMENTS

The University of Maine System's financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles and 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) statements. The MD&A includes information only for the System, not its component unit.

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, deferred inflows, deferred outflows, 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 and deferred outflows after liabilities and deferred inflows 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.

The FY13 financial statements have been restated to reflect adoption of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, as described in Notes 1b and 16 to the financial statements. The overall impact to the Condensed Statements of Net Position is that the beginning of year net position as previously reported declined $2 million while the FY13 effect on the Change in Net Position was a decline of $1 million, resulting in a total $3 million decline from the previously stated Net Position category of net investment in capital assets.

Table 4 shows total assets and deferred outflows of $1,198 million at June 30, 2014 have increased $141 million, or 13%, since June 30, 2010. 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 $240 million and $244 million at June 30, 2014 and 2013, respectively.

Noncurrent assets consist mainly of endowment investments and capital assets, net of depreciation. Endowment investments total $150 million at June 30, 2014, an increase of $17 million or 13% from the FY13 year-end balance of $133 million and a $46 million or 44% increase since June 30, 2010. Capital assets totaled $698 million and $688 million at June 30, 2014 and 2013, respectively. The System's progress in upgrading older facilities and meeting new facilities needs is addressed later in this report.

Current liabilities of $64 million and $71 million at June 30, 2014 and 2013, 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 $257 million, total noncurrent liabilities declined $11 million or 4% from June 30, 2013 to 2014 following a decline of $8 million from June 30, 2012 to 2013. The declines are primarily the result of the system paying down bonds and notes payable.

The total net position at June 30, 2014 of $877 million increased $27 million or 3% from the June 30, 2013 balance, as restated. Additional information about net position is presented on page 15.

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

($ in millions)

	2014	% Change	Restated 2013	% Change	2012	2011	2010
Current Assets	**$300**	**-2%**	**$307**	**-3%**	$315	$295	$259
Noncurrent Assets							
Endowment investments	**150**	**13%**	**133**	**10%**	121	125	104
Capital assets, net	**698**	**1%**	**688**	**1%**	684	668	644
Other	**46**	**-19%**	**57**	**-5%**	60	52	50
Total Assets	**1,194**	**1%**	**1,185**	**0%**	1,180	1,140	1,057
Deferred Outflows	**4**	**0%**	**4**				
Total Assets and Deferred Outflows	**$1,198**	**1%**	**$1,189**	**1%**	$1,180	$1,140	$1,057
Current Liabilities	**$64**	**-10%**	**$71**	**-10%**	$79	$73	$68
Noncurrent Liabilities:							
Bonds and Notes Payable	**155**	**-9%**	**170**	**-5%**	179	182	192
Other	**102**	**4%**	**98**	**1%**	97	98	90
Total Liabilities	**321**	**-5%**	**339**	**-5%**	355	353	350
Net investment in capital assets	**532**	**4%**	**511**	**2%**	500	474	444
Restricted:							
Nonexpendable	**57**	**2%**	**56**	**2%**	55	52	49
Expendable	**109**	**9%**	**100**	**8%**	93	95	86
Unrestricted	**179**	**-2%**	**183**	**3%**	177	166	128
Total Net Position	**877**	**3%**	**850**	**3%**	825	787	707
Total Liabilities and Net Position	**$1,198**	**1%**	**$1,189**	**1%**	$1,180	$1,140	$1,057

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, 2014, 2013, and 2012 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)

	2014	2013	2012
University of Maine System & Affiliates Endowments	$150	$133	$121
Other Post Employment Benefits Trust	95	73	53
Maine Maritime Academy	29	25	17
University of Maine School of Law Foundation	4	3	0
Total	**$278**	**$234**	**$191**

The accompanying Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position include 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.

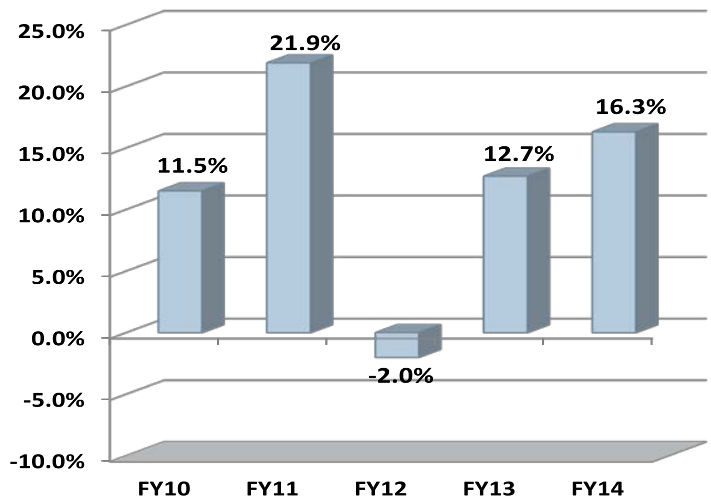
The pooled investments are diversified among the following asset classes to minimize risk while optimizing return.

Table 6: Asset Allocation Percentages for Managed Investment Pool at June 30

	2014	2013	2012
Domestic Equities	**22%**	**23%**	**31%**
International Equities	**23%**	**23%**	**20%**
Fixed Income	**15%**	**14%**	**16%**
Global Asset Allocation	**26%**	**25%**	**16%**
Hedge Funds	**12%**	**12%**	**15%**
Timber	**2%**	**2%**	**2%**
Cash	**0%**	**1%**	**0%**
Total	**100%**	**100%**	**100%**

The financial markets were strong during FY14 with the pool realizing a net of fees return of 16.3%, up from 12.7% in FY13 and -2.0% in FY12. The pooled investments have a 5-year annualized net of fees return of 11.7%.

Chart 2: Managed Investment Pool Total Return (Net of Fees)



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.

As shown in Chart 3, these pooled investments had a market value of $150 million at June 30, 2014, increasing $17 million from the prior year end market value of $133 million. This growth included $21 million in net performance, plus $1 million in endowment contributions, less $5 million distributed for scholarships and operating activities.

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 FY14 and FY13 was 4.5%, down from 4.75% in FY12.

Capital Assets and Debt Activities

Table 7 on page 14 shows the status of major capital construction projects as of June 30, 2014, and the related budget approved by the Board of Trustees (BOT).

The System's facilities are critical to each University's mission as they provide the physical framework and environment for educational, research, cultural programs and residential life. The System continually evaluates its long-term capital and strategic needs as it considers which facilities to upgrade, retire, or build. Capital needs are funded with State bonds, gifts, grants, educational and general funds, and System revenue bonds.

During FY14, the System had capital asset additions of $44 million which included $39 million of construction in progress and $5 million in equipment and software. FY13 capital asset additions of $36 million included $32 million related to construction in progress and $4 million in equipment and software; while FY12 capital asset additions of $47 million consisted of $40 million in construction in progress and $7 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, 2014 and 2013 were $168 million and $186 million, respectively.

Table 7: Major Capital Construction Projects Completed During FY14 or In Progress at June 30, 2014
($ in millions)

	Project	Funding Source	Status	BOT Approved Budget
UMA				
	Jewett Hall Roof Replacement	Educational & General	Complete	$ 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
	Dearborn Gymnasium Renovation	Educational & General	In Design	1.20
UMFK				
	Renewable Biomass District Heating Plant	Grant, Educational & General	In Progress	5.50
	Forestry Geographic Info Sys Tech Labs/Nursing Lab Renovation/Teleconference Center Upgrades	State Bond	In Design	1.20
UMM				
	Powers Hall Exterior and Masonry	State Bond, Educational & General	In Design	1.50
	Science Building Laboratory Upgrades	State Bond, Educational & General	In Design	0.60
UM				
	University Park-Demolition/Renovation/Sprinklers	State Bond, Auxiliary, Educational & General	Complete	1.50
	Advanced Structures & Composites Center Expansion	Grant, State Bond, Educational & General	In Design	8.00
	Estabrooke Repurposing & Renovation & International Study Center	Educational & General	Complete	4.20
	Fogler Library HVAC Upgrades Phase I	State Bond, Educational & General	Complete	1.47
	Aquaculture Research Center Fish Lab Addition	Grant	In Design	0.60
	Planetarium & Observatory	Gift & Fund Raising, Educational & General	In Progress	5.20
	Memorial Gym Field House Renovation	2012 Revenue Bond, Gifts, Educational & General	In Progress	15.67
	Morse Field Scoreboard Upgrade	Gift & Fund Raising	In Progress	0.80
USM				
	Gorham Central Heat Plant Replacement	Educational & General	Complete	2.70
	Gorham Water Tank Refurbishment	Educational & General	Complete	0.63
	International Study Center	Educational & General	In Progress	0.80
	Science Technology Research Center	Grant	Complete	0.90
	Payson Smith Lab Renovation	State Bond	In Design	1.25
	Bailey Hall Lab Renovation	State Bond	In Design	1.25
	LAC Nursing Lab Renovation	State Bond	In Design	0.60
	Science Building Lab Upgrade	State Bond	In Design	0.70
UMPI				
	Folsom/Pullen Science Classroom & Lab Upgrades	State Bond	In Design	1.20
			TOTAL	$60.27

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 $532 million at June 30, 2014. The FY14 increase of $21 million was primarily the result of $10 million in net additions to capital assets after annual depreciation and an $11 million decline in related debt.

