Maine's Public Universities

UNIVERSITY OF MAINE SYSTEM

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2015

Electronic statements are available at 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

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

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

The University of Maine

University of Maine at Augusta

University of Maine at Farmington

University of Maine at Fort Kent

University of Maine at Machias

University of Maine at Presque Isle

University of Southern Maine

November 2015

Dear Friend:

"The way life should be" is an expression that welcomes travelers to Maine as they drive into our beautiful state. It is a motto that speaks to our state's natural treasures, the strength of our communities, our rich heritage, and our collective optimism. Maine's public universities are committed to ensuring our state's bold pronouncement of place is both accurate and enduring.

The University of Maine System is comprised of seven universities, a law school, and more than 35 research, outreach and Cooperative Extension centers across our vast and diverse state. In these times of change and challenge in higher education, the capacity of our individual campuses and centers must be paired with a pioneering commitment to partnership to enable our institutions to reach their highest potential and deliver on the promise of a brighter future for Maine.

The One University Initiative, developed to align Maine's public universities to the demographic, economic and competitive realities of the times, was launched earlier this year. This student and service-focused, multi-year innovation will streamline administrative functions across our seven mission-differentiated campuses while improving academic coordination and statewide student access to our programs.

Our One University work also contributed to the signing of a landmark credit transfer agreement this year with Maine's Community College System, ensuring 35 general education credits can transfer as a block among all 14 of Maine's public colleges and universities. We have also expanded early college opportunities into most of Maine's high schools, providing students with a chance to study at the collegiate level and earn college credits at a significant savings while they continue their work toward a high school diploma.

Our new direction along with a modest increase in state support for public higher education already has Maine's universities on a path to firmer financial ground. While we still have efficiencies to realize and hard choices to make, we are on course to achieving a stable fiscal foundation upon which we can build for the future.

It is a privilege to work along side the accomplished educators and public servants who contribute so much to the success of our students and State. Please visit our website at www.maine.edu to learn more about their work, their service, and our plans for ensuring Maine's universities remain a key contributor to our state's expression-worthy way of life.

Sincerely,

James H Page

James H. Page
Chancellor

AS OF JUNE 30, 2015

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, 2015 and 2014, 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.

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, 2015 and 2014, 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 to the financial statements, in 2015, the System adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* and GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* The 2014 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 25, Schedules of Funding Progress on page 72 and the supplementary information related to the System's retirement plans on pages 73 through 77, 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 78 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 16, 2015 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.

Bangor, Maine
November 16, 2015

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 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, 2015 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

Established in 1968 by the Maine State Legislature, the System is the State's largest educational enterprise, uniting seven distinctive public universities in the common purpose of providing high-quality educational undergraduate and graduate opportunities that are accessible, affordable, and relevant to the needs of Maine students, businesses, and communities. The System carries out the traditional tripartite mission – teaching, research, and public service. The System is a major resource for the State, driving economic development by conducting world-class research, commercializing valuable ideas, and partnering successfully with businesses and industries throughout Maine and beyond.

UNIVERSITY OF MAINE SYSTEM UNIVERSITIES, CAMPUSES & CENTERS

The System is a comprehensive public institution of higher education with approximately 30,000 enrolled students, supported by the efforts of 1,215 regular full-time faculty, 72 regular part-time faculty, 3,026 regular full-time staff, and 285 regular part-time staff members.

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. During FY15, the System launched a Professional Graduate Center (PGC) Initiative. The PGC will serve as a combined graduate center for the UM and USM Master of Business programs and the Juris Doctor program at the Maine Law School. 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, 29,613 students were enrolled on a headcount basis for the Fall 2014 semester, down 2.5% from Fall 2013 and 7.5% since Fall 2010.

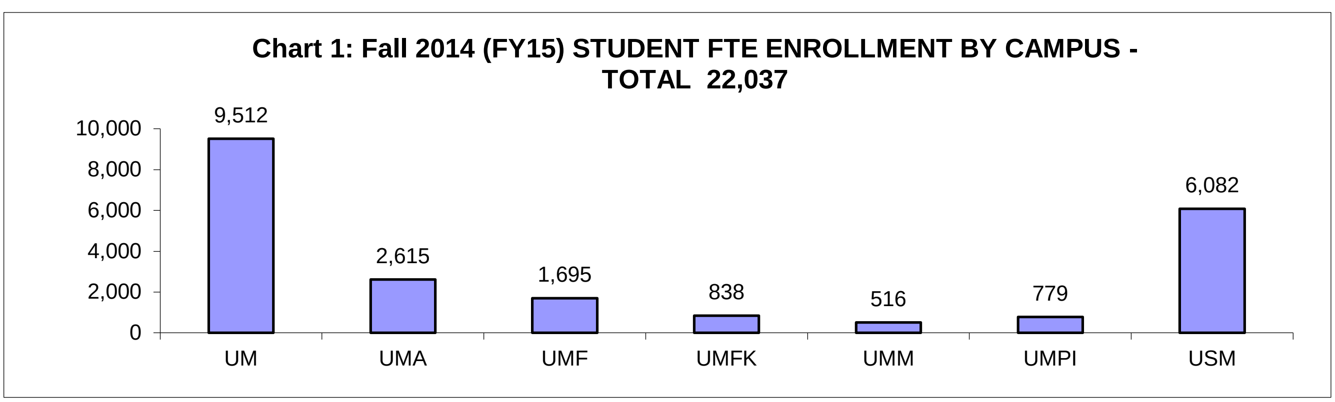
Table 1: Fall Student Enrollments by Headcount

	Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010	
Full-Time	**19,273**	**65%**	**19,728**	**65%**	20,153	65%	20,057	64%	20,542	64%
Part-Time	**10,340**	**35%**	**10,637**	**35%**	10,859	35%	11,051	36%	11,467	36%
Headcount	**29,613**	**100%**	**30,365**	**100%**	31,012	100%	31,108	100%	32,009	100%

Table 2 below shows student enrollment on a full-time equivalent (FTE) basis with 22,037 students enrolled for the Fall 2014 semester, down 2.2% from Fall 2013. FTE enrollments were down 2.0% from Fall 2012 to Fall 2013. Since Fall 2010, enrollments have declined by 1,498 students or 6.4%. For Fall 2014, 65% of the student population was enrolled full-time and 82% on an FTE basis were Maine residents.

Table 2: Fall Student FTE Enrollments

	% Change Fall 2010 to 2014	Fall 2014	% Change	Fall 2013	% Change	Fall 2012	% Change	Fall 2011	% Change	Fall 2010	% Change
UM	**1.6%**	**9,512**	**1.7%**	**9,356**	3.5%	9,040	-0.9%	9,120	-2.5%	9,358	-3.1%
UMA	**-6.8%**	**2,615**	**-3.6%**	**2,713**	-5.2%	2,862	1.4%	2,823	0.6%	2,805	1.0%
UMF	**-15.4%**	**1,695**	**-6.2%**	**1,807**	-4.7%	1,896	-4.4%	1,983	-1.0%	2,003	2.5%
UMFK	**18.9%**	**838**	**4.1%**	**805**	3.3%	779	11.0%	702	-0.4%	705	-3.8%
UMM	**-9.3%**	**516**	**-4.8%**	**542**	-5.1%	571	6.3%	537	-5.6%	569	1.4%
UMPI	**-25.4%**	**779**	**-7.6%**	**843**	-13.4%	974	-2.3%	997	-4.5%	1,044	-1.7%
USM	**-13.7%**	**6,082**	**-5.9%**	**6,460**	-6.0%	6,871	1.6%	6,764	-4.1%	7,051	1.1%
Total	**-6.4%**	**22,037**	**-2.2%**	**22,526**	-2.0%	22,993	0.3%	22,926	-2.6%	23,535	-0.7%



STUDENT COMPREHENSIVE COST OF EDUCATION

Net student fee revenue totaling $238 million in FY15 and $243 million in FY14, is the System's greatest source of revenue, contributing 36% of Total Operating and Net Nonoperating Revenues for the past three years. Net student fees are impacted by enrollment levels; tuition, room and board, and fees; and the amount of scholarship allowances provided to students.

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 the System's continued commitment to providing affordable higher education. Tempering increases in this revenue source continues to be challenging given cost pressures and limited increases in Noncapital State of Maine Appropriations. Noncapital Appropriations were the System's second largest source of revenues contributing $199 million (or 31%) in FY15 and $198 million (or 29%) in FY14 after having peaked in FY08 at $201 million.

As shown below, FY15 saw weighted average comprehensive cost of education increases that were significantly lower than in FY12 and FY11. Percentage changes in FY15 range from an increase of 2.0% for Undergraduate Canadian students to a decrease of 1.4% for Graduate New England Board of Higher Education (NEBHE) students. Percentage changes in FY14 range from an increase of 2.5% for Graduate Out-of-State students and Canadian students to an increase of 0.4% for Law School Out-of-State students.

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

	2015		2014		2013		2012		2011	
	Cost	% Change	Cost	% Change	Cost	% Change	Cost	% Change	Cost	% Change
Undergraduate										
In-State	**$18,151**	0.6%	**$18,035**	1.3%	$17,802	0.4%	$17,731	3.3%	$17,172	4.5%
Out-of-State	**33,453**	1.3%	**33,022**	2.4%	32,250	2.6%	31,418	3.0%	30,505	4.4%
NEBHE	**22,707**	0.5%	**22,584**	1.7%	22,213	-0.1%	22,239	3.8%	21,428	5.7%
Canadian	**21,548**	2.0%	**21,116**	1.9%	20,725	0.7%	20,572	4.0%	19,786	5.3%
Graduate										
In-State	**$16,982**	0.3%	**$16,937**	1.3%	$16,721	0.5%	$16,634	3.2%	$16,116	4.8%
Out-of-State	**31,958**	1.4%	**31,517**	2.5%	30,757	2.2%	30,099	3.5%	29,072	4.5%
NEBHE	**20,438**	-1.4%	**20,735**	0.9%	20,552	0.8%	20,389	5.3%	19,361	4.6%
Canadian	**21,014**	-0.4%	**21,095**	2.5%	20,572	0.4%	20,492	3.3%	19,843	4.7%
Law School										
In-State	**$32,380**	0.6%	**$32,180**	0.6%	$31,989	0.4%	$31,857	4.1%	$30,606	5.3%
Out-of-State	**43,450**	0.5%	**43,250**	0.4%	43,059	0.7%	42,777	3.2%	41,436	4.8%
NEBHE/Canadian	**40,510**	0.5%	**40,310**	0.5%	40,119	0.6%	39,897	3.5%	38,556	4.2%

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, deferred outflows, liabilities, deferred inflows, 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 11 shows Condensed Statements of Net Position for the past five years.

The FY14 financial statements have been restated to reflect:

- adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* as described in Notes 1b and 17 to the financial statements and
- early adoption of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* as described in Notes 1b and 17 to the financial statements.

The overall impact to the Condensed Statements of Net Position is that the FY14 beginning of year net position as previously reported declined over $11 million while the FY14 effect on the Change in Net Position was an increase of almost $4 million, resulting in a nearly $8 million decline from the previously stated unrestricted net position.

As noted in the prior year financial statements, FY13 was restated to reflect adoption of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* The overall impact to the Condensed Statements of Net Position was 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 $1,202 million at June 30, 2015 have increased $62 million, or 5%, since June 30, 2011. Total assets are categorized as either current or noncurrent. Current assets are available to satisfy current liabilities, which in turn are those amounts expected to be payable within the next year. The major component of current assets is short-term investments which total $231 million and $240 million at June 30, 2015 and 2014, respectively.

Noncurrent assets consist mainly of endowment investments and capital assets, net of depreciation. Endowment investments total $143 million at June 30, 2015, a decrease of $7 million or 5% from the FY14 year-end balance of $150 million and an $18 million or 14% increase since June 30, 2011. Capital assets totaled $703 million and $698 million at June 30, 2015 and 2014, respectively. The System's progress in upgrading older facilities and meeting new facilities needs is addressed later in this report.

Current liabilities of $74 million and $64 million at June 30, 2015 and 2014, 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 $265 million, total noncurrent liabilities increased $1 million or less than 1% from June 30, 2014 to 2015. This increase is primarily the result of a decrease of $3 million in endowment funds held for others offset by a net increase of $5 million in bonds and notes payable. In FY15, the System issued $48 million of revenue bonds to provide $13 million for energy efficiency projects at UMF and UMM and to achieve interest savings by refunding $38 million of previously issued bonds. Total noncurrent liabilities decreased $11 million or 4% from June 30, 2013 to 2014 primarily due to the System paying down bonds and notes payable.

The total net position at June 30, 2015 of $861 million declined $9 million or 1% from the June 30, 2014 balance, as restated. Additional information about net position is presented on page 16.

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

($ in millions)

	2015	% Change	Restated 2014	% Change	2013	2012	2011
Current Assets	**$288**	**-4%**	**$300**	**-2%**	$307	$315	$295
Noncurrent Assets							
Endowment investments	**143**	**-5%**	**150**	**13%**	133	121	125
Capital assets, net	**703**	**1%**	**698**	**1%**	688	684	668
Other	**60**	**30%**	**46**	**-19%**	57	60	52
Total Assets	**1,194**	**0%**	**1,194**	**1%**	1,185	1,180	1,140
Deferred Outflows of Resources	**8**	**100%**	**4**	**0%**	4		
Total Assets & Deferred Outflows	**$1,202**	**0%**	**$1,198**	**1%**	$1,189	$1,180	$1,140
Current Liabilities	**$74**	**16%**	**$64**	**-10%**	$71	$79	$73
Noncurrent Liabilities:							
Long-term debt	**165**	**4%**	**158**	**-9%**	173	183	186
Other	**100**	**-6%**	**106**	**12%**	95	93	94
Total Liabilities	**339**	**3%**	**328**	**-3%**	339	355	353
Deferred Inflows of Resources	**2**	**0%**	**0**	**0%**			
Total Liabilities & Deferred Inflows	**341**	**4%**	**328**	**-3%**	339	355	353
Net investment in capital assets	**541**	**2%**	**532**	**4%**	511	500	474
Restricted:							
Nonexpendable	**58**	**2%**	**57**	**2%**	56	55	52
Expendable	**106**	**-3%**	**109**	**9%**	100	93	95
Unrestricted	**156**	**-9%**	**172**	**-6%**	183	177	166
Total Net Position	**861**	**-1%**	**870**	**2%**	850	825	787
Total Liabilities & Net Position	**$1,202**	**0%**	**$1,198**	**1%**	$1,189	$1,180	$1,140

Managed 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, 2015, 2014, and 2013 market values of the pooled investments, including the amounts held on behalf of each entity. These amounts exclude other separately held UMS endowment assets.

Table 5: Market Value of Pooled Investments by Entity
($ in millions)

	2015	2014	2013
University of Maine System & Affiliates Endowments	$140	$150	$132
Other Post Employment Benefits Trust (OPEB)	94	95	73
Maine Maritime Academy	30	29	25
University of Maine School of Law Foundation	4	4	3
Total	**$268**	**$278**	**$233**

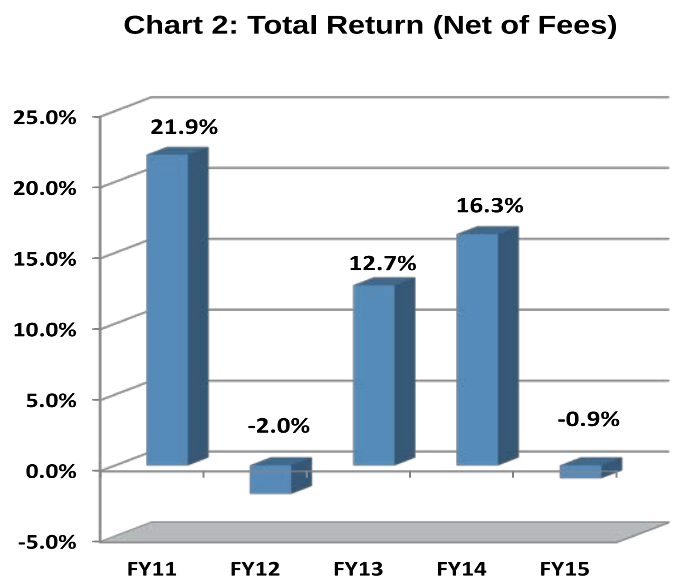
The accompanying Statements of Net Position report endowment investments that include the System's and affiliates' share of the pooled investments, along with separately invested UMS endowments. The liability for the affiliates' share of those investments are also recognized on those Statements as funds held for others. 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

	2015	2014	2013
Domestic Equities	**22%**	**22%**	**23%**
International Equities	**23%**	**23%**	**23%**
Fixed Income	**15%**	**15%**	**14%**
Global Asset Allocation	**25%**	**26%**	**25%**
Hedge Funds	**13%**	**12%**	**12%**
Timber	**2%**	**2%**	**2%**
Cash	**0%**	**0%**	**1%**
Total	**100%**	**100%**	**100%**

Financial markets were challenged during FY15 with the pool realizing a net of fees return of -0.9%, down from 16.3% in FY14 and 12.7% in FY13. The pooled investments have a 5-year annualized net of fees return of 9.1%.



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 $140 million at June 30, 2015, decreasing $10 million from the prior year end market value of $150 million. This decline included endowment contributions of $1 million (with another $2 million endowment contributions held at June 30, 2015 within the operating fund pending investment), less $2 million net negative performance, $6 million distributed for scholarships and other operating activities, and $3 million withdrawn by one of the affiliates.

The FY14 market value of $150 million increased $18 million from the prior year end market value of $132 million. This growth included $21 million in net performance, plus $2 million in endowment contributions, less $5 million distributed for scholarships and operating activities.

These pooled investments had a market value of $132 million at June 30, 2013, increasing $11 million from the prior year end market value of $121 million. This growth included $15 million in net performance, plus $1 million in endowment contributions (with another $1 million endowment contributions held at June 30, 2013 within the operating fund pending investment), 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 FY15, FY14 and FY13 was 4.5%, down from 4.75% in FY12.

Capital Assets and Debt Activities

Table 7 on page 15 shows the status of major capital construction projects as of June 30, 2015, 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 FY15, the System had capital asset additions of $41 million which included $33 million of construction in progress and $8 million of equipment and software. In 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. In FY13, the System had capital asset additions of $36 million which included $32 million related to construction in progress and $4 million in equipment and software.

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. Long-term debt as of June 30, 2015 and 2014, was $176 million and $168 million, respectively.

Table 7: Major Capital Construction Projects Completed During FY15 or In Progress at June 30, 2015

($ in millions)

	Project	Funding Source	Status	BOT Approved Budget
UMF				
	Merrill Hall Heating Boiler Replacement	Educational & General	Complete	$ 0.71
	Mantor Green Geothermal Well Field	Educational & General	Complete	1.55
	Dearborn Gymnasium Renovation	Educational & General	Complete	1.20
	Science Labs Renovations (Preble & Ricker)	Educational & General, State Bond	In Progress	1.38
	Central Heating Plant	2015 Revenue Bond	In Progress	11.00
UMFK				
	Renewable Biomass District Heating Plant	Grant, Educational & General	Complete	5.50
	Forestry Geographic Info Sys Tech Labs/Nursing Lab Renovation/Teleconference Center Upgrades	State Bond	In Progress	1.20
UMM				
	Powers Hall Exterior and Masonry	Educational & General, State Bond	Complete	1.50
	Science Building Laboratory Upgrades	Educational & General, State Bond	Complete	0.60
	Compressed Natural Gas Heating Conversion	2015 Revenue Bond	In Design	1.80
UM				
	Advanced Structures & Composites Center Expansion	Grant, Educational & General, State Bond	In Progress	8.90
	Aubert Hall STEM Classroom Renovation	State Bond	In Progress	2.70
	Wells Commons Dish Room Renovation	Educational & General	In Progress	1.30
	Boardman Hall STEM Lab Renovation	State Bond	In Progress	0.61
	Little Hall STEM Classroom Renovation	State Bond	In Progress	1.74
	Estabrooke 3rd & 4th Floor Renovation	Educational & General	In Progress	5.00
	Aquaculture Research Center Fish Lab Addition	Grant	Complete	0.60
	Planetarium & Observatory	Gift & Fund Raising, Educational & General	Complete	5.20
	Memorial Gym Field House Renovation	2012 Revenue Bond, Gifts, Educational & General	Complete	15.67
	Morse Field Scoreboard Upgrade	Gift & Fund Raising	Complete	0.80
USM				
	International Study Center	Educational & General	Complete	0.80
	Central Heat Plant Renovation Portland	Internal Loan	In Progress	3.00
	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
	Improvements to existing space for relocation of personnel from perimeter and lower density facilities	Educational & General	In Design	1.50
UMPI				
	Folsom/Pullen Science Classroom & Lab Upgrades	Educational & General, State Bond	In Progress	1.20
UMS				
	Improvements to existing space for relocation of personnel from 16 Central Street	Educational & General	In Design	1.00
			TOTAL	$ 80.26

* The BOT, in July 2015, approved that the state bond funds of $1.25 milion would be used for the Bio-Sci Chemistry Lab instead of for the previously approved Payson Smith Lab Renovations. Expenses incurred to date on the Payson Smith Lab Renovation project will be paid for with Educational & General funds.

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 11, the System's net investment in capital assets was $541 million at June 30, 2015. The FY15 increase of $9 million was primarily the result of $5 million in net additions to capital assets after annual depreciation and a $4 million decline in related debt.

For FY14, the $21 million increase 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 restricted-nonexpendable net position of $58 million at June 30, 2015 represents the System's permanent endowment funds. Items that impact this category of net position 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 has increased $1 million each year since FY12.

The restricted-expendable net position of $106 million at June 30, 2015 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 $3 million net decrease in FY15 includes a nearly $500 thousand loss from negative financial market performance, nearly $6 million distributed for endowed spending, a $1 million increase in restricted gift monies for scholarships for adults, a $1 million increase in unspent State of Maine appropriations for the Maine Economic Improvement Fund, and a $1 million increase in a restricted institutional loan fund.

For FY14, the $9 million net increase in restricted-expendable net position 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 unrestricted net position of $156 million at June 30, 2015 decreased by $16 million after having decreased by $11 million in FY14. 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 by management 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 17 to the financial statements, FY14 has been restated to reflect application of the change in accounting principle resulting in a decrease to the 2014 beginning of year net position of over $11 million while the effect on 2014 operating expense was a decrease of almost $4 million. The change in net position for FY14 (as restated) therefore increased almost $4 million and the impact on net position at June 30, 2014, is a decline of nearly $8 million, from the amount previously reported.

As noted in the System's prior year financial statements notes 1b and 16, FY13 was 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, was a decline of $3 million from the amount previously reported.

The System's total net position decreased $9 million in FY15, increased $30 million in FY14 and increased $27 million in FY13.

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)

	2015	% Change	Restated 2014	% Change	2013	2012	2011
Net Student Fees	**$238**	**-2%**	**$243**	**-1%**	$246	$241	$239
Grants, Contracts and Indirect Cost Recovery	**146**	**-6%**	**156**	**-3%**	161	178	186
Other Operating Revenues	**52**	**-4%**	**54**	**-4%**	56	57	59
Operating Revenues	**436**	**-4%**	**453**	**-2%**	463	476	484
Operating Expenses	**(669)**	**0%**	**(671)**	**0%**	(673)	(672)	(667)
Operating Loss	**(233)**	**7%**	**(218)**	**4%**	(210)	(196)	(183)
Nonoperating Revenues (Expenses)							
Noncapital State of Maine Appropriations	**199**	**1%**	**198**	**2%**	194	198	195
State Fiscal Stabilization Funds	**0**	**0%**	**0**	**0%**	0	0	6
Gifts Currently Expendable	**15**	**7%**	**14**	**27%**	11	12	11
Endowment Return Used for Operations	**6**	**20%**	**5**	**0%**	5	5	5
Investment Income	**(1)**	**-108%**	**13**	**30%**	10	5	11
Interest Expense, Net	**(5)**	**-17%**	**(6)**	**-14%**	(7)	(8)	(8)
Net Nonoperating Revenues	**214**	**-4%**	**224**	**5%**	213	212	220
Income Before Other Changes in Net Position	**(19)**	**-417%**	**6**	**100%**	3	16	37
Other Changes in Net Position							
State of Maine Capital Appropriation	**11**	**450%**	**2**	**-67%**	6	5	4
Capital Grants and Gifts	**4**	**-43%**	**7**	**-13%**	8	20	22
Endow. Return, Net of Amt. Used for Operations	**(6)**	**-143%**	**14**	**75%**	8	(6)	14
Other	**1**	**0%**	**1**	**-50%**	2	3	3
Total Other Changes in Net Position	**10**	**-58%**	**24**	**0%**	24	22	43
Change in Net Position	**($9)**	**-130%**	**$30**	**11%**	$27	$38	$80

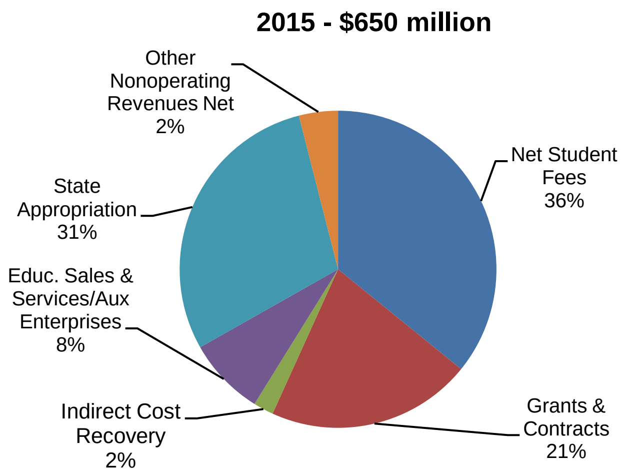
Operating and Nonoperating Revenue

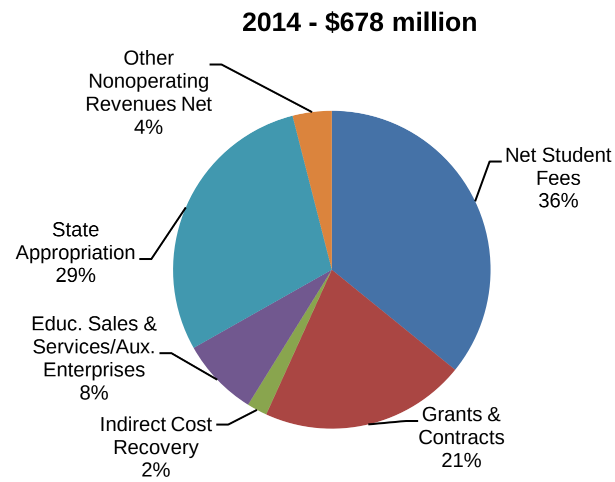
In addition to receiving tuition and fees, the System receives revenue from other sources such as governmental and privately funded grants and contracts; gifts from individuals, foundations, and corporations; state appropriations; and investment income.

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 the total operating and net nonoperating revenue sources used to fund the System's activities for FY15 and FY14.

CHART 4: TOTAL OPERATING & NET NONOPERATING REVENUE





Net student fees of $238 million for FY15 are the primary source of operating revenues. The portion of total operating and net nonoperating revenues funded by net student revenues has remained constant at 36% from FY13 through FY15.

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

- Tuition and fees totaled $268 million in FY15, increasing $1 million (or almost 1%) from the prior year. FY14 decreased $1 million (or almost 1%) and FY13 saw an increase of $3 million (2%) compared to FY12.
- Residence and dining fees of $58 million in FY15 were down $2 million (or 3%) compared with FY14 which was up $2 million (or 4%) from FY13, while such revenues were nearly flat in FY13 compared with FY12.
- Scholarship allowances of $88 million increased $4 million (or 5%) in FY15, increased $4 million (or 6%) in FY14, and decreased $2 million (or 3%) in FY13.

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.

For FY15, total financial aid provided to students was $119 million, increasing $5 million or 4% over FY14 aid of $114 million. The increase includes a nearly $1 million increase in institutional restricted aid, an increase of $5 million in institutional unrestricted aid, and a decrease of $1 million in aid from the Federal Pell Grant Program.

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.

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 $134 million in FY15, decreasing $8 million or nearly 6% from FY14. Significant funding variations in this net decrease include a $4 million decline in gross funding for the Maine School and Library Network as one major grant sub-recipient negotiated FY15 funding directly from the federal government instead of funds being passed through the University of Maine System as in prior years; a $3 million decrease in funding from the US Department of Energy at UM as a result of two multiple year grants ending during FY15; and a decline of $2 million in US Department of Health and Human Services funding at USM as a result of three grants that ended prior to or during FY15.

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 UM; 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.

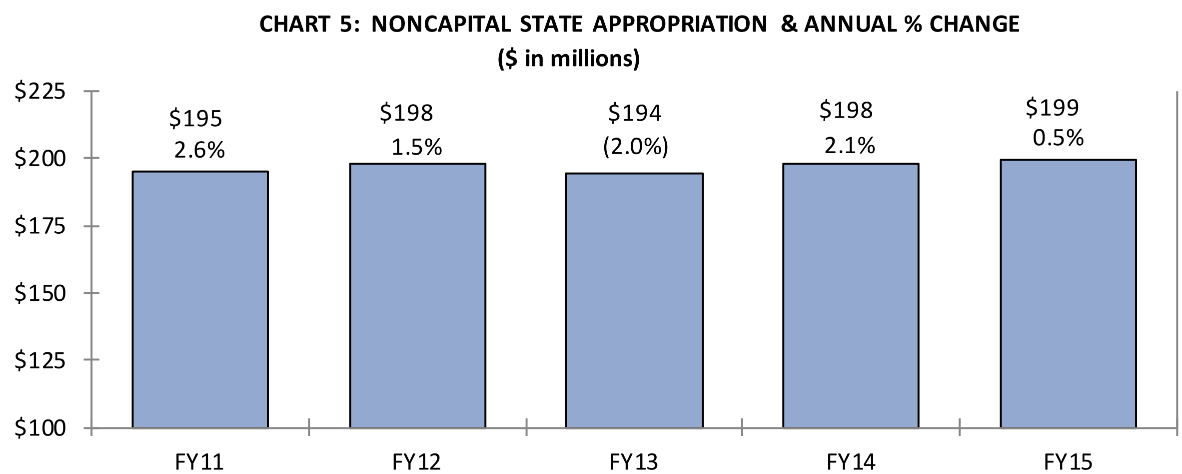
In addition to providing for direct costs, grants and contracts sponsors also provide for recovery of Facilities and Administrative (F&A) costs which are also known as indirect costs. The amount of allowable F&A costs is calculated for each grant and contract using the applicable negotiated rate subject to specific sponsor limitations and other proposal and award conditions. Recovery of indirect costs totaled $12 million in FY15 declining from $14 million in FY14, and down from $15 million in FY13.

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 $199 million in noncapital State appropriation revenue during FY15, up $1 million or 0.5% from FY14. The System received $198 million in noncapital State appropriation revenue during FY14, up $4 million or 2.1% from FY13.

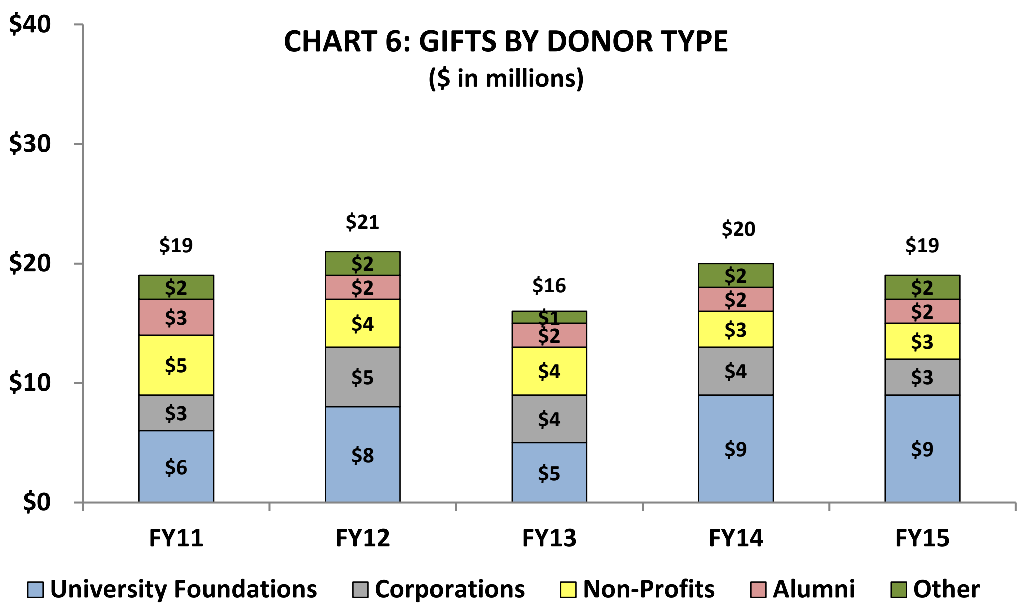
At $199 million, noncapital state appropriation covered 85% of the $233 million net operating loss in FY15, down from net operating loss coverage levels of 91% in FY14, as restated, and 93% in FY13.



Cash Gifts:

As shown in Chart 6 below, gifts received in FY15 were down $1 million from the prior year after having been up in FY14 by $4 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.

89% of the $19 million in gifts received in FY15 were restricted, 8% were endowed and 3% were unrestricted. Of the $20 million in gifts received in FY14, 93% were restricted, 4% were endowed, and 3% were unrestricted. 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)

	2015		Restated 2014		2013		2012		2011	
Instruction	**$180**	**27%**	**$181**	**27%**	$180	27%	$179	27%	$178	27%
Research	**65**	**10%**	**72**	**11%**	69	10%	73	11%	79	12%
Public service	**61**	**9%**	**60**	**9%**	60	9%	64	10%	61	9%
Academic support	**70**	**10%**	**76**	**11%**	77	12%	77	12%	73	11%
Student services	**52**	**8%**	**49**	**7%**	50	7%	48	7%	47	7%
Institutional support	**58**	**9%**	**48**	**7%**	54	8%	56	8%	50	8%
Operation and maintenance of plant	**50**	**7%**	**51**	**8%**	50	7%	47	7%	49	7%
Depreciation and amortization	**35**	**5%**	**34**	**5%**	32	5%	30	4%	29	4%
Student aid	**31**	**5%**	**30**	**5%**	32	5%	28	4%	28	4%
Auxiliary enterprises	**67**	**10%**	**70**	**10%**	69	10%	70	10%	73	11%
Total Operating Expenses	**$669**	**100%**	**$671**	**100%**	$673	100%	$672	100%	$667	100%

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

	2015		Restated 2014		2013		2012		2011	
Operating:										
Compensation and Benefits	**$436**	**65%**	**$436**	**64%**	$433	64%	$434	64%	$427	63%
Utilities	**30**	**4%**	**35**	**5%**	34	5%	32	5%	32	5%
Supplies and Services	**137**	**20%**	**136**	**20%**	142	20%	148	22%	151	23%
Depreciation and Amortization	**35**	**5%**	**34**	**5%**	32	5%	30	4%	29	4%
Student Aid	**31**	**5%**	**30**	**5%**	32	5%	28	4%	28	4%
Total Operating Expenses	**669**	**99%**	**671**	**99%**	673	99%	672	99%	667	99%
Nonoperating:										
Interest	**5**	**1%**	**6**	**1%**	7	1%	8	1%	8	1%
Total Expenses	**$674**	**100%**	**$677**	**100%**	$680	100%	$680	100%	$675	100%

As shown in Table 10, compensation and benefits expense for FY15 stayed flat at $436 million compared with FY14 after having increased $3 million from FY13.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows examines the changes in cash position from a year of operations. Its primary purpose is to provide relevant information about the cash receipts and cash payments of the System during the fiscal year. This statement helps users assess the System's ability to generate future cash flows, its ability to meet obligations as they become due and its need for external financing.

CURRENT AND FUTURE CONSIDERATIONS

The System continues on a path guided by the Board of Trustees and the goals and actions they outlined for achieving mission excellence in January 2012. Since that time, successes in improved administrative efficiencies and services have been attained while reinvestments are being made in the core mission critical areas of education, research and public service.

The economic, demographic and competitive realities have been the catalysts for change as the System can no longer sustain its current administrative structure and facilities footprint, and the BOT and management fully recognize that innovation and cross-campus collaboration must be embraced. At the forefront remains the priority of providing a quality education that is affordable to Maine families.

The vision of *One University for all of Maine* was announced in January 2015 with the objective of seven mission-differentiated, mutually dependent campuses operating as one fully integrated university singularly focused on student success and responsive service to the State of Maine. The One University model is a destination, but the paths and outcomes that will shape our future are still to be determined. As a public institution of higher education, we will employ collaborative and transparent processes so our campuses and constituencies remain informed and representatives from key stakeholder groups have an opportunity to contribute to the decision making process.

Our universities must have the resources, strategic focus and community engagement necessary to achieve sustainable competitive advantages with focus placed on investment and growth. Working with community leaders to meet regional or statewide service missions will be essential to success.

Our universities have been working to dramatically reduce and reorganize all administrative functions into a single, integrated administrative structure appropriate to our mission, resources and size. They will move from seven individual university budgets to a unified financial management system that enhances transparency, ensures appropriate fiscal controls, and makes possible comprehensive system-wide collaboration. All administrative functions will be integrated and managed as a single, geographically distributed unit, reducing redundancies and ensuring that every corner of our enterprise benefits from the expertise and efficiency that can only be achieved through true cooperation and scale. Adoption of a single, integrated university model will best achieve the desired strategic outcomes.

The System's efforts to transform academics continues and includes portfolio review and program integration.

- Portfolio review includes assessing the portfolios of academic programs across the System for their financial sustainability, service to the State's needs, and mission criticality under the leadership of the Presidents Council and the Chief Academic Officers.
- Program Integration work involves discipline-based academic teams that are working to increase collaboration, quality, access, and financial sustainability. Collaborative arrangements include

joint or System degrees, shared courses and faculty, defining pathways for students to get into programs from other institutions, and short courses and certificates.

While many of the improvements have been and will continue to be behind the scenes, advancing opportunities in academics, improving facility utilization, and developing the One University model promise to be more visible to students and the public.

Accounting Pronouncements with Potential Significant Impacts

In June 2015, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB No. 75) was issued. The primary objective of this Statement is to improve accounting and financial reporting with the purpose of providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The new Standard will affect how the System measures, reports, and discloses information about its other postemployment benefits (OPEB) other than pensions. The System will be required to adopt GASB No. 75 for the fiscal year ending June 30, 2018. The effects of implementation on the financial statements have not yet been determined.

World and State Economic Considerations

Financial markets have negatively impacted financial results for FY15 as reported herein and volatility persists as does uncertainty related to the timing of the Federal Reserve Board's much anticipated interest rate increase. These financial conditions present continued 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, for the four years FY13 through FY16, the System has frozen undergraduate in-state tuition and mandatory unified fees at 2012 levels. Affordable quality education remains among the highest priorities of the System. Likewise, the Governor and legislature have demonstrated their commitment to making college more affordable for Maine students by increasing the System's general fund allocation by 1.7% (or $3 million) in FY16 and by an additional 1.9% in FY17.

At 31%, the second largest revenue source for the System is the State of Maine noncapital appropriation. 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, the Noncapital State Appropriation has shown some modest improvement having increased from $195 million in FY11 to $199 million in FY15 and the health of Maine's economy will be critical to sustaining this revenue stream.

The Work Ahead

We have made significant progress on many fronts but there is much more work to be done. With the launching of the *One University for all of Maine* framework, the work ahead will continue to be transformational and highly anticipated, guided by the objective of seven mission-differentiated, mutually dependent campuses operating as one fully integrated university singularly focused on student success and responsive service to the State of Maine.

University of Maine System
Statements of Net Position
June 30, 2015 and 2014
($ in thousands)

	2015	Restated 2014
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	$ 6,174	$ 817
Short-term investments (Note 3)	231,354	240,431
Accounts, grants, and pledges receivable, net (Notes 4 and 14)	44,161	53,240
Inventories and prepaid expenses	5,953	5,338
Notes and lease receivable, net (Note 5)	63	63
Total Current Assets	287,705	299,889
Noncurrent Assets		
Deposits with bond trustees (Notes 3 and 6)	12,744	400
Accounts, grants, and pledges receivable, net (Note 4)	7,862	4,140
Notes and leases receivable, net (Note 5)	40,877	41,072
Endowment investments (Note 3)	142,547	150,404
Capital assets, net (Note 6)	702,812	698,128
Total Noncurrent Assets	906,842	894,144
Total Assets	**1,194,547**	**1,194,033**
Deferred Outflows of Resources (Note 15)	**7,728**	**3,957**
Total Assets and Deferred Outflows	**$ 1,202,275**	**$ 1,197,990**
Liabilities		
Current Liabilities		
Accounts payable	$ 18,158	$ 13,062
Unearned revenue and deposits (Note 8)	11,069	11,049
Accrued liabilities (Notes 7, 11, 13 and 14)	31,680	27,741
Funds held for others	1,828	2,599
Current portion of long-term debt (Note 7)	11,312	9,563
Total Current Liabilities	74,047	64,014
Noncurrent Liabilities		
Accrued liabilities (Notes 7, 11 and 13)	52,748	53,876
Funds held for others (Note 3)	18,189	21,628
Long-term debt (Note 7)	164,782	158,260
Government advances refundable (Note 9)	30,269	30,509
Total Noncurrent Liabilities	265,988	264,273
Total Liabilities	**340,035**	**328,287**
Deferred Inflows of Resources (Note 15)	**1,609**	**-**
Net Position		
Net investment in capital assets (Note 10)	540,544	531,654
Restricted		
Nonexpendable (Note 10)	58,121	56,945
Expendable (Notes 3 and 10)	106,254	109,576
Unrestricted (Notes 3 and 10)	155,712	171,528
Commitments and contingencies (Notes 6, 7 and 11)	-	-
Total Net Position	**860,631**	**869,703**
Total Liabilities, Deferred Inflows and Net Position	**$ 1,202,275**	**$ 1,197,990**

See accompanying notes to the basic financial statements.

University of Maine System

Statements of Financial Position – Discretely Presented Component Unit

June 30, 2015 and 2014

($ in thousands)

		2015		2014
Assets				
Cash and cash equivalents	$	175	$	69
Other receivables		123		108
Promises to give, less allowance for uncollectible pledges of $125		1,949		1,079
Short-term investments		2,223		2,391
Cash surrender value of life insurance		141		71
Long-term investments, endowment		185,613		189,151
Long-term investments, life income plans		4,809		4,909
Notes receivable		574		748
Equity in Buchanan Alumni House		2,657		2,659
Investment real estate		5,847		5,791
Property and equipment, net of accumulated depreciation of $147 and $154, respectively		124		91
Other assets		764		794
Irrevocable trusts		10,674		11,335
Assets managed for Buchanan Alumni House		348		330
Net funding to be provided from Buchanan Alumni House		13		85
Total Assets	**$**	**216,034**	**$**	**219,611**
Liabilities				
Accounts payable	$	27	$	75
Distributions due income beneficiaries		1,823		1,892
Accrued expenses		509		495
Notes payable		694		761
Custodial accounts payable		3,071		3,315
Total Liabilities		6,124		6,538
Net Assets				
Unrestricted net assets		8,033		8,136
Temporarily restricted net assets		54,325		62,652
Permanently restricted net assets		147,552		142,285
Total Net Assets		209,910		213,073
Total Liabilities and Net Assets	**$**	**216,034**	**$**	**219,611**

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, 2015 and 2014

($ in thousands)

	2015	Restated 2014
Operating Revenues		
Tuition and fees	$ 267,683	$ 267,418
Residence and dining fees	58,406	60,042
Less: scholarship allowances	(88,432)	(84,065)
Net student fees	237,657	243,395
Federal, state, and private grants and contracts	133,703	142,108
Recovery of indirect costs	12,129	13,810
Educational sales and services and other revenues	32,344	32,334
Other auxiliary enterprises	20,294	21,564
Total Operating Revenues	436,127	453,211
Operating Expenses		
Instruction	179,728	180,598
Research	65,393	72,508
Public service	60,701	60,322
Academic support	70,357	76,253
Student services	52,105	48,933
Institutional support	57,580	48,165
Operation and maintenance of plant	50,100	51,289
Depreciation and amortization	35,304	33,793
Student aid	30,925	29,658
Auxiliary enterprises	66,872	69,752
Total Operating Expenses	669,065	671,271
Operating Loss	(232,938)	(218,060)
Nonoperating Revenues (Expenses)		
Noncapital State of Maine appropriations	198,757	198,263
Gifts currently expendable	14,539	13,796
Endowment return used for operations (Note 3)	5,660	5,136
Investment income (loss) (Note 3)	(499)	13,081
Interest expense, net (Note 7)	(5,146)	(5,786)
Net Nonoperating Revenues	213,311	224,490
Income (Loss) Before Other Changes in Net Position	**(19,627)**	**6,430**
Other Changes in Net Position		
State of Maine capital appropriations	11,267	1,918
Capital grants and gifts	4,555	7,403
Endowment return (loss), net of amount used for operations (Note 3)	(6,151)	13,836
True and quasi endowment gifts	1,725	880
Loss on disposal of capital assets	(841)	-
Total Other Changes in Net Position	10,555	24,037
Change in Net Position	**(9,072)**	**30,467**
Net Position - Beginning of Year - As Restated - Note 17	869,703	839,236
Net Position - End of Year	$ 860,631	$ 869,703

See accompanying notes to the basic financial statements.

University of Maine System

Statements of Activities – Discretely Presented Component Unit

Years Ended June 30, 2015 and 2014

(With Comparative Totals for 2014)

($ in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Total 2014
Revenues, Gains, Losses, and Reclassification					
Contributions	$ 729	$ 6,416	$ 5,138	$ 12,283	$ 13,637
Investment income and other revenue	206	(4,470)	(46)	(4,310)	24,856
Net assets released from restrictions	10,098	(10,273)	175	-	-
Total Revenues, Gains, Losses, and Reclassification	11,033	(8,327)	5,267	7,973	38,493
Expenses and Losses					
Program services	9,424	-	-	9,424	10,968
Management and general	763	-	-	763	504
Fundraising	940	-	-	940	1,082
Total Expenses	11,127	-	-	11,127	12,554
Uncollectible promises to give	9	-	-	9	-
Total Expenses and Losses	11,136	-	-	11,136	12,554
Change in Net Assets	**(103)**	**(8,327)**	**5,267**	**(3,163)**	**25,939**
Net Assets - Beginning of Year	8,136	62,652	142,285	213,073	187,134
Net Assets - End of Year	$ 8,033	$ 54,325	$ 147,552	$ 209,910	$ 213,073

See accompanying notes to the basic financial statements.

University Of Maine System

Statements of Cash Flows

Years Ended June 30, 2015 and 2014

($ in thousands)

	2015	Restated 2014
Cash Flows From Operating Activities		
Tuition, residence, dining, and other student fees	$ 237,551	$ 243,310
Grants and contracts	149,024	156,636
Educational sales and services and other auxiliary enterprise revenues	53,990	50,847
Payments to and on behalf of employees	(426,462)	(434,795)
Financial aid paid to students	(37,314)	(35,804)
Payments to suppliers	(166,167)	(173,821)
Loans issued to students	(6,306)	(7,074)
Collection of loans to students	5,945	5,500
Interest collected on loans to students	730	722
Net Cash Used for Operating Activities	(189,009)	(194,479)
Cash Flows From Noncapital Financing Activities		
State appropriations	198,757	198,263
Noncapital grants and gifts	16,602	14,865
Agency transactions	(1,771)	9,515
Net Cash Provided by Noncapital Financing Activities	213,588	222,643
Cash Flows From Capital and Related Financing Activities		
Proceeds from capital debt issuances	12,948	-
Capital appropriations	5,391	5,270
Capital grants and gifts	6,922	8,380
Proceeds from sale of capital assets	12	-
Acquisition and construction of capital assets	(32,350)	(43,109)
Principal paid on capital debt and leases	(8,412)	(17,007)
Interest paid on capital debt and leases	(6,814)	(6,925)
Net Cash Used for Capital and Related Financing Activities	(22,303)	(53,391)
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	514,987	538,267
Purchases of investments	(520,545)	(518,746)
Earnings from investments	8,639	5,031
Net Cash Provided by Investing Activities	3,081	24,552
Net Increase (Decrease) in Cash and Cash Equivalents	5,357	(675)
Cash and cash equivalents - Beginning of Year	817	1,492
Cash and cash equivalents - End of Year	$ 6,174	$ 817

University Of Maine System

Statements of Cash Flows

Years Ended June 30, 2015 and 2014

($ in thousands)

See accompanying notes to basic financial statements.

University Of Maine System

Statements of Cash Flows

Years Ended June 30, 2015 and 2014

($ in thousands)

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

	2015	Restated 2014
Operating loss	$ (232,938)	$ (218,060)
Adjustments to reconcile net operating loss to net cash used for operating activities:		
Depreciation and amortization	35,304	33,793
Bond costs paid through bond financing	465	-
Changes in assets and liabilities:		
Accounts and grants receivable, net	5,870	(1,317)
Inventories and prepaid expenses	(615)	(532)
Notes receivable, net	132	(1,090)
Deferred outflows related to pensions	(2,496)	-
Accounts payable	715	(1,827)
Unearned revenue and deposits	40	(505)
Accrued liabilities	3,145	(4,707)
Grants refundable	(240)	(234)
Deferred inflows related to pensions	1,609	-
Net Cash Used for Operating Activities	$ (189,009)	$ (194,479)

Noncash investing, capital, and financing activities:

	2015	Restated 2014
Capital asset additions included in accounts payable and accrued liabilities as of June 30	$ 7,819	$ 4,372
Capital asset additions acquired through capital leases	$ 1,845	$ 73
Capital asset additions acquired through long-term debt	$ 1,097	$ -
Bond issuance costs financed with bond payable	$ 465	$ -
Refunding of debt through new bond issuance	$ 40,206	$ -

University Of Maine System

Statements of Cash Flows

Years Ended June 30, 2015 and 2014

($ in thousands)

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 16). The component unit receives funds primarily through donations and contributes funds to the System for student scholarships and institutional support.

b. Basis of Presentation

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

The System's policy for defining operating activities in the Statements of Revenues, Expenses, and Changes in Net Position are those that generally result from exchange transactions such as payments received for services and payments made for the purchase of goods and services and certain grants. Certain other transactions are reported as nonoperating activities in accordance with GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities.* These nonoperating activities include the System's operating appropriations from the State of Maine, net investment income, gifts, and interest expense.

In FY15, the System adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* and GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*. Statement No. 73 is effective for periods beginning after June 15, 2016. However, the System early adopted the standard and implemented Statement No. 73 for the fiscal year ending June 30, 2015. Statements No. 68 and 73 were implemented retroactive to July 1, 2013 and pursuant to the provisions of Statements No. 68 and 73, the FY14 financial statements have been restated to reflect retroactive applications of these changes in accounting principles.

Under Statement Nos. 68 and 73, the actuarially determined net pension liability is reported in full as a liability in the Statement of Net Position and 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. Conforming changes were made retroactively to all years presented including reclassification of certain balances and restatement of beginning net position. The adoption of Statements No. 68 and 73 is described further in Note 17.

c. Net Position

The System's net position (assets plus deferred outflows minus liabilities and deferred inflows) 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.

($ in thousands)

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 FY15 and FY14. 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 return (loss) net of the amount used for operations is presented as other changes in net position.

Authorized Investment Vehicles:

Short-term Investments: The System has a three-tiered approach regarding its operating 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 -2 to 7 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 are diversified both by asset class and within asset classes. No minimum quality rating is specified for this pool, since it can invest in non-fixed income securities.

Endowment Investments: The fund is 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 ranges were applicable as of June 30:

	2015	2014
• Equity securities	33-53%	33-53%
• 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 Outflows and Deferred Inflows of Resources

Deferred outflows of resources are the consumption of assets or reduction of liabilities that are applicable to future reporting periods. Deferred outflows of resources are presented separately after Total Assets in the Statements of Net Position.

The System's deferred outflows consist of 1) the difference between the reacquisition price and the carrying value of refunded revenue bonds. These amounts are to be recognized as a component of interest expense over the shorter of the remaining life of the refunded bonds or the life of the new bonds and 2) assumption changes and investment losses that increase the pension liability. These amounts are to be recognized as a component of pension expense in future reporting periods.

Deferred inflows of resources are the acquisition of assets or reduction of liabilities that are applicable to future reporting periods. Deferred inflows of resources are presented separately after Total Liabilities in the Statements of Net Position.

The System's deferred inflows consist of experience gains that reduce the pension liability. These amounts are to be recognized as a component of pension expense in future reporting periods.

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 student aid expense.

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. <u>Use of Estimates</u>

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. <u>Reclassifications</u>

Certain FY14 items in the accompanying financial statements have been reclassified, without effect on total net position, to conform to the FY15 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, 2015 and 2014, bank balances with uninsured or uncollateralized operating cash deposits were $1,107 and $683, respectively.

3. INVESTMENTS

a. <u>Composition and Purpose of Investments</u>

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 this combined Managed Investment Pool (MIP). 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 ($314 and $190 at June 30, 2015 and 2014, 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, 2015 and 2014, respectively are $18,189 and $21,628, and are reported as funds held for others in the accompanying Statements of Net Position.

($ in thousands)

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

	2015	2014
Restricted - expendable	$51,173	$55,963
Unrestricted	14,859	15,619
Total available for spending	$66,032	$71,582

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, 2015:

	Fair Value	Credit Rating	Interest Rate Risk	
Short-term Investments:				
Equities:				
Multi-strategy funds	$ 71,165			
Fixed Income Funds:				
Bank loans	18,941	Not rated	.10 years	Duration
Bonds	118,824	Not rated	-.06 - 5.7 years	Duration
Money markets	11,552	Not rated	35-36 days	Ave maturity
State pool	10,872	Not rated	.54 years	Duration
Total	$ 231,354			
Deposits with Bond Trustees:				
Fixed Income Funds:				
Bonds	$ 23	Aaa-Moody's	33 days	Ave maturity
Money markets	12,721	Not rated	35-36 days	Ave maturity
Total	$ 12,744			
Endowment Investments:				
Pooled Investments:				
Money funds, savings, CDs	$ 2,156			
Equities:				
Equities	18,677			
Equity funds	119,071			
Multi-strategy funds	102,637			
Fixed Income Funds:				
Money markets	147	Not rated	27 days	Ave maturity
Bonds	27,220	Not rated	4.5 years	Duration
Total Pooled Investments	269,908			
Less portion held on behalf of outside entities	(127,675)			
Endowment portion of pooled investments	142,233			
Separately Invested Assets:				
Money funds, savings, CDs	68			
Equities	246			
Total	$ 142,547			

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

($ in thousands)

	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			

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 5.65 years and 5.58 years at June 30, 2015 and 2014, 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 7.44 years and 7.01 years at June 30, 2015 and 2014, respectively.

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

Short-term Investments: The System's short-term investments include various fixed income, equity, and hedge fund holdings which have foreign currency exposure, with some funds hedging against foreign currency risk. Portfolio foreign currency exposure was $24 million and $23 million at June 30, 2015 and 2014, respectively.

Endowment Investments: The System's endowments are invested in the System MIP. The MIP invests in various fixed income, equity, and hedge funds which have foreign currency exposure, with some funds hedging against foreign currency risk. The endowment investments share of the foreign currency exposure in the MIP was $48 million and $52 million at June 30, 2015 and 2014, respectively.

($ in thousands)

d. Investment Income

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

	2015			
	Net Gains (Losses)	Interest and Dividends	Investment Fees	Net Earnings (Loss)
Endowment investments	$ (5,112)	$ 4,029	$ (1,193)	$ (2,276)
Managed funds distributed				1,785
System endowment loss				$ (491)
Reported as endowment return used for operations				$ 5,660
Reported as endowment loss, net of amount used for operations				(6,151)
System endowment loss				$ (491)
Short-term investments	$ (4,850)	$ 5,436	$ (1,086)	$ (500)
Deposits with bond trustees	-	1	-	1
Total other investment income (loss)	$ (4,850)	$ 5,437	$ (1,086)	$ (499)

	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

($ in thousands)

4. ACCOUNTS, GRANTS, AND PLEDGES RECEIVABLE

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

	2015			2014		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Student and other accounts receivable	$ 26,265	$ 25,942	$ 323	$ 31,506	$ 31,506	$ -
Grants receivable	29,109	22,906	6,203	26,161	25,834	327
Pledges receivable	1,996	574	1,422	4,979	986	3,993
Total gross receivables	57,370	49,422	7,948	62,646	58,326	4,320
Less allowance for doubtful accounts	(5,287)	(5,261)	(26)	(5,154)	(5,086)	(68)
Less discount on pledges receivable	(60)	-	(60)	(112)	-	(112)
Total receivables, net	$ 52,023	$ 44,161	$ 7,862	$ 57,380	$ 53,240	$ 4,140

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:

	2015			2014		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Perkins Loans	$ 30,489	$ -	$ 30,489	$ 30,994	$ -	$ 30,994
Nursing Loans	1,961	-	1,961	1,862	-	1,862
Institutional Loans	9,039	-	9,039	8,687	-	8,687
Lease receivable **(a)**	876	63	813	939	63	876
Total notes and leases receivable	42,365	63	42,302	42,482	63	42,419
Less allowance for doubtful accounts	(1,425)	-	(1,425)	(1,347)	-	(1,347)
Total notes and leases receivable, net	$ 40,940	$ 63	$ 40,877	$ 41,135	$ 63	$ 41,072

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:

	2015	2014
University of New Hampshire		
Secured by equipment; monthly payments of $5, including interest at 4.85% per annum; matures 2029	$ 876	$ 939

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 is as follows:

	Beginning Balance	Additions	Reclasses	Retirements	Ending Balance
Land	$ 17,858	$ -	$ 37	$ -	$ 17,895
Library materials	25,686	-	-	-	25,686
Construction in progress	8,494	32,998	(27,170)	-	14,322
Total nondepreciable assets	52,038	32,998	(27,133)	-	57,903
Land improvements	50,691	-	2,600	-	53,291
Buildings & improvements	838,648	-	17,447	(289)	855,806
Equipment	121,530	5,831	5,921	(4,926)	128,356
Software	29,027	2,011	1,165	-	32,203
Total depreciable assets	1,039,896	7,842	27,133	(5,215)	1,069,656
Less accumulated depreciation:					
Land improvements	31,499	1,870	-	-	33,369
Buildings & improvements	280,305	20,647	-	(215)	300,737
Equipment	66,636	9,952	-	(4,148)	72,440
Software	15,366	2,835	-	-	18,201
Total accumulated depreciation	393,806	35,304	-	(4,363)	424,747
Net depreciable assets	646,090	(27,462)	27,133	(852)	644,909
Total capital assets	$ 698,128	$ 5,536	$ -	$ (852)	$ 702,812

($ in thousands)

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

Additions to capital assets for the years ended June 30, 2015 and 2014 include the following:

- Assets acquired through capital leases of $1,845 and $73, respectively.
- Capitalized interest costs of $56 and $86, less interest earnings on unexpended bond proceeds of $2 and $0, respectively.

As of June 30, 2015 and 2014, $12,721 and $210, 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, 2015 is $20,409 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 $26,496 and $9,169 at June 30, 2015 and 2014, respectively.

($ in thousands)

7. ACCRUED LIABILITIES AND LONG-TERM DEBT

Changes in accrued liabilities and long-term debt during the year ended June 30, 2015 include the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued liabilities:					
Workers' compensation - Note 11	$ 4,052	$ 791	$ (661)	$ 4,182	$ 1,088
Health insurance - Note 11	7,286	66,085	(67,291)	6,080	6,080
Postemployment health plan - Note 14	-	12,377	(11,240)	1,137	1,137
Other employee benefit programs - Note 13	55,062	63,889	(63,536)	55,415	8,010
Other	15,217	15,786	(13,389)	17,614	15,365
Total accrued liabilities	$ 81,617	$ 158,928	$ (156,117)	$ 84,428	$ 31,680
Long-term debt:					
Capital lease obligations **(a)**	$ 3,471	$ 1,845	$ (367)	$ 4,949	$ 736
Bonds and notes payable **(b)**	164,352	54,716	(47,923)	171,145	10,576
Total long-term debt	$ 167,823	$ 56,561	$ (48,290)	$ 176,094	$ 11,312

Changes in accrued liabilities and long-term debt during the year ended June 30, 2014 include the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
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	7,286
Postemployment health plan - Note 14	2,509	13,052	(15,561)	-	-
Other employee benefit programs - Note 13	56,229	55,302	(56,469)	55,062	5,961
Other	15,137	14,722	(14,642)	15,217	13,243
Total accrued liabilities	$ 84,510	$ 148,532	$ (151,425)	$ 81,617	$ 27,741
Long-term debt:					
Capital lease obligations	$ 3,785	$ 73	$ (387)	$ 3,471	$ 359
Bonds and notes payable **(b)**	182,065	-	(17,713)	164,352	9,204
Total long-term debt	$ 185,850	$ 73	$ (18,100)	$ 167,823	$ 9,563

(a) Lease Obligations

($ in thousands)

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, 2015 are as follows:

	Capital Leases		Operating	
Year Ending June 30:	Principal	Interest	Leases	Total
2016	$ 736	$ 138	$ 902	$ 1,776
2017	689	119	683	1,491
2018	627	105	556	1,288
2019	636	89	485	1,210
2020	474	71	142	687
2021-2025	1,010	283	689	1,982
2026-2030	777	75	663	1,515
2031-2035	-	-	659	659
2036-2040	-	-	264	264
Total minimum lease payments	$ 4,949	$ 880	$ 5,043	$ 10,872

The rent expense related to operating leases amounted to $1,320 for the year ended June 30, 2015 and $1,583 for the year ended June 30, 2014.

($ in thousands)

(b) Bonds and Notes Payable

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

	2015	2014
2015 Series A Revenue Bonds (original principal of $48,450)		
Serial bonds, maturing from 2016 to 2037, with annual principal payments from $405 to $3,760 and coupon interest rates from .20% to 3.63%. Issued to refund 2004A, 2005A, and 2007A Series Revenue bonds and to provide funding for capital projects.	$ 48,450	$ -
Add: unamortized premium	5,000	-
Total 2015 Series A Bonds	53,450	-
2013 Series A Revenue Bonds (original principal of $65,255)		
Serial bonds, maturing from 2014 to 2033, with annual principal payments from $1,275 to $4,425 and coupon interest rates from 2.0% to 5.0%. Issued to refund 2000A, 2003A, 2004A, and 2005A Series Revenue bonds.	57,615	58,985
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	7,084	8,250
Total 2013 Series A Bonds	69,694	72,230
2012 Series A Revenue Bonds (original principal of $34,975)		
Serial bonds, maturing from 2013 to 2028, and 2031, with 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.	23,235	25,500
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	1,393	1,720
Total 2012 Series A Bonds	29,788	32,380
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.	16,665	41,760
Add: unamortized premium	193	505
Total 2007 Series A Bonds	16,858	42,265
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
Add: unamortized premium	-	82
Total 2005 Series A Bonds	-	10,582

($ in thousands)

	2015	2014
2004 Series A Revenue Bonds		
4.25% Term Bonds, due March 1, 2034	$ -	$ 6,410
Add: unamortized premium	-	114
Total 2004 Series A Bonds	-	6,524
University of Maine Foundation		
Note payable, drawn against $300 line of credit, unsecured, semi-annual payments of $5, including interest at 2.75%, matures 2018	30	-
Note payable, secured by equipment, matures 2019, with annual payments of $75, including interest at 3.94%.	258	342
State of Maine Department of Defense, Veterans and Emergency Management		
Note payable, matured 2015, secured by real estate, with annual payments of $30, including imputed interest of 2.9%.	-	29
Efficiency Maine Trust		
$4,100 line of credit for multiple energy projects, quarterly interest only payments at 1.5% during construction phase. Principal repayment estimated to begin in FY16 and end in FY25 via quarterly payments of $29 including interest at 1.5%.	1,067	-
Total bonds and notes payable, net	$ 171,145	$ 164,352
Total par value of outstanding bonds and notes payable	$ 157,475	$ 153,681
Total unamortized premiums and discounts	13,670	10,671
Total bonds and notes payable, net	$ 171,145	$ 164,352

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.

($ in thousands)

Principal and interest payments on bonds and notes payable for the next five years and in subsequent five-year periods are as follows at June 30, 2015:

Year Ending June 30:	Principal	Interest	Total
2016	$ 8,424	$ 6,475	$ 14,899
2017	8,634	6,295	14,929
2018	9,642	5,891	15,533
2019	9,184	5,440	14,624
2020	9,950	5,022	14,972
2021-2025	43,094	18,774	61,868
2026-2030	41,172	9,707	50,879
2031-2035	26,500	2,628	29,128
2036-2037	875	46	921
	$ 157,475	$ 60,278	$ 217,753

Interest costs related to the revenue bonds for FY15 and FY14 were $5,038 and $5,620, respectively.

Refunding of Debt – FY15

On April 8, 2015, the System issued $48,450 of 2015 Series A Revenue Bonds to currently refund $13,985 of 2005 and 2004 Series A Revenue Bonds, to advance refund $24,165 of 2007 Series A Revenue Bonds, and to provide $12,710 for new projects. The System completed the refunding to reduce its total debt service payments over the following twenty-two years by $4,459 and to obtain economic gain (difference between the present values of the old and new debt service payments) of $3,422. The principal amount of debt refunded through in-substance defeasance was $38,150. The amount still outstanding at June 30, 2015 was $24,165.

Refunding bond proceeds of $40,206 were placed in an escrow account to pay the interest due on the refunded bonds and to retire the bonds on their respective call dates which range from FY15 to FY17. The escrow is invested to yield enough earnings to pay required future payments, which are $26,427 as of June 30, 2015.

The FY15 refunding resulted in a deferred amount on refunding of $1,750 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 FY37. The unamortized portion of the deferred amount on refunding, which is $1,723 as of June 30, 2015, is included in deferred outflows in the accompanying Statements of Net Position.

Refunding of Debt – Prior Years

Prior to FY14, the System defeased certain revenue bonds by placing the proceeds of new bonds in an escrow account to provide for all future debt payments on the old bonds. This transaction met the requirements of an "in-substance defeasance" as defined by U.S. generally accepted accounting principles, and as a result, neither the escrow account nor the liability for the refunded bonds is included in the accompanying Statements of Net Position. At June 30, 2015 and 2014, the amount of defeased bonds outstanding was $0 and $48,345, respectively.

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, 2015 and 2014 was $42,002 and $43,838, 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, 2015 and 2014 totaled $3,613 and $3,139, 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, 2015 and 2014 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:

	2015	Restated 2014
Net investment in capital assets	$ 540,544	$ 531,654
Restricted - Nonexpendable:		
Endowment funds	58,121	56,945
Restricted - Expendable:		
Student financial aid	44,092	45,985
Capital assets and retirement of debt	2,066	4,657
Loans	15,267	14,766
Academic support	12,851	12,792
Research and public service	9,663	8,496
Library	2,917	3,074
Other	19,398	19,806
Total restricted - expendable	106,254	109,576
Unrestricted:		
Educational and general reserves	59,707	59,944
Risk management	2,358	2,781
Budget stabilization	15,164	21,000
Auxiliary enterprises	11,738	15,478
Benefit pool carryover	10,619	17,272
Information technology initiatives	3,145	3,230
Internally designated projects	12,787	13,853
Facility projects	24,722	25,902
Endowment earnings	14,859	15,619
Cost sharing and other	613	(3,551)
Total unrestricted	155,712	171,528
Total net position	$ 860,631	$ 869,703

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 retention obligation for general liability is capped at $400 per claim, plus a $10 per claim deductible after the claim meets $1,000 with no annual cap. 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, 2015 and 2014 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, 2015 and 2014 of $4,182 and $4,052, 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, 2015. As of June 30, 2015 and 2014, 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:

	2015	2014
Claims incurred but not reported	$ 5,558	$ 6,311
Reported claims	522	975
Total health insurance liability - Note 7	$ 6,080	$ 7,286

($ 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 FY15 and FY14, the System distributed $137,292 and $144,931, 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:

	2015	2014
Faculty and Professional Employees:		
Contributory Retirement Plan	$ 19,908	$ 20,318
Incentive Retirement Plan	1,829	2,381
Hourly Employees:		
Basic Retirement Plan	3,492	3,534
Defined Benefit Plan	864	1,027
Total net pension expense	$ 26,093	$ 27,260

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 benefit terms and mandatory employee and employer contribution rates.

All full-time employees are eligible once employment begins. Part-time employees are eligible upon achieving the equivalent of five years of continuous, full-time, regular service. All eligible employees are required to participate when they reach thirty years of age. The System contributes an amount equal to 10% of each participant's base salary, and each participant contributes 4% of base salary. Participants may make additional voluntary contributions up to 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.

($ in thousands)

Employee contributions made to the Contributory Plan were $7,961 in FY15 and $8,129 in FY14.

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 full-time equivalent 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 enrolled in the Incentive Plan may elect to retire at any age on or after 55.

Employees covered by benefit terms: At June 30, 2015, pension plan membership consisted of the following:

Active plan participants	1,314
Total plan participants	1,314

Contributions: The Incentive Plan is funded on a terminal funding basis - funded when costs become due and payable. Employees do not make contributions under the Incentive Plan.

The total pension liability at the measurement date of June 30, 2015 was $24,990. The fiduciary net position as a percentage of the total pension liability was 0.00%.

The total pension liability was determined by an actuarial valuation as of July 1, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	Not explicitly assumed
Salary increases	3.5% per year, including longevity
Discount Rate	3.80% as of June 30, 2015
	4.29% as of June 30, 2014

Life expectancy

($ in thousands)

Non-annuitants:	RP-2000 Mortality Table projected to 2028 with Scale AA
Annuitants:	RP-2000 Mortality Table projected to 2020 with Scale AA

Discount rate: GASB Statement No. 73 requires projected benefit payments be discounted to their actuarial present value using a tax-exempt, high-quality municipal bond rate.

For the Incentive Retirement Plan, which does not hold assets, the discount rate used to measure the total pension liability was 3.80% and is based on the municipal bond rate as of the measurement date. The municipal bond rate is based on the Bond Buyer 20-Bond General Obligation (GO) Index published for the week of June 25, 2015. The discount rate used to measure the Total Pension Liability as of June 30, 2014 is 4.29% and is based on the Bond Buyer 20-Bond GO Index published for the week of June 26, 2014.

Sensitivity of the net pension liability to changes in the discount rate:
The following presents the net pension liability as of June 30, 2015 calculated using the discount rate of 3.80%, as well as what the net pension liability would be if it were calculated using a discount rate 1-percentage point lower (2.80%) or 1-percentage point higher (4.80%) than the current rate:

	1% Decrease (2.80%)	Current Discount Rate (3.80%)	1% Increase (4.80%)
Total pension liability	$ 26,030	$ 24,990	$ 23,964

Changes in Total Pension Liability for the Incentive Retirement Plan

($ in thousands)

Fiscal Year Ended June 30	2015	2014 *
Total Pension Liability – beginning	$ 27,440	
Changes for the year:		
Service cost	880	
Interest	1,110	
Differences between expected and actual experience	(1,831)	
Changes of assumptions and other inputs	505	
Benefit payments	(3,114)	
Total pension liability – ending (a)	24,990	$ 27,440
Fiduciary net position – beginning	-	-
Contributions – employer	3,114	2,012
Benefit payments	(3,114)	(2,012)
Administrative expenses	-	-
Fiduciary net position – ending (b)	-	-
Net Pension Liability – ending (a)-(b)	$ 24,990	$ 27,440
Plan fiduciary net position as a percentage of the total pension liability	0.00%	
Covered-employee payroll	$ 92,419	
Net pension liability as a percentage of covered-employee payroll	27.04%	

* Detailed information regarding the change in the total pension liability for FY14 has not been presented as that information was not available.

Classified Employees

Basic Retirement Plan

The Basic Retirement Plan is a single employer defined contribution 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. As of June 1, 2014, all 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%. Employee contributions to the Basic Plan of up to 4% of base pay are matched 100% by the System. In addition, employees who have four or more years of completed service and do not participate in the Defined Benefit Plan, receive System contributions equal to 6% of their base pay, for a total maximum employer contribution of 10%.

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.

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 $1,431 in FY15 and $1,461 in FY14.

Defined Benefit Plan

The Defined Benefit Plan (the Plan) is a single employer plan administered by the System. The Plan does not issue standalone financial statements. The Plan is maintained for eligible classified employees who chose not to join the Basic Plan. 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. Eligible employees receive the sum of:

($ in thousands)

a) 1.25% or 1.50% (based on years of service) of the participant's average annual compensation times credited service (up to a maximum of 30 years); plus
b) 1.25% or 1.50% (based on years of service) of the participant's unused sick leave.

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 age benefit, but is reduced by an actuarial factor because benefits will be paid over a longer period of time. No reduction is made if an employee retires after attaining 62 years of age with 25 or more years of service. Participants are also eligible for disability and death benefits.

The Board of Trustees has authority to establish or amend provisions of all classified employee plans noted above, including contribution requirements, subject to collective bargaining agreements.

Employees who participate in the Plan may also participate in the Optional Retirement Savings Plan (ORSP). The ORSP is a voluntary, employee-funded defined contribution plan. Employees may contribute up to 4% of their base pay and receive a 100% match from the System. The ORSP is administered by TIAA-CREF.

Employees covered by benefit terms: At June 30, 2015, pension plan membership consisted of the following:

Inactive plan participants or beneficiaries currently receiving benefits	809
Inactive plan participants entitled to but not yet receiving benefits	345
Active plan participants	12
Total plan participants	1,166

The Plan is closed to new entrants.

Contributions: The System adopted a funding strategy for the Plan on February 27, 2014. The System's funding strategy follows a long-term contribution schedule, such that a level annual dollar amount will be contributed to the plan indefinitely, while never allowing the Plan's assets to be depleted. The actuarially determined annual projected contribution to the Plan is $538 through FY54; however, the required contribution amount will be re-determined with each actuarial valuation as market performance and other factors will impact the required future funding. Funding the plan over the long-term allows the System to smooth market impacts, limiting contribution volatility.

Employees do not make contributions under the Plan.

The components of the net pension liability at the measurement date of June 30, 2015 were as follows:

($ in thousands)

Total pension liability	$ 43,318
Fiduciary net position	(36,627)
Net pension liability	$ 6,691
Fiduciary net position as a percentage of the total pension liability	84.55%

The total pension liability was determined by an actuarial valuation as of July 1, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	3.5% for all years, including longevity
Investment rate of return	6.75%, net of investment expenses, including inflation; 7.25% for FY14
Life expectancy	
Pre-Retirement:	RP-2000 Mortality Table projected to FY28 with Scale AA
Post-Retirement Healthy:	RP-2000 Mortality Table projected to FY20 with Scale AA
Post-Retirement Disabled:	RP-2000 Mortality Table, no projection

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 are summarized in the following table:

($ in thousands)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Equity	7%	4.50%
Small/Mid Cap Equity	3%	4.50%
International Equity	7%	4.75%
Emerging Market Equity	3%	6.00%
Core Fixed Income	27%	0.75%
Global Multi-Sector	5%	1.55%
Global Asset Allocation	30%	3.75%
Real Estate (Core)	5%	3.25%
Hedge Funds	10%	3.50%
Cash	3%	0.00%
Total	100%	

Investment Returns:

Fiscal Year Ended June 30	2015	2014
Annual money-weighted rate of return, net of investment expenses	0.12%	14.27%

Discount Rate: GASB Statement No. 68 requires that projected benefit payments be discounted to their actuarial present value using the single rate that reflects (1) a long-term expected rate of return on pension plan investments to the extent that the pension plan's assets are sufficient to pay benefits and pension plan assets are expected to be invested using a strategy to achieve that return and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions for use of the long-term expected rate of return are not met.

For the Plan, the discount rate used to measure the total pension liability at June 30, 2015 and 2014 was 6.75% and 7.25%, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from the System will be made in accordance with the Plan's funding policy adopted on February 27, 2014. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected benefit payments of current plan participants. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Sensitivity of the net pension liability to changes in the discount rate:

($ in thousands)

The following presents the net pension liability as of June 30, 2015 calculated using the discount rate of 6.75%, as well as what the net pension liability would be if it were calculated using a discount rate 1-percentage point lower (5.75%) or 1-percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net pension liability	$ 9,867	$ 6,691	$ 3,900

Changes in Net Pension Liability

($ in thousands)

Fiscal Year Ended June 30	2015	2014 *
Total Pension Liability – beginning	$ 45,075	
Changes for the year:		
Service cost	40	
Interest	2,884	
Differences between expected and actual experience	12	
Benefit payments	(4,693)	
Total pension liability – ending (a)	43,318	$ 45,075
Fiduciary net position – beginning	40,201	
Contributions – employer	1,100	
Net investment income	27	
Benefit payments	(4,693)	
Administrative expenses	(8)	
Fiduciary net position – ending (b)	36,627	40,201
Net Pension Liability – ending (a)-(b)	$ 6,691	$ 4,874
Plan fiduciary net position as a percentage of the total pension liability	84.55%	89.19%
Covered-employee payroll	$ 301	$ 692
Net pension liability as a percentage of covered employee payroll	2222.92%	704.34%
Contributions as a percentage of covered employee payroll	365.45%	79.48%
Plan assets measured at fair value	$ 36,627	$ 40,201

* Detailed information regarding the change in the total pension liability for FY14 has not been presented as that information was not available.

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.

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 (the 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, 2015 and 2014, there were approximately 6,640 and 6,822 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, 2015 and 2014, there were approximately 2,078 and 1,910 persons, respectively, receiving a subsidy from the System.

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

Persons who are retired from the System with at least 10 years of full-time regular service and have reached age 55 but are under age 65 may also participate in the System's health insurance plan after retirement; however, they must pay 100% of the cost for themselves and their dependents. As of June 30, 2015 and 2014, there were 39 and 54 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.

($ in thousands)

The System's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 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	Annual Required Contribution (ARC)	Interest on OPEB Obligation	ARC Adjust-ment	Annual OPEB Cost	Employer Contributions Made	Percentage of Annual OPEB Cost Contributed	Change in Net OPEB Obligation	Net OPEB Obligation/ (Asset) Balance
2015	$ 12,377	$ -	$ -	$ 12,377	$ 8,718	70%	$ 3,659	$ 1,137
2014	$ 13,052	$ -	$ -	$ 13,052	$ 18,083	139%	$ (5,031)	$ (2,522)
2013	$ 16,327	$ -	$ -	$ 16,327	$ 20,835	128%	$ (4,508)	$ 2,509

Employer contributions made are comprised of the following:

	Pay-as-you-go	(OPEB) Irrevocable Trust	Total Employer Contributions
2015	$ 8,718	$ -	$ 8,718
2014	$ 8,573	$ 9,510	$ 18,083
2013	$ 7,817	$ 13,018	$ 20,835

The net OPEB obligation of $1,137 at June 30, 2015 is included in the accompanying Statements of Net Position as a current accrued liability. 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 System is committed to funding the net obligation balance by December 31 on an annual basis. The Other Postemployment Benefits Trust invests its assets in the System MIP and follows the investment guidelines described in Note 3 of these financial statements.

As of July 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $196,680 and the actuarial value of assets was $94,167 resulting in an Unfunded Actuarial Accrued Liability (UAAL) of $102,513 which results in a funded ratio of 47.9%. The covered payroll (annual payroll of active employees covered by the Plan) was $220,629 for FY15 and the ratio of the UAAL to the covered payroll was 46.5%.
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, 2015 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 annually by 1% until an ultimate rate of 5% is reached. The actuarial value of assets is based on their fair value at July 1, 2015. The actuarial value of assets is determined using techniques that smooth the effects of short-term volatility in the market value of investments. The UAAL is being amortized on a level dollar basis over an open thirty year period.

15. DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

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

($ in thousands)

	2015			2014		
	Pension Liability	Deferred Amount on Debt Refunding	Total	Pension Liability	Deferred Amount on Debt Refunding	Total
Deferred outflows of resources	$ 2,496	$ 5,232	$ 7,728	$ -	$ 3,957	$ 3,957
Deferred inflows of resources	$ 1,609	$ -	$ 1,609	$ -	$ -	$ -

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources for the year ended June 30, 2015:

	Incentive Retirement Plan	Defined Benefit Plan	Total
Deferred Outflows of Resources			
Changes of assumption or other inputs	$ 444	$ -	$ 444
Net difference between projected and actual earnings on pension plan investments	-	2,052	2,052
Total Deferred Outflows of Resources	444	2,052	2,496
Deferred Inflows of Resources			
Difference between expected and actual experience	1,609	-	1,609
Total Deferred Inflows of Resources	1,609	-	1,609
Net Deferred (Inflows) and Outflows	$ (1,165)	$ 2,052	$ 887

Deferred outflow of resources and deferred inflows of resources related to pensions will be recognized in pension expense during the years ending June 30 as follows:

($ in thousands)

Year Ending June 30:	Incentive Retirement Plan	Classified Defined Benefit Plan	Total
2016	$ (160)	$ 513	$ 353
2017	(160)	513	353
2018	(160)	513	353
2019	(160)	513	353
2020	(160)	-	(160)
Thereafter	(365)	-	(365)
	$ (1,165)	$ 2,052	$ 887

16. COMPONENT UNITS

The System is supported in part by several foundations and alumni associations that raise funds on the System's behalf. The System determined that one of those entities, the University of Maine Foundation ("the Foundation"), meets the criteria set forth under GASB Statement No. 61 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, 2015 and 2014, and is reported in separate financial statements as the Foundation reports its financial results under Financial Accounting Standards Board standards rather than GASB standards. Contributions to the permanent endowment were $5,138 for FY15 and $7,140 for FY14.

Long-term investments, endowment comprised 86% of the Foundation's total assets as of June 30, 2015 and 2014. Remaining disclosures in this note relate to this asset group.

Long-term investments, endowment

The Foundation maintains a general pool of investments for its endowments. These investment securities are stated at fair value based on quoted market prices within active markets. The fair values of alternative investments are determined from information supplied by the investment managers based on the market values of underlying investments on a net asset value basis. Investment income is reflected in the 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 2015 and 2014. Actual returns in any given year may vary from these amounts.

Endowment spending policy

The Foundation utilizes a spending policy for its pooled endowment in order to provide for the current and long-term needs of endowment recipients. The spending policy determines the endowment income to be distributed. For the years ended June 30, 2015 and 2014, the spending policy is 4.5% of the average market value for the five previous years ending December 31. For permanent endowments, spending is contingent upon a fund's market value exceeding principal balances.

For the year beginning July 1, 2014, 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, 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 for that year.

During the years ended June 30, 2015 and 2014, the Foundation distributed $8,489 and $9,960, respectively, to the System for both restricted and unrestricted purposes.

Fair value measurements

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

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

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

($ in thousands)

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

	2015				
	Level 1	Level 2	Level 3	Total	Liquidity
Total U.S. equities	$ 44,092	$ -	$ -	$ 44,092	Daily/Monthly
Total non U.S. equities	62,109	-	-	62,109	Daily/ Monthly/ Quarterly
Total U.S. fixed income	12,501	-	-	12,501	Daily
Total global fixed income	10,640	-	-	10,640	Daily/Monthly
Total alternative investments	-	-	53,171	53,171	Monthly/ Quarterly/ Semi-Annually/ Annually
Cash	3,100	-	-	3,100	Daily
Total long-term investments, endowment	$ 132,442	$ -	$ 53,171	$ 185,613	

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

17. PRIOR PERIOD ADJUSTMENT

The provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* is effective for periods beginning after June 15, 2014. The University adopted Statement No. 68 for its

($ in thousands)

June 30, 2015 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.

The provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*, is effective for periods beginning after June 15, 2016. The University adopted Statement No. 73 for its June 30, 2015 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.

The effect of the FY14 restatement was to reduce beginning unrestricted net position, increase change in net position and decrease ending unrestricted net position by the following amounts:

Net Position – Beginning of year – As previously reported	$850,468
Cumulative adjustment to Net Position	
Incentive Retirement Plan	(4,962)
Defined Benefit Plan	(6,270)
Total Cumulative adjustment to Net Position	(11,232)
Net Position – Beginning of year – As restated	839,236
FY14 Change in Net Position – As previously reported	26,869
FY14 effect on Change in Net Position	
Incentive Retirement Plan	402
Defined Benefit Plan	3,196
Total effect on Change in Net Position	3,598
FY14 Change in Net Position – As restated	30,467
Net Position at June 30, 2014 – As restated	$869,703

18. SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS

In June 2015, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB No. 75) was issued. The primary objective of this Statement is to improve accounting and financial reporting with the purpose of providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The new Standard will affect how the System measures, reports, and discloses information about its other postemployment benefits (OPEB) other than pensions. The System will be required to adopt GASB No. 75 for the fiscal year ending June 30, 2018. The effects of implementation on the financial statements have not yet been determined.

University of Maine System

Required Supplemental Information – Retirement Plans

Year ended June 30, 2015

(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)
Postemployment Health Plan						
2015	$ 94,167	$ 196,680	$ 102,513	47.9%	$ 220,629	46.5%
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%

University of Maine System
Required Supplemental Information – Retirement Plans
Year ended June 30, 2015
(Unaudited)
($ in thousands)

Defined Benefit Plan:

Changes in Net Pension Liability and Related Ratios

Fiscal Year Ended June 30	2015	2014 *
Changes for the year:		
Service cost	$ 40	
Interest	2,884	
Differences between expected and actual experience	12	
Benefit payments	(4,693)	
Net change in total pension liability	(1,757)	
Total Pension Liability – beginning	45,075	
Total pension liability – ending (a)	43,318	45,075
Contributions – employer	1,100	
Net investment income	27	
Benefit payments	(4,693)	
Administrative expenses	(8)	
Net change in plan fiduciary net position	(3,574)	
Fiduciary net position – beginning	40,201	
Fiduciary net position – ending (b)	36,627	40,201
Net Pension Liability – ending (a)-(b)	$ 6,691	$ 4,874
Plan fiduciary net position as a percentage of the total pension liability	84.55%	89.19%
Covered-employee payroll	$ 301	$ 692
Net pension liability as a percentage of covered-employee payroll	2222.92%	704.34%

* Detailed information regarding the change in the total pension liability for FY14 has not been presented as that information was not available.

University of Maine System

Required Supplemental Information – Retirement Plans

Year ended June 30, 2015

(Unaudited)

($ in thousands)

Schedule of Employer Contributions - Defined Benefit Plan

Fiscal Year Ended June 30	2015	2014
Actuarially determined contribution	$ 550	$ 550
Contributions in relation to the actuarially determined contribution	1,100	550
Contribution deficiency (excess)	$ (550)	$ -
Covered-employee payroll	$ 301	$ 692
Contributions as a percentage of covered-employee payroll	365.45%	79.48%

Notes to Required Supplementary Information

($ in thousands)

Changes of benefit terms:
None.

Changes of assumptions:
The actuarial funding method was changed from Projected Unit Credit to Entry Age Normal, the investment return rate was changed from 7.25% to 6.75% and the administrative expense assumption was changed from $90 per year to $50 per year.

Methods and assumptions used in calculations of actuarially determined contributions:
The actuarially determined contributions in the schedule of employers' contributions are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contributions reported in that schedule:

Actuarial cost method	Entry Age Normal
Asset valuation method	Market value
Inflation	3.25% per year
Salary increases	3.5% per year
Investment rate of return/ discount rate	6.75%, net of investment expenses, compounded annually. Previously, 7.25%

Investment Returns:

Fiscal Year Ended June 30	2015	2014
Annual money-weighted rate of return, net of investment expenses	0.12%	14.27%

The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. The rate of return is then calculated by solving, through an iterative process, for the rate that equates the sum of the weighted external cash flows into and out of the pension plan investments to the ending fair value of pension plan investments.

Incentive Retirement Plan:

Changes in Total Pension Liability

University of Maine System

Required Supplemental Information – Retirement Plans

Year ended June 30, 2015

(Unaudited)

($ in thousands)

Fiscal Year Ended June 30		2015
Total pension liability:		
Service cost	$	880
Interest		1,110
Differences between expected and actual experience		(1,831)
Changes of assumptions and other inputs		505
Benefit payments		(3,114)
Net change in total pension liability		(2,450)
Total pension liability – beginning		27,440
Total pension liability – ending	$	24,990
Covered-employee payroll	$	92,419
Total pension liability as a percentage of covered-employee payroll		27.04%

Notes to Required Supplementary Information

Changes of benefit terms:
None.

Changes of assumptions and other inputs:
The discount rate changed from 4.29% as of the beginning of the measurement period to 3.80% as of the end of the measurement period.

Methods and assumptions used in calculations of actuarially determined contributions:
The University of Maine System Incentive Retirement Plan is funded on a terminal funding basis - funded when costs become due and payable.

Actuarial cost method	Entry Age Normal
Inflation	not explicitly assumed
Salary increases	3.5% per year, including longevity

Assets:
There are no assets accumulated in a trust that meets the criteria in paragraph 4 of Statement No. 73.

University of Maine System

Supplemental Information Required by the State of Maine

Schedules of Activities

($ in thousands)

Year Ended June 30, 2015

Functions/Programs	Expenses	Charges for Services	Program Investment Loss	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue
University of Maine System	$ 674,211	$ 290,295	$ (6,151)	$ 166,031	$ 4,555	$(219,481)

General Revenues:	
Unrestricted interest and investment losses	(499)
Additions to endowments - gifts	1,725
State of Maine noncapital appropriation	198,757
State of Maine capital appropriation	11,267
Loss on disposal of capital assets	(841)
Total Revenues and Extraordinary Items	210,409
Change in Net Position	(9,072)
Net Position, Beginning of Year - Restated	869,703
Net Position, End of Year	$ 860,631

Year Ended June 30, 2014
Restated

Functions/Programs	Expenses	Charges for Services	Program Investment Income	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue
University of Maine System	$ 677,057	$ 297,293	$ 13,836	$ 174,850	$ 7,403	$(183,675)

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	30,467
Net Position, Beginning of Year - Restated	839,236
Net Position, End of Year	$ 869,703

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 discretely presented component unit of the University of Maine System (the System), a component unit of the State of Maine, which comprise the statement of net position and the statement of financial position for its component unit as of June 30, 2015, the related statements of revenues, expenses and changes in net position and cash flows, and the statement of activities for its component unit, as of and for the year ended June 30, 2015, 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 16, 2015 which contained an unmodified opinion on those financial statements. Our report includes a reference to other auditors, who audited the financial statements of the discretely presented component unit of the System, as described in our report on the System's financial statements. The audit of the financial statements of the component unit was not conducted 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.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free 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.

Bangor, Maine
November 16, 2015