

2021

University of Maine System

Annual Financial Report

The University of Maine System is a Component Unit of the State of Maine

Electronic statements are available at:

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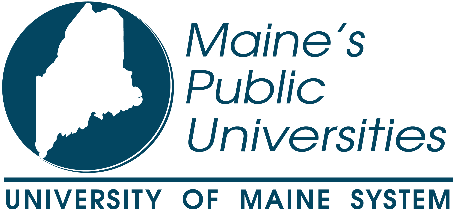
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October 14, 2021

I began last year’s letter noting that Fiscal Year 2020 was one of historic change and unprecedented challenge in the University of Maine System. Likewise, Fiscal Year 2021 presented considerable hurdles as well as exciting opportunities for collaboration, strengthening and progress.

Our most important work is providing education, research, public service, and workforce development.  I am proud to report that nearly 5,000 students graduated from our universities and the Maine School of Law in May, with a mix of online and interactive events. This resilient Class of 2021 was [7 percent larger than last year](https://www.maine.edu/blog/2020/05/07/despite-pandemic-college-dreams-come-true-for-4588-university-of-maine-system-students/) even with COVID-19 complications.

This fall, a majority of students, faculty and staff are on our campuses and the energy is real. From the University of Maine at Fort Kent to the University of Southern Maine, we’re safely engaged in learning, conducting research and providing outreach. This is possible because we continue to follow science-based public health protocols.

Because of diligent stewardship, UMS retained its AA- credit rating, with a stable outlook, during the pandemic. S&P Global’s report indicated that UMS management “maintains a disciplined debt policy, imparts fiscal discipline through using dashboard indicators and long-term financial planning, and adapts to the challenging demographics of Maine through newly developed initiatives.”

The report assessed our enterprise profile as strong, characterized by breadth and depth, and noted that enrollment has remained stable even with unfavorable state demographics and strong regional competition. The report also noted that our unified accreditation model will permit greater academic collaboration between our universities and allow UMS to offer academic programming that any one university may not have the resources to offer by itself.

We carefully administer our resources so that tax and donor dollars go farther. Our sound fiscal management is imperative to managing costs, lowering the cost of borrowing, and attracting additional investments.

The Harold Alfond Foundation’s $240 million investment in the System announced last October is a transformative opportunity for higher education in Maine.  It includes:

* $75 million for a multi-university Maine College of Engineering, Computing, and Information Science.
* $20 million to support student retention and success systemwide.
* $90 million to modernize UMaine Athletics infrastructure and improve gender equity.
* $55 million to develop the Maine Graduate and Professional Center (Maine Center) in Portland, including a signature new building to house Maine Law, the Graduate School of Business and Muskie School of Public Service.

Over the next ten years, we’ll be using these historic investments to improve diversity, equity, and inclusion in these important areas, and all universities in our system will play a role. We’ll be leveraging Alfond investments to secure an additional $170 million in matching funds over the same time from private, state and federal sources, resulting in $410 million total investment in our public university system. The impacts will be truly transformative.

In March Governor Janet Mills signed legislation to implement the Maine Jobs and Recovery Plan, which directed $35 million to UMS to accelerate talent development, research and innovation in support of the state’s economic recovery and its long-term economic growth and global competitiveness. This plan will help to fund new programs and infrastructure, bringing new jobs to several industries.

With more than 50 percent of UMS’s physical plant constructed or last renovated more than 50 years ago, the System is working on strategic capital infrastructure improvements and planning for more. Greater investment in our facilities and innovative partnerships are part of our plan.

This June Trustees approved a FY22 budget that — for the seventh time in 10 years — holds in-state tuition rates flat for Maine students.  Holding the line on tuition cannot be the expectation every year, but our stewardship of university resources will always include an obligation to keep the costs of a public higher education in Maine within the reach of Maine families.