The FY13 increase of $11 million, as restated, was primarily the result of $4 million in net additions to capital assets after annual depreciation, a $9 million decline in related debt, and a $2 million reduction of capitalized bond costs pursuant to the required adoption of a new accounting standard. Notes 1b and 16 of the accompanying financial statements provides more information about this new accounting standard.

The restricted-nonexpendable net position of $57 million at June 30, 2014 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, the balance increased $1 million in FY14 and $1 million in FY13.

The restricted-expendable net position of $109 million at June 30, 2014 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 $9 million net increase in FY14 is primarily the result of a nearly $14 million increase in endowment market values from positive financial market conditions less over $6 million in restricted gift monies used for renovations and capital construction at UM primarily for the Memorial Gym and Emera Astronomy Center.

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 unrestricted net position of $179 million at June 30, 2014 decreased by $4 million after having grown by $6 million in FY13. 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.

As mentioned earlier, and as further described in Notes 1b and 16 to the financial statements, FY13 has been restated to reflect retroactive applications of the change in accounting principle resulting in a change to the 2013 beginning of year net position of -$2 million while the effect on 2013 operating expenses was an increase of $1 million. The change in net position for FY13 (as restated), therefore declined $1 million and the impact to net position at June 30, 2013, is a decline of $3 million from the amount previously reported. The System's total net position increased $27 million in FY14, $27 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)

	2014	% Change	Restated 2013	% Change	2012	2011	2010
Net Student Fees	**$243**	**-1%**	**$246**	**2%**	$241	$239	$236
Grants, Contracts and Indirect Cost Recovery	**156**	**-3%**	**161**	**-10%**	178	186	171
Other Operating Revenues	**54**	**-4%**	**56**	**-2%**	57	59	62
Operating Revenues	**453**	**-2%**	**463**	**-3%**	476	484	469
Operating Expenses	**(675)**	**0%**	**(673)**	**0%**	(672)	(667)	(648)
Operating Loss	**(222)**	**6%**	**(210)**	**7%**	(196)	(183)	(179)
Nonoperating Revenues (Expenses)							
Noncapital State of Maine Appropriations	**198**	**2%**	**194**	**-2%**	198	195	190
State Fiscal Stabilization Funds	**0**	**0%**	**0**	**0%**	0	6	7
Gifts Currently Expendable	**14**	**27%**	**11**	**-8%**	12	11	11
Endowment Return Used for Operations	**5**	**0%**	**5**	**0%**	5	5	5
Investment Income	**13**	**30%**	**10**	**100%**	5	11	11
Interest Expense, Net	**(5)**	**-29%**	**(7)**	**-13%**	(8)	(8)	(9)
Net Nonoperating Revenues	**225**	**6%**	**213**	**0%**	212	220	215
Income Before Other Changes in Net Position	**3**	**0%**	**3**	**-81%**	16	37	36
Other Changes in Net Position							
State of Maine Capital Appropriation	**2**	**-67%**	**6**	**20%**	5	4	7
Capital Grants and Gifts	**7**	**-13%**	**8**	**-60%**	20	22	8
Endow. Return, Net of Amt. Used for Operations	**14**	**75%**	**8**	**233%**	(6)	14	5
Other	**1**	**-50%**	**2**	**-33%**	3	3	(1)
Total Other Changes in Net Position	**24**	**0%**	**24**	**9%**	22	43	19
Change in Net Position	**$27**	**0%**	**$27**	**-29%**	$38	$80	$55

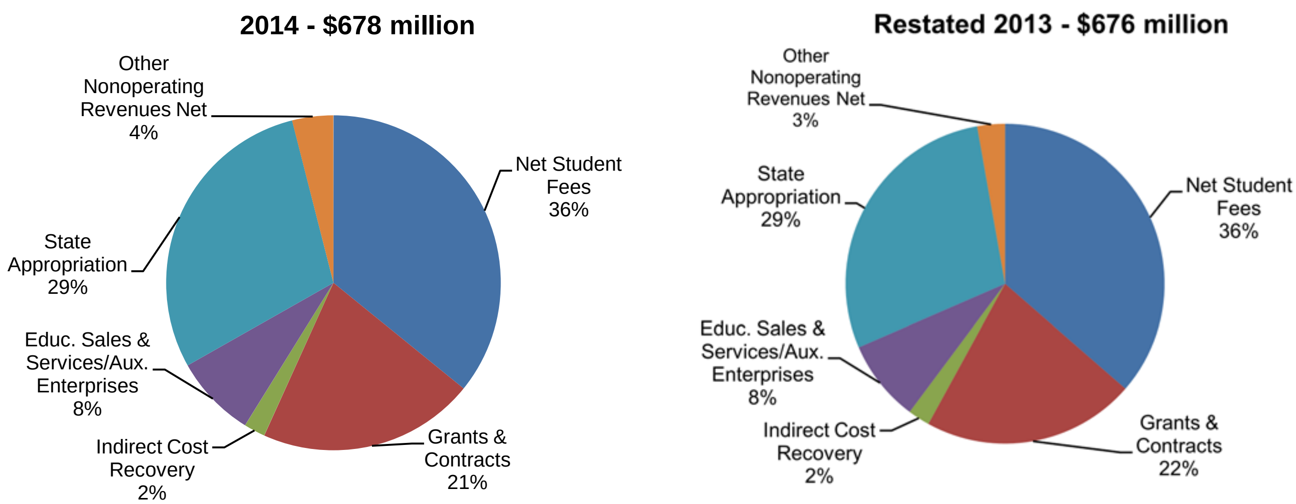
Operating and Nonoperating Revenue

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 FY14 and FY13.

CHART 4: TOTAL OPERATING & NET NONOPERATING REVENUE



Net student fees of $243 million for FY14 are the primary source of operating revenues. The portion of total operating and net nonoperating revenues funded by net student revenues remained constant at 36% after having increased by 1% from FY12 to FY13.

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

- Tuition and fees totaled $267 million in FY14, decreasing $1 million (or almost 1%) from the prior year. FY13 and FY12 saw increases in revenues of 1% and 2%, respectively, compared to their prior year.
- Residence and dining fees of $60 million in FY14 were up $2 million (or 4%) compared with the prior year, while such revenues were nearly flat in FY13 compared with FY12, following a decrease of $2 million (or 4%) from FY11.
- Scholarship allowances of $84 million increased $4 million (or 6%) in FY14, decreased $2 million (or 3%) in FY13, and increased less than $1 million (or 1%) in FY12.

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 FY14, total financial aid provided to students was $114 million, increasing $3 million or 2% over FY13 aid of $111 million. The increase includes nearly $2 million in increased institutional restricted aid, an increase of $2 million in institutional unrestricted aid, and a decrease of nearly $2 million in aid from the State of Maine.

FY13 total financial aid of $111 million increased almost $1 million or 1% from 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.

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 $142 million in FY14, decreasing $4 million or nearly 3% from FY13. Significant funding variations in this net decrease include a $1 million decline in ARRA funding; a nearly $1 million decline from the State of Maine Department of Labor as the funding for the Women, Work and Community program at UMA was not renewed; a $2 million increase in funding from the US Department of Energy at the University of Maine; a decline of $1 million in US Department of Health and Human Services funding at USM; and a decline of $1 million in funding at USM from the Colorado Department of Health and Human Services. UMA and USM experienced the greatest decline in grant funding with declines of $2 million and $3 million, respectively, while UM grant revenue increased $2 million.

