2020
University of Maine System
Annual Financial Report

The University of Maine System is a Component Unit of the State of Maine
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Controller's Office
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Orono, ME 04469-5703

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Maine's Public Universities
UNIVERSITY OF MAINE SYSTEM

October 2020

Fiscal Year 2020 was a year of historic change and unprecedented challenge in the University of Maine System. While we achieved a first-in-the-nation unified accreditation for the System's universities, we also balanced student success, public health, and service to Maine in responding to a once-in-a-century global pandemic. And as I write today, already in our new fiscal year, we are beginning our planning to capitalize on an historic $240 million investment in our System's success by our largest private benefactor.

We are pleased to share these stories as we present the FY 2020 Financial Report for your review.

My appointment as Chancellor coincided with the start of the fiscal year. Over my first six months, I visited each of our universities at least three times to hear from our faculty, staff, and stakeholders focused about how we could best meet the strategic priorities established by the University of Maine System Board of Trustees and the teaching, research, and public service mission of Maine's largest education and workforce development asset.

In January 2020, our Board approved my recommendation to unify the separate institutional accreditations of our universities so that they could be evaluated together based on how well they share state resources in meeting accreditation standards of institutional quality and higher education effectiveness. With approval from the New England Commission of Higher Education in June, we began the 2021 fiscal year as the first state public higher education system in the country to operate with a unified accreditation.

The COVID-19 pandemic upended higher education in the fourth quarter of the fiscal year. Understanding the unacceptable risk to the public health of Maine's communities if our students traveled around the country and world for spring break and returned to Maine amidst the COVID-19 outbreak, we made the difficult but necessary decision to suspend on-campus operations and meet our educational obligations to our students through remote instruction and work. It was the right call for the safety of our students and employees, as well as the public health and safety of the communities in which we operate, and it eliminated the risk of spring break travel that could have led to the spread of infection throughout Maine's communities.

Despite the uncertainty of those early days of the pandemic, the stability and fiscal management of the University of Maine System led S&P Global to affirm its AA- rating and stable outlook for the enterprise in April.

Putting the success and the interests of our students first guided our every response to the pandemic. Our universities transitioned 200,000 credit hours of classroom instruction to distance modalities over the spring break holiday, processed Room and Board refunds and CARES act payments in a matter of days, kept students employed in federal work study positions through the end of the semester, and provided academic accommodations to help students through unavoidable learning disruptions. This quick action and concern for students paid off with a higher spring semester persistence rate -- 98.5% of the students who started with us in January stayed enrolled through the end of the term -- than the prior year.

The University of Maine System also partnered with the Maine Emergency Management Agency to support the state's response to the public health crisis, deploying our resources, facilities, and talent to assist our communities and neighbors. A few of the many university contributions included identifying nursing students and faculty volunteers for pandemic surge staffing in healthcare and long term care facilities, producing materials like hospital-grade sanitizer, hosting homeless shelters, and establishing hundreds of study-from-the-car hotspots around the state to help K-12 students get access to the internet.

The innovation and state leadership of Maine's public universities are drawing attention and resources to our institutions. Just this month the Harold Alfond Foundation announced a 12-year $240 million investment in the University of Maine System, the largest gift to public higher education in New England in history.

In announcing the transformational gift, Alfond Foundation Chairman Greg Powell said, *"The University of Maine System is rising to meet the challenges of our state in a very big way. The System and its universities have a terrific leadership team and that leadership is setting an exciting strategic direction that commits our state's largest education and workforce development asset to student success, partnership and greater prosperity for the people of Maine."*

This new investment, unified accreditation, and lessons learned through the ongoing pandemic position the University of Maine System for a stronger future of teaching, research, and public service. We welcome our stakeholders' high expectations for public higher education and strive to meet them every day.

Thank you for your interest in and support of our work.

Dannel P. Malloy
Chancellor

UNIVERSITY OF MAINE SYSTEM
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AS OF JUNE 30, 2020

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
University of Maine System
Orono, Maine

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) as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audits. We did not audit the financial statements of the University of Maine Foundation (Foundation), the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Foundation 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 auditors' 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.

Board of Trustees
University of Maine System

Opinions

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the System as of June 30, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplemental information – retirement and OPEB plans, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The supplemental information required by the state of Maine, as listed in the table of contents, is presented for purposes of additional analysis, and is not a required part of the basic financial statements.

The supplemental information required by the state of Maine 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. Such information has been subjected to the auditing procedures applied in the audit 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 auditing standards generally accepted in the United States of America. In our opinion, the supplemental information required by the state of Maine is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Board of Trustees
University of Maine System

The Chancellor’s Letter and schedule of the Board of Trustees and Management, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Report on Summarized Comparative Information

The other auditors have previously audited the Foundation’s 2019 financial statements and they expressed an unmodified opinion on those audited statements in their reported dated October 18, 2019. In our opinion, the summarized comparative information presented herein for the Foundation as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which is has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2020 on our consideration of the System’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System’s 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.

CliftonLarsonAllen LLP

Quincy, Massachusetts
October 28, 2020

UNIVERSITY OF MAINE SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019 (UNAUDITED)

The Management's Discussion and Analysis (MD&A) provides a broad overview of the University of Maine System's ("the System" or UMS) financial condition as of June 30, 2020 and 2019, the results of its operations for the years then ended, significant changes from the previous years, and outlook for the future where appropriate and relevant. Management has prepared the financial statements and related note disclosures along with this MD&A. The MD&A 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 its 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 features seven universities—some with multiple campuses—located across the state, a law school, eight outreach centers, an additional 33 course sites, and Cooperative Extension. The System carries out the traditional tripartite mission – teaching, research, and public service. A major resource for the State, the System drives economic development by conducting world-class research, commercializing valuable ideas, and partnering successfully with businesses and industries throughout Maine and beyond.

Universities, Campuses, and Centers

The System is a comprehensive public institution of higher education with nearly 30,000 enrolled students, supported by the efforts of 1,208 regular full-time faculty, 79 regular part-time faculty, 3,126 regular full-time staff, and 224 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. Our universities are:

1865 THE UNIVERSITY OF MAINE

The University of Maine (UM) is the state's land grant, sea grant and space grant university. As Maine's flagship public university. UM has a statewide mission of teaching, research and economic development, and community service. UM is the state's only public research university and among the most comprehensive higher education institutions in the Northeast, where undergraduate and graduate students have opportunities to participate in groundbreaking research with world-class scholars. UM offers bachelor's, master's and doctoral degrees.

With campuses in Augusta and Bangor, eight UMA Centers across Maine, and expertise in online and distance learning, the University of Maine at Augusta (UMA) is considered the university of choice for Mainers who want to receive a quality and affordable education without uprooting their lives.

Established in 1864 as Maine's first public institution of higher education, the University of Maine at Farmington (UMF) is Maine's public liberal arts college, offering quality programs in teacher education, human services, and arts and sciences.

The University of Maine at Fort Kent (UMFK) is a campus focused on health sciences and professional programs. Founded in 1878 to meet local, state, and regional workforce needs, UMFK provides a diversity of learners the education and development needed to be successful professionals and engaged members of their communities in the 21st Century.

The University of Maine at Machias (UMM) is the regional campus of the University of Maine. Offering quality baccalaureate programs with an emphasis on experiential and community-engaged learning. UMM's distinct campus environment and strong regional identity are enhanced by a partnership with the state's flagship university.

The University of Maine at Presque Isle (UMPI) is a nationally recognized institution of innovation and opportunity, providing students with an affordable and personalized education, a caring, small-university environment, and life-changing experiences that prepare them to be career-ready graduates. Established in 1903, UMPI now offers Bachelor's, Associate's, online, and Competency-Based Education degree programs.

The University of Southern Maine (USM) is northern New England's outstanding public, regional, comprehensive university, dedicated to providing students with a high-quality, accessible, affordable education. From campuses in Portland, Gorham, and Lewiston-Auburn, USM offers baccalaureate, master's, and doctoral programs.

The University of Maine School of Law, a freestanding institution within the System, is located in Portland.

The University of Maine School of Law is committed to justice and leadership in a changing world. As the state's public and only law school, Maine Law provides an accessible and affordable student-focused program of legal education through a rigorous doctrinal and experiential curriculum.

Lewiston-Auburn College is a campus of USM. The Hutchinson Center in Belfast is a campus of UM. UMA Bangor is a campus of UMA. UMA also has eight Centers that provide onsite, distance and online students with access and support to education courses offered by all seven UMS universities at the Centers as well as at 33 Interactive Television (ITV) course receive sites statewide.

Student Enrollment

Chart 1 shows student enrollment, including early college, on a headcount basis with 29,974 students enrolled for the fall 2019 semester, up 0.8% from fall 2018 and up 3.4% since fall 2015. For fall 2019, 63% of the student population were enrolled full-time compared to 64% for fall 2018.

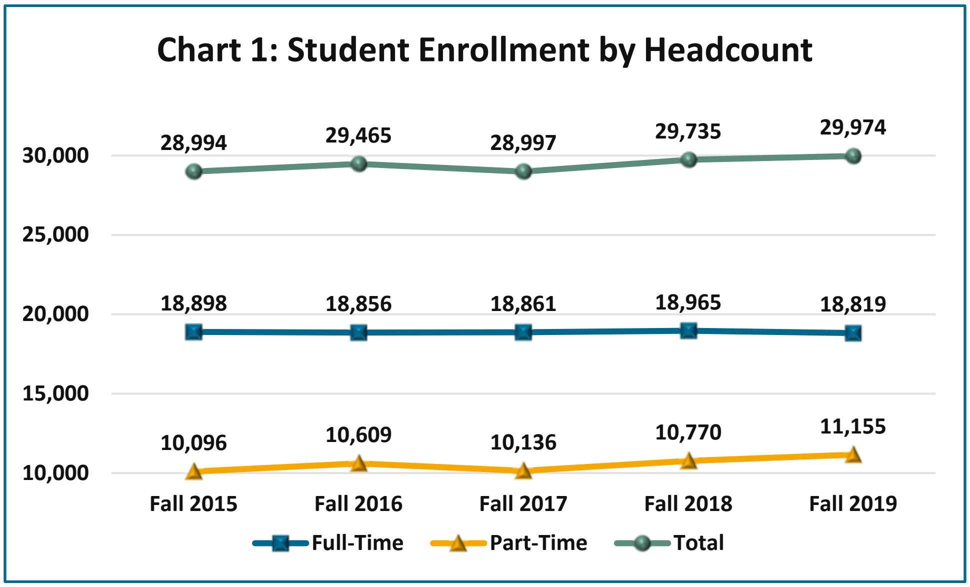


Chart 2 and Table 1 show student enrollment, including early college, on a full-time equivalent (FTE) basis with 21,924 FTE students enrolled for the fall 2019 semester, down 0.5% from fall 2018 and up 1.4% from fall 2015. For both fall 2019 and fall 2018, 75% of FTE enrollments were Maine residents.

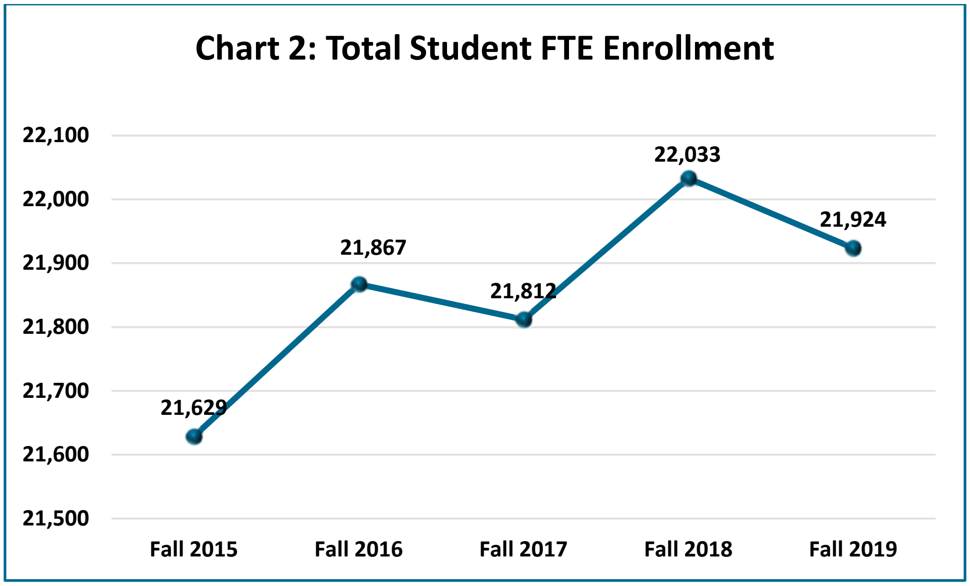


Table 1: Student FTE Enrollment

	% Change Fall 2015 to 2019	Fall 2019	% Change	Fall 2018	% Change	Fall 2017	% Change	Fall 2016	% Change	Fall 2015	% Change
UM	**4.4%**	**9,782**	**0.3%**	**9,750**	**0.3%**	9,720	1.3%	9,594	2.4%	9,371	-1.5%
UMA	**-11.1%**	**2,335**	**3.9%**	**2,247**	**3.6%**	2,169	-10.4%	2,422	-7.8%	2,626	0.4%
UMF	**-8.4%**	**1,579**	**-3.8%**	**1,641**	**-4.8%**	1,723	0.8%	1,709	-0.9%	1,724	1.7%
UMFK	**-7.6%**	**842**	**-11.7%**	**954**	**0.4%**	950	-9.7%	1,052	15.5%	911	8.7%
UMM	**-18.3%**	**403**	**-5.2%**	**425**	**-6.0%**	452	-8.1%	492	-0.2%	493	-4.5%
UMPI	**4.5%**	**860**	**-7.8%**	**933**	**3.3%**	903	2.0%	885	7.5%	823	5.6%
USM	**7.8%**	**6,123**	**0.7%**	**6,083**	**3.2%**	5,895	3.2%	5,713	0.6%	5,681	-6.6%
Total	**1.4%**	**21,924**	**-0.5%**	**22,033**	**1.0%**	21,812	-0.3%	21,867	1.1%	21,629	-1.9%

Student Comprehensive Cost of Education

Net student fee revenue, totaling $248 million in FY20 and $264 million in FY19, is the System's greatest source of revenue, contributing 35% of Total Operating and Net Nonoperating Revenues for FY20. Net student fees represented 37% of the total operating and net nonoperating revenues for FY19. Net student fees are impacted by enrollment levels; tuition, room and board, and fee levels; and the amount of scholarship allowances provided to students.

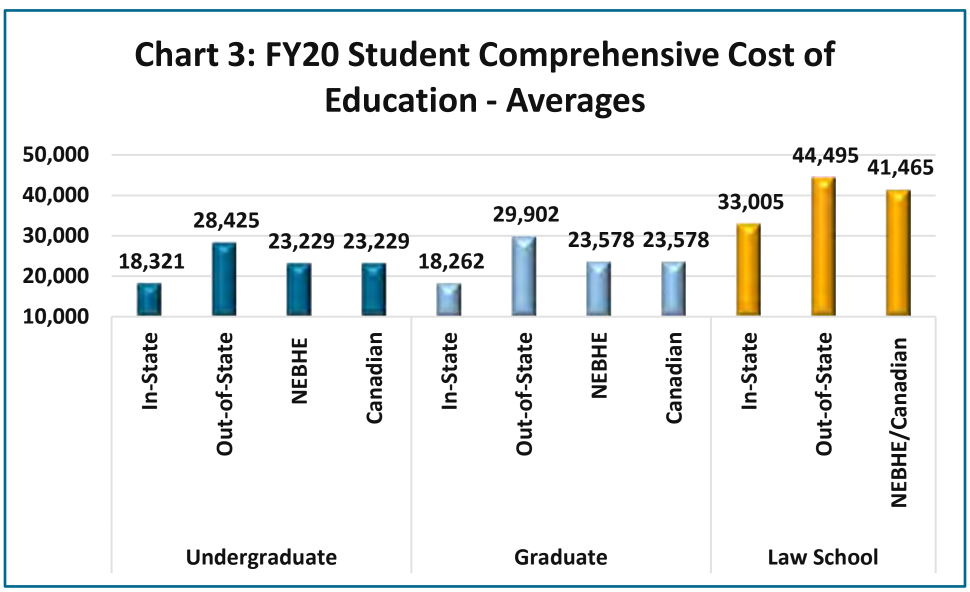
The average comprehensive cost of education (tuition, fees, and room and board) for UMS undergraduate, graduate, and Law School students is shown in Table 2 and Chart 3. The percentage changes for the comprehensive cost of education in FY20 range from an increase of 2.8% for In-State, NEBHE and Canadian Undergraduate students, down to an increase of 0.8% for In-State Law School students. Percentage changes in FY19 ranged from an increase of 3.3% for In-State Graduate students, down to an increase of 0.4% for Out-of-State Undergraduate students.

The FY20 in-state undergraduate tuition increased by a system-wide average of 2.7% where the overall average comprehensive cost of education for this same category of students increased 2.8%. In FY19, the System increased tuition for in-state undergraduate students by a system-wide average of 2.4% where the overall average comprehensive cost of education for this same category of students increased 1.7%.

Table 2: Student Comprehensive Cost of Education
Tuition, Mandatory Fees, and Room and Board Fiscal Year Averages

	2020		2019		2018		2017		2016	
	Cost	% Change	Cost	% Change	Cost	% Change	Cost	% Change	Cost	% Change
Undergraduate:										
In-State	**$18,321**	2.8%	**$17,819**	1.7%	**$17,520**	2.7%	$17,065	0.3%	$17,008	1.0%
Out-of-State	**28,425**	2.2%	**27,809**	0.4%	**27,707**	2.9%	26,922	1.1%	26,634	0.9%
NEBHE	**23,229**	2.8%	**22,593**	2.6%	**22,015**	4.6%	21,045	2.0%	20,633	0.8%
Canadian	**23,229**	2.8%	**22,593**	2.5%	**22,045**	4.6%	21,075	1.8%	20,710	0.8%
Graduate:										
In-State	**$18,262**	1.0%	**$18,081**	3.3%	**$17,501**	2.3%	$17,114	0.0%	$17,108	1.5%
Out-of-State	**29,902**	2.0%	**29,313**	3.1%	**28,427**	2.7%	27,674	0.7%	27,482	1.4%
NEBHE	**23,578**	2.6%	**22,983**	2.8%	**22,350**	4.0%	21,488	1.7%	21,119	1.5%
Canadian	**23,578**	2.6%	**22,983**	2.8%	**22,350**	4.0%	21,488	1.7%	21,119	1.5%
Law School:										
In-State	**$33,005**	0.8%	**$32,740**	0.9%	**$32,460**	0.1%	$32,430	0.0%	$32,430	0.2%
Out-of-State	**44,495**	1.6%	**43,810**	0.6%	**43,530**	0.1%	43,500	0.0%	43,500	0.1%
NEBHE/Canadian	**41,465**	1.5%	**40,870**	0.7%	**40,590**	0.1%	40,560	0.0%	40,560	0.1%

Note: Some amounts presented in the above Table 2 for 2019 and 2016 differ from FY2019's MD&A and are based upon restated amounts included in the System report titled, "Student Charges FY2020".



OVERVIEW OF THE FINANCIAL STATEMENTS

The 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
- Statements of Cash Flows

The University of Maine Foundation is a legally separate tax-exempt component unit of the System. This entity's financial position and activities are discretely presented in the System'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 present the financial position of the System at one point in time – June 30 – and include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the System. These statements are the primary statements used to report financial condition. Net position represents the residual interest in the System's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. The change in net position is an indicator of whether the overall financial condition has improved or deteriorated during the year. Table 3 on page 16 shows Condensed Statements of Net Position for the past five years.

Overview of Condensed Statements of Net Position

As shown in Table 3, assets and liabilities are classified as 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. Total assets and deferred outflows of resources of $1.25 billion at June 30, 2020, increased $7 million, or 1% over the prior year, and increased $60 million, or 5%, since June 30, 2016.

The major component of current assets is operating investments, which totaled $264 million at June 30, 2020 and $250 million at June 30, 2019. Noncurrent assets consist mainly of endowment investments and capital assets, net of depreciation. Endowment investments totaled $161 million at June 30, 2020, a decrease of $2 million, or 1%, from the FY19 year-end balance of $163 million and a $25 million, or 18%, increase since June 30, 2016. Capital assets net of accumulated depreciation totaled $683 million and $685 million at June 30, 2020 and 2019, respectively.

Current liabilities of $75 million and $76 million at June 30, 2020 and 2019, respectively, consist primarily of accounts payable and various accrued liabilities including those for the System's workers compensation, health, and retirement plans. Impacts to accounts payable and accrued liabilities include the timing of the last check cycle for the fiscal year, the level of construction activity in progress, and budget constraints.

At $306 million, total noncurrent liabilities increased $1 million, or 0.3%, from June 30, 2019 to 2020. This increase is primarily the result of a $12 million increase in other noncurrent liabilities and an $11 million decrease in long-term debt. For FY19, the System had total noncurrent liabilities of $305 million, a decrease of $23 million, or 7%, from June 30, 2018, with the change being the net of a $13 million decrease in long-term debt and a $10 million decrease in other accrued liabilities.

Total net position at June 30, 2020 of $832 million increased $14 million, or 2%, from the June 30, 2019 balance which increased $4 million, or 0.5%, from the June 30, 2018 balance. Additional information about net position is presented on page 22.

Table 3: Condensed Statements of Net Position as of June 30

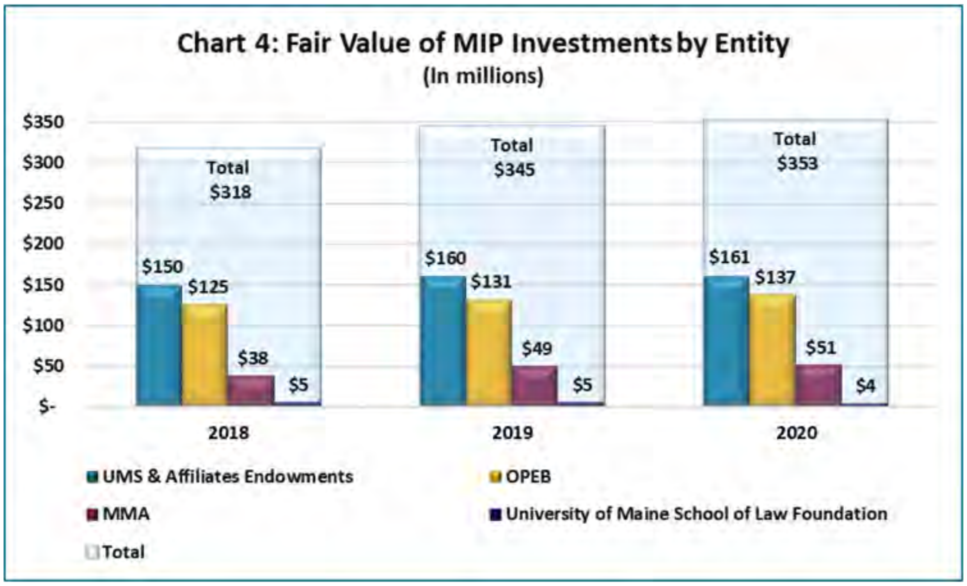
(In millions)

	2020	% Change	2019	% Change	2018	2017	2016
Current Assets	**$ 332**	**2%**	**$ 325**	**6%**	$ 307	$ 304	$ 293
Noncurrent Assets							
Endowment investments	**161**	**-1%**	**163**	**6%**	154	147	136
Capital assets, net	**683**	**0%**	**685**	**-2%**	700	700	707
Other	**43**	**-10%**	**48**	**-16%**	57	67	45
Total Assets	**1,219**	**0%**	**1,221**	**0%**	1,218	1,218	1,181
Deferred Outflows of Resources	**31**	**41%**	**22**	**83%**	12	14	9
Total Assets and Deferred Outflows	**$ 1,250**	**1%**	**$1,243**	**1%**	$1,230	$1,232	$1,190
Current Liabilities	**$ 75**	**-1%**	**$ 76**	**12%**	$ 68	$ 69	$ 64
Noncurrent Liabilities							
Long-term debt	**124**	**-8%**	**135**	**-9%**	148	161	155
Other	**182**	**7%**	**170**	**-6%**	180	179	103
Total Liabilities	**381**	**0%**	**381**	**-4%**	396	409	322
Deferred Inflows of Resources	**37**	**-16%**	**44**	**120%**	20	25	1
Total Liabilities and Deferred Inflows	**418**	**-2%**	**425**	**2%**	416	434	323
Net investment in capital assets	**547**	**1%**	**542**	**-2%**	551	544	544
Restricted							
Nonexpendable	**67**	**2%**	**66**	**12%**	59	59	58
Expendable	**115**	**-1%**	**116**	**1%**	115	114	108
Unrestricted	**103**	**10%**	**94**	**6%**	89	81	157
Total Net Position	**832**	**2%**	**818**	**0%**	814	798	867
Total Liabilities, Deferred Inflows and Net Position	**$ 1,250**	**1%**	**$1,243**	**1%**	$1,230	$1,232	$1,190

Managed Investment Pool (MIP)

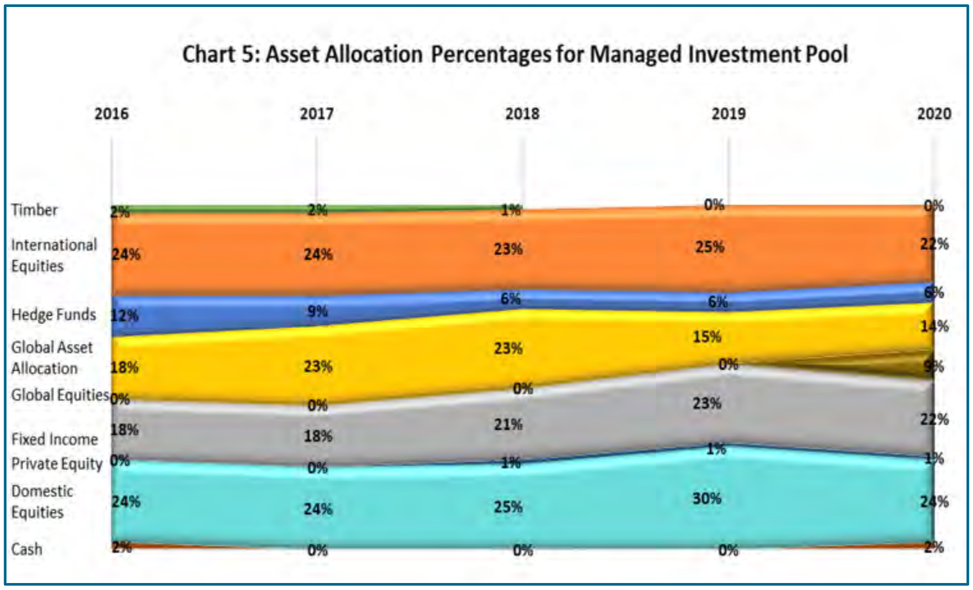
The System pools certain funds for investment purposes including the System's endowment pool monies (including those affiliated organizations that invest in the MIP) and monies on behalf of the following entities: the UMS OPEB Trust, Maine Maritime Academy (MMA), and the University of Maine School of Law Foundation.

Chart 4 shows the June 30, 2018, 2019, and 2020 fair values of the MIP investments, including the amounts held on behalf of each entity.

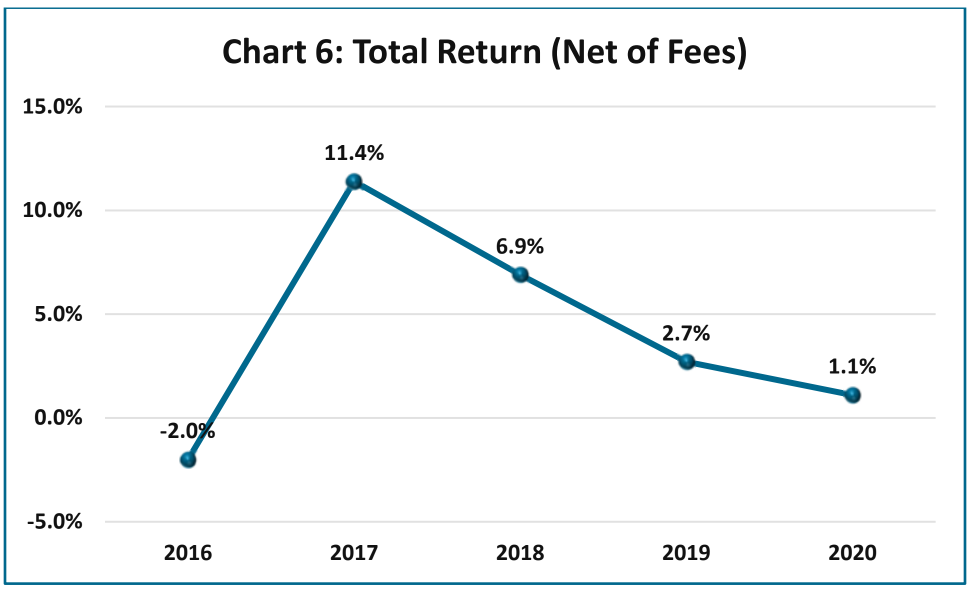


The System's and affiliates' share of the MIP are included in the accompanying Condensed Statements of Net Position as part of endowment investments. The OPEB Trust, Maine Maritime Academy, and the University of Maine School of Law Foundation portions of MIP investments are not included in those Statements.

The MIP investments are diversified among a number of asset classes to minimize risk while optimizing return. Chart 5 illustrates the percentage of holdings in each asset class and how they have changed over the past 5 years.



As shown in Chart 6, in FY20 the MIP realized a net of fees return of 1.1%, down from 2.7% in FY19. The pooled investments have a 5-year annualized net of fees return of 3.9%.



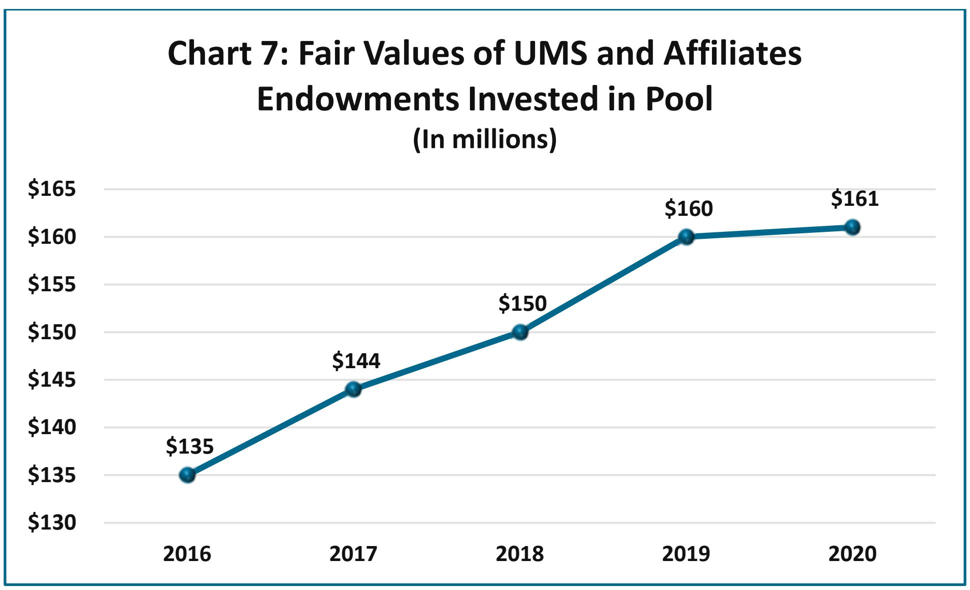
Endowments (Including Affiliates)

Endowments are generally created from donor gifts or bequests with the funds invested to create present and future income with the original amount of the gift (corpus) retained in perpetuity. If the donor established criteria to determine how the expendable amounts are to be used, such amounts are considered restricted expendable. If the use of expendable amounts is left to the discretion of the System, the endowment income and appreciation are considered unrestricted.

As mentioned in the previous MIP section, the System uses 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 7, the UMS and its affiliates share of these pooled endowment investments had a fair value of $160 million at June 30, 2020 remained flat with the prior year. This included an increase in endowment contributions of $4 million plus $2 million in positive net performance less $6 million distributed for scholarships and other operating activities.

The pool's June 30, 2019 fair value of $160 million had increased $10 million from the 2018 year-end fair value of $150 million. This increase included endowment contributions of $13 million plus $4 million in positive net performance less $7 million distributed for scholarships and other operating activities.



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 FY16 thru FY20 was 4.5%.

The fair value of the pooled endowment investments for the UMS and its affiliates that invest in the MIP and the fair value of separately invested UMS endowments comprise the endowment investments reported in the accompanying Condensed Statements of Net Position. The liability for the affiliates’ share of the pooled endowment investments is also recognized in those Statements as part of funds held for others.

Capital Assets and Debt Activities

Table 4 on page 21 shows the status of major capital construction projects as of June 30, 2020 and the related budget approved by the UMS Board of Trustees.

The System’s facilities are critical to each university’s mission as they provide the physical framework and environment for education, research, cultural programs, and residential life. The System continually evaluates its long-term capital and strategic needs, including which facilities to upgrade, retire, or build. Capital assets are funded with various sources of funds including state bonds, gifts, grants, educational and general funds, and System revenue bonds.

During FY20, the System had capital asset additions of $41 million, which included $31 million of construction in progress, $5 million of equipment and $5 million of software. In FY19, the System had capital asset additions of $27 million, which included $19 million of construction in progress, $7 million of equipment and $1 million of 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. Total debt as of June 30, 2020 was $138 million, a decrease of $12 million, or 8%, from the FY19 total debt of $150 million. In FY19, total debt decreased $12 million, or 7%, from the FY18 total debt of $162 million.

Table 4: Major Capital Projects Completed During FY20 or In Progress at June 30, 2020 (In millions)

Project	Funding Source	Status	BOT Approved Budget
UMA			
• Augusta Welcome Center	2018 State Bond	In Progress	$ 6.85
• Handley Hall HVAC System Upgrade	2018 State Bond, Educational & General	In Progress	0.57
UMF			
• Dearborn Gym HW Upgrades	2010 State Bond, 2018 State Bond	In Progress	0.85
• 274 Front Street Acquisition	2018 State Bond	Complete	0.85
UMFK			
• Enrollment/Advancement Center	2018 State Bond, Educational & General	In Progress	3.25
UM			
• Advanced Structures and Composites Ctr Equipment	Gift, Grant	In Progress	1.53
• Cooperative Extension Diagnostic & Research Lab	2014 State Bond, Educational & General, Grants	Complete	9.60
• Aquatic Animal Health Facility	Grants, Educational & General	Complete	2.87
• Darling Marine Center Waterfront Infrastructure	Grants, Educational & General	In Progress	5.20
• Engineering Education and Design Center	Educational & General, Gifts	In Progress	72.00
• Wells Commons Generator	Auxiliary Funds	In Progress	0.53
• CCAR EDA Hatchery Building Roof Replacement	Educational & General	In Progress	0.56
• Hilltop Commons Servery Updates	Auxiliary Funds	In Progress	0.93
• York Hall Kitchen Hood Replacement	Auxiliary Funds	In Progress	0.95
• UM Energy Center Phase 2	Educational & General	In Progress	5.70
• ASCC Renovation - Mezzanine Office Expansion	Educational & General	In Progress	1.40
USM			
• Athletic Field Lighting	Educational & General	Complete	1.78
• USM Center for the Arts	Gifts	In Progress	1.00
• Corthell Hall HVAC Upgrades	Educational & General	Complete	0.55
• Woodward Hall Renovation	2018 State Bond, Educational & General	In Progress	1.80
• Ricci Lecture Hall Renovation	2018 State Bond, Gifts, Educational & General	Complete	0.68
• Brooks Student Center Generator & Switchgear Installation	Educational & General	In Progress	0.67
• Career and Student Success Center and Portland Residence Hall	2018 State Bond, Educational & General	In Progress	5.70
• Bailey Hall Fire Protection & Electrical Upgrades	2018 State Bond, Educational & General	In Progress	4.39
• USM Nursing Simulation Lab Science	2018 State Bond	In Progress	1.50
• Brooks Patio Renovations	Educational & General	In Progress	0.65
• Wishcamper Parking Lot	Educational & General	In Progress	1.71
• Portland Parking Garage Study	Educational & General	In Progress	1.20
• Fitness Equipment Purchase & Space Renovation	Educational & General	In Progress	0.70
UMPI			
• Greenhouse	2013 State Bond, Gifts, MEIF	In Progress	0.93
• Folsom 105 Nursing Renovation	2018 State Bond	In Progress	0.80
UMS			
• IT Infrastructure - Wireless and Classroom Technology Upgrades	2017 Revenue Bond	In Progress	19.00
• MaineStreet Upgrade	2017 Revenue Bond	In Progress	2.00
TOTAL			$ 158.70

Deferred Outflows and Inflows of Resources

Deferred outflows of resources of $31 million at June 30, 2020 increased $9 million from the prior year balance of $22 million. The increase is primarily due to an increase of $9 million related to the UMS' postemployment health plan or OPEB. In FY19, the System's deferred outflows of resources increased $10 million from the June 30, 2018 balance of $12 million. The increase was primarily due to an $11 million increase related to OPEB.

Deferred inflows of resources of $37 million at June 30, 2020 decreased $7 million from the $44 million at June 30, 2019. The decrease is primarily due to a decrease of $7 million related to the System's OPEB plan. In FY19, the System's deferred inflows of resources increased $24 million from the $20 million at June 30, 2018, primarily due to an increase of $22 million related to the System's OPEB plan and $1 million related to a dining services concession arrangement with a third party.

Net Position

Net investment in capital assets represents the historical cost of the System's capital assets reduced by total accumulated depreciation and outstanding balances of debt attributable to the acquisition, construction, or improvement of those assets. As seen in Table 3, on page 16, the System's net investment in capital assets was $547 million at June 30, 2020 and $542 million at June 30, 2019.

The FY20 increase in net investment in capital assets of $5 million is comprised of capital asset acquisitions of $41 million less $42 million of depreciation expense, less $1 million of capital asset retirements, less new debt of $2 million, plus a reduction in debt of $14 million, less an increase in software licensing agreements of $3 million with Jaggaer and $1 million with TouchNet, and less a $1 million increase in deferred inflows related to the dining contract with Sodexo as the contract was renewed during FY20.

The FY19 decrease in net investment in capital assets of $9 million was primarily comprised of capital asset acquisitions of $27 million less $41 million of depreciation expense, less $1 million of capital asset retirements, less new debt of $4 million, plus a reduction in debt of $10 million.

Restricted-nonexpendable net position of $67 million at June 30, 2020 increased $1 million, or 2%, over the $66 million at June 30, 2019. For FY19, restricted-expandable net position increased $7 million, or 12%, from the FY18 year-end balance of $59 million. The increase was primarily due to a one-time single gift of $5 million. This category of net position represents the corpus of the System's permanent endowment funds. Items that impact this category of net position include new endowment gifts and fair value fluctuations for those endowments whose fair value has fallen below the endowment corpus.

Restricted-expendable net position of $115 million at June 30, 2020 consists of a variety of funds including unexpended gifts, quasi-endowments and appreciation on true endowments, subject to externally imposed conditions on spending. This category of net position is restricted for various purposes including student financial aid, capital asset acquisitions, research, and public service.

The FY20 net decrease of $1 million, or 1%, is primarily attributable to a $4 million increase in unspent restricted gift balances offset by a $3 million decrease in endowment values as endowment income distributed for operations exceeded actual investment performance.

The FY19 net increase of $1 million, or 1%, is primarily attributable to a $2 million increase in unspent restricted gift balances offset by a $1 million decrease in endowment values as endowment income distributed for operations exceeded actual investment performance, and a $2 million increase in Maine Economic Improvement Fund expenditures.

Unrestricted net position of $103 million at June 30, 2020 increased by $9 million, or 10%, from the FY19 year-end balance of $94 million. For FY19, unrestricted net position increased $5 million, or 6%, from the FY18 year-end balance of $89 million.

The unrestricted 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, compensating for 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 System, funds must be readily available to cover various situations including emergency and other unforeseen expenditures, strategic priorities, operating losses, over-expenditures on budgeted items, and benefits costs.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

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

Table 5, on the next page, shows Condensed Statements of Revenues, Expenses, and Changes in Net Position for the past five fiscal years ended June 30. The System's total net position increased $14 million in FY20 and $4 million in FY19.

Table 5: Condensed Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30
(In millions)

	2020	2019	2018	2017	2016
Operating Revenues					
Net student fees	**$ 248**	**$ 264**	$ 256	$ 245	$ 237
Grants, contracts and recovery of indirect costs	**159**	**153**	150	150	148
Other operating revenues	**44**	**53**	52	53	52
Total Operating Revenues	**451**	**470**	458	448	437
Operating Expenses	**(716)**	**(724)**	(692)	(668)	(660)
Operating Loss	**(265)**	**(254)**	(234)	(220)	(223)
Nonoperating Revenues (Expenses)					
Noncapital State of Maine appropriations	**220**	**212**	211	212	201
CARES Act funding	**15**	**-**	-	-	-
Gifts currently expendable	**19**	**16**	14	13	17
Endowment return used for operations	**6**	**6**	6	6	6
Investment income	**9**	**12**	7	10	3
Interest expense, net	**(4)**	**(4)**	(4)	(5)	(5)
Net Nonoperating Revenues (Expenses)	**265**	**242**	234	236	222
Income (Loss) Before Other Changes in Net Position	**-**	**(12)**	-	16	(1)
Other Changes in Net Position					
State of Maine capital appropriations	**14**	**6**	8	5	13
Capital grants and gifts	**3**	**4**	4	3	3
Endow. return, net of amount used for operations	**(4)**	**(2)**	3	8	(8)
Other	**1**	**8**	1	1	(1)
Total Other Changes in Net Position	**14**	**16**	16	17	7
Change in Net Position	**$ 14**	**$ 4**	$ 16	$ 33	$ 6

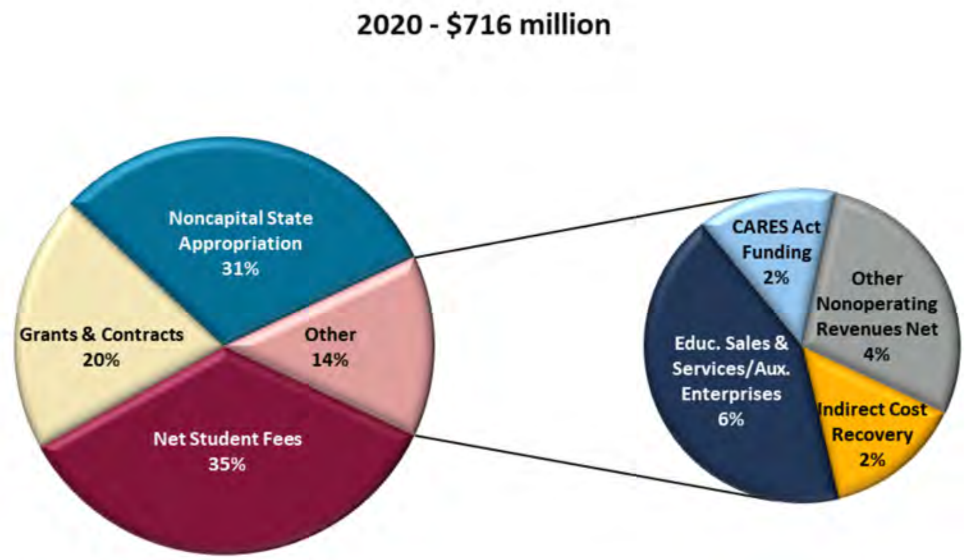
Operating and Nonoperating Revenue

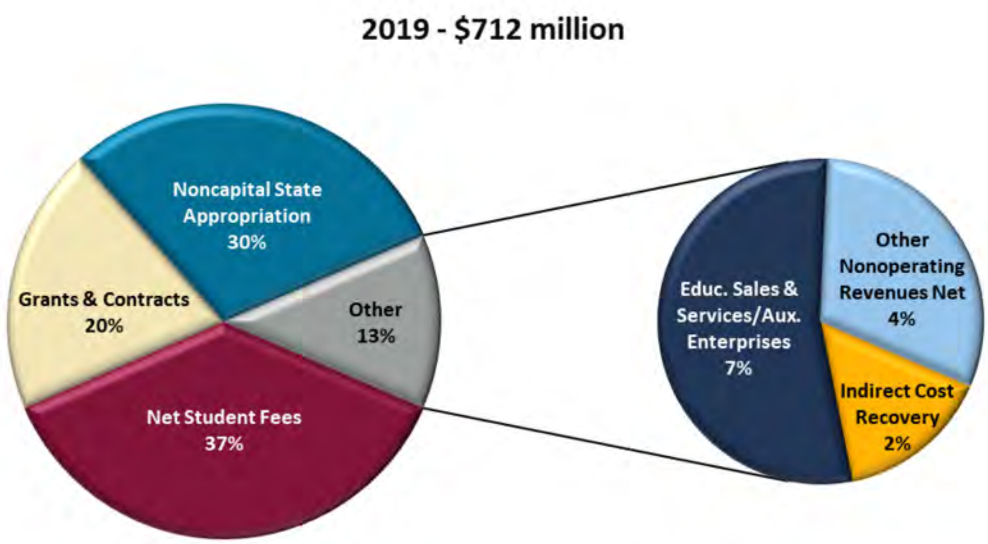
In addition to tuition and fees, the System receives revenue from other sources such as governmental and privately funded grants and contracts; gifts from individuals, foundations, and corporations; state appropriations; and investment income.

UMS revenues and expenses are categorized as either operating or nonoperating. Certain significant recurring revenues and expenses are considered nonoperating including state noncapital appropriations, CARES Act funding, gifts, endowment return used for operations, 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 FY20 and FY19.

Chart 8: Total Operating and Net Nonoperating Revenue





Net student fees of $248 million for FY20 are the largest source of revenues used to fund operating expenses, representing 35% of total operating and net nonoperating revenues. Net student fees represented 37% of the total operating and net nonoperating revenues for FY19.

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

- Tuition and fees totaled $319 million in FY20, increasing $6 million, or 2%, from the prior year. FY19 revenues increased $13 million, or 4%, from FY18.

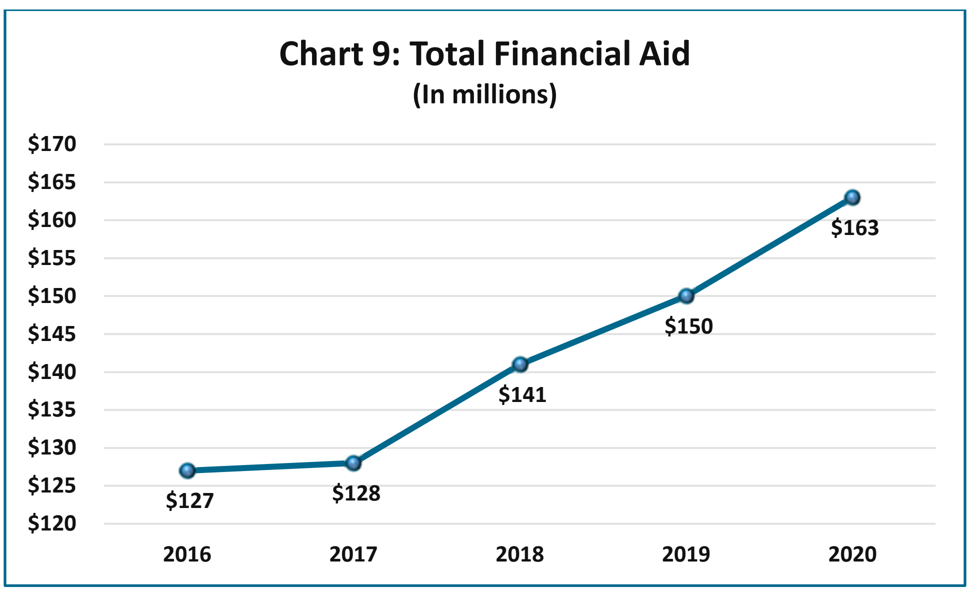
- Residence and dining fees of $52 million in FY20 were down $13 million, or 20%, compared with FY19. This decrease is primarily attributable to sending students home early during the spring semester as part of the UMS' emergency response to the world-wide COVID-19 pandemic. Approximately 46%, or $13 million, of the spring semester room and board charges were refunded to the students. FY19 revenues were up $1 million, or 2%, from FY18.
- Scholarship allowances totaled $123 million in FY20, increasing $9 million, or 8%, from the prior year. The FY19 scholarship allowances increased $6 million, or 6%, from FY18.

Student Financial Aid

Student financial aid awards are made from a variety of sources including federal, state, private, and university funds. Funding received by the UMS from third parties is recognized as grants and contracts revenue or gift 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 considering their total cost of education which includes tuition and fees, housing and meals (both on and off campus), books, and other personal living expenses.

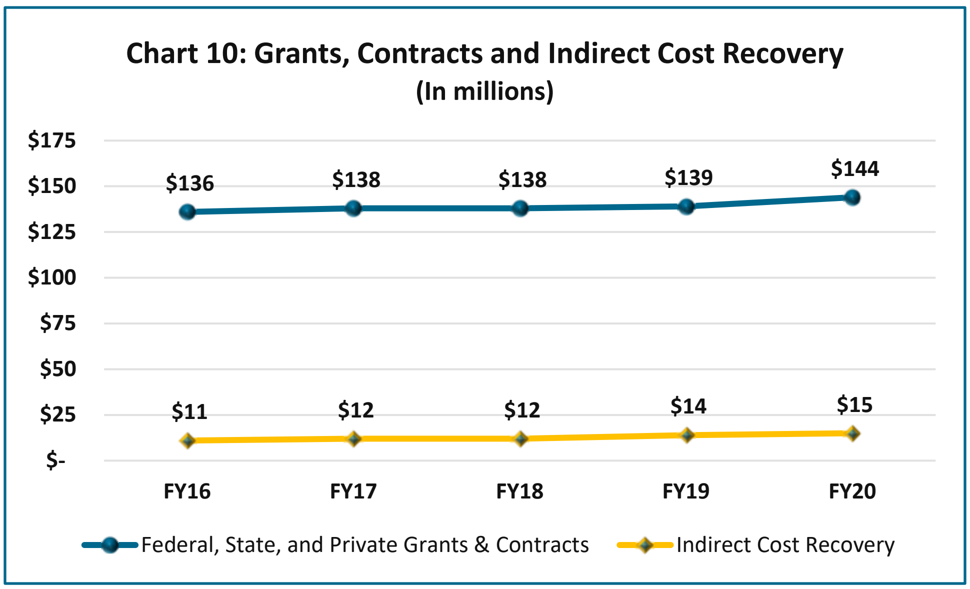


During FY20, total financial aid provided to students was $163 million, increasing $13 million, or 9%, over FY19 financial aid of $150 million. The increase includes $8 million in FY20 funding from the federal Coronavirus Aid, Relief, and Economic Security Act in response to the COVID-19 pandemic, an increase from FY19 of $7 million in institutional unrestricted aid, and a decrease from FY19 of $2 million in Pell awards.

In FY19, total financial aid provided to students was $150 million, increasing $9 million, or 6%, over FY18 financial aid of $141 million. The increase includes an increase of $7 million in institutional unrestricted aid and an increase of $2 million in institutional restricted 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 $144 million in FY20, increasing $5 million, or 4%, from FY19. This increase is the net change in funding from over 400 different sponsors. The largest single funding increase was $2 million related to a corporate grant regarding production capability related to composites.

For FY19 grants and contracts revenues totaled $139 million in FY19, increasing $1 million, or 1%, from FY18. This increase is the net change in funding from over 400 different sponsors, with the most significant increase being a combined increase of $3 million from the U.S. Department of Defense and the U.S. Department of Agriculture.

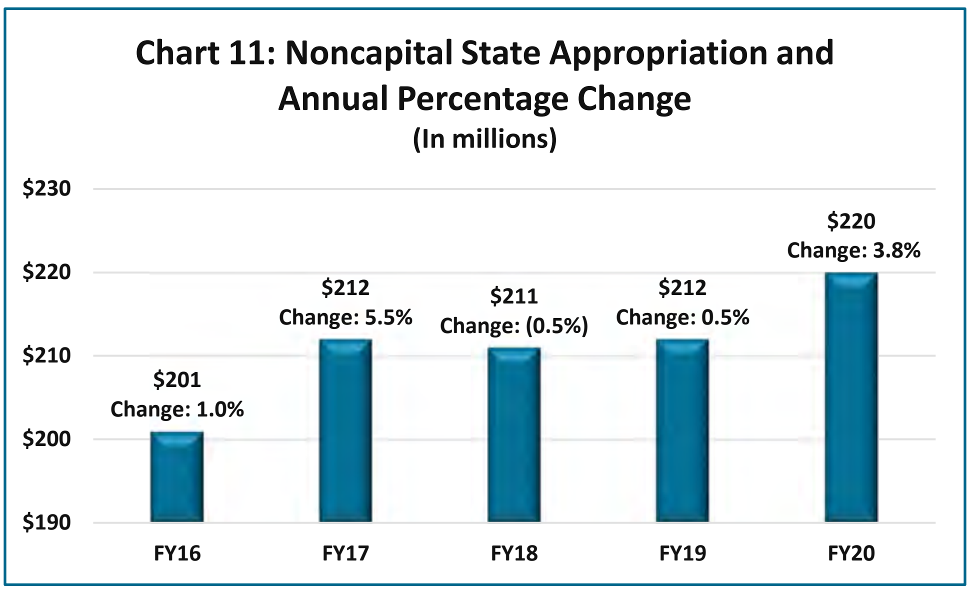
In addition to providing for direct costs, grants and contracts sponsors provide for recovery of Facilities and Administrative (F&A) costs, which are also known as indirect costs. The amount of allowable F&A costs is calculated for each grant and contract using the applicable negotiated rate subject to specific sponsor limitations and other proposal and award conditions. Recovery of indirect costs totaled $15 million for FY20, increasing $1 million from FY19. Recovery of F&A costs was $14 million for FY19 which was an increase of $2 million from FY18.

Noncapital State of Maine Appropriations

State noncapital appropriation revenue includes amounts for general operations and 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 11, the System received $220 million in noncapital state appropriation revenue during FY20, up $8 million, or 3.8%, from FY19. The System received $212 million in noncapital state appropriation revenue during FY19, up $1 million, or 0.5%, from FY18.

At $220 million, noncapital state appropriation revenue covered 83% of the $265 million operating loss in FY20. This results in no change from the operating loss coverage level of 83% in FY19.



CARES Act Funding

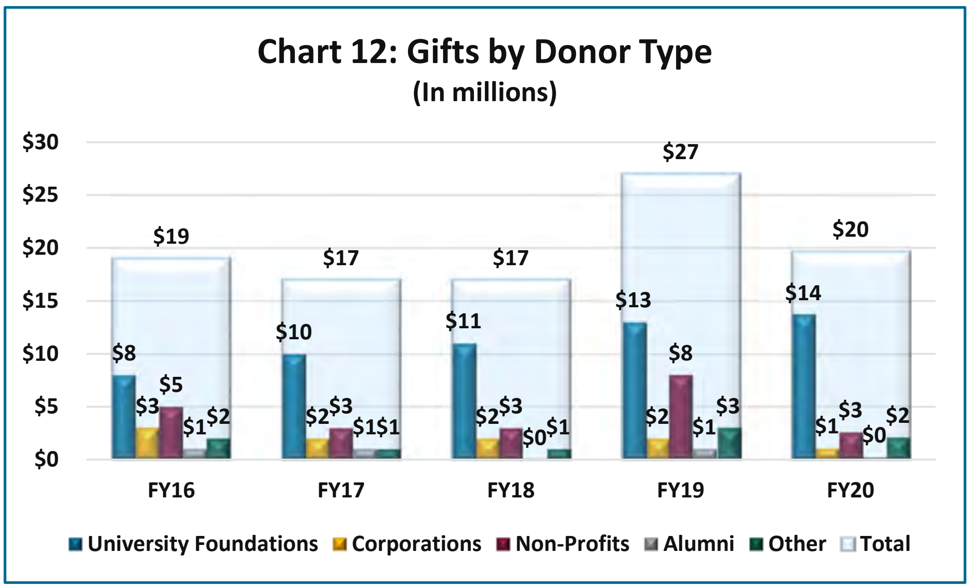
In response to the COVID-19 pandemic, the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 28, 2020 to provide economic relief. Under this act, the UMS was awarded $17.9 million from the U.S. Department of Education to use for emergency aid to students, to reimburse for refunded room and board revenues, and for a variety of other pandemic related costs. In accordance with GASB guidance, the UMS has recognized nonoperating revenue from the CARES Act to the extent of qualified expenses, or $15 million for FY20. The costs that were funded with these revenues are reported in the following lines from the operating section of the Statements of Revenues, Expenses, and Changes in Net Position.

- Reduction of residence and dining fees revenue - $7 million
- Increase of student aid expense - $8 million

Cash Gifts

As shown in Chart 12, total cash gifts of $20 million received in FY20 were down $7 million from the prior year. FY20 gifts from the university foundations increased $1 million; however, non-profits decreased $5 million, and corporations, alumni gifts, and other donor types each decreased $1 million. FY19 gifts from the non-profits increased $5 million, university foundations and other donor types each increased $2 million and alumni gifts increased $1 million.

Of the $20 million in gifts received in FY20, 95% were restricted, 4% were endowed, and 1% were unrestricted. Of the $27 million in gifts received in FY19, 67% were restricted, 32% were endowed, and 1% were unrestricted.



Operating Expenses

Table 6 shows expenses on a functional basis while Table 7 shows expenses by natural classification.

Table 6: Operating Expenses by Functional Classification
For the Years Ended June 30
(In millions)

	2020		2019		2018		2017		2016	
Instruction	**$ 183**	**25%**	**$ 181**	**25%**	$ 174	25%	$ 171	26%	$168	25%
Academic support	**73**	**10%**	**73**	**10%**	74	11%	71	10%	66	10%
Student services	**62**	**9%**	**61**	**9%**	58	8%	54	8%	54	8%
Subtotal	**318**	**44%**	**315**	**44%**	306	44%	296	44%	288	43%
Research	**80**	**11%**	**80**	**11%**	76	11%	73	11%	66	10%
Public service	**58**	**8%**	**59**	**8%**	57	8%	60	9%	60	9%
Institutional support	**65**	**9%**	**74**	**10%**	64	9%	55	8%	64	10%
Operation and maintenance of plant	**50**	**7%**	**52**	**7%**	51	8%	51	7%	49	7%
Depreciation and amortization	**42**	**6%**	**41**	**6%**	40	6%	38	6%	37	6%
Student aid	**40**	**6%**	**36**	**5%**	34	5%	31	5%	33	5%
Auxiliary enterprises	**63**	**9%**	**67**	**9%**	64	9%	64	10%	63	10%
Total Operating Expenses	**$ 716**	**100%**	**$ 724**	**100%**	$ 692	100%	$ 668	100%	$660	100%

Table 7: Total Expenses by Natural Classification
For the Years Ended June 30
(In millions)

	2020		2019		2018		2017		2016	
Operating:										
Compensation	**$ 331**	**46%**	**$322**	**44%**	$310	45%	$302	45%	$296	45%
Benefits	**129**	**18%**	**139**	**19%**	124	18%	116	17%	124	19%
Utilities	**28**	**4%**	**31**	**4%**	30	4%	31	4%	27	4%
Supplies and Services	**146**	**20%**	**155**	**21%**	154	22%	150	22%	143	21%
Depreciation and Amortization	**42**	**6%**	**41**	**6%**	40	5%	38	6%	37	5%
Student Aid	**40**	**5%**	**36**	**5%**	34	5%	31	5%	33	5%
Total Operating Expenses	**716**	**99%**	**724**	**99%**	692	99%	668	99%	660	99%
Nonoperating:										
Interest	**4**	**1%**	**4**	**1%**	4	1%	5	1%	5	1%
Total Expenses	**$ 720**	**100%**	**$728**	**100%**	$696	100%	$673	100%	$665	100%

Compensation and benefits expense totaled $460 million in FY20, decreasing $1 million, or (0.2%), where FY19 saw an increase of $27 million (6%) compared with FY18.

STATEMENTS OF CASH FLOWS

The Statements of Cash Flows examines the changes in cash position for each 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. These statements help 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.

STRATEGIC VISION AND PRIORITIES

Unified Accreditation for the University of Maine System

Effective July 1, 2020, the University of Maine System became the first statewide system of public higher education in the nation to unify the individual accreditations of its universities in the System. Unifying the individual accreditations of the System's universities allows all of Maine's public universities to be evaluated together based on how well they share state resources in meeting standards of accreditation that establish criteria for institutional quality and higher education effectiveness. The year-long engagement to achieve unified accreditation began with the July 2019 appointment of Dannel Malloy as Chancellor of the University of Maine System.

Declaration of Strategic Priorities

The Board of Trustees ("the Board") adopted a Declaration of Strategic Priorities in December of 2018 that led to Chancellor Malloy's appointment and the unified accreditation for the System.

Informed by Maine's workforce needs, the state's demographic challenges, and the need to meet student and employer expectations for post-secondary education in a rapidly changing marketplace, the strategic priorities guide and expedite higher education reform in Maine for the next three to five years. The vision for these reforms is the establishment of an efficient and cost-effective continuum of public education that provides the people of Maine with access to flexible, relevant 21st Century learning that extends from early childhood to retirement.

Leading Maine's Response To and Recovery From COVID-19

The final quarter of FY20 saw pandemic-related disruption to normal campus operations with the University of Maine System joining higher education institutions around the nation in suspending campus operations and transitioning to distance instruction following spring break to help limit the spread of infection among the university community and across Maine. The System has been a key partner in the state's response to the global pandemic and led the planning to prepare the state's $4.5 billion higher education sector for a safe fall return to campus-based operations.

The pandemic’s impact on higher education will extend long after its presence in our daily lives has faded. The System will build on the pedagogical flexibility and responsiveness deployed in 2020 to extend learning options and meet students where they are with the instruction and support they need to succeed.

COVID-19’s financial impacts include significant unplanned pandemic-related expenses and lost revenues for the System well in excess of the federal CARES Act relief received to-date. The System will be seeking additional relief and support for pandemic-related costs as it helps to lead the state’s recovery from the global health crisis.

Historic Investment in Public Higher Education

In October 2020, the Harold Alfond Foundation announced a $240 million investment over 12 years in the System. The grant is the largest gift to an institution of public higher education in New England’s history and supports transformative changes in student success and retention, engineering, graduate and professional education, Division 1 athletics and gender equity at the state’s largest educational, research, innovation and talent development asset.

Economic Considerations

The System routinely issues revenue bonds for its capital needs and S&P Global Ratings (S&P) reviews the credit worthiness of the System and its debt. In April 2020, S&P affirmed the System’s AA- long-term rating and underlying rating on its various series of outstanding revenue bonds with a stable outlook. The revenue bonds are secured by a broad pledge of the System’s available resources. The State of Maine also periodically provides debt service and other capital support like its cumulative $50 million commitment towards the construction of the Ferland Engineering Education and Design Center at the University of Maine. This commitment is being fulfilled with annual payments to the System, which began in FY19 and extend through FY29.

UNIVERSITY OF MAINE SYSTEM
STATEMENTS OF NET POSITION
JUNE 30, 2020 AND 2019 (IN THOUSANDS)

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents *(Note 2)*	$ 9,659	$ 13,003
Operating investments *(Note 3)*	264,046	249,891
Accounts, grants, and pledges receivable, net *(Note 4)*	52,312	55,756
Inventories and prepaid expenses	5,582	6,078
Notes and lease receivable, net *(Note 5)*	63	63
Total Current Assets	331,662	324,791
Noncurrent Assets		
Deposits with bond trustees *(Notes 3 and 6)*	5,778	7,351
Accounts, grants and pledges receivable, net *(Note 4)*	3,660	2,798
Notes and leases receivable, net *(Note 5)*	32,151	35,976
Endowment investments *(Note 3)*	160,540	162,580
Capital assets, net *(Note 6)*	683,173	684,957
Irrevocable split interest agreements	1,765	2,099
Total Noncurrent Assets	887,067	895,761
Total Assets	1,218,729	1,220,552
Deferred Outflows of Resources *(Note 15)*	31,407	22,749
Total Assets and Deferred Outflows of Resources	**$ 1,250,136**	**$ 1,243,301**
Liabilities		
Current Liabilities		
Accounts payable	$ 12,638	$ 16,392
Unearned revenue and deposits *(Note 8)*	15,486	14,540
Accrued liabilities - current portion *(Notes 7, 11 and 13)*	30,380	27,501
Funds held for others - current portion	2,859	2,614
Long-term debt - current portion *(Note 7)*	13,816	14,778
Total Current Liabilities	75,179	75,825
Noncurrent Liabilities		
Accrued liabilities *(Notes 7, 11, 13 and 14)*	132,530	114,629
Funds held for others *(Note 3)*	26,058	24,651
Long-term debt *(Note 7)*	123,735	135,360
Government advances refundable *(Note 9)*	23,968	29,940
Total Noncurrent Liabilities	306,291	304,580
Total Liabilities	381,470	380,405
Deferred Inflows of Resources *(Note 15)*	36,558	44,700
Net Position		
Net investment in capital assets *(Note 10)*	547,323	542,491
Restricted		
Nonexpendable *(Note 10)*	66,656	65,990
Expendable *(Notes 3 and 10)*	115,378	115,928
Unrestricted *(Notes 3 and 10)*	102,751	93,787
Total Net Position	832,108	818,196
Total Liabilities, Deferred Inflows of Resources and Net Position	**$ 1,250,136**	**$ 1,243,301**

See accompanying notes to the basic financial statements.

UNIVERSITY OF MAINE SYSTEM
STATEMENTS OF FINANCIAL POSITION – DISCRETELY PRESENTED COMPONENT UNIT
JUNE 30, 2020 AND 2019 (IN THOUSANDS)

	2020	2019
Assets		
Cash and cash equivalents	$ 2,361	$ 1,676
Other receivables	119	84
Promises to give, less allowance for uncollectible pledges of $140	8,034	11,399
Short-term investments	23,481	11,385
Cash surrender value of life insurance	170	162
Long-term investments, endowment	228,117	227,085
Long-term investments, life income plans	4,818	4,977
Notes receivable	34	47
Equity in Buchanan Alumni House	2,679	2,672
Investment real estate	5,526	5,821
Property and equipment, net of accumulated depreciation of $287 and $232, respectively	115	132
Other assets	543	561
Irrevocable trusts	6,794	6,933
Total Assets	**$ 282,791**	**$ 272,934**
Liabilities		
Accounts payable	$ 336	$ 445
Distributions due income beneficiaries	1,932	1,991
Accrued expenses	823	796
Notes payable	719	-
Custodial accounts payable	3,177	3,029
Total Liabilities	6,987	6,261
Net Assets		
Without donor restrictions	12,995	12,441
With donor restrictions	262,809	254,232
Total Net Assets	275,804	266,673
Total Liabilities and Net Assets	**$ 282,791**	**$ 272,934**

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, 2020 AND 2019 (IN THOUSANDS)

	2020	2019
Operating Revenues		
Tuition and fees	$ 319,350	$ 312,736
Residence and dining fees	52,111	65,484
Less: scholarship allowances	(123,712)	(114,025)
Net student fees	247,749	264,195
Federal, state and private grants and contracts	144,017	139,330
Recovery of indirect costs	14,668	13,569
Educational sales and services and other revenues	29,566	35,443
Other auxiliary enterprises	14,823	17,316
Total Operating Revenues	450,823	469,853
Operating Expenses		
Instruction	183,097	180,910
Research	80,098	79,973
Public service	57,914	58,955
Academic support	73,440	73,190
Student services	61,856	61,774
Institutional support	64,842	73,878
Operation and maintenance of plant	50,533	51,794
Depreciation and amortization *(Note 6)*	41,838	41,126
Student aid	39,662	35,692
Auxiliary enterprises	62,790	66,905
Total Operating Expenses	716,070	724,197
Operating Loss	(265,247)	(254,344)
Nonoperating Revenues (Expenses)		
Noncapital State of Maine appropriations	219,864	211,975
CARES Act funding	15,456	-
Gifts currently expendable	19,400	17,431
Endowment return used for operations *(Note 3)*	5,603	5,584
Investment income *(Note 3)*	9,074	11,644
Interest expense, net *(Note 7)*	(4,044)	(4,206)
Net Nonoperating Revenues (Expenses)	265,353	242,428
Income (Loss) Before Other Changes in Net Position	106	(11,916)
Other Changes in Net Position		
State of Maine capital appropriations	14,308	5,958
Capital grants and gifts	3,387	4,209
Endowment return, net of amount used for operations *(Note 3)*	(4,165)	(1,951)
True and quasi endowment gifts	787	8,558
Gain (Loss) on disposal of capital assets	(511)	(335)
Total Other Changes in Net Position	13,806	16,439
Change in Net Position	**13,912**	**4,523**
Net Position - Beginning of the Year	818,196	813,673
Net Position - End of Year	$ 832,108	$ 818,196

See accompanying notes to the basic financial statements.

UNIVERSITY OF MAINE SYSTEM
STATEMENTS OF ACTIVITIES – DISCRETELY PRESENTED COMPONENT UNIT
YEAR ENDED JUNE 30, 2020 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE, 30 2019 (IN THOUSANDS)

	Without Donor Restrictions	With Donor Restrictions	Total 2020	Total 2019
Revenues, Gains, Losses, and Reclassification				
Contributions	$ 4,677	$ 17,986	$ 22,663	$ 17,510
Advancement services	3,653	-	3,653	3,668
Investment income and other revenue	383	2,793	3,176	7,721
Reinvestment of donor funds	65	(65)	-	-
Net assets released from restrictions pursuant to endowment spending distribution	6,184	(6,184)	-	-
Net assets released from restrictions - other	5,953	(5,953)	-	-
Total Revenues, Gains, Losses, and Reclassification	20,915	8,577	29,492	28,899
Expenses and Losses				
Program services	16,037	-	16,037	14,556
Management and general	1,051	-	1,051	1,349
Fundraising	3,273	-	3,273	2,533
Total Expenses	20,361	-	20,361	18,438
Change in Net Assets	**554**	**8,577**	**9,131**	**10,461**
Net Assets - Beginning of Year	12,441	254,232	266,673	256,212
Net Assets - End of Year	$ 12,995	$ 262,809	$ 275,804	$ 266,673

See accompanying notes to the basic financial statements.

UNIVERSITY OF MAINE SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019 (IN THOUSANDS)

	2020	2019
Cash Flows From Operating Activities		
Tuition, residence, dining, and other student fees	$ 242,181	$ 260,702
Grants and contracts	151,958	151,957
Educational sales and services and other auxiliary enterprise revenues	43,460	53,906
Payments to and on behalf of employees	(453,110)	(454,588)
Financial aid paid to students	(45,476)	(41,736)
Payments to suppliers	(175,917)	(182,812)
Loans issued to students	(1,898)	(1,675)
Collection of loans to students	5,640	5,379
Net Cash Used for Operating Activities	(233,162)	(208,867)
Cash Flows From Noncapital Financing Activities		
State appropriations	219,864	211,975
CARES Act funding	15,858	-
Noncapital grants and gifts	18,811	25,037
Agency transactions	11,274	(271)
Net Cash Provided by Noncapital Financing Activities	265,807	236,741
Cash Flows From Capital and Related Financing Activities		
Capital appropriations	11,886	5,554
Capital grants and gifts	3,544	3,203
Proceeds from sale of capital assets	35	805
Acquisition and construction of capital assets	(31,686)	(24,094)
Principal paid on capital debt and leases	(13,690)	(13,358)
Interest paid on capital debt and leases	(5,848)	(6,329)
Net Cash Used for Capital and Related Financing Activities	(35,759)	(34,219)
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	659,778	710,181
Purchases of investments	(668,053)	(703,195)
Earnings from investments	8,045	10,834
Net Cash Provided by (Used for) Investing Activities	(230)	17,820
Net Increase (Decrease) in Cash and Cash Equivalents	(3,344)	11,475
Cash and Cash Equivalents - Beginning of Year	13,003	1,528
Cash and Cash Equivalents - End of Year	**$ 9,659**	**$ 13,003**

See accompanying notes to the basic financial statements.

UNIVERSITY OF MAINE SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019 (IN THOUSANDS)

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

	2020	2019
Operating Loss	$ (265,247)	$ (254,344)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation and amortization	41,838	41,126
Changes in assets, liabilities, deferred outflows and deferred inflows:		
Accounts and grants receivable, net	(5,440)	(5,460)
Inventories and prepaid expenses	496	(441)
Notes receivable, net	3,762	4,021
Irrevocable split interest agreements	334	(426)
Deferred outflows related to pensions	(8)	392
Deferred outflows related to OPEB	(8,943)	(11,417)
Accounts payable	(4,375)	1,301
Unearned revenue and deposits	953	5,029
Accrued liabilities	17,582	(11,088)
Grants refundable	(5,972)	438
Deferred inflows related to pensions	(371)	(154)
Deferred inflows related to OPEB	(7,008)	22,180
Deferred inflows related to split interest agreements	(334)	426
Deferred inflows related to dining contract	(429)	(450)
Net Cash Used for Operating Activities	**$ (233,162)**	**$ (208,867)**

Noncash investing, capital, and financing activities:

	2020	2019
Capital asset additions included in accounts payable and accrued liabilities as of June 30	$ 3,406	$ 2,758
Capital asset additions acquired through long-term debt	$ 2,389	$ 3,567
Capital asset additions acquired through long-term liabilities	$ 4,386	$ -
Capital asset additions acquired through service consession arrangements	$ 1,433	$ 567
Book value of capital asset trade-ins	$ -	$ 32

See accompanying notes to the 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, the University of Maine Foundation, 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 (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

Under the System's policy, 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 noncapital appropriations from the State of Maine, federal CARES Act funding, gifts currently expendable, endowment return used for operations, net investment income, and interest expense.

In FY20, the System adopted GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB No. 95). The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. The temporary relief comes in the form of postponements of effective dates for several GASB statements, including GASB Statement No. 84, *Fiduciary Activities* that was originally effective for FY20, but was extended one year.

1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

c. Net Position

The System's net position (assets plus deferred outflows of resources less liabilities and deferred inflows of resources) 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. Such net position includes the historical gift value of restricted true endowment funds. 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.

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 except for the state pool, which is reported at amortized cost. 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 Statements of Net Position dates are reasonable.

Pooled Third party investments: Three outside entities, the UMS Other Post Employment Benefit (OPEB) Trust, Maine Maritime Academy and the University of Maine School of Law Foundation, pool monies with the System's endowment 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.

1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 System's Board of Trustees Investment Committee. These guidelines are further disclosed in the remainder of this Note and Note 3 to these financial statements as part of the discussion of endowments.

Endowment: The System follows the pooled investment concept for its endowed funds, whereby all invested funds are included in one pool, except for funds that are separately invested as directed by the donor. Investment income is allocated to each endowed fund in the pool based on its pro rata share of the pool.

The income produced by the fund, including realized and unrealized gains, can be used to meet the spending objective. As determined by policy, the expendable income objective was 4.5% for FY20 and FY19. The percentage was applied to a 3-year market value average to determine expendable income.

Under State of Maine law, subject to the intent of a donor expressed in the gift instrument, an institution may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established. The System's policy is to spend endowment appreciation to the extent of the approved annual spending rate while not invading corpus. The return (loss) net of the amount used for operations is presented as Other Changes in Net Position in the Statements of Revenues, Expenses and Changes in Net Position.

Authorized Investment Vehicles - Operating Investments: The System has a three-tiered approach regarding its operating investments:

- **Liquidity Pool** – The purpose of this pool is to meet the day-to-day obligations of the System. It consists of funds that are invested in a portfolio of highest quality short-term fixed-income securities (e.g., Treasury obligations, agency securities, repurchase agreements, money market funds, commercial paper, and/or short-term bond mutual funds) with adequate liquidity. The average quality of the pool will be rated at least "A-1" by Standard and Poor's (or equivalent).
- **Income Pool** – The purpose of this pool is to provide sufficient income to meet budgetary goals and provide additional diversification to minimize downside risk. This pool invests in a diversified portfolio which may include items such as, but not limited to, fixed income securities, Federal Deposit Insurance Corporation insured or adequately collateralized certificates of deposit (CDs), or unconstrained, short or intermediate term bond funds with a normal average duration of -2 to 7 years. The pool may invest in funds rated from BB to AAA quality. The overall average quality rating of this pool will be at least "A-" by Standard and Poor's (or equivalent).

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- **Total Return Pool** – This pool is expected to add diversification and growth to the portfolio and may invest in diversified assets made up of, but not limited to, equities, hedge funds, and global asset allocation mandates.

Authorized Investment Vehicles - Endowment Investments: The fund is diversified both by asset class and within asset classes. 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, 2020 and 2019:

	2020	**2019**
Equity securities	45-65%	45-65%
Fixed income securities	15-35%	15-35%
Other	10-30%	10-30%
Cash	0-10%	0-10%

Authorized Investment Vehicles - Deposits with Bond Trustees: These monies are invested in accordance with the governing bond resolutions and arbitrage certificates.

f. 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. Pledges receivable are reported net of amounts deemed uncollectible and after discounting to the present value of the expected future cash flows. Since the System cannot fulfill the time requirement for gifts to endowments until the gift is received, pledges to endowments are not reported. 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.

g. Grants and Contracts and Capital Appropriations

The System records a receivable and corresponding revenue for grants and contracts and capital appropriations at the point all eligibility requirements (e.g., allowable costs are incurred) are met.

h. Inventories

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

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 acquisition value at date of donation. Costs for maintenance, repairs and minor renewals and replacements are expensed as incurred; major renewals and replacements are capitalized.

1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.
- Proceeds from sale 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.

j. Irrevocable Split-Interest Agreements

The System's irrevocable split-interest agreements consist of the System's remainder interest in trusts held by third parties. The System reports these irrevocable split-interest agreements as assets and deferred inflows of resources when it becomes aware of the agreement and has sufficient information to measure its beneficial interest. The System recognizes the annual change in the fair values of the split interest agreements as an increase or decrease in the asset and the related deferred inflows of resources. The System will recognize revenue at the termination of the agreement, as stipulated in the irrevocable split-interest agreement. Also, at the termination of the agreement, the split-interest asset and the related deferred inflow of resources will be eliminated.

k. Unearned Revenue and Deposits

Unearned revenue and deposits 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 waivers. Other expenses related to unearned revenue for summer programs are presented as prepaids in the Statements of Net Position (e.g., scholarships, supplies).

1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

l. 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. 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.

m. Deferred Outflows and Deferred Inflows of Resources

Deferred outflows of resources are the consumption of assets or increase in liabilities that is 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.
2. Assumption and experience changes and net investment losses that increase the pension and OPEB liabilities. These amounts are to be recognized as components of pension and postemployment health expense in future reporting periods.

Deferred inflows of resources are the acquisition of assets or reduction of liabilities that is 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 of resources consist of:

1. Assumption and experience changes and net investment gains that reduce the pension and OPEB liabilities. These amounts are to be recognized as components of pension and postemployment health expense in future reporting periods.
2. The unamortized balances of a service concession arrangement with Sodexo America, LLC that provided the System with equipment, facility improvements, and a signing bonus. These amounts will be recognized as revenue over the life of the agreement.
3. An offsetting credit to the fair value of the System's remainder interest in irrevocable split-interest agreements. These deferrals will be recognized as gift income at the termination of the split-interest agreement.

1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

n. 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.

o. Tax Status

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

p. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

q. Reclassifications

Certain FY19 items in the accompanying financial statements have been reclassified, without effect on total net position, to conform to the FY20 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 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, 2020 and 2019, bank balances with uninsured or uncollateralized operating cash deposits were $726 and $1,361, respectively.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

3. INVESTMENTS

a. Composition and Fair Value Measurements

Composition and Purpose of Investments:

The System uses a pooled investment approach for its endowments (including Affiliates' endowments invested with the System) unless otherwise required by the donor. As previously noted, three outside entities - the UMS OPEB Trust, Maine Maritime Academy, and the University of Maine School of Law Foundation - pool monies for investment purposes 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 "DB Plan and MIP investments". The amount held for the three outside entities are shown as "MIP held on behalf of outside entities".

Operating Investments: The System's operating investments are available to fund operations or other purposes as determined by System management.

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

Endowment Investments: Except for certain gifts invested separately at the request of the donors ($491 and $730 at June 30, 2020 and 2019, 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, 2020 and 2019, respectively are $26,055 and $24,651, and are reported as funds held for others in the accompanying Statements of Net Position.

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

	2020	**2019**
Restricted - expendable	$51,028	$54,700
Unrestricted	16,754	17,165
Total available for spending	$67,782	$71,865

Investments for the Defined Benefit Plan – Classified Employees: These pension plan investments offset the Total Pension Liability of the System's Defined Benefit Plan – Classified Employees (DB Plan) described in Note 13d. They are managed by the System and their fair values, credit ratings, and interest rate risk are presented below in the "DB Plan and MIP investments".

3. INVESTMENTS - CONTINUED

Fair Value Measurements:

GASB Statement No. 72, *Fair Value Measurement and Application* (GASB No. 72), defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the entity's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GASB No. 72 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value, and describes three levels of inputs that may be used to measure fair value:

Level 1. Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access as of the measurement date. 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 judgement.

Level 2. Valuations based on significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilites, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3. Valuations based on inputs that are unobservable and significant to the overall fair value measurement. They reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The above hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to level 1 measurements and the lowest priority to level 3 measurements. Investments that are measured at fair value using net asset value (NAV) per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

The System measures the fair value of investments in certain entities that do not have a quoted market price at the calculated NAV per share or its equivalent. As these investments are not readily marketable the estimated value is subject to uncertainty, and therefore, may differ from the value that would have been used had a ready market for the investments existed.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

3. INVESTMENTS - CONTINUED

The **System's operating investments and deposits with bond trustees** were composed of the following at June 30, 2020:

		Fair Value Measurements Using:			Credit		
	Total	**Level 1**	**Level 2**	**Level 3**	**Rating**	**Interest Rate Risk**	
Operating Investments measured at fair value:							
Equities:							
Multi-strategy funds	$ 45,880	$ 45,880	$ -	$ -			
Fixed income funds:							
Bonds	105,366	37,032	68,334	-	Not rated	1.75-6.4 years	Duration
Money markets	40,825	40,825	-	-	Not rated	34-40 days	Weighted Average Maturity
Total operating investments at fair value level	**192,071**	**$ 123,737**	**$ 68,334**	**$ -**			
Operating investments measured at NAV							
Equities: Multi-Strategy	15,944						
Bank loans	20,170				Not rated	.10 years	Duration
Total operating investments measured at NAV	36,114						
Total operating investments measured at fair value plus NAV	228,185						
State pool measured at amortized cost	35,861				Not rated	.55 years	Duration
Total operating investments	**$ 264,046**						
Deposits with Bond Trustees:							
Bonds and money markets	**$ 5,778**	**$ 5,778**	**$ -**	**$ -**	Not rated	34-51 days	Weighted Average Maturity

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

3. INVESTMENTS - CONTINUED

The **System's DB Plan and MIP investments** were composed of the following at June 30, 2020:

	Total	Fair Value Measurements Using: Level 1	Level 2	Level 3	Credit Rating	Interest Rate Risk	
Investments measured at fair value:							
Equities:							
Equity securities	$ 70,889	$ 70,889	$ -	$ -			
Equity funds	103,033	103,033	-	-			
Multi-strategy funds	47,233	47,233	-	-	Not rated	Not rated	
Fixed income funds:							
Money markets	6,170	6,170	-	-	Not rated	43 days	Weighted Average Maturity
Bonds	71,590	48,947	22,643	-	Not rated	2.8-7.9 years	Duration
Real assets	2,004	-	-	2,004	Not rated	Not rated	
Total DB Plan and MIP investments at fair value level	300,919	$ 276,272	$ 22,643	$ 2,004			
Investments measured at NAV:							
Equity securities	17,740						
Equity funds	11,860						
Multi-strategy funds	29,696						
Bank loans	17,286				Not rated	0.25	Duration
Total DB Plan and MIP investments measured at NAV	76,582						
Total DB Plan and MIP investments	$ 377,501						
Breakdown of above investments by portfolio:							
DB Plan at fair value level	$ 21,254	$ 19,250	$ -	$ 2,004			
DB Plan at NAV	3,355						
Total DB Plan Investments	$ 24,609						
MIP held on behalf of outside entities at fair level	$ 152,542	$ 140,191	$ 12,351	$ -			
MIP held on behalf of outside entities at NAV	39,941						
Total MIP held on behalf of outside entities	$ 192,483						
Endowment pool investments included in the MIP at fair value	$ 127,123	$ 116,831	$ 10,292	$ -			
Endowment pool investments included in the MIP at NAV	33,286						
Total endowment pool investments included in the MIP	160,409						
Endowment investments - separately invested	131	$ 131	$ -	$ -			
Total endowment investments	**$ 160,540**						

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

3. INVESTMENTS - CONTINUED

Additional disclosures for **System investments,** including the DB Plan and MIP, measured at NAV at June 30, 2020:

	Fair Value	Redemption Frequency (If Currently Eligible)	Redemption Period Notice
Operating Investments measured at NAV:			
Equities: Multi-strategy [1]	$ 15,944	Quarterly, Monthly	60, 90 days
Bank loans [2]	20,170	Bi-monthly	15 days
Total operating investments measured at NAV	**$ 36,114**		
Investments measured at NAV:			
Equity securities	$ 17,740	Monthly	30 days
Equity funds	11,860	Monthly	30 days
Multi-strategy funds [1]	29,696	Quarterly, Monthly	30, 45, 60, 90 days
Bank loans [2]	17,286	Monthly	30 days
Total DB Plan and MIP investments measured at NAV	**$ 76,582**		
Further breakdown of above DB Plan and MIP investments:			
DB Plan at NAV	3,355		
MIP held on behalf of outside entities at NAV	39,941		
Endowment pool investments included in the MIP at NAV	***33,286***		
Total investments measured at NAV by portfolio	**$ 76,582**		

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

3. INVESTMENTS - CONTINUED

The **System's operating investments and deposits with bond trustees** were composed of the following at June 30, 2019:

		Fair Value Measurements Using:			Credit		
	Total	Level 1	Level 2	Level 3	Rating	Interest Rate Risk	
Operating Investments measured at fair value:							
Equities:							
Multi-strategy funds	$ 58,491	$ 58,491	$ -	$ -			
Fixed income funds:							
Bonds	133,081	47,359	85,722	-	Not rated	1.79-6.0 years	Duration
Money markets	18,347	18,347	-	-	Not rated	17-30 days	Weighted Average Maturity
Total operating investments at fair value level	**209,919**	**$ 124,197**	**$ 85,722**	**$ -**			
Operating investments measured at NAV							
Equities: Multi-Strategy	14,622						
Bank loans	22,380				Not rated	.10 years	Duration
Total operating investments measured at NAV	37,002						
Total operating investments measured at fair value plus NAV	246,921						
State pool measured at amortized cost	2,970				Not rated	.54 years	Duration
Total operating investments	**$ 249,891**						
Deposits with Bond Trustees:							
Bonds and money markets	**$ 7,351**	**$ 7,351**	**$ -**	**$ -**	Not rated	17-30 days	Weighted Average Maturity

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

3. INVESTMENTS - CONTINUED

The **System's DB Plan and MIP investments** were composed of the following at June 30, 2019:

	Total	Fair Value Measurements Using: Level 1	Level 2	Level 3	Credit Rating	Interest Rate Risk	
Investments measured at fair value:							
Equities:							
Equity securities	$ 13,985	$ 13,985	$ -	$ -			
Equity funds	152,555	152,555	-	-			
Multi-strategy funds	49,609	49,609	-	-	Not rated	Not rated	
Fixed income funds:							
Money markets	1,867	1,867	-	-	Not rated	17 days	Weighted Average Maturity
Bonds	76,242	51,772	24,470	-	Not rated	2.7-7.7 years	Duration
Real assets	3,690	-	-	3,690	Not rated	Not rated	
Total DB Plan and MIP investments at fair value level	297,948	$ 269,788	$ 24,470	$ 3,690			
Investments measured at NAV:							
Equity securities	11,108						
Equity funds	1,080						
Multi-strategy funds	45,218						
Bank loans	16,176				Not rated	0.2 years	Duration
Total DB Plan and MIP investments measured at NAV	73,582						
Total DB Plan and MIP investments	$ 371,530						
Breakdown of above investments by portfolio:							
DB Plan at fair value level	$ 22,940	$ 20,773	$ -	$ 2,167			
DB Plan at NAV	3,636						
Total DB Plan Investments	$ 26,576						
MIP held on behalf of outside entities at fair level	$ 147,405	$ 133,472	$ 13,116	$ 817			
MIP held on behalf of outside entities at NAV	37,491						
Total MIP held on behalf of outside entities	$ 184,896						
Endowment pool investments included in the MIP at fair value	$ 127,603	$ 115,543	$ 11,354	$ 706			
Endowment pool investments included in the MIP at NAV	32,455						
Total endowment pool investments included in the MIP	160,058						
Endowment investments - separately invested	2,522	$ 2,522	$ -	$ -			
Total endowment investments	**$ 162,580**						

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

3. INVESTMENTS - CONTINUED

Additional disclosures for **System investments,** including the DB Plan and MIP, measured at NAV at June 30, 2019:

	Fair Value	Redemption Frequency (If Currently Eligible)	Redemption Period Notice
Operating Investments measured at NAV:			
Equities: Multi-strategy [1]	$ 14,622	Quarterly, Monthly	60, 90 days
Bank loans [2]	22,380	Bi-monthly	15 days
Total operating investments measured at NAV	**$ 37,002**		
Investments measured at NAV:			
Equity securities	$ 11,108	Monthly	30 days
Equity funds	1,080	Monthly	30 days
Multi-strategy funds [1]	45,218	Quarterly, Monthly	30, 45, 60, 90 days
Bank loans [2]	16,176	Monthly	30 days
Total DB Plan and MIP investments measured at NAV	**$ 73,582**		
Further breakdown of above DB Plan and MIP investments:			
DB Plan at NAV	3,636		
MIP held on behalf of outside entities at NAV	37,491		
Endowment pool investments included in the MIP at NAV	32,455		
Total investments measured at NAV by portfolio	**$ 73,582**		

Additional information for investments measured at NAV at June 30, 2020 and 2019 is as follows:

[1] Multi-strategy funds: Includes investments in equities and limited partnerships. Limited partnerships may invest in pooled vehicles in global equities, fixed income instruments, currencies, commodities; long and short positions with respect to bonds, leveraged loans, trade claims and other investments; or other hedge funds with objectives to outperform certain benchmarks. Fair values of these investments are completed on a monthly or quarterly basis using other significant direct or indirect observable inputs or recent observable transaction information for similar investments. Includes investments in liquidation status awaiting final distributions.

[2] Bank loans: Investments in these funds include floating rate loans in a diverse set of industries and are traditionally rated below investment grade. Other observable inputs determine fair value of this investment.

3. INVESTMENTS - CONTINUED

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:

Operating 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 fixed income portfolio to no more than 1 year from the duration of the applicable benchmark (e.g., the Barclays Capital Aggregate Bond Index was 6.01 years and 5.73 years at June 30, 2020 and 2019, respectively).

Investments for the Defined Benefit Plan – Classified Employees: To limit interest rate exposure, the defined benefit plan investment policy restricts the average effective duration of the fixed income portfolio to no more than 1 year from the duration of the applicable benchmark (e.g., the Barclays Capital Aggregate Bond Index was 6.01 years and 5.73 years at June 30, 2020 and 2019, respectively).

c. Foreign Currency Risk

Operating Investments: The System's operating investments include various fixed income, equity, and hedge fund holdings that have foreign currency exposure, with some funds hedging against foreign currency risk. Portfolio foreign currency exposure was $21,712 and $25,048 at June 30, 2020 and 2019, 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 $61,871 and $50,158 at June 30, 2020 and 2019, respectively.

Investments for the Defined Benefit Plan – Classified Employees: Pension investments include various fixed income, equity, and hedge fund holdings that have foreign currency exposure, with some funds hedging against foreign currency risk. Portfolio foreign currency exposure was $9,095 and $4,734 at June 30, 2020 and 2019, respectively.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

3. INVESTMENTS - CONTINUED

d. Investment Income

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

2020

	Net Gains (Losses)	Interest and Dividends	Investment Fees	Net Income (Loss)
Endowment investment income and fees	$ 170	$ 2,422	$ (910)	$ 1,682
Net income allocated to affiliates				(244)
System endowment net income				$ 1,438
Reported as endowment return used for operations				$ 5,603
Reported as endowment return, net of amount used for operations				(4,165)
System endowment income				$ 1,438
Operating investments	$ 3,063	$ 6,902	$ (1,023)	$ 8,942
Perkins savings account	-	38	-	38
Deposits with bond trustees	-	94	-	94
Total other investment income (loss)	$ 3,063	$ 7,034	$ (1,023)	$ 9,074

2019

	Net Gains (Losses)	Interest and Dividends	Investment Fees	Net Income (Loss)
Endowment investment income and fees	$ 2,166	$ 3,061	$ (931)	$ 4,296
Net income allocated to affiliates				(663)
System endowment net income				$ 3,633
Reported as endowment return used for operations				$ 5,584
Reported as endowment return, net of amount used for operations				(1,951)
System endowment income				$ 3,633
Operating investments	$ 4,330	$ 8,052	$ (993)	$ 11,389
Perkins savings account	-	10	-	10
Deposits with bond trustees	-	245	-	245
Total other investment income (loss)	$ 4,330	$ 8,307	$ (993)	$ 11,644

See Note 13d for investment returns related to the **Defined Benefit Plan – Classified Employees**.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

4. ACCOUNTS, GRANTS, AND PLEDGES RECEIVABLE

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

	2020			2019		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Student and other accounts receivable	$ 38,798	$ 38,362	$ 436	$ 43,911	$ 42,029	$ 1,882
Grants receivable	28,587	25,642	2,945	24,617	24,094	523
Pledges receivable	2,086	1,794	292	1,178	777	401
Total gross receivables	69,471	65,798	3,673	69,706	66,900	2,806
Less allowance for doubtful accounts	(13,492)	(13,486)	(6)	(11,145)	(11,144)	(1)
Less discount on pledges receivable	(7)	-	(7)	(7)	-	(7)
Total receivables, net	$ 55,972	$ 52,312	$ 3,660	$ 58,554	$ 55,756	$ 2,798

In accordance with GASB Statement No. 35, grants receivable related to the acquisition of capital assets is 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:

	2020			2019		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Perkins loans	$19,804	$ -	$ 19,804	$ 24,337	$ -	$ 24,337
Nursing loans	2,240	-	2,240	2,339	-	2,339
Institutional loans	10,749	-	10,749	10,500	-	10,500
Lease receivable **(a)**	563	63	500	626	63	563
Total notes and leases receivable	33,356	63	33,293	37,802	63	37,739
Less allowance for doubtful accounts	(1,142)	-	(1,142)	(1,763)	-	(1,763)
Total notes and leases receivable, net	$32,214	$ 63	$ 32,151	$ 36,039	$ 63	$ 35,976

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.

(a) Lease receivable consists of a lease with the University of New Hampshire, secured by equipment with monthly payments of $5, including interest at 4.85% per annum. The lease matures in 2029.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020 is as follows:

	Beginning Balance	Additions	Reclassifications	Retirements	Ending Balance
Land	$ 18,376	$ -	$ -	$ -	$ 18,376
Library materials	25,686	-	-	-	25,686
Construction in progress	17,806	31,265	(25,489)	-	23,582
Total nondepreciable assets	61,868	31,265	(25,489)	-	67,644
Land improvements	61,763	-	1,121		62,884
Buildings & improvements	931,377	-	20,753	(958)	951,172
Equipment	163,069	4,948	3,615	(211)	171,421
Software	34,292	4,387	-	(2,885)	35,794
Total depreciable assets	1,190,501	9,335	25,489	(4,054)	1,221,271
Less accumulated depreciation:					
Land improvements	40,268	2,276	-	-	42,544
Buildings & improvements	388,305	26,188	-	(426)	414,067
Equipment	109,807	11,163	-	(197)	120,773
Software	29,032	2,211	-	(2,885)	28,358
Total accumulated depreciation	567,412	41,838	-	(3,508)	605,742
Net depreciable assets	623,089	(32,503)	25,489	(546)	615,529
Total capital assets	$ 684,957	$ (1,238)	$ -	$ (546)	$ 683,173

Capital asset activity for the year ended June 30, 2019 is as follows:

	Beginning Balance	Additions	Reclassifications	Retirements	Ending Balance
Land	$ 18,376	$ -	$ -	$ -	$ 18,376
Library materials	25,686	-	-	-	25,686
Construction in progress	23,104	19,520	(24,818)	-	17,806
Total nondepreciable assets	67,166	19,520	(24,818)	-	61,868
Land improvements	60,922	-	2,892	(2,051)	61,763
Buildings & improvements	915,924	-	15,515	(62)	931,377
Equipment	153,078	6,828	5,947	(2,784)	163,069
Software	33,031	832	464	(35)	34,292
Total depreciable assets	1,162,955	7,660	24,818	(4,932)	1,190,501
Less accumulated depreciation:					
Land improvements	39,089	2,198	-	(1,019)	40,268
Buildings & improvements	363,038	25,298	-	(31)	388,305
Equipment	101,524	10,990	-	(2,707)	109,807
Software	26,427	2,640	-	(35)	29,032
Total accumulated depreciation	530,078	41,126	-	(3,792)	567,412
Net depreciable assets	632,877	(33,466)	24,818	(1,140)	623,089
Total capital assets	$ 700,043	$ (13,946)	$ -	$ (1,140)	$ 684,957

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

6. CAPITAL ASSETS - CONTINUED

As of June 30, 2020 and 2019, $5,755 and $7,327, 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, 2020 and 2019 is $41,057 and $47,580, respectively, 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 $21,289 and $15,433 at June 30, 2020 and 2019, respectively.

7. ACCRUED LIABILITIES AND LONG-TERM DEBT

Changes in accrued liabilities and long-term debt during the year ended June 30, 2020 include the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued liabilities:					
Workers' compensation *(Note 11)*	$ 1,819	$ 712	$ (331)	$ 2,200	$ 825
Health insurance *(Note 11)*	8,171	75,344	(76,903)	6,612	6,612
Postemployment health plan *(Note 14)*	63,247	35,335	(22,551)	76,031	-
Other employee benefit programs *(Note 13)*	53,984	61,221	(58,898)	56,307	5,577
Other	14,909	20,264	(13,413)	21,760	17,366
Total accrued liabilities	$ 142,130	$ 192,876	$ (172,096)	$ 162,910	$ 30,380
Long-term debt:					
Capital lease obligations [a]	$ 2,433	$ -	$ (461)	$ 1,972	$ 503
Bonds and notes payable [b]	145,636	-	(13,860)	131,776	12,510
Lease purchase agreement [b]	2,069	2,389	(655)	3,803	803
Total long-term debt	$ 150,138	$ 2,389	$ (14,976)	$ 137,551	$ 13,816

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

7. ACCRUED LIABILITIES AND LONG-TERM DEBT - CONTINUED

Changes in accrued liabilities and long-term debt during the year ended June 30, 2019 include the following:

	Beginning Balance Restated	Additions	Reductions	Ending Balance	Current Portion
Accrued liabilities:					
Workers' compensation *(Note 11)*	$ 2,571	$ 712	$ (1,464)	$ 1,819	$ 908
Health insurance *(Note 11)*	6,470	83,178	(81,477)	8,171	8,171
Postemployment health plan *(Note 14)*	77,505	41,452	(55,710)	63,247	-
Other employee benefit programs *(Note 13)*	51,838	60,180	(58,034)	53,984	5,004
Other	15,219	13,700	(14,010)	14,909	13,418
Total accrued liabilities	$ 153,603	$ 199,222	$ (210,695)	$ 142,130	$ 27,501
Long-term debt:					
Capital lease obligations [(a)]	$ 2,974	$ -	$ (541)	$ 2,433	$ 461
Bonds and notes payable [(b)]	158,016	832	(13,212)	145,636	13,861
Lease purchase agreement [(b)]	632	2,735	(1,298)	2,069	456
Total long-term debt	$ 161,622	$ 3,567	$ (15,051)	$ 150,138	$ 14,778

a. Lease Obligations

The System leases certain equipment and real estate under leases with terms exceeding one year. Future minimum lease payments under capital leases and under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2020 are as follows:

Year Ending June 30:	Capital Leases Principal	Capital Leases Interest	Operating Leases	Total
2021	$ 503	$ 71	$ 233	$ 807
2022	162	63	245	470
2023	169	56	239	464
2024	177	48	238	463
2025	185	40	239	464
2026-2030	776	75	1,234	2,085
2031-2035	-	-	777	777
2036-2040	-	-	263	263
Total minimum lease payments	$ 1,972	$ 353	$ 3,468	$ 5,793

The rent expense related to operating leases amounted to $395 for the year ended June 30, 2020 and $682 for the year ended June 30, 2019.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

b. Bonds, Notes Payable and Lease Purchase Agreements

Bonds, notes payable and lease purchase agreements consist of the following at June 30:

	2020	2019
2017 Series A Revenue Bonds (original principal of $30,340)	-	-
Serial bonds, maturing from 2018 to 2026, with annual principal payments from $2,285 to $4,460 and coupon interest rates from 4.0% to 5.0%. Issued to refund 2007A Series Revenue bonds and to provide funding for capital projects. Includes premiums of $1,604 and $2,241, respectively.	$ 21,024	$ 24,941
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 3.0% to 5.0%. Issued to refund 2004A, 2005A, and 2007A Series Revenue bonds and to provide funding for capital projects. Includes premiums of $1,898 and $2,406, respectively.	41,203	44,611
2013 Series A Revenue Bonds (original principal of $65,255)		
Serial and Term bonds, maturing from 2014 to 2035, 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. Includes premiums of $2,637 and $3,309, respectively.	49,592	53,654
2012 Series A Revenue Bonds (original principal of $34,975)	-	-
Serial and Term bonds, maturing from 2013 to 2033, with annual principal payments from $1,070 to $2,620 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. Includes premiums of $478 and $594, respectively.	17,763	19,799
University of Maine Foundation		
Note payable, secured by equipment, with annual payments of $15, including interest at 4.25%, matures 2023	35	47
Key Government Finance Inc.		
$832 loan secured by five-year software license agreement, annual payments of $182, including interest at 3.78%, matures July 2023	667	832
Efficiency Maine Trust		
$2,595 loan for biomass energy project, quarterly principal payments of $65 plus interest at 1.5% beginning in June 2016 and continuing through March 2026.	1,492	1,752
Total bonds and notes payable, net	131,776	145,636

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

	2020	2019
Banc of America Public Capital Corp.		
Master lease purchase agreement, secured by equipment and vehicles, quarterly or semi-annual payments including interest at 1.82% to 4.14%, maturing from October 2022 to March 2026	3,803	2,069
Total bonds, notes payable and lease purchase agreements, net	$ 135,579	$ 147,705
Total par value of outstanding bonds, notes payable and lease purchase agreements	$ 128,962	$ 139,155
Total unamortized premiums and discounts	6,617	8,550
Total bonds, notes payable and lease purchase agreements	$ 135,579	$ 147,705

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

Principal and interest payments on bonds, notes payable and lease purchase agreements for the next five years and in subsequent five-year periods are as follows at June 30, 2020:

Year Ending June 30:	**Principal**	**Interest**	**Total**
2021	$ 11,673	$ 5,262	$ 16,935
2022	12,186	4,765	16,951
2023	11,641	4,210	15,851
2024	11,856	3,683	15,539
2025	9,975	3,151	13,126
2026-2030	43,839	9,829	53,668
2031-2035	26,800	2,646	29,446
2036-2038	992	47	1,039
Total Payments	$128,962	$33,593	$162,555

Interest costs related to the revenue bonds for FY20 and FY19 were $3,842 and $4,003, respectively.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

8. UNEARNED REVENUE AND DEPOSITS

Unearned revenue and deposits as of June 30 consist of the following:

	2020	2019
Unearned grant advances	$ 6,774	$ 5,722
Unearned summer session revenue	7,899	7,211
Other unearned revenue and deposits	813	1,607
Total unearned revenue and deposits	$ 15,486	$ 14,540

The System recognizes grant and contract revenue to the extent that it has fulfilled the eligibility requirements (e.g., incurred allowable costs) of the grant or contract award. Some awards pay the System in advance of the System fulfilling its obligations. In such situations, the System reports the cash as an asset and the offset as unearned revenue and deposits, a current liability, in the Statements of Net Position (see unearned grant advances in the above table).

The vast majority of grant and contract awards made to the System pay the funds to the System on a reimbursement basis. To the extent that the System has eligible, unreimbursed expenses, it recognizes a grant receivable in the Statements of Net Position. The System excludes from its financial statements the portion of an award not currently reimbursable because the System has not yet met the eligibility requirements. As of June 30, 2020 and 2019, the portion of outstanding awards excluded from the financial statements totaled $66,118 and $52,514, 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, 2020 and 2019 has been included in the accompanying Statements of Net Position as a noncurrent liability.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

10. NET POSITION

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

	2020	2019
Net investment in capital assets	$ 547,323	$ 542,491
Restricted - Nonexpendable:		
Endowment funds	66,656	65,990
Restricted - Expendable:		
Student financial aid	47,441	48,531
Capital assets and retirement of debt	1,873	3,463
Loans	17,059	17,066
Academic support	14,246	13,846
Research and public service	6,863	6,430
Library	3,775	3,877
Other	24,121	22,715
Total restricted - expendable	115,378	115,928
Unrestricted:		
Educational and general reserves	81,098	67,873
Risk management	2,450	2,551
Budget stabilization	12,114	12,975
Auxiliary enterprises	7,865	14,116
Benefit pool carryover	19,563	12,201
Implementation of GASB 75 for OPEB	(83,264)	(87,824)
Information technology initiatives	1,199	792
Internally designated projects	13,535	15,389
Facility projects	26,193	33,630
Quasi endowment corpus	11,093	8,684
Endowment appreciation	5,661	8,481
Cost sharing and other	5,244	4,919
Total unrestricted	102,751	93,787
Total Net Position	$ 832,108	$ 818,196

11. COMMITMENTS AND CONTINGENCIES

a. Grant Program Involvement

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

b. Risk Management – Insurance Programs

The System is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries; environmental pollution and natural disasters. The System manages these risks through a combination of commercial insurance policies purchased in the name of the System, a large deductible all-risk property insurance program and a self-insured retention program for physical damage to vehicles and mobile equipment.

The System's retention obligation for the general liability and vehicle liability is capped at $400 per claim, with an aggregate limit of $20,000 per year. 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, 2020 and 2019 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.

At October 1, 2016, the System moved from a self-funded workers' compensation model to commercial insurance. Prior to October 1, 2016, the System was self-funded for the risk of loss related to workers' compensation. The liability for pre-existing 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, 2020 and 2019 of $2,200 and $1,819, respectively, for pre-existing workers' compensation claims is included in accrued liabilities in the accompanying Statements of Net Position (see Note 7). The System now purchases commercial workers' compensation insurance which limits the exposure for any one incident to $1.

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, 2020. As of June 30, 2020 and 2019, the estimated liability for claims incurred but not reported is included in total health insurance accrued liabilities in the accompanying Statements of Net

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

11. COMMITMENTS AND CONTINGENCIES - CONTINUED

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 at June 30 consists of the following:

	2020	2019
Claims incurred but not reported	$ 5,703	$ 7,007
Reported claims	909	1,164
Total health insurance liability *(Note 7)*	$ 6,612	$ 8,171

Related to the System's self-insured health plan, certain collective bargaining agreements with System employees provide for a health insurance 'premium rebate' in the event that the total aggregate premium amount for the applicable two-year period (the "calculation period") exceeds, by a stated percentage, the total aggregate costs paid for claims and other expenses for the same period. Throughout each calculation period, the System receives periodic reports on how actual costs are trending in relation to the premiums; however, probability of a rebate cannot be determined prior to the end of the calculation period. For the calculation period ending December 31, 2018, there was no rebate owed.

12. PASS THROUGH GRANTS

During FY20 and FY19, the System distributed $112,555 and $118,791, 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.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

13. PENSION PLANS

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

	2020	2019
Faculty and Professional Employees:		
Contributory retirement plan	$ 21,809	$ 20,778
Incentive retirement plan	1,443	1,470
Hourly Employees:		
Basic retirement plan	3,139	3,309
Defined benefit plan	1,361	3,298
Total net pension expense	$ 27,752	$ 28,855

a. Contributory Retirement Plan - Faculty and Professional Employees

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 of America (TIAA). 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 limits allowable by the Internal Revenue Service. The System implemented a five-year vesting schedule for the employer matching contribution for certain salaried employees hired on or after January 1, 2010. All participant contributions are fully and immediately vested.

Effective June 1, 2014, TIAA became the sole record-keeper for the Contributory Retirement Plan. Upon separation from the System, participants may withdraw up to 100% of their vested account balances or transfer funds to other investment alternatives subject to Internal Revenue Service limitations and the contractual provisions of the Contributory Plan.

Employee contributions made to the Contributory Plan were $8,723 in FY20 and $8,311 in FY19.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

13. PENSION PLANS - CONTINUED

b. Incentive Retirement Plan – Faculty and Professional Employees

Plan Description

Plan Administration: The Incentive Retirement Plan is a single employer plan administered by the System. The Plan does not issue standalone financial statements.

Benefits Provided: 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 (up to a maximum of 27 years) times their final annual base salary. 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.

Plan Membership: At June 30, 2020 and 2019, active plan membership consisted of 859 and 925 active plan participants, respectively.

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.

Net Pension Liability

The total pension liability related to the Incentive Plan at the measurement date of June 30, 2020 and 2019 was $21,049 and $21,082, respectively. The fiduciary net position as a percentage of the total pension liability was 0.00% as this plan has no assets. The total pension liability was determined by an actuarial valuation as of July 1, 2019 rolled forward to the measurement date of June 30, 2020 and July 1, 2019, respectively, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Inflation	Not explicitly assumed
Salary increases	3.5% per year, including longevity
Discount rate	2.21% as of June 30, 2020
	3.50% as of June 30, 2019
Life expectancy	Mortality rates were based on the RP-2014 Mortality Table projected with full generational mortality improvement using scale MP-2018

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

13b. Incentive Retirement Plan – Faculty and Professional Employees - continued

Discount rate: 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,* requires projected benefit payments be discounted to their actuarial present value using a tax-exempt, high-quality municipal bond rate.

For the Incentive Plan, which does not hold assets, the total pension liability is based on the discount rate of 2.21% and 3.50% as of June 30, 2020 and 2019, respectively. The rates are based on the municipal bond rates as of the measurement dates. The municipal bond rates for 2020 and 2019 are based on the Bond Buyer 20-Bond General Obligation (GO) Index published for the weeks of June 30, 2020 and June 27, 2019, respectively.

Sensitivity of the net pension liability to changes in the discount rate: The following table presents the total pension liability as of June 30, calculated using the respective current discount rate as well as using a discount rate 1-percentage point lower or 1-percentage point higher than the current rate:

	June 30, 2020			June 30, 2019		
	1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
Total pension liability	$21,689	$21,049	$20,390	$21,828	$21,082	$20,336

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

13b. Incentive Retirement Plan – Faculty and Professional Employees - continued

Changes in Total Pension Liability for the **Incentive Retirement Plan**:

Fiscal Year Ended June 30	2020	2019
Total pension liability – beginning	$ 21,082	$ 21,504
Changes for the year:		
Service cost	538	595
Interest	719	813
Differences between expected and actual experience	-	(217)
Changes of assumptions and other inputs	851	562
Benefit payments	(2,141)	(2,175)
Total pension liability – ending (a)	21,049	21,082
Fiduciary net position – beginning	-	-
Contributions – employer	2,141	2,175
Benefit payments	(2,141)	(2,175)
Fiduciary net position – ending (b)	-	-
Net pension liability – ending (a)-(b)	$ 21,049	$ 21,082
Plan fiduciary net position as a percentage of the total pension liability	0.00%	0.00%
Covered payroll	$ 67,303	$ 68,685
Net pension liability as a percentage of covered payroll	31.27%	30.69%
Contributions as a percentage of covered payroll	3.18%	3.17%

13. PENSION PLANS - CONTINUED

c. Basic Retirement Plan - Classified Employees

The Basic Retirement Plan (Basic Plan) is a single employer defined contribution plan (DC Plan) administered by the System and does not issue standalone financial statements. This DC 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 this DC Plan.

Eligible employees who were hired before July 1, 1998 could elect to roll over to the DC Plan the value of their accrued benefit in the Defined Benefit Retirement Plan for Classified Staff (DB Plan), as described further below, or remain in the DB Plan. Eligible employees that remained in the DB Plan and were age 50 and over on June 30, 1998 would continue to accrue additional benefits while the value of the benefit for those under age 50 would remain static. The majority of those under age 50 chose to roll over the value of their accrued benefit to the DC Plan.

Full-time employees are eligible to participate in the DC Plan once employment begins. Part-time employees are eligible once they have achieved the equivalent of five years of continuous, full-time regular service. Since June 1, 2014, all contributions have been directed to TIAA 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 to the DC Plan and receive a 100% match from the System. Employees hired July 1, 1998 or later are required to contribute 1%. Employee contributions to the DC 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 DB 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 for employer matching contributions. 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 $1,340 in FY20 and $1,395 in FY19.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

13. PENSION PLANS - CONTINUED

d. Defined Benefit Plan – Classified Employees

Plan Description

Plan Administration: 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.

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

Benefits Provided: Participants are eligible for normal retirement benefits upon attaining age 65 and retirement. The monthly retirement benefit is based on a formula specified by policy in collective bargaining agreements. Eligible employees receive the sum of:

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.

Participants are eligible for early retirement benefits upon the attainment of age 55 and completion of 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.

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.

Plan Membership: The Plan is closed to new entrants. At June 30, pension plan membership consisted of the following:

	2020	2019
Inactive plan participants or beneficiaries currently receiving benefits	724	742
Inactive plan participants entitled to but not yet receiving benefits	199	213
Active plan participants	3	5
Total plan participants	926	960

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

13d. Defined Benefit Plan – Classified Employees – continued

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 $906 through and including FY50, at which point the projected fiduciary net position is estimated to be sufficient to meet annual benefit payments; however, any 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 minimize contribution volatility.

Employees do not make contributions under the Plan.

Plan Investments

Method Used to Value Investments: Investments are reported at fair value. See Note 3 for information related to the fair value measurement, interest rate risk, and foreign currency risk associated with the Plan's investments.

Investment Policy: The Plan's investments are diversified both by asset class and within asset classes. To have a reasonable probability of consistently achieving the Plan's return objectives, the following asset allocation policy ranges were effect as of June 20, 2020 and 2019:

	2020	2019
Equity securities	25-45%	12-32%
Fixed income securities	35-55%	25-45%
Other	15-35%	30-50%
Cash	0-10%	0-10%

Rate of Return: For the years ended June 30, 2020 and 2019, the annual money-weighted rate of return, net of investment expenses, was 4.48% and 4.03%, respectively.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

13d. Defined Benefit Plan – Classified Employees - continued

Net Pension Liability

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

	2020	2019
Total pension liability	$ 36,318	$ 38,105
Fiduciary net position	(24,609)	(26,576)
Net pension liability	$ 11,709	$ 11,529
Fiduciary net position as a percentage of the total pension liability	67.8%	69.7%

For purposes of determining fiduciary net position, benefits are recorded when paid.

Actuarial Assumptions: The total pension liability as of June 30, 2020 and 2019 was determined by an actuarial valuation as of July 1, 2019 rolled forward to the measurement date of June 30, 2020 and July 1, 2019, respectively, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Actuarial asset method	The actuarial value of assets is the market value of assets
Inflation	2.4% as of June 30, 2020 2.6% as of June 30, 2019
Salary increases	3.5% for all years
Investment rate of return	6.25% net of investment expenses, including inflation
Life expectancy	Pre-retirement and post-retirement mortality rates were based on the RP-2014 Mortality Table projected with full generational mortality improvement using Scale MP-2018. For disabled lives, the mortality rates were based on the RP-2014 Disabled Mortality Table.

The long-term expected rate of return on the Plan's 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.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

13d. Defined Benefit Plan – Classified Employees - continued

Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of June 30 are summarized in the following table:

	2020		2019	
Asset Class	**Target Allocation**	**Long-Term Expected Real Rates of Return**	**Target Allocation**	**Long-Term Expected Real Rates of Return**
Global Equity	30.0%	5.70%	19.0%	4.70%
Emerging Market Equity	3.0%	7.60%	3.0%	6.50%
Core Fixed Income	43.0%	0.50%	35.0%	1.51%
Global Asset Allocation	8.0%	2.20%	27.5%	3.60%
Real Estate	8.0%	3.30%	8.0%	3.30%
Alternative Investments	5.0%	3.20%	4.5%	3.50%
Cash	3.0%	-0.60%	3.0%	0.00%
Total	100.0%		100.0%	

Discount Rate: GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* 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, 2020 and 2019 was 6.25%. 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.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

13d. Defined Benefit Plan – Classified Employees - continued

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability as of June 30 calculated using the discount rate of 6.25%, as well as using a discount rate 1-percentage point lower or 1-percentage point higher than the current rate:

	June 30, 2020			June 30, 2019		
	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Total pension liability	$ 38,945	$ 36,318	$ 34,010	$ 40,944	$ 38,105	$ 35,617
Fiduciary net position	24,609	24,609	24,609	26,576	26,576	26,576
Net pension liability	$ 14,336	$ 11,709	$ 9,401	$ 14,368	$ 11,529	$ 9,041

Changes in Net Pension Liability for the **Defined Benefit Pension Plan**:

Fiscal Year Ended June 30	**2020**	**2019**
Total pension liability – beginning	$ 38,105	$ 38,397
Changes for the year:		
Service cost	1	1
Interest	2,255	2,270
Differences between expected and actual experience	-	(1,238)
Changes of assumptions	-	2,828
Benefit payments	(4,043)	(4,153)
Total pension liability – ending (a)	36,318	38,105
Fiduciary net position – beginning	26,576	28,930
Contributions – employer	896	714
Net investment income	1,213	1,112
Benefit payments	(4,043)	(4,153)
Administrative expenses	(33)	(27)
Fiduciary net position – ending (b)	24,609	26,576
Net pension liability – ending (a)-(b)	$ 11,709	$ 11,529
Plan fiduciary net position as a percentage of the total pension liability	67.76%	69.74%
Covered payroll	$ 68	$ 156
Net pension liability as a percentage of covered payroll	17284.43%	7396.21%
Contributions as a percentage of covered payroll	1322.06%	458.23%
Plan assets measured at fair value	$ 24,609	$ 26,576

13. PENSION PLANS - CONTINUED

e. Funding of Basic and Defined Benefit Plans – Classified Employees

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

Plan Description

Plan Administration: The Other Postemployment Benefits (OPEB) Health Plan ("OPEB Plan") is a defined benefit, single employer plan, administered by the System. The OPEB Plan does not produce standalone financial statements. Within certain limits, the Board of Trustees has authority to establish and amend provisions under the Plan for retirees. This authority is subject to collective bargaining agreements for active employees.

Plan Benefits: System retirees at or above the normal retirement age of 65 with at least ten years of continuous full-time regular university service immediately prior to retirement, and who are in the System health plan upon retirement, are eligible for group health coverage. This coverage is also extended to those former employees in the plan receiving benefits under the System's long-term disability (LTD) insurance and to widows/widowers of university employees and retirees. Employees who retire on or after April 1, 2008 and former employees receiving LTD benefits will have a one-time election to cease coverage under the System health plan and later reenroll for coverage provided continuous coverage is documented.

The System subsidizes the cost of insurance for eligible persons who are retired from the System and have reached age 65 and former employees approved for LTD benefits regardless of age or service subject to the following:

- For employees who retired prior to July 1, 2010, the subsidy is 100% of the cost for the retiree and 50% of the costs for eligible dependents.
- For employees who retired on or after July 1, 2010, but before January 1, 2017, the subsidy is reduced to 93%, 90%, or 85%, of the individual health premium, depending on the employee's years of System service.
- For employees who retired on or after January 1, 2017, the subsidy is 80% of the cost for the retiree and 50% of the costs for eligible dependents.
- Former employees who began LTD benefits on or after September 20, 2016 are eligible to continue the health plan for a maximum of 24 months with an 80% individual premium subsidy and a 50% dependent premium subsidy.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

14. POSTEMPLOYMENT HEALTH PLAN - CONTINUED

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

Eligible persons who were under age 65 and who retired from the System prior to January 1, 2011 do not receive a direct subsidy until they reach age 65. They must pay 100% of the active employee premium rate for the medical plan elected which includes an implicit subsidy as the actual medical plan premiums for this age group would be more than the active employee population. Eligible retirees under age 65 who retire on or after January 1, 2011 no longer receive the implicit subsidy but rather contribute a percentage of the actual medical plan premium for the early retiree group. The contribution percentage is phased in through calendar year 2019 (from 62.5% in 2011 to 100% in 2019).

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

The System’s OPEB expense for June 30, 2020 and 2019 was $9,528 and $8,371, respectively.

Plan membership: At June 30, OPEB Plan membership consisted of the following:

	2020	2019
Inactive plan participants or beneficiaries currently receiving benefits	2,562	2,239
Active plan participants	3,976	4,127
Total plan participants	6,538	6,366

Contributions: The System annually contributes an actuarially determined contribution to a Trust, based on the results of the most recent actuarial valuation.

Funding the OPEB Plan over the long-term allows the System to smooth market impacts, limiting contribution volatility. The required contribution amount will be re-determined with each actuarial valuation as market performance and other factors will impact the required future funding.

Plan Investments

Assets of the OPEB Plan are invested in the System’s managed investment pool. See Notes 1e and 3 for more information on the pool and the OPEB Plan’s share.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

14. POSTEMPLOYMENT HEALTH PLAN - CONTINUED

Net OPEB Liability

The components of the net OPEB liability at June 30 were as follows:

	2020	2019
Total OPEB liability	$213,431	$194,586
Fiduciary net position	(137,400)	(131,339)
Net OPEB liability	$ 76,031	$ 63,247
Fiduciary net position as a percentage of the total OPEB liability	64.38%	67.50%

Actuarial Assumptions: The total OPEB liability as of June 30, 2020 and 2019 was determined by an actuarial valuation as of July 1, 2019 rolled forward to the measurement date of June 30, 2020 and July 1, 2019, respectively , using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Actuarial asset method	Market value
Inflation	2.4% as of June 30, 2020 2.6% as of June 30 2019
Investment rate of return	7.25% net of investment expenses, including inflation as of June 30, 2020 7.5% net of investment expenses, including inflation as of June 30, 2019
Healthcare cost trend rate	8% for 2019 decreasing .5% per year to 5.5%, then grading down to an ultimate trend rate of 3.9%, utilizing the Society of Actuaries Getzen Medical Trend Model. The ultimate medical inflation rate is reached in 2075.
Life expectancy	Pre-retirement and post-retirement mortality rates were based on the RP-2014 Mortality Table projected with fully generational mortality improvement using scale MP-2018. For disabled lives, the mortality rates were based on the RP-2014 Disabled Mortality Table.

The long-term expected rate of return on OPEB 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 OPEB 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.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

14. POSTEMPLOYMENT HEALTH PLAN - CONTINUED

Best estimates of arithmetic real rates of return for each major asset class included in the OPEB Plan's target asset allocation as of June 30 are summarized in the following table:

	2020		2019	
Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Large Cap Equities	17.0%	5.00%	22%	4.50%
Domestic Small/Mid Cap	7.0%	5.20%	8%	4.80%
International Equities	10.0%	5.20%	25%	5.29%
International Small Cap Equities	4.0%	5.60%	0%	0.00%
Emerging Market Equities	3.5%	7.10%	0%	0.00%
Emerging Small Cap Market Equities	3.5%	7.60%	0%	0.00%
Global Equity	10.0%	5.70%	0%	0.00%
Domestic Core Bonds	7.0%	0.20%	0%	0.00%
TIPS	7.0%	-0.40%	0%	0.00%
Bank Loans	5.0%	2.70%	0%	0.00%
Absolute Return Fixed Income	5.0%	1.10%	24%	1.60%
Global Asset Allocation	15.0%	2.90%	15%	3.20%
Hedge Funds	6.0%	3.20%	6%	3.50%
Total	100%		100%	

Discount Rate: Projected benefit payments are required to be discounted to their actuarial present value using the single rate that reflects (1) a long-term expected rate of return on OPEB Plan investments to the extent that the OPEB Plan's fiduciary net position is projected to be sufficient to make projected benefit payments and OPEB 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.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

14. POSTEMPLOYMENT HEALTH PLAN - CONTINUED

The discount rate used to measure the total OPEB liability at the measurement dates of June 30, 2020 and 2019 were 7.25% and 7.5%, 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 OPEB Plan's funding policy. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate: The following presents the net OPEB liability as of June 30, calculated using the respective current discount rate as well as using a discount rate 1-percentage point lower or 1-percentage point higher than the current rate:

	June 30, 2020			June 30, 2019		
	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Total OPEB liability	$ 240,075	$213,431	$ 191,170	$ 219,048	$194,586	$ 174,149
Fiduciary net position	137,400	137,400	37,400	131,339	131,339	131,339
Net OPEB liability	$ 102,675	$ 76,031	$ 53,770	$ 87,709	$ 63,247	$ 42,810

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates: The following presents the net OPEB liability as of June 30, calculated using the respective current healthcare cost trend rates as well as using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

	June 30, 2020			June 30, 2019		
	1% Decrease 7% Year 1 Decreasing to 2.9%	Healthcare Cost Trend Rates 8% Year 1 Decreasing to 3.9%	1% Increase 9% Year 1 Decreasing to 4.9%	1% Decrease 7% Year 1 Decreasing to 4%	Healthcare Cost Trend Rates 8% Year 1 Decreasing to 5%	1% Increase 9% Year 1 Decreasing to 6%
Total OPEB liability	$187,627	$213,431	$244,558	$172,405	$194,586	$221,228
Fiduciary net position	137,400	137,400	137,400	131,339	131,339	131,339
Net OPEB liability	$ 50,227	$ 76,031	$107,158	$ 41,066	$ 63,247	$ 89,889

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

14. POSTEMPLOYMENT HEALTH PLAN - CONTINUED

Changes in the net OPEB liability:

Fiscal Year Ended June 30	**2020**	**2019**
Total OPEB liability – beginning	$ 194,586	$ 202,855
Changes for the year:		
Service cost	6,434	6,583
Interest	14,769	15,354
Changes of benefit terms	(102)	-
Differences between expected and actual experience	-	(30,871)
Changes of assumptions	5,938	10,090
Benefit payments	(8,194)	(9,425)
Total OPEB liability – ending (a)	213,431	194,586
Fiduciary net position – beginning	131,339	125,350
Contributions – employer	12,694	11,868
Net investment income	1,561	3,546
Benefit payments	(8,194)	(9,425)
Fiduciary net position – ending (b)	137,400	131,339
Net OPEB liability – ending (a)-(b)	$ 76,031	$ 63,247
Plan fiduciary net position as a percentage of the total OPEB liability	64.38%	67.50%
Covered payroll	$ 241,501	$ 237,125
Net OPEB liability as a percentage of covered employee payroll	31.48%	26.67%
Contributions as a percentage of covered payroll	5.26%	5.00%
Plan assets measured at fair value	$ 137,400	$ 131,339

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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:

2020

	Pension Liability	OPEB	Deferred Amount on Debt Refunding	Irrevocable Split-Interest Agreements	Service Concession Arrangement	Total
Deferred outflows of resources	$3,019	$24,649	$ 3,739	$ -	$ -	$31,407
Deferred inflows of resources	$1,068	$29,004	$ -	$ 1,765	$ 4,721	$36,558

2019

	Pension Liability	OPEB	Deferred Amount on Debt Refunding	Irrevocable Split-Interest Agreements	Service Concession Arrangement	Total
Deferred outflows of resources	$3,011	$15,706	$ 4,032	$ -	$ -	$22,749
Deferred inflows of resources	$1,439	$36,012	$ -	$ 2,099	$ 5,150	$44,700

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

2020

	Incentive Retirement Plan	Defined Benefit Plan	Total Pension	OPEB
Deferred outflows of resources				
Changes of assumption or other inputs	$ 1,624	$ -	$ 1,624	$14,738
Difference between expected and actual experience	578	-	578	-
Net difference between projected and actual earnings on plan investments	-	817	817	9,911
Total deferred outflows of resources	2,202	817	3,019	24,649
Deferred inflows of resources				
Changes of assumption or other inputs	414	-	414	-
Difference between expected and actual experience	654	-	654	29,004
Total deferred inflows of resources	1,068	-	1,068	29,004
Net deferred outflows (inflows)	$ 1,134	$ 817	$ 1,951	$(4,355)

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

15. DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES - CONTINUED

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

2019

	Incentive Retirement Plan	Defined Benefit Plan	Total Pension	OPEB
Deferred outflows of resources				
Changes of assumption or other inputs	$ 1,154	$ -	$ 1,154	$ 12,024
Difference between expected and actual experience	755	-	755	-
Net difference between projected and actual earnings on plan investments	-	1,102	1,102	3,682
Total deferred outflows of resources	1,909	1,102	3,011	15,706
Deferred inflows of resources				
Changes of assumption or other inputs	531	-	531	-
Difference between expected and actual experience	908	-	908	36,012
Total deferred inflows of resources	1,439	-	1,439	36,012
Net deferred outflows (inflows)	$ 470	$ 1,102	$ 1,572	$(20,306)

Deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized in pension expense and postemployment health expense, respectively, during the years ending June 30 as follows:

Year Ending June 30:	Incentive Retirement Plan	Defined Benefit Plan	Total Pension	OPEB
2021	$ 187	$ 248	$ 435	$(1,503)
2022	187	296	483	(746)
2023	305	195	500	(683)
2024	197	78	275	(468)
2025	158	-	158	(1,684)
Thereafter	100	-	100	729
	$ 1,134	$ 817	$ 1,951	$(4,355)

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, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, 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, 2020 and 2019, 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 and additions to endowments with donor restrictions were $7,082 for FY20 and $9,228 for FY19.

The Foundation asset category, long-term investments, endowment, comprised 81% and 83% of the Foundation's total assets as of June 30, 2020 and 2019, respectively. 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 Statements of Activities as "without donor restrictions" or "with donor restrictions" 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 7.25% in 2020 and 2019. Actual returns in any given year may vary from these amounts.

16. COMPONENT UNITS - CONTINUED

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, 2020 and 2019 the spending policy was 4.5% of the average market value for the twelve previous quarters ending September 30.

Endowment spending is contingent upon a fund's market value exceeding its historic dollar value (principal). In accordance with the Uniform Prudent Management of Institutional Funds Act, a prudent expenditure may be allowed unless the donor has explicitly prohibited expenditure of principal. During the years ended June 30, 2020 and 2019, the Foundation distributed $13,596 and $12,835, 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.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

16. COMPONENT UNITS - CONTINUED

The Foundation’s short-term investments measured at fair value valuations based on unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) as of June 30, 2020 and 2019 were $23,481 and $11,385, respectively. These investments include money markets, certificates of deposit, U.S. government obligations and bonds.

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

2020

	NAV	Level 1	Level 2	Level 3	Total	Liquidity
U.S. equities	$ -	$ 60,634	$ -	$ -	$ 60,634	Daily/Monthly
Non U.S. equities	-	61,536	-	-	61,536	Daily/Monthly/Quarterly
Global equities	-	20,371	-	-	20,371	Monthly/Quarterly
U.S. fixed income	-	28,412	-	-	28,412	Daily
Total private investments	14,149	-	-	-	14,149	Illiquid
Alternative investments	42,469	-	-	-	42,469	Illiquid/Monthly/Quarterly/ Semi-Annually/Annually
Cash	-	546	-	-	546	Daily
Total long-term investments, endowment	**$56,618**	**$171,499**	**$ -**	**$ -**	**$228,117**	

2019

	NAV	Level 1	Level 2	Level 3	Total	Liquidity
U.S. equities	$ -	$ 56,323	$ -	$ -	$ 56,323	Daily/Monthly
Non U.S. equities	-	72,274	-	-	72,274	Daily/Monthly/Quarterly
U.S. fixed income	-	20,239	-	-	20,239	Daily
Total private investments	8,709	-	-	-	8,709	Illiquid
Alternative investments	49,155	-	-	-	49,155	Illiquid/Monthly/Quarterly/ Semi-Annually/Annually
Cash	-	20,385	-	-	20,385	Daily
Total long-term investments, endowment	**$57,864**	**$169,221**	**$ -**	**$ -**	**$227,085**	

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

17. SERVICE CONCESSION ARRANGEMENTS

In June 2016, the System contracted with Sodexo America LLC ("Sodexo") to provide food services at all campuses except the University of Maine. In May 2020, the term of the contract was extended for 5 additional years commencing July 1, 2021, continuing through June 30, 2026 and is subject to renewal for 5 additional 1-year terms.

Upon execution of the 2016 contract, the System received a signing bonus of $500 and a commitment by Sodexo to provide up to $4,000 for equipment and improvements to the System's dining facilities during the first 2 years of the agreement. Effective September 1, 2018, the contract was amended to include an additional $2,000 for equipment and improvements. Any such improvements and equipment provided will remain the property of the System. Improvements to facilities not completed as of June 30, 2020 and 2019 are recorded as a receivable in the amount of $5 and $1,433, respectively, in the Statement of Net Position.

As of June 30, 2020 and 2019, the equipment and improvements provided under this agreement have been classified as either capital assets or expenses in accordance with the System's capitalization policies, with an offsetting deferred inflow of resources. The signing bonus has also been classified as a deferred inflow of resources. Over the life of the contract, the System will amortize the deferred inflows of resources while recognizing auxiliary revenue each year. If the agreement expires, terminates or is amended in a way that has an adverse impact on Sodexo, the System will be liable for the unamortized portion of Sodexo's investment.

As of June 30, 2020 and 2019 the balance of the deferred inflows of resources related to the Sodexo service concession arrangement is $4,721 and $5,150, respectively (see Note 15). During FY20 and FY19, amortization in the amount of $429 and $450, respectively, has been recognized as auxiliary revenue.

18. UNCERTAINTIES

During FY20, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. Subsequent to year-end, the COVID-19 pandemic continues to have significant effects on global markets, supply chains, businesses, communities, and the delivery of education. Specific to the System, COVID-19 may negatively impact various parts of its FY21 operations and financial results, including, but not limited to, enrollment, auxiliary revenues, collections of receivables, operating costs and personnel. Management is taking appropriate actions to mitigate impacts; however, the full effect of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

UNIVERSITY OF MAINE SYSTEM
REQUIRED SUPPLEMENTAL INFORMATION – RETIREMENT AND OPEB PLANS
YEAR ENDED JUNE 30, 2020 (UNAUDITED)
(IN THOUSANDS)

INCENTIVE RETIREMENT PLAN:

Changes in Total Pension Liability and Related Ratios

Fiscal Year Ended June 30	2020	2019	2018	2017	2016	2015
Service cost	$ 538	$ 595	$ 604	$ 862	$ 718	$ 880
Interest	719	813	785	629	877	1,110
Differences between expected and actual experience	-	(217)	-	1,287	-	(1,831)
Changes of assumptions and other inputs	851	562	(225)	(628)	921	505
Benefit payments	(2,141)	(2,175)	(1,972)	(2,084)	(5,260)	(3,114)
Net change in total pension liability	(33)	(422)	(808)	66	(2,744)	(2,450)
Total pension liability – beginning	21,082	21,504	22,312	22,246	24,990	27,440
Total pension liability – ending	$21,049	$21,082	$21,504	$22,312	$22,246	$24,990
Covered payroll	$67,303	$68,685	$72,541	$77,644	$95,653	$92,419
Total pension liability as a percentage of covered payroll	31.27%	30.69%	29.64%	28.74%	23.26%	27.04%

Schedule of Employer Contributions

Fiscal Year Ended June 30	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	$ -	$ -	$ -	$ -	$ -	$ -
Contributions in relation to the actuarially determined contribution	2,141	2,175	1,972	2,084	5,260	3,114
Contribution deficiency (excess)	$(2,141)	$(2,175)	$(1,972)	$(2,084)	$(5,260)	$(3,114)
Covered payroll	$67,303	$68,685	$72,541	$77,644	$95,653	$92,419
Contributions as a percentage of covered payroll	3.18%	3.17%	2.72%	2.68%	5.50%	3.37%

REQUIRED SUPPLEMENTAL INFORMATION - RETIREMENT PLANS (UNAUDITED) (IN THOUSANDS)

INCENTIVE RETIREMENT PLAN – CONTINUED:

Notes to Required Supplementary Information:

Changes of benefit terms:
None.

Changes of assumptions and other inputs:

2020: The discount rate changed from 3.5% as of the beginning of the measurement period to 2.21% as of the end of the measurement period.
2019: The discount rate changed from 3.87% as of the beginning of the measurement period to 3.5% as of the end of the measurement period.
2018: The discount rate changed from 3.58% as of the beginning of the measurement period to 3.87% as of the end of the measurement period.
2017: The discount rate changed from 2.85% as of the beginning of the measurement period to 3.58% 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
Payroll increases	3.5% per year
Assets	There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 73.

REQUIRED SUPPLEMENTAL INFORMATION - RETIREMENT PLANS (UNAUDITED) (IN THOUSANDS)

DEFINED BENEFIT PENSION PLAN:

Changes in Total Pension Liability and Related Ratios

Fiscal Year Ended June 30	2020	2019	2018	2017	2016	2015	2014**
Changes for the year:							
Service cost	$ 1	$ 1	$ 1	$ 6	$ 5	$ 40	$
Interest	2,255	2,270	2,385	2,545	2,769	2,884	
Differences between expected and actual experience	-	(1,238)	-	(759)	-	12	
Changes of assumptions	-	2,828	-	-	1,427	-	
Benefit payments	(4,043)	(4,153)	(4,280)	(4,435)	(4,585)	(4,693)	
Net change in total pension liability	(1,787)	(292)	(1,894)	(2,643)	(384)	(1,757)	
Total pension liability – beginning	38,105	38,397	40,291	42,934	43,318	45,075	
Total pension liability – ending (a)	36,318	38,105	38,397	40,291	42,934	43,318	45,075
Contributions – employer	896	714	695	735	538	1,100	
Net investment income	1,213	1,112	1,335	2,173	202	27	
Benefit payments	(4,043)	(4,153)	(4,280)	(4,435)	(4,585)	(4,693)	
Administrative expenses	(33)	(27)	(36)	(20)	(19)	(8)	
Net change in plan fiduciary net position	(1,967)	(2,354)	(2,286)	(1,547)	(3,864)	(3,574)	
Fiduciary net position – beginning	26,576	28,930	31,216	32,763	36,627	40,201	
Fiduciary net position – ending (b)	24,609	26,576	28,930	31,216	32,763	36,627	40,201
Net pension liability – ending (a)-(b)	$ 11,709	$ 11,529	$ 9,467	$ 9,075	$ 10,171	$ 6,691	$ 4,874
Plan fiduciary net position as a percentage of the total pension liability	67.76%	69.74%	75.34%	77.48%	76.31%	84.56%	89.19%
Covered payroll*	$ 68	$ 156	$ 105	$ 168	$ 312	$ 301	$ 692
Net pension liability as a percentage of covered payroll	17284.43%	7396.21%	9052.65%	5400.37%	3259.34%	2219.09%	704.23%

* Covered payroll for 2016 is the 2015 covered payroll, increased by payroll growth of 3.5%

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

Schedule of Employer Contributions

Fiscal Year Ended June 30	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 896	$ 714	$ 695	$ 735	$ 538	$ 550	$ 550
Contributions in relation to the actuarially determined contribution	896	714	695	735	538	1,100	550
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ (550)	$ -
Covered payroll	$ 68	$ 156	$ 105	$ 168	$ 312	$ 301	$ 692
Contributions as a percentage of covered payroll	1322.06%	458.23%	664.54%	437.48%	172.49%	364.84%	79.47%

REQUIRED SUPPLEMENTAL INFORMATION - RETIREMENT PLANS (UNAUDITED) (IN THOUSANDS)

DEFINED BENEFIT PENSION PLAN – CONTINUED:

Notes to Required Supplementary Information:

Changes of benefit terms:
None.

Changes of assumptions and other inputs:

2020: None
2019: The mortality tables were updated to reflect more recent mortality tables and generational mortality improvement.
2018: None
2017: None
2016: The investment return rate was changed from 6.75% to 6.25% and the administrative expense assumption was changed from $50, increasing by 3% per year, to $30, increasing by 2% per year up to a maximum of $70.
2015: 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, one year 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	2015 to 2020: Entry age normal 2014: Projected Unit Credit
Asset valuation method	The actuarial value of assets is the market value of assets.
Inflation	2020: 2.4% per year 2019: 2.6% per year 2016 to 2018: 3% per year 2015: 3.25% per year
Salary increases	3.5% per year
Payroll increases	3.5% per year
Investment rate of return/ discount rate	2016 to 2020: 6.25%, net of investment expenses, compounded annually 2015: 6.75%, net of investment expenses, compounded annually 2014: 7.25%, net of investment expenses, compounded annually

REQUIRED SUPPLEMENTAL INFORMATION - RETIREMENT PLANS (UNAUDITED) (IN THOUSANDS)

DEFINED BENEFIT PENSION PLAN – CONTINUED:

Investment Returns: Fiscal Year Ended June 30	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Annual money-weighted rate of return, net of investment expenses	4.48%	4.03%	4.80%	7.04%	0.64%	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.

REQUIRED SUPPLEMENTAL INFORMATION - RETIREMENT PLANS (UNAUDITED) (IN THOUSANDS)

OPEB PLAN:

Changes in Net OPEB Liability and Related Ratios

Fiscal Year Ended June 30	2020	2019	2018	2017	2016**
Changes for the year:					
Service cost	$ 6,434	$ 6,583	$ 6,330	$ 6,174	$
Interest	14,769	15,354	14,482	15,567	
Changes in benefit terms	(102)	-	-	(8,670)	
Differences between expected and actual experience	-	(30,871)	-	(17,138)	
Changes of assumptions	5,938	10,090	-	6,051	
Benefit payments	(8,194)	(9,425)	(9,454)	(10,364)	
Net change in total OPEB liability	18,845	(8,269)	11,358	(8,380)	
Total OPEB liability – beginning	194,586	202,855	191,497	199,877	
Total OPEB liability – ending (a)	213,431	194,586	202,855	191,497	199,877
Contributions – employer	12,694	11,868	11,942	16,146	
Net investment income	1,561	3,546	7,979	11,565	
Benefit payments	(8,194)	(9,425)	(9,454)	(10,364)	
Net change in plan fiduciary net position	6,061	5,989	10,467	17,347	
Fiduciary net position – beginning	131,339	125,350	114,883	97,536	
Fiduciary net position – ending (b)	137,400	131,339	125,350	114,883	97,536
Net OPEB liability – ending (a)-(b)	$ 76,031	$ 63,247	$ 77,505	$ 76,614	$ 102,341
Plan fiduciary net position as a percentage of the total OPEB liability	64.38%	67.50%	61.79%	59.99%	48.80%
Covered payroll	$ 241,501	$ 237,125	$ 220,849	$ 214,956	
Net OPEB liability as a percentage of covered payroll	31.48%	26.67%	35.09%	35.64%	

** Detailed information regarding the change in the total OPEB liability for FY16 has not been presented as that information was not available.

Schedule of Employer Contributions

Fiscal Year Ended June 30	2020	2019	2018	2017
Actuarially determined contribution	$ 11,942	$ 13,216	$ 12,819	$ 14,970
Contributions in relation to the actuarially determined contribution	12,694	11,868	11,942	16,146
Contribution deficiency (excess)	$ (752)	$ 1,348	$ 877	$ (1,176)
Covered payroll	$241,501	$237,125	$220,849	$214,956
Contributions as a percentage of covered payroll	5.26%	5.00%	5.41%	7.51%

REQUIRED SUPPLEMENTAL INFORMATION - RETIREMENT PLANS (UNAUDITED) (IN THOUSANDS)

OPEB PLAN - CONTINUED:

Notes to Required Supplementary Information:

Changes of assumptions:

2020: The investment rate of return/discount rate was changed from 7.50% to 7.25%
2019: The mortality tables were updated to reflect more recent mortality tables and generational mortality improvement. The health care cost rate was updated to reflect more recent trends.
2018: *None*
2017: The investment rate of return/discount rate was changed from 7.75% to 7.5% and the actuarial funding method was changed from Projected Unit Credit to Entry Age Normal.

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, one year 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	2017 to 2020: Entry age normal 2016: Projected Unit Credit
Amortization method	2020: Level dollar amount over 26 years on a closed amortization period 2019: Level dollar amount over 28 years on a closed amortization period 2017 to 2018: Level dollar amount over 30 years on a closed amortization period
Amortization period	2020: 26 years 2019: 28 years 2017 to 2018: 30 years
Asset valuation method	Market value
Inflation	2020: 2.4% 2019: 2.6% per year 2017 to 2018: 3% per year
Healthcare cost trend rate	2019 to 2020: 8% decreasing .5% per year to 5.5%, then grading down to an ultimate trend rate of 3.9%, utilizing the Society of Actuaries Getzen Medical Trend Model. The ultimate medical inflation rate is reached in 2075. 2017 to 2018: 8% decreasing 1% per year to an ultimate rate of 5% for 2020 and later years
Investment rate of return/ discount rate	2020: 7.25% net of investment expenses, including inflation 2017 to 2019: 7.5% net of investment expenses, including inflation 2016: 7.75% net of investment expenses, including inflation

OPEB PLAN - CONTINUED:

Investment Returns: **Fiscal Year Ended June 30**	**2020**	**2019**	**2018**	**2017**
Annual money-weighted rate of return, net of investment expenses	1.16%	2.81%	6.90%	11.56%

The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of OPEB 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 OPEB plan investments to the ending fair value of OPEB plan investments.

UNIVERSITY OF MAINE SYSTEM
SUPPLEMENTAL INFORMATION REQUIRED BY THE STATE OF MAINE
SCHEDULES OF ACTIVITIES
(IN THOUSANDS)

Year Ended June 30, 2020

Functions/Programs	Expenses	Charges for Services	Program Investment Loss	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue
University of Maine System	$ 720,114	$ 292,138	$ (4,165)	$ 183,688	$ 3,387	$ (245,066)
	General Revenues:					
	Unrestricted interest and investment income					9,074
	Additions to endowments - gifts					787
	State of Maine noncapital appropriation					219,864
	State of Maine capital appropriation					14,308
	CARES Act funding					15,456
	Loss on disposal of capital assets					(511)
	Total Revenues and Extraordinary Items					258,978
	Change in Net Position					13,912
	Net Position, Beginning of Year					818,196
	Net Position, End of Year					$ 832,108

Year Ended June 30, 2019

Functions/Programs	Expenses	Charges for Services	Program Investment Loss	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue
University of Maine System	$ 728,403	$ 316,954	$ (1,951)	$ 175,914	$ 4,209	$ (233,277)
	General Revenues:					
	Unrestricted interest and investment income					11,644
	Additions to endowments - gifts					8,558
	State of Maine noncapital appropriation					211,975
	State of Maine capital appropriation					5,958
	Loss on disposal of capital assets					(335)
	Total Revenues and Extraordinary Items					237,800
	Change in Net Position					4,523
	Net Position, Beginning of Year					813,673
	Net Position, End of Year					$ 818,196

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INDEPENDENT AUDITORS' 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*

Board of Trustees
University of Maine System
Orono, Maine

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) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated October 28, 2020. Our report includes a reference to other auditors who audited the financial statements of the University of Maine Foundation (Foundation), as described in our report on the System's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Board of Trustees
University of Maine System

Compliance and Other Matters

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

Purpose of This Report

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Quincy, Massachusetts
October 28, 2020