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



Dannel P. Malloy

Chancellor

***UNIVERSITY OF MAINE SYSTEM***

BOARD OF TRUSTEES AND MANAGEMENT

AS OF JUNE 30, 2021

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Dannel P. Malloy

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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, the discretely presented component unit and the aggregate remaining fund information 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, 2021 and 2020, 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.***

***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, the discretely presented component unit and the aggregate remaining fund information of the System as of June 30, 2021 and 2020, 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.  
Emphasis of Matter
As described in Note 18, the System changed accounting policies related to reporting fiduciary activities as aggregate remaining fund information by adopting Statement of Governmental Accounting Standards (GASB Statement) No.84, Fiduciary Activities, in 2021. Accordingly, financial information that was historically accounted for in the business-type activities is now reported in fiduciary fund financial statements. The changes adopted to conform to the provisions of GASB Statement No. 84 are applied retroactively by restating the 2020 financial statements. Our auditors’ opinion was not modified with respect to this matter.
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.***

***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 2020 financial statements and they expressed an unmodified opinion on those audited statements in their report dated October 27, 2020. In our opinion, based on the report of other auditors, the summarized comparative information
presented herein for the Foundation as of and for the year ended June 30, 2020, 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 November 30, 2021 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
November 30, 2021***

***UNIVERSITY OF MAINE SYSTEM***

MANAGEMENT’S DISCUSSION AND ANALYSIS

***JUNE 30, 2021 AND 2020 (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, 2021 and 2020, 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 34 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 1,165 regular full-time faculty, 83 regular part-time faculty, 3,104 regular full-time staff, and 308 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:

| University of Maine 1865 logo | 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 is 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. |
| --- | --- |

|  |  |
| --- | --- |
| UMA logo | 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. |
| University of Maine at Farmington logo | 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. |
| University of Maine at Fort Kent logo | 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 with the education and development needed to be successful professionals and engaged members of their communities in the 21st Century. |
| University of Maine at Machias Logo | 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. |
| University of Maine at Presque Isle logo | 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, as well as its first master’s degree program. |
| University of Southern Maine logo | 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. |
| University of Maine Law School logo | The University of Maine School of Law (Maine Law), a free-standing institution within the System and located in Portland, 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 34 Interactive Television (ITV) course sites statewide.

Student Enrollment

Chart 1 shows student enrollment, including early college, on a headcount basis with 29,683 students enrolled for the fall 2020 semester, down 1.0% from fall 2019 and up 0.7% since fall 2016. For both fall 2020 and fall 2019, 63% of the student population were enrolled full-time.

Chart 2 and Table 1 show student enrollment, including early college, on a full-time equivalent (FTE) basis with 21,618 FTE students enrolled for the fall 2020 semester, down 1.4% from fall 2019 and down 1.1% from fall 2016. For fall 2020, 73% of FTE enrollments were from Maine residents compared to 75% for fall 2019.

**Table 1: Student FTE Enrollment**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **% Change  Fall 2016  to 2020** | **Fall 2020** | **% Change** | **Fall 2019** | **% Change** | **Fall 2018** | **% Change** | **Fall  2017** | **% Change** | **Fall  2016** | **% Change** |
| UM | **1.9%** | **9,773** | **-0.1%** | **9,782** | **0.3%** | 9,750 | 0.3% | 9,720 | 1.3% | 9,594 | 2.4% |
| UMA | **-4.9%** | **2,304** | **-1.3%** | **2,335** | **3.9%** | 2,247 | 3.6% | 2,169 | -10.4% | 2,422 | -7.8% |
| UMF | **-11.6%** | **1,510** | **-4.4%** | **1,579** | **-3.8%** | 1,641 | -4.8% | 1,723 | 0.8% | 1,709 | -0.9% |
| UMFK | **-22.8%** | **812** | **-3.6%** | **842** | **-11.7%** | 954 | 0.4% | 950 | -9.7% | 1,052 | 15.5% |
| UMM | **-19.3%** | **397** | **-1.5%** | **403** | **-5.2%** | 425 | -6.0% | 452 | -8.1% | 492 | -0.2% |
| UMPI | **6.8%** | **945** | **9.9%** | **860** | **-7.8%** | 933 | 3.3% | 903 | 2.0% | 885 | 7.5% |
| USM | **2.9%** | **5,877** | **-4.0%** | **6,123** | **0.7%** | 6,083 | 3.2% | 5,895 | 3.2% | 5,713 | 0.6% |
| **Total** | **-1.1%** | **21,618** | **-1.4%** | **21,924** | **-0.5%** | 22,033 | 1.0% | 21,812 | -0.3% | 21,867 | 1.1% |

Student Comprehensive Cost of Education

Net student fee revenue, totaling $238 million in FY21 and $248 million in FY20, is the System’s greatest source of revenue, contributing 32% of total operating and net nonoperating revenues for FY21. Net student fees represented 35% of the total operating and net nonoperating revenues for FY20. Such revenues 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, mandatory 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 FY21 range from an increase of 3.2% for out-of-state and NEBHE undergraduate students, down to a decrease of 20.3% for Canadian graduate students. Percentage changes in FY20 ranged 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.

The FY21 in-state undergraduate tuition increased by a system-wide average of 2.5% where the overall average comprehensive cost of education for this same category of students increased 3.0%. In FY20, the System increased tuition for in-state undergraduate students 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%.

**Table 2: Student Comprehensive Cost of Education**

**Tuition, Mandatory Fees, and Room and Board Fiscal Year Averages**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2021** |  | **2020** |  | **2019** |  | **2018** |  | **2017** |  |
|  | Cost | % Change | Cost | % Change | Cost | % Change | Cost | % Change | Cost | % Change |
| **Undergraduate:**  In-State | **$18,877** | 3.0% | **$18,321** | 2.8% | $17,819 | 1.7% | $17,520 | 2.7% | $17,065 | 0.3% |
| Out-of-State | **29,337** | 3.2% | **28,425** | 2.2% | 27,809 | 0.4% | 27,707 | 2.9% | 26,922 | 1.1% |
| NEBHE | **23,979** | 3.2% | **23,229** | 2.8% | 22,593 | 2.6% | 22,015 | 4.6% | 21,045 | 2.0% |
| Canadian | **18,877** | -18.7% | **23,229** | 2.8% | 22,593 | 2.5% | 22,045 | 4.6% | 21,075 | 1.8% |
| **Graduate:**  In-State | **$18,683** | 2.3% | **$18,262** | 1.0% | $18,081 | 3.3% | $17,501 | 2.3% | $17,114 | 0.0% |
| Out-of-State | **27,251** | -8.9% | **29,902** | 2.0% | 29,313 | 3.1% | 28,427 | 2.7% | 27,674 | 0.7% |
| NEBHE | **24,097** | 2.2% | **23,578** | 2.6% | 22,983 | 2.8% | 22,350 | 4.0% | 21,488 | 1.7% |
| Canadian | **18,787** | -20.3% | **23,578** | 2.6% | 22,983 | 2.8% | 22,350 | 4.0% | 21,488 | 1.7% |
| **Law School:**  In-State | **$33,310** | 0.9% | **$33,005** | 0.8% | $32,740 | 0.9% | $32,460 | 0.1% | $32,430 | 0.0% |
| Out-of-State | **44,800** | 0.7% | **44,495** | 1.6% | 43,810 | 0.6% | 43,530 | 0.1% | 43,500 | 0.0% |
| NEBHE/Canadian | **41,770** | 0.7% | **41,465** | 1.5% | 40,870 | 0.7% | 40,590 | 0.1% | 40,560 | 0.0% |

*Note: Some amounts presented in the above Table 2 for 2019 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

This discussion and analysis is an introduction to the System’s financial statements which are prepared in accordance with U.S. generally accepted accounting principles and are comprised of four components: 1) system-wide financial statements, 2) component unit financial statements, 3) fiduciary funds financial statements, and 4) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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*.* This MD&A includes information only for the System, not its component unit.

***System-wide Financial Statements***

These financial statements report information about the System’s assets, liabilities, deferred inflows and outflows, net position, revenues, and expenses and are comprised of the following:

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

***Fiduciary Funds Financial Statements***

These financial statements include information about assets held by the System on behalf of other entities as a trustee or fiduciary. The System is responsible for ensuring such assets are used only for their intended purposes and by those to whom the assets belong. Included in these fiduciary financial statements are investments held on behalf of the System’s pension and other postemployment benefit trusts, monies invested by external parties in the System’s managed investment and endowment pools, and cash held on behalf of various student government groups.

The fiduciary funds financial statements are comprised of the following:

* Statements of Fiduciary Net Position
* Statements of Changes in Fiduciary Net Position

***Notes to the Financial Statements***

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in both the system-wide and fiduciary funds financial statements.

***Other Information***

This report also provides certain required supplementary information related to the System’s retirement and other postemployment benefit plans and a Schedule of Activities required by the State of Maine.

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 19 shows Condensed Statements of Net Position for the past five years.

Restatement of Prior Year

The FY20 financial statements have been restated to reflect adoption of GASB Statement No. 84, Fiduciary Activities. The overall impact on the FY20 data in the Condensed Statements of Net Position is that:

* Cash, a component of current assets, decreased by $2.4 million as cash held on behalf of student and other groups was moved to the Statements of Fiduciary Net Position.
* Unearned revenue and deposits and funds held for others – current portion, both of which are components of current liabilities, decreased by a total of $2.4 million to coincide with the above-mentioned cash that was moved to the Statements of Fiduciary Net Position.
* Endowment investments and the offsetting funds held for others, a component of noncurrent liabilities, each decreased by $25.9 million as endowment monies belonging to external parties and pooled with System endowment monies were moved to the Statements of Fiduciary Net Position.

For comparison purposes we also restated the FY19 data presented in the Condensed Statements of Net Position shown in Table 3 on page 19.

Impact of Change in Postemployment Health Plan

The System’s Other Postemployment Benefits (OPEB) plan had a significant impact on the FY21 Statement of Net Position, primarily due to two factors: 1) adding a Medicare Exchange option for retirees in addition to the group plan option and 2) investment returns. The total OPEB liability decreased from $213 million at June 30, 2020 to $162 million at June 30, 2021, primarily due to these two factors. Assets in the UMS OPEB Trust also increased from $137 million at June 30, 2020 to $180 million at June 30, 2021 including $37 million in investment returns.

For reporting in the System’s Condensed Statements of Net Position, the total OPEB liability is netted with the value of the UMS OPEB Trust assets. At June 30, 2021, the System had a net OPEB asset of $18 million compared with a net OPEB liability of $76 million (a component of other noncurrent liabilities) at June 30, 2020.

Other lines of the Condensed Statements of Net Position that were significantly adjusted by the FY21 actuarial results include the following:

* Deferred outflows of resources associated with the OPEB plan decreased $13 million.
* Deferred inflows of resources associated with the OPEB plan increased $22 million.

The plan benefit change, of offering the Medicare Exchange option, resulted in a $49 million positive impact to the System’s unrestricted net position, restoring a portion of the $102 million of unrestricted net position that was lost when the full value of the liability associated with the UMS OPEB Plan was brought into the Statements of Net Position in FY17 as the System adopted GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.

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 $1.327 billion at June 30, 2021, increased $105 million, or 9% over the prior year.

The major component of current assets is operating investments, which totaled $286 million at June 30, 2021 and $264 million at June 30, 2020. Noncurrent assets consist mainly of endowment investments and capital assets, net of depreciation. Endowment investments totaled $166 million at June 30, 2021, an increase of $31 million, or 23%, from the FY20 year-end balance of $135 million, and a $28 million, or 20%, increase from FY19. Capital assets net of accumulated depreciation totaled $689 million and $683 million at June 30, 2021 and 2020, respectively.

Current liabilities of $97 million and $73 million at June 30, 2021 and 2020, respectively, consist primarily of accounts payable and various accrued liabilities including those for the System’s healthcare claims, defined contribution retirement plan and payroll taxes. 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 $227 million, total noncurrent liabilities decreased $53 million, or 19%, from June 30, 2020 to 2021. This decrease is primarily the result of an $82 million decrease in other noncurrent liabilities and a $29 million increase in long-term debt. For FY20 and FY19, the System had total noncurrent liabilities of $280 million, with the change being a $11 million increase in noncurrent liabilities and an $11 million decrease in long-term debt.

Total net position at June 30, 2021 of $945 million increased $113 million, or 14%, from the June 30, 2020 balance, which increased $14 million, or 2%, from the June 30, 2019 balance. Additional information about net position is presented on page 25.Table 3: Condensed Statements of Net Position as of June 30
(In millions)  2021 % Change Restated 2020 % Change Restated 2019 2018 2017
Current Assets
Operating Investments  $286  8%  $264  6%  $248   $252   $243 
Other  83  28%  65  -13%  75   55   61 
Noncurrent Assets 
Endowment investments  166  23%  135  -2%  138   154   147 
Capital assets, net  689  1%  683  0%  685   700   700 
Other  85  93%  44  -8%  48   57   67 
Total Assets  1,309  10%  1,191  0%  1,194   1,218   1,218 
Deferred Outflows of Resources  18  -42%  31  41%  22   12   14 
Total Assets and Deferred Outflows  $1,327  9%  $1,222  0%  $1,216   $1,230   $1,232 
Current Liabilities  
Long-term debt - current portion  $14  0%  $14  -7%  $15   $14   $15 
Other  83  41%  59  0%  59   54   54 
Noncurrent Liabilities 
Long-term debt  153  23%  124  -8%  135   148   161 
Other  74  -53%  156  8%  145   180   179 
Total Liabilities  324  -8%  353  0%  354   396   409 
Deferred Inflows of Resources  58  57%  37  -16%  44   20   25 
Total Liabilities and Deferred Inflows  382  -2%  390  -2%  398   416   434 
Net investment in capital assets  550  1%  547  1%  542   551   544 
Restricted  
Nonexpendable  69  3%  67  2%  66   59   59 
Expendable  144 25% 115  -1%  116  115  114 
Unrestricted  182 77% 103  10%  94  89  81 
Total Net Position  945 14%  832  2% 818  814   798 
Total Liabilities, Deferred Inflows and Net Position $1,327  9% $1,222 0% $1,216   $1,230  $1,232

Managed Investment Pool (MIP)

The System pools certain funds for investment purposes including the System’s endowment pool monies, endowment monies belonging to the System’s affiliated organizations, 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, 2019, 2020 and 2021 fair values of the MIP investments, including the amounts held on behalf of each entity.

‘UMS Endowments’ noted in Chart 4 is the System’s share of the MIP investments and is included as part of the ‘Endowment Investments’ noted in the accompanying Condensed Statements of Net Position. The portion of the MIP representing UMS Affiliates’ Endowments is included in the Statements of Fiduciary Net Position as ‘Investment in UMS endowment pool’. The total of the OPEB Trust, MMA, and the University of Maine School of Law Foundation portions of the MIP are included in the Statements of Fiduciary Net Position as ‘Investment in UMS managed investment pool’.

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 FY21 the MIP realized a net of fees return of 27.1%, up from 1.1% in FY20. The pooled investments have a 5-year annualized net of fees return of 9.5%.

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 and are considered restricted non-expendable. 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 $196 million at June 30, 2021, an increase of $36 million from the prior year. This included an increase of $42 million in positive net performance less $7 million distributed for scholarships and other operating activities.

The pool’s June 30, 2020 fair value of $161 million had increased $1 million from the 2019 year-end fair value of $160 million. This increase included endowment contributions of $5 million plus $2 million in positive net performance less $6 million distributed for scholarships and other operating activities.

Of the $196 million in pooled endowment investment, $161 million are UMS Endowments and $35 million are Affiliates Endowments. The fair value of the UMS Endowments is reported as part of the ‘Endowment Investments’ in the accompanying Condensed Statements of Net Position, and the fair value of the Affiliates Endowments is reported in the Statements of Fiduciary Net Position as ‘Investment in UMS endowment pool’.

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 FY17 thru FY21 was 4.5%.

Capital Assets and Debt Activities

Table 4 on the next page shows the status of major capital construction projects as of June 30, 2021 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 FY21, the System had capital asset additions of $50 million, which included $46 million of construction in progress, and $4 million of equipment. In 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.

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. In May 2021, the System issued $43 million of bond anticipation notes (BAN) to partially finance UM’s Ferland Engineering Education and Design Center project and USM’s new residence hall project and new parking garage project both on the Portland campus. These three projects are noted in Table 4. The System anticipates issuing new revenue bonds in the spring of FY22 to pay off the BAN, to refund prior debt, and to finance additional capital projects.

The System’s total outstanding debt as of June 30, 2021 was $167 million, an increase of $29 million, or 21%, from the FY20 total debt of $138 million. In FY20, total debt decreased $12 million, or 8%, from the FY19 total debt of $150 million.

**Table 4: Major Capital Projects Completed During FY21 or In Progress at June 30, 2021**

**(In millions)**

  Project  Funding Source Status BOT Approved Budget
UMA      
 • Augusta Campus Welcome Center  2018 State Bond Complete  $0.35 
 • Randall Welcome Center  2018 State Bond In Progress  2.10 
 • Handley Hall HVAC System Upgrade  2018 State Bond, Educational & General In Progress  0.57 
UMF      
 • Dearborn Gym Hot Water Upgrades  2010 State Bond, 2018 State Bond In Progress  0.85 
UMFK      
 • Enrollment/Advancement Center  2018 State Bond, Educational & General In Progress  3.25 
UM      
 • Advanced Structures and Composites Center (ASCC) Equipment  Gift, Grant In Progress  1.53 
•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 Complete  0.53 
•CCAR EDA Hatchery Building Roof Replacement  Educational & General Complete  0.56 
•Hilltop Commons Servery Updates  Auxiliary Funds Complete  0.93 
•York Hall Kitchen Hood Replacement  Auxiliary Funds Complete  0.95 
•Energy Center Phase 2  Educational & General In Progress  5.70 
•ASCC Renovation - Mezzanine Office Expansion  Educational & General In Progress  1.40 
•Neville Hall Renovations  2018 State Bond In Progress  1.50 
•ASCC Green Engineering & Materials (GEM) Lab  Educational & General In Progress  1.50 
USM
•Center for the Arts  Gifts In Progress  1.00 
•Woodward Hall Renovation  2018 State Bond, Educational & General Complete  1.80 
•Brooks Student Center Generator & Switchgear Installation  Educational & General Complete  0.67 
•Career and Student Success Center  2018 State Bond, Educational & General and Gifts In Progress  26.60 
•Portland Residence Hall  Revenue Bonds, Educational & General In Progress  72.80 
•Bailey Hall Fire Protection and Electrical Upgrades  2018 State Bond, Educational & General In Progress  4.39 
•Nursing Simulation Lab Science  2018 State Bond Complete  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 and Space Renovation  Educational & General In Progress  0.70 
•Steam Line  Educational & General In Progress  0.60 
UMPI   
•Greenhouse  2013 State bond, Gifts, MEIF Complete  0.93 
•Folsom 105 Nursing Renovation  2018 State Bond In Progress  0.80 
•Wieden Renovation  2018 State Bond In Progress  3.76 
•Solar Array Education & General In Progress  0.70 
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  $239.73

Deferred Outflows and Inflows of Resources

The System’s deferred outflows and deferred inflows of resources primarily relate to the System’s defined benefit pension plans and its other postemployment health plan (OPEB). The total of these deferrals can fluctuate significantly from year-to-year depending on changes in assumptions used for the plans, differences between expected and actual experience, and differences between projected and actual earnings on plan investments. To smooth the impact of these changes, they are amortized over a period of years.

At June 30, 2021 deferred outflows of resources totaled $18 million, a decrease of $13 million from the prior year balance of $31 million. The decrease is primarily due to a decrease of $13 million related to OPEB. In FY20, the System’s deferred outflows of resources increased $9 million from the June 30, 2019 balance of $22 million, primarily due to a $9 million increase also related to OPEB.

Deferred inflows of resources of $58 million at June 30, 2021 increased $21 million from the $37 million at June 30, 2020. The increase is primarily due to an increase of $22 million related to the System’s OPEB plan. In FY20, the System’s deferred inflows of resources decreased $7 million from the $44 million at June 30, 2019, primarily due to a decrease of $7 million related to the System’s OPEB plan.

Net Position

As seen in the Condensed Statements of Net Position shown in Table 3 on page 19, the System’s total net position is presented by the below noted four categories.

**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. The System’s net investment in capital assets was $550 million at June 30, 2021 and $547 million at June 30, 2020.

The FY21 increase in net investment in capital assets of $3 million was comprised of capital asset acquisitions of $50 million less $42 million of depreciation expense, less $2 million of capital asset retirements, less new debt of $16 million, plus a reduction in debt of $13 million.

The FY20 increase in net investment in capital assets of $5 million was 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.

**Restricted-nonexpendable 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. The June 30, 2021 balance of $69 million increased $2 million, or 3%, over the $67 million at June 30, 2020. For FY20, restricted-expendable net position increased $1 million, or 2%, from the FY19 year-end balance of $66 million.

**Restricted-expendable net position** consists of a variety of funds including unexpended gifts, quasi-endowments and appreciation on true endowments, subject to externally imposed conditions on spending. The restrictions include a variety of purposes including student financial aid, capital asset acquisitions, research, and public service. The June 30, 2021 balance of $144 million increased $29 million, or 25% over the June 30, 2020 balance of $115 million. This increase is primarily attributable to $25 million of investment performance in excess of endowment income distributed for operations, plus a $2 million increase in unspent restricted gift balances, a $1 million increase in MEIF funds and a net $1 million increase from other managed restricted-expendable funds.

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.

**Unrestricted net position** 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.

The balance of $182 million at June 30, 2021 increased by $79 million, or 77%, from the FY20 year-end balance of $103 million. For FY20, unrestricted net position increased $9 million, or 10%, from the FY19 year-end balance of $94 million.

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.

Reclassification of Prior Year Revenues

The FY20 financial statements have been restated to reflect a correction in the reporting of grant revenue from the federal Pell student financial aid program. FY20 