Grants and contracts revenues totaled $146 million in FY13, decreasing $16 million or nearly 10% 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.

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 $14 million in FY14, down from $15 million in FY13, and $16 million in FY12.

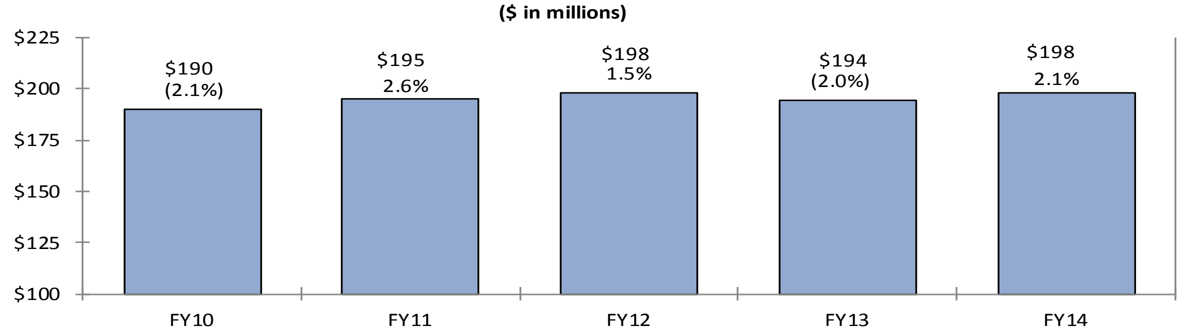
Noncapital State of Maine Appropriations:

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 $198 million in noncapital State appropriation revenue during FY14, up $4 million or 2.1% from FY13. The System received $194 million in noncapital State appropriation revenue during FY13, down $4 million or 2.0% from FY12, leaving FY14 flat compared with FY12.

At $198 million, noncapital state appropriation covered 89% of the $222 million net operating loss in FY14, down from net operating loss coverage levels of 93% in FY13 and 101% in FY12.

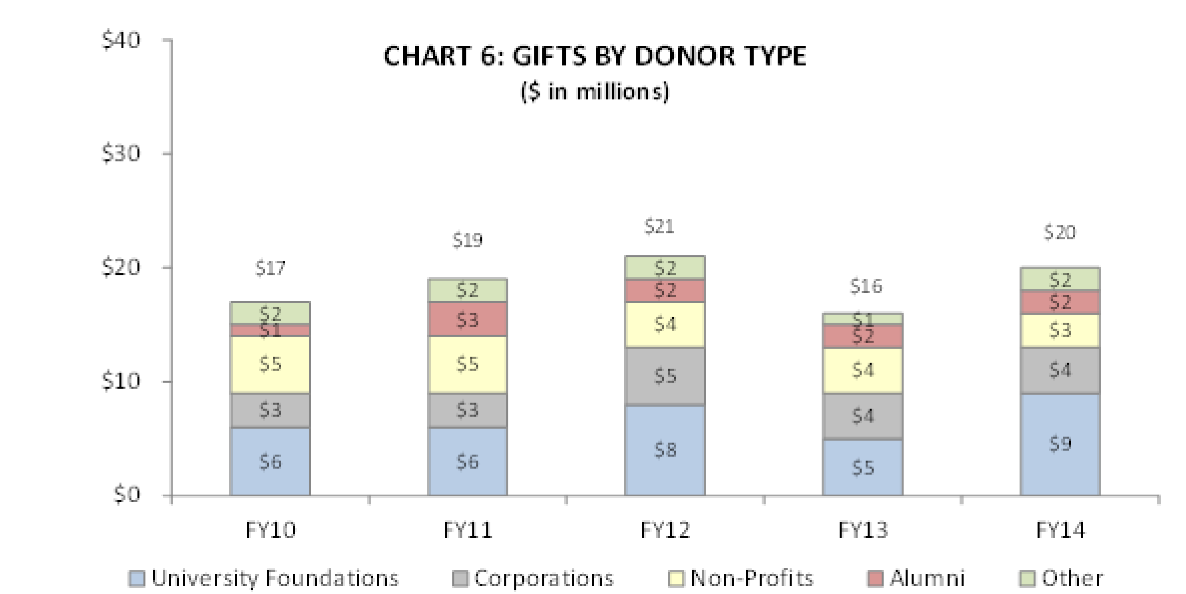
CHART 5: NONCAPITAL STATE APPROPRIATION & ANNUAL % CHANGE
($ in millions)



Cash Gifts:

As shown in Chart 6 below, gifts received in FY14 were up $4 million from the prior year after having been down in FY13 by $5 million compared to the prior year. The FY13 decline was largely the result of UM having received several large gifts for athletic facility renovations in FY12.

Over $19 million or 97% of gifts received in FY14 were restricted, compared with 91% in FY13 and 95% in FY12. The donor type consistently contributing the most gift dollars is University Foundations.



Operating Expenses

Table 9 shows expenses on a functional basis while Table 10 shows expenses based on natural classification.

Table 9: Operating Expenses, Classified by Function
For the Years Ended June 30

($ in millions)

	2014		Restated 2013		2012		2011		2010	
Instruction	**$181**	**27%**	**$180**	**27%**	$179	27%	$178	27%	$180	28%
Research	**72**	**11%**	**69**	**10%**	73	11%	79	12%	75	12%
Public service	**60**	**9%**	**60**	**9%**	64	10%	61	9%	60	9%
Academic support	**76**	**11%**	**77**	**12%**	77	12%	73	11%	67	10%
Student services	**49**	**7%**	**50**	**7%**	48	7%	47	7%	47	7%
Institutional support	**52**	**8%**	**54**	**8%**	56	8%	50	8%	47	7%
Operation and maintenance of plant	**51**	**8%**	**50**	**7%**	47	7%	49	7%	46	7%
Depreciation and amortization	**34**	**5%**	**32**	**5%**	30	4%	29	4%	27	4%
Student aid	**30**	**4%**	**32**	**5%**	28	4%	28	4%	25	4%
Auxiliary enterprises	**70**	**10%**	**69**	**10%**	70	10%	73	11%	74	12%
Total Operating Expenses	**$675**	**100%**	**$673**	**100%**	$672	100%	$667	100%	$648	100%

Table 10: Total Expenses by Natural Classification
For the Years Ended June 30

($ in millions)

	2014		Restated 2013		2012		2011		2010	
Operating:										
Compensation and Benefits	**$440**	**65%**	**$433**	**64%**	$434	64%	$427	63%	$424	65%
Utilities	**35**	**5%**	**34**	**5%**	32	5%	32	5%	27	4%
Supplies and Services	**136**	**20%**	**142**	**21%**	148	22%	151	23%	144	22%
Depreciation and Amortization	**34**	**5%**	**32**	**5%**	30	4%	29	4%	28	4%
Student Aid	**30**	**4%**	**32**	**5%**	28	4%	28	4%	25	4%
Total Operating Expenses	**675**	**99%**	**673**	**99%**	672	99%	667	99%	648	99%
Nonoperating:										
Interest	**5**	**1%**	**7**	**1%**	8	1%	8	1%	9	1%
Total Expenses	**$680**	**100%**	**$680**	**100%**	$680	100%	$675	100%	$657	100%

As shown in Table 10, compensation and benefits expense increased $7 million in FY14 after declining $1 million in FY13 and increasing by $7 million in FY12.

Since FY10, annual compensation and benefits are up $16 million or 4%. Due to financial and program reasons, UMS has eliminated a substantial number of positions over the past several years. Within the last decade, System employment peaked in Fall 2007. From that time to Fall 2013, total employment from all funding sources has declined by 521 full-time equivalent employees which included 260 full-time equivalent employees funded by educational and general sources.

CURRENT AND FUTURE CONSIDERATIONS

The System faces the combined challenges of declining New England demographics, enhanced competition for students, little ability or desire to increase tuition load on Maine families, and flat or declining state appropriations. To overcome these challenges and to seek new opportunities, the System is in the process of a multi-year, top-to-bottom review of all administrative services with the goals of enhancing service while reducing costs.

The System recognizes its role, as a leader and partner, in helping Maine to prosper. Maine must have a strong economy that will sustain businesses small and large, attract investment, and, most importantly, offer real opportunities for our citizens, especially our young people and their families. Maine's public universities are a critical, irreplaceable factor in Maine's success, and the success of the universities is linked to the success of the people of Maine.

Our efforts are guided by the Board of Trustees and the goals and actions they outlined for achieving mission excellence in January 2012. Key areas have been and continue to be reviewed with the goal of improved administrative efficiencies and services so that savings may be reinvested in the core mission critical areas of education, research and public service. Administrative reviews in information technology, strategic procurement, human resources, and facilities management are in various stages while other priority initiatives are underway. These reviews will have long-term and positive implications for the System. While many of the improvements will be behind the scenes, two areas that are highlighted below promise to be visible to students and Maine.

Academic Portfolio Review and Integration Process

In response to challenges and in order to enhance the quality, access and variety of its academic offerings, the System has committed to accomplishing a complete, rational restructuring of its academic portfolio. This includes administrative structure, policies, procedures, and culture, with the goal of optimally positioning the academic functions of the UMS to fulfill its mission of instruction, research and public service. Strategies to meet these goals may include sharing curriculum, developing joint programs and possibly departments, leveraging interactive distance technologies, and consideration of the overall portfolio of programs given the State's needs.

This rational restructuring will be done in a way that balances the system-wide academic portfolio while embracing the evolving differentiated missions, identities and brands of the seven unique and independently accredited universities. Fiscal and demographic pressures will drive the need for innovation and greater coordination and collaboration across UMS academics. The charge includes restructuring UMS academics to enhance quality and expand access to its collective portfolio while achieving necessary fiscal efficiencies. The plan will better leverage the academic capacity of faculty and staff and create an integrated academic portfolio that best serves our geographically-dispersed student population.

Facilities Management 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. The System currently has an administrative review underway to ensure the most cost-effective use of its capital facilities, infrastructure and property in order to best support our collective missions. Areas of focus include right-sizing the facility portfolio to reduce costs and improve the quality of the facilities as well as identifying and funding long-term capital needs of the System.

Recent Accounting Pronouncements

In June 2012, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB No. 68), was issued to improve financial reporting of pension plans by state and local governments. The new pension standard will affect how the System measures, reports, and discloses information about defined benefit pension plans. In November 2013, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (GASB No. 71) was issued as an amendment to GASB No.68. This Statement requires that, at transition, a government recognize a beginning deferred outflow of resources for any pension contributions made subsequent to the measurement date of the net pension liability. The System will be required to adopt GASB Nos. 68 and 71 for the fiscal year ending June 30, 2015. The effects of implementation on the financial statements have not yet been determined.

World and State Economic Considerations

Financial markets have favorably impacted the financial results reported herein but volatility persists and uncertainty continues regarding the Federal Reserve's plans to taper its accommodative monetary policy. These financial conditions present risks and opportunities as the System considers its investment and financing needs.

At 36%, net student fees is the largest source of revenue for the System. Despite fiscal challenges, the System has frozen FY15, FY14 and FY13 undergraduate in-state tuition and mandatory unified fees at 2012 levels. It has further committed to freezing tuition in the future if the state is able to meet requested levels of appropriation increases. Freezing tuition has been a clear recognition of the struggles of Maine families and the need to keep tuition affordable.

At 29%, the second largest revenue source for the System is State of Maine noncapital appropriations. In years past, the State has made 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 $198 million is flat compared with FY12 levels. The health of Maine's economy is critical to the stability of this revenue stream as the System recognizes the interdependencies between the economy of the State and the System's own health.

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 that is underway and that which lays 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.

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University of Maine System

Statements of Net Position

June 30, 2014 and 2013

($ in thousands)

	2014	Restated 2013
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	$ 817	$ 1,492
Short-term investments (Note 3)	240,431	244,333
Accounts, grants, and pledges receivable, net (Note 4)	53,240	56,616
Inventories and prepaid expenses	5,338	4,806
Notes and lease receivable, net (Note 5)	63	63
Total Current Assets	299,889	307,310
Noncurrent Assets		
Deposits with bond trustees (Notes 3 and 6)	400	6,366
Accounts, grants, and pledges receivable, net (Note 4)	4,140	9,938
Notes and leases receivable, net (Note 5)	41,072	40,044
Endowment investments (Note 3)	150,404	132,690
Capital assets, net (Note 6)	698,128	687,989
Total Noncurrent Assets	894,144	877,027
Total Assets	1,194,033	1,184,337
Deferred Outflows		
Deferred amount on refunding of debt	3,957	4,170
Total Assets and Deferred Outflows	**$ 1,197,990**	**$ 1,188,507**
Liabilities		
Current Liabilities		
Accounts payable	$ 13,062	$ 16,354
Unearned revenue and deposits (Note 8)	11,049	11,531
Accrued liabilities (Notes 7, 11, 13 and 14)	27,741	28,986
Funds held for others	2,599	1,644
Current portion of capital lease obligations (Note 7)	359	375
Current portion of bonds and notes payable (Note 7)	9,204	12,247
Total Current Liabilities	64,014	71,137
Noncurrent Liabilities		
Accrued liabilities (Notes 7, 11 and 13)	46,242	44,291
Funds held for others (Note 3)	21,628	18,640
Capital lease obligations (Note 7)	3,112	3,410
Bonds and notes payable, net (Note 7)	155,148	169,818
Government advances refundable (Note 9)	30,509	30,743
Total Noncurrent Liabilities	256,639	266,902
Total Liabilities	320,653	338,039
Net Position		
Net investment in capital assets (Note 10)	531,654	511,107
Restricted		
Nonexpendable (Note 10)	56,945	56,187
Expendable (Notes 3 and 10)	109,576	99,955
Unrestricted (Notes 3 and 10)	179,162	183,219
Commitments and contingencies (Notes 6, 7 and 11)	-	-
Total Net Position	877,337	850,468
Total Liabilities and Net Position	**$ 1,197,990**	**$ 1,188,507**

See accompanying notes to the basic financial statements.

University of Maine System

Statements of Financial Position – Discretely Presented Component Unit

June 30, 2014 and 2013

($ in thousands)

	2014	2013
Assets		
Cash and cash equivalents	$ 69	$ 85
Other receivables	108	192
Promises to give, less allowance for uncollectible pledges of $125 and $50, respectively	1,079	514
Short-term investments	2,391	3,582
Cash surrender value of life insurance	71	178
Long-term investments, endowment	189,151	162,835
Long-term investments, life income plans	4,909	4,494
Notes receivable	748	786
Equity in Buchanan Alumni House	2,659	2,678
Investment real estate	5,791	5,756
Property and equipment, net of accumulated depreciation of $154 and $140, respectively	91	90
Other assets	794	772
Irrevocable trusts	11,335	11,032
Assets managed for Buchanan Alumni House	330	300
Net funding to be provided from Buchanan Alumni House	85	165
Total Assets	**$ 219,611**	**$ 193,459**
Liabilities		
Accounts payable	$ 75	$ 47
Distributions due income beneficiaries	1,892	1,851
Accrued expenses	495	511
Notes payable	761	910
Custodial accounts payable	3,315	3,006
Total Liabilities	6,538	6,325
Net Assets		
Unrestricted net assets	8,136	6,704
Temporarily restricted net assets	62,652	46,033
Permanently restricted net assets	142,285	134,397
Total Net Assets	213,073	187,134
Total Liabilities and Net Assets	**$ 219,611**	**$ 193,459**

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, 2014 and 2013

($ in thousands)

	2014	Restated 2013
Operating Revenues		
Tuition and fees	$ 267,418	$ 268,863
Residence and dining fees	60,042	57,562
Less: scholarship allowances	(84,065)	(79,618)
Net student fees	243,395	246,807
Federal, state, and private grants and contracts	142,108	146,130
Recovery of indirect costs	13,810	14,989
Educational sales and services and other revenues	32,334	31,789
Other auxiliary enterprises	21,564	23,906
Total Operating Revenues	453,211	463,621
Operating Expenses		
Instruction	180,598	179,640
Research	72,508	68,775
Public service	60,322	60,396
Academic support	76,191	76,754
Student services	48,933	50,497
Institutional support	51,825	54,184
Operation and maintenance of plant	51,289	50,235
Depreciation and amortization	33,793	32,227
Student aid	29,658	31,518
Auxiliary enterprises	69,752	69,098
Total Operating Expenses	674,869	673,324
Operating Loss	(221,658)	(209,703)
Nonoperating Revenues (Expenses)		
Noncapital State of Maine appropriations	198,263	194,417
Gifts currently expendable	13,796	11,020
Endowment return used for operations (Note 3)	5,136	5,015
Investment income (Note 3)	13,081	9,586
Interest expense, net (Note 7)	(5,786)	(7,240)
Net Nonoperating Revenues	224,490	212,798
Income Before Other Changes in Net Position	**2,832**	**3,095**
Other Changes in Net Position		
State of Maine capital appropriations	1,918	6,144
Capital grants and gifts	7,403	8,106
Endowment return (loss), net of amount used for operations (Note 3)	13,836	8,380
True and quasi endowment gifts	880	1,452
Total Other Changes in Net Position	24,037	24,082
Change in Net Position	**26,869**	**27,177**
Net Position - Beginning of Year - As Restated - Note 16	850,468	823,291
Net Position - End of Year	$ 877,337	$ 850,468

See accompanying notes to the basic financial statements.

University of Maine System

Statements of Activities – Discretely Presented Component Unit

Years Ended June 30, 2014 and 2013

(With Comparative Totals for 2013)

($ in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2014	Total 2013
Revenues, Gains, Losses, and Reclassification					
Contributions	$ 1,420	$ 5,077	$ 7,140	$ 13,637	$ 7,816
Investment income and other revenue	1,637	23,106	113	24,856	14,041
Net assets released from restrictions	10,929	(11,564)	635	-	-
Total Revenues, Gains, Losses, and Reclassification	13,986	16,619	7,888	38,493	21,857
Expenses and Losses					
Program services	10,968	-	-	10,968	6,259
Management and general	504	-	-	504	653
Fundraising	1,082	-	-	1,082	867
Total Expenses and Losses	12,554	-	-	12,554	7,779
Change in Net Assets	**1,432**	**16,619**	**7,888**	**25,939**	**14,078**
Net Assets - Beginning of Year	6,704	46,033	134,397	187,134	173,056
Net Assets - End of Year	$ 8,136	$ 62,652	$ 142,285	$ 213,073	$ 187,134

See accompanying notes to the basic financial statements.

University Of Maine System

Statements of Cash Flows

Years Ended June 30, 2014 and 2013

($ in thousands)

	2014	Restated 2013
Cash Flows From Operating Activities		
Tuition, residence, dining, and other student fees	$ 243,310	$ 245,232
Grants and contracts	156,636	165,473
Educational sales and services and other auxiliary enterprise revenues	50,847	54,439
Payments to and on behalf of employees	(434,795)	(434,053)
Financial aid paid to students	(35,804)	(37,815)
Payments to suppliers	(173,821)	(176,182)
Loans issued to students	(7,074)	(6,712)
Collection of loans to students	5,500	5,482
Interest collected on loans to students	722	744
Net Cash Used for Operating Activities	(194,479)	(183,392)
Cash Flows From Noncapital Financing Activities		
State appropriations	198,263	194,417
Noncapital grants and gifts	14,865	14,021
Agency transactions	9,515	2,509
Net Cash Provided by Noncapital Financing Activities	222,643	210,947
Cash Flows From Capital and Related Financing Activities		
Capital appropriations	5,270	3,690
Capital grants and gifts	8,380	10,998
Acquisition and construction of capital assets	(43,109)	(35,583)
Issuance costs on capital debt	-	(220)
Principal paid on capital debt and leases	(17,007)	(10,351)
Interest paid on capital debt and leases	(6,925)	(8,274)
Net Cash Used for Capital and Related Financing Activities	(53,391)	(39,740)
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	538,267	418,302
Purchases of investments	(518,746)	(411,762)
Earnings from investments	5,031	6,012
Net Cash Provided by Investing Activities	24,552	12,552
Net Increase (Decrease) in Cash and Cash Equivalents	(675)	367
Cash and cash equivalents - Beginning of Year	1,492	1,125
Cash and cash equivalents - End of Year	$ 817	$ 1,492

See accompanying notes to basic financial statements.

University Of Maine System

Statements of Cash Flows

Years Ended June 30, 2014 and 2013

($ in thousands)

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

	2014	Restated 2013
Operating loss	$ (221,658)	$ (209,703)
Adjustments to reconcile net operating loss to net cash used for operating activities:		
Depreciation and amortization	33,793	32,227
Bond costs paid through bond financiing	-	874
Changes in assets and liabilities:		
Accounts and grants receivable, net	(1,317)	3,820
Inventories and prepaid expenses	(532)	300
Notes receivable, net	(1,090)	(763)
Accounts payable	(1,827)	(1,669)
Unearned revenue and deposits	(505)	(639)
Accrued liabilities	(1,109)	(7,573)
Grants refundable	(234)	(266)
Net Cash Used for Operating Activities	$ (194,479)	$ (183,392)

Noncash investing, capital, and financing activities:

	2014	2013
Capital asset additions included in accounts payable and accrued liabilities as of June 30	$ 4,372	$ 4,246
Capital asset additions acquired through capital leases	$ 73	$ -
Capital asset additions acquired through long-term debt	$ -	$ 87
Refunding of debt through new bond issuance	$ -	$ 72,030
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.

The System records applicable pollution remediation obligations in accordance with the provisions of GASB Statement No. 49*, Pollution Remediation Obligations*.

The System follows 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 System follows 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

The System follows GASB Statement No. 63*, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Under GASB 63, the System's financial statements reflect the residual measure in the statement of net position as net position, rather than net assets.

In FY14, the System adopted GASB Statement No. 65, *Financial Reporting of Items Previously Reported as Assets and Liabilities*, retroactive to July 1, 2012. Pursuant to the provisions of Statement No. 65, the FY13 financial statements have been restated to reflect retroactive applications of this change in accounting principle. Under Statement No. 65, certain items that were previously reported as assets and liabilities are to be reported as outflows of resources or inflows of resources in the year incurred or received. In conjunction with adopting this statement, all bond issuance costs are now expensed in the year incurred. Conforming changes were made retroactively to all years presented including reclassification of certain balances and restatement of beginning net position. The adoption of Statement No. 65 is described further in Note 16.

c. Net Position

The System's net position (assets plus deferred outflows 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 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. Cash and Cash Equivalents

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

e. Investments

All investments are reported at fair value. System management is responsible for the fair measurement of investments reported in the financial statements. The System has implemented policies and procedures to assess the reasonableness of the fair values provided and believes that reported fair values at the 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, pool monies with the System's endowment pool. Investment performance results of these pooled monies are allocated on a pro rata basis based on the number of pool shares held by each entity. 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% for FY14 and FY13. 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 of 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:

	2014	2013
• Equity securities	33-53%	35-55%
• Fixed income securities	10-20%	10-20%
• Other	30-50%	30-50%
• 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 or the average-cost 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. Unearned Revenue and Deposits

Unearned 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. Unearned 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 deferred inflow or outflow of resources.

m. Net Student Fees

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

n. Tax Status

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

o. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant estimates in the financial statements include liabilities for self-insured plans, pension and other retirement benefit obligations, as well as allowances for uncollectible receivables. Actual results could differ from those estimates. The current economic environment increases the uncertainty of those estimates.

p. Reclassifications

Certain FY13 items in the accompanying financial statements have been reclassified, without effect on total net position, to conform to the FY14 presentation.

2. CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of bank failure, the System's deposits may not be returned. Deposits are considered uninsured and uncollateralized if they are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the System's name. The System's policy is that with the exception of daily operating cash, it will carry no deposits that are uncollateralized or uninsured. As of June 30, 2014 and 2013, the bank balances with uninsured or uncollateralized operating cash deposits was $2,283 and $3,610, respectively.

($ in thousands)

3. INVESTMENTS

a. Composition and Purpose of Investments

The System uses a pooled investment approach for its endowments (including Affiliates' endowments invested with the System) unless otherwise required by the donor. Three outside entities, the UMS 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 ($190 and $180 at June 30, 2014 and 2013, 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, 2014 and 2013, respectively are $21,628 and $18,640, and are reported as funds held for others in the accompanying Statements of Net Position.

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:

	2014	2013
Restricted - expendable	$55,963	$43,824
Unrestricted	15,619	13,753
Total available for spending	$71,582	$57,577

Deposits with Bond Trustees: Deposits with bond trustees are composed of unexpended revenue bond proceeds.

($ in thousands)

The System's investments are composed of the following at June 30, 2014:

	Fair Value	Credit Rating	Interest Rate Risk	
Short-term Investments:				
Equities:				
Multi-strategy funds	$ 68,343			
Fixed Income Funds:				
Bank loans	18,480	Not rated	.10 years	Duration
Bonds	115,227	Not rated	-.10 - 5.6 years	Duration
Money markets	17,469	Not rated	38-41 days	Ave maturity
State pool	20,912	Not rated	.61 years	Duration
Total	$ 240,431			
Deposits with Bond Trustees:				
Fixed Income Funds:				
Bonds	$ 190	Aaa-Moody's	24 days	Ave maturity
Money markets	206	Not rated	38-41 days	Ave maturity
State pool	4	Not rated	.61 years	Duration
Total	$ 400			
Endowment Investments:				
Pooled Investments:				
Money funds, savings, CDs	$ 497			
Equities:				
Equities	21,734			
Equity funds	121,846			
Multi-strategy funds	106,079			
Fixed Income Funds:				
Money markets	391	Not rated	39 days	Ave maturity
Bonds	27,843	Not rated	4.2 years	Duration
Total Pooled Investments	278,390			
Less portion held on behalf of outside entities	(128,176)			
Endowment portion of pooled investments	150,214			
Separately Invested Assets:				
Money funds, savings, CDs	68			
Equities	122			
Total	$ 150,404			

($ 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			

b. Interest Rate Risk

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

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

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

- The average effective duration of the investment grade fixed income portfolio to no more than 1 year greater than the duration of the Barclays Capital Aggregate Bond Index which is 5.58 years and 5.28 years at June 30, 2014 and 2013, 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 7.01 years and 6.73 years at June 30, 2014 and 2013, respectively.

c. Foreign Currency Risk

Short-term Investments: Several of the institutional funds in which the System invests include holdings in various foreign currencies, with some funds hedging against foreign currency risk. Foreign currency holdings represent 3% or less of the total dollar value of short-term investments at June 30, 2014 and 2013.

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

($ in thousands)

d. Investment Income

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

	2014			
	Net Gains (Losses)	Interest and Dividends	Investment Fees	Net Earnings
Endowment investments	$ 19,115	$ 2,625	$ (1,370)	$ 20,370
Managed funds distributed				(1,398)
System endowment income				$ 18,972
Reported as endowment return used for operations				$ 5,136
Reported as endowment return, net of amount used for operations				13,836
System endowment income				$ 18,972
Short-term investments	$ 8,944	$ 5,660	$ (1,524)	$ 13,080
Deposits with bond trustees	-	1	-	1
Total other investment income	$ 8,944	$ 5,661	$ (1,524)	$ 13,081

	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)
System endowment income				$ 13,395
Reported as endowment return used for operations				$ 5,015
Reported as endowment return, net of amount used for operations				8,380
System endowment income				$ 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

($ in thousands)

4. ACCOUNTS, GRANTS, AND PLEDGES RECEIVABLE

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

	2014			2013		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Student and other accounts receivable	$ 31,506	$ 31,506	$ -	$ 34,368	$ 34,367	$ 1
Grants receivable	26,161	25,834	327	30,223	26,545	3,678
Pledges receivable	4,979	986	3,993	7,732	1,192	6,540
Total gross receivables	62,646	58,326	4,320	72,323	62,104	10,219
Less allowance for doubtful accounts	(5,154)	(5,086)	(68)	(5,598)	(5,488)	(110)
Less discount on pledges receivable	(112)	-	(112)	(171)	-	(171)
Total receivables, net	$ 57,380	$ 53,240	$ 4,140	$ 66,554	$ 56,616	$ 9,938

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:

	2014			2013		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Perkins Loans	$ 30,994	$ -	$ 30,994	$ 30,593	$ -	$ 30,593
Nursing Loans	1,862	-	1,862	1,743	-	1,743
Institutional Loans	8,687	-	8,687	8,183	-	8,183
Lease receivable **(a)**	939	63	876	1,001	63	938
Total notes and leases receivable	42,482	63	42,419	41,520	63	41,457
Less allowance for doubtful accounts	(1,347)	-	(1,347)	(1,413)	-	(1,413)
Total notes and leases receivable, net	$ 41,135	$ 63	$ 41,072	$ 40,107	$ 63	$ 40,044

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:

	2014	2013
University of New Hampshire		
Secured by equipment; monthly payments of $5, including interest at 4.85% per annum; matures 2029	$ 939	$ 1,001

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 is as follows:

	Beginning Balance	Additions	Reclasses	Retirements	Ending Balance
Land	$ 17,701	$ -	$ 157	$ -	$ 17,858
Library materials	25,686	-	-	-	25,686
Construction in progress	21,568	39,371	(52,445)	-	8,494
Total nondepreciable assets	64,955	39,371	(52,288)	-	52,038
Land improvements	48,515	-	2,176	-	50,691
Buildings & improvements	798,880	-	40,040	(272)	838,648
Equipment	109,851	2,631	9,048	-	121,530
Software	26,073	1,930	1,024	-	29,027
Total depreciable assets	983,319	4,561	52,288	(272)	1,039,896
Less accumulated depreciation:					
Land improvements	29,731	1,768	-	-	31,499
Buildings & improvements	260,615	19,962	-	(272)	280,305
Equipment	56,794	9,842	-	-	66,636
Software	13,145	2,221	-	-	15,366
Total accumulated depreciation	360,285	33,793	-	(272)	393,806
Net depreciable assets	623,034	(29,232)	52,288	-	646,090
Total capital assets	$ 687,989	$ 10,139	$ -	$ -	$ 698,128

($ in thousands)

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	31,939	(32,155)	-	21,568
Total nondepreciable assets	64,930	32,106	(32,081)	-	64,955
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	18,946	-	-	260,615
Equipment	47,370	9,424	-	-	56,794
Software	10,946	2,199	-	-	13,145
Total accumulated depreciation	328,058	32,227	-	-	360,285
Net depreciable assets	618,794	(27,841)	32,081	-	623,034
Total capital assets	$ 683,724	$ 4,265	$ -	$ -	$ 687,989

Additions to capital assets for the years ended June 30, 2014 and 2013 include the following:

- Assets acquired through capital leases of $73 and $0, respectively
- Capitalized interest costs of $86 and $95, less $0 and $5, respectively, of interest earnings on unexpended bond proceeds

As of June 30, 2014 and 2013, $210 and $6,176, 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, 2014 is $22,908 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 $9,169 and $24,212 at June 30, 2014 and 2013, respectively.

($ in thousands)

7. LONG-TERM LIABILITIES

Changes in long-term liabilities during the year ended June 30, 2014 consist of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases and bonds payable:					
Capital lease obligations **(a)**	$ 3,785	$ 73	$ (387)	$ 3,471	$ 359
Bonds and notes payable **(b)**	182,065	-	(17,713)	164,352	9,204
Total leases and bonds payable	185,850	73	(18,100)	167,823	9,563
Accrued liabilities:					
Workers' compensation - Note 11	4,381	779	(1,108)	4,052	1,251
Health insurance - Note 11	6,254	64,677	(63,645)	7,286	7,287
Postemployment health plan - Note 14	2,509	13,052	(15,561)	-	-
Other employee benefit programs - Note 13	44,996	58,901	(56,469)	47,428	5,961
Other	15,137	14,722	(14,642)	15,217	13,242
Total accrued liabilities	73,277	152,131	(151,425)	73,983	27,741
Total long-term liabilities	$ 259,127	$ 152,204	$ (169,525)	$ 241,806	$ 37,304

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)**	190,007	74,897	(82,839)	$ 182,065	12,247
Total leases and bonds payable	194,100	74,897	(83,147)	185,850	12,622
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	$ 275,849	$ 222,964	$ (239,686)	$ 259,127	$ 41,608

($ 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, 2014 are as follows:

	Capital Leases		Operating	
Year Ending June 30:	Principal	Interest	Leases	Total
2015	$ 359	$ 146	$ 1,208	$ 1,713
2016	409	131	843	1,383
2017	353	114	619	1,086
2018	289	101	492	882
2019	290	89	421	800
2020-2024	810	320	697	1,827
2025-2029	886	114	665	1,665
2030-2034	75	1	659	735
2035-2039	-	-	395	395
Total minimum lease payments	$ 3,471	$ 1,016	$ 5,999	$ 10,486

The rent expense related to operating leases amounted to $1,583 for the year ended June 30, 2014 and $1,588 for the year ended June 30, 2013.

($ in thousands)

(b) Bonds and Notes Payable

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

	2014	Restated 2013
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.	$ 58,985	$ 60,260
3.5% Term Bonds due March 1, 2034	2,455	2,455
3.5% Term Bonds due March 1, 2035	2,540	2,540
Add: unamortized premium	8,250	9,433
Total 2013 Series A Bonds	72,230	74,688
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.	25,500	27,695
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	1,720	2,079
Total 2012 Series A Bonds	32,380	34,934
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.	41,760	42,655
Add: unamortized premium	505	551
Total 2007 Series A Bonds	42,265	43,206
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.	10,500	12,100
Add: unamortized premium	82	105
Total 2005 Series A Bonds	10,582	12,205
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
4.25% Term Bonds, due March 1, 2034	6,410	6,410
Add: unamortized premium	114	231
Total 2004 Series A Bonds	6,524	16,601

($ in thousands)

	2014	Restated 2013
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
Note payable, secured by equipment, matures 2019, with annual payments of $75, including interest at 3.94%.	342	371
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%.	29	57
Total bonds and notes payable, net	$ 164,352	$ 182,065
Total par value of outstanding bonds and notes payable	$ 153,681	$ 169,666
Total unamortized premiums and discounts	10,671	12,399
Total bonds and notes payable, net	$ 164,352	$ 182,065

Costs associated with the issuance of revenue bonds have been expensed as incurred and included in the accompanying Statements of Revenues, Expenses and Changes in Net Position. Premiums, discounts, and deferred amounts on refunding are being amortized over the life of the respective bond issuances as part of interest expense using the effective interest method.

Principal and interest payments on bonds and notes payable for the next five years and in subsequent five-year periods are as follows at June 30, 2014:

Year Ending June 30:	Principal	Interest	Total
2015	$ 7,599	$ 6,662	$ 14,261
2016	7,694	6,333	14,027
2017	7,993	5,972	13,965
2018	8,984	5,597	14,581
2019	8,495	5,179	13,674
2020-2024	41,620	20,135	61,755
2025-2029	35,105	11,608	46,713
2030-2034	32,055	4,285	36,340
2035-2037	4,136	242	4,378
	$ 153,681	$ 66,013	$ 219,694

Interest costs related to the revenue bonds for FY14 and FY13 were $5,620 and $7,164, 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, 2014 and 2013 was $48,345 and $61,270, respectively.

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 $50,579 and $66,268 as of June 30, 2014 and 2013, respectively.

The FY13 refunding resulted in a deferred amount on refunding of $3,914 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 $3,704 and $3,898 as of June 30, 2014 and 2013, respectively, is included in deferred outflows in the accompanying Statements of Net Position.

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, 2014 and 2013 was $43,838 and $40,477, 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 unearned revenue liability in the Statements of Net Position. The System's outstanding advances as of June 30, 2014 and 2013 totaled $3,139 and $4,183, 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, 2014 and 2013 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:

	2014	Restated 2013
Net investment in capital assets	$ 531,654	$ 511,107
Restricted - Nonexpendable:		
Endowment funds	56,945	56,187
Restricted - Expendable:		
Student financial aid	45,985	36,927
Capital assets and retirement of debt	4,657	10,589
Loans	14,766	14,153
Academic support	12,792	11,074
Research and public service	8,496	7,290
Library	3,074	2,569
Other	19,806	17,353
Total restricted - expendable	109,576	99,955
Unrestricted:		
Educational and general reserves	59,944	57,740
Risk management	2,781	3,088
Budget stabilization	21,000	15,000
Auxiliary enterprises	15,478	15,164
Benefit pool carryover	24,906	20,511
Information technology initiatives	3,230	3,585
Internally designated projects	13,853	15,924
Facility projects	25,902	35,700
Endowment earnings	15,619	13,753
Cost sharing and other	(3,551)	2,754
Total unrestricted	179,162	183,219
Total net position	$ 877,337	$ 850,468

11. COMMITMENTS AND CONTINGENCIES

a. Grant Program Involvement

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

($ 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 per claim, plus a $10 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, 2014 and 2013 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, 2014 and 2013 of $4,052 and $4,381, 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, 2014. As of June 30, 2014 and 2013, 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:

	2014	2013
Claims incurred but not reported	$ 6,311	$ 5,251
Reported claims	975	1,003
Total health insurance liability - Note 7	$ 7,286	$ 6,254

($ 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 FY14 and FY13, the System distributed $144,931 and $149,486, 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:

	2014	2013
Faculty and Professional Employees:		
Contributory Retirement Plan	$ 20,318	$ 19,806
Incentive Plan	2,381	2,467
Hourly Employees:		
Basic Retirement Plan	3,534	3,611
Defined Benefit Plan	1,027	305
Total net pension expense	$ 27,260	$ 26,189

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. Participants may make additional voluntary contributions up to allowable limits. 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. Prior to June 1, 2014, participants had the option to direct up to 100% of existing accumulations and/or current contributions to selected investment vehicles outside of TIAA-CREF. As of June 1, 2014, all future contributions are directed to TIAA-CREF as the sole record-keeper. 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 $8,129 in FY14 and $7,918 in FY13.

Incentive Retirement Plan

The Incentive Retirement Plan is a single employer plan administered by the 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 in the following table, 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, 2014, 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
2014	$ 3,591	$ 957	$ 2,167	$ 2,381	$ 2,011	84%	$ 370	$22,880
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

Classified Employees

Basic Retirement Plan

The Basic Retirement Plan is a single employer plan administered by the 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. Classified 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. Prior to June 1, 2014, participants had the option to direct up to 100% of existing accumulations and/or current contributions to selected investment vehicles outside of TIAA-CREF. As of June 1, 2014, all future contributions are directed to TIAA-CREF as the sole record-keeper.

Employees hired prior to July 1, 1998 and who have more than five years of completed service may voluntarily contribute up to 4% of base pay 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 $1,461 in FY14 and $1,487 in FY13.

Defined Benefit Plan

The Defined Benefit Plan is a single employer plan administered by the 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, 2014 and 2013 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 a 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. During FY14, the System adopted a funding strategy for the Defined Benefit Plan which follows a long-term contribution schedule, such that a level annual dollar amount will be contributed to the plan indefinitely, while never allowing the plan's assets to be depleted.

($ in thousands)

Three-year trend information through June 30, 2014, 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
2014	$ 1,121	$ 96	$ 190	$ 1,027	$ 550	54%	$ 477	$ 1,800
2013	$ 377	$ 74	$ 146	$ 305	$ -	0%	$ 305	$ 1,323
2012	$ 377	$ 50	$ 99	$ 328	$ -	0%	$ 328	$ 1,018

As of June 30, 2014 and 2013 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 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, 2014 and 2013, there were approximately 6,822 and 6,957 persons, respectively, covered by the System’s postemployment health plan.

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

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

The subsidy for those meeting the above requirements is 100% of the cost for the retiree and 50% of the costs for eligible dependents; 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 System service. As of June 30, 2014 and 2013, there were approximately 1,910 and 1,830 persons, respectively, receiving a subsidy from the System.

($ in thousands)

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, 2014 and 2013, there were 54 and 77 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 ended June 30:

Fiscal Year Ended June 30	(a) Annual Required Contribution (ARC)	(b) Interest on OPEB Obligation	(c) ARC Adjust-ment	(d) (a)+(b)-(c) Annual OPEB Cost	(e) Employer Contributions Made	(f) (e)/(d) Percentage of Annual OPEB Cost Contributed	(g) (d)-(e) Change in Net OPEB Obligation	Net OPEB Obligation/ (Asset) Balance
2014	$ 13,052	$ -	$ -	$ 13,052	$ 18,083	139%	$ (5,031)	$ (2,522)
2013	$ 16,327	$ -	$ -	$ 16,327	$ 20,835	128%	$ (4,508)	$ 2,509
2012	$ 15,262	$ -	$ -	$ 15,262	$ 11,583	76%	$ 3,679	$ 7,017

Employer contributions made are comprised of the following:

	Pay-as-you-go	(OPEB) Irrevocable Trust	Total Employer Contributions
2014	$ 8,573	$ 9,510	$ 18,083
2013	$ 7,817	$ 13,018	$ 20,835
2012	$ 8,245	$ 3,338	$ 11,583

The net OPEB asset of $2,522 at June 30, 2014 is included in the accompanying Statements of Net Position as part of the current portion of accounts, grants, and pledges receivable. The net OPEB obligation of $2,509 at June 30, 2013 is included in the accompanying Statements of Net Position as a current accrued liability. The Other Postemployment 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, 2013, the most recent actuarial valuation, the actuarial accrued liability for benefits was $163,893 and the actuarial value of assets was $73,042 resulting in UAAL of $90,851 which results in a funded ratio of 44.6%. The covered payroll (annual payroll of active employees covered by the Plan) was $244,938 and the ratio of the UAAL to the covered payroll was 37.1%.

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence 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, 2013 actuarial valuations, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7.75% 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 8% initially, decreasing to an ultimate rate of 5% after four years. The actuarial value of assets is based on their fair value at July 1, 2013. After the Trust, which was established in FY09, has been in existence for 5 years, 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 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, 2014 and 2013, and is reported in separate financial statements as the Foundation reports its financial results under Financial Accounting Standards Board standards rather than GASB standards.

Long-term investments, endowment comprised 86% and 84% of the Foundation's total assets as of June 30, 2014 and 2013, respectively. Remaining disclosures in this note relate to this asset group.

<u>Long-term investments, endowment</u>

The Foundation maintains a general pool of investments for its endowments. These investment securities are stated at fair value based on quoted market prices within active markets. The fair values of alternative investments are determined from information supplied by the investment managers based on the market values of underlying investments on a net asset value basis. Investment income is reflected in the statement of activities as unrestricted or temporarily restricted based upon the existence and nature of any donor -imposed restrictions.

The Foundation has established a specific set of investment objectives and guidelines for investment managers that attempt to provide a predictable stream of income while seeking to maintain the purchasing power of the endowment assets over the long-term. The investment policy establishes an achievable return objective and seeks to manage risk through diversification of asset classes. The current long-term return objective is to return 8.3% in 2014 and 10% in 2013. Actual returns in any given year may vary from these amounts.

<u>Endowment spending policy</u>

The Foundation utilizes a spending policy for its pooled endowment in order to provide for the current and long-term needs of endowment recipients. The spending policy determines the endowment income to be distributed. For the years ended June 30, 2014 and 2013, the spending policy is 4½% of the average market value for the five previous years ending December 31. For permanent endowment, spending is contingent upon a fund's market value exceeding principal balances.

For the year beginning July 1, 2013, the Foundation adopted a prudent expenditure for funds with a market value below principal. Unless the donor has explicitly stated the principal is not expendable under any circumstances, a prudent expenditures of 2.25% will be distributed for funds less than ten percent below principal and 1% for funds ten percent or more below principal.

During the years ended June 30, 2014 and 2013, the Foundation distributed $9,960 and $5,388, respectively, to the System for both restricted and unrestricted purposes.

Fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

A fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Foundation. Unobservable inputs reflect assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

> Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.
>
> Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
>
> Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair vale measurement.

($ in thousands)

The following tables summarize the Foundation's long-term endowment investments by class in the fair value hierarchy as of June 30:

	2014				
	Level 1	Level 2	Level 3	Total	Liquidity
Total U.S. equities	$ 43,280	$ -	$ -	$ 43,280	Daily
Total non U.S. equities	61,275	-	-	61,275	Daily/Monthly
Total U.S. fixed Income	18,331	-	-	18,331	Daily
Total global fixed income	7,477	-	-	7,477	Daily
Total other equities	6,268	-	-	6,268	Daily
Total alternative investments	-	-	45,012	45,012	Monthly/ Quarterly/ Annually
Cash	7,508	-	-	7,508	Daily
Total long-term investments, endowment	$ 144,139	$ -	$ 45,012	$ 189,151	

	2013				
	Level 1	Level 2	Level 3	Total	Liquidity
Total U.S. equities	$ 26,254	$ -	$ -	$ 26,254	Daily
Total non U.S. equities	26,861	-	2,787	29,648	Daily/Monthly
Total U.S. fixed Income	1,600	-	-	1,600	Daily
Total alternative investments	4,735	-	26,214	30,949	Quarterly
Cash	74,384	-	-	74,384	Daily
Total long-term investments, endowment	$ 135,847	$ -	$ 29,001	$ 162,835	

Complete financial statements for the Foundation can be obtained from the Foundation’s office at Two Alumni Place, Orono, ME 04469-5792.

16. PRIOR PERIOD ADJUSTMENT

The provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, are effective for periods beginning after December 15, 2012. The University adopted Statement No. 65 for its June 30, 2014 financial statements. The change represents a change from one generally accepted accounting principle to another generally accepted accounting principle that is the current preferred industry practice. Under Statement No. 65, bond issuance costs are classified as a current operating expense, rather than capitalized and recognized as an expense over the life of the associated bond. The FY13 financial statements have been restated to reflect retroactive application of this change in accounting principle.

($ in thousands)

The effect of the FY13 restatement was to reduce beginning net position, decrease change in net position and decrease ending net position by the following amounts:

Net Position – Beginning of year – As previously reported	$825,343
Cumulative adjustment to Net Position	(2,052)
Net Position – Beginning of year – As restated	823,291
FY13 Change in Net Position – As previously reported	27,864
FY13 effect on Change in Net Position	(687)
FY13 Change in Net Position – As restated	27,177
Net Position at June 30, 2013 – As restated	$850,468

The above restatement only affected the net investment in capital assets portion of net position, which decreased by $2,739.

University of Maine System

Required Supplemental Information – Retirement Plans

Schedules of Funding Progress and Employer Contributions

Year ended June 30, 2014

(Unaudited)

($ in thousands)

Schedules of Funding Progress

Actuarial valuation (date as of July 1)	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll (b-a)/(c)
Incentive Retirement Plan for Faculty and Professionals						
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	$ 73,042	$ 163,893	$ 90,851	44.6%	$ 244,938	37.1%
2012	$ 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%

Schedules of Employer 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	
2014	$ 3,591	56%	$ 1,121	49%
2013	$ 3,387	51%	$ 377	—
2012	$ 3,387	38%	$ 377	—

University of Maine System

Supplemental Information Required by the State of Maine

Schedules of Activities

($ in thousands)

Year Ended June 30, 2014

Functions/Programs	Expenses	Charges for Services	Program Investment Income	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue
University of Maine System	$ 680,655	$ 297,293	$ 13,836	$ 174,850	$ 7,403	$(187,273)
General Revenues:						
Unrestricted interest and investment earnings						13,081
Additions to endowments - gifts						880
State of Maine noncapital appropriation						198,263
State of Maine capital appropriation						1,918
Total Revenues and Extraordinary Items						214,142
Change in Net Position						26,869
Net Position, Beginning of Year - Restated						850,468
Net Position, End of Year						$ 877,337

Year Ended June 30, 2013
Restated

Functions/Programs	Expenses	Charges for Services	Program Investment Loss	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue
University of Maine System	$ 680,564	$ 302,502	$ 8,380	$ 177,154	$ 8,106	$(184,422)
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						27,177
Net Position, Beginning of Year - Restated						823,291
Net Position, End of Year - Restated						$ 850,468

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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*

To the Board of Trustees
University of Maine System

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component unit of the University of Maine System (the System), a component unit of the State of Maine, as of and for the year ended June 30, 2014, 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 17, 2014, which contained an unmodified opinion on those financial statements with an emphasis of a matter paragraph regarding the System's adoption of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities.* The financial statements of the discretely presented component unit of the System were not audited in accordance with *Governmental Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance or other matters for the discretely presented component unit of the System.

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 a 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 17, 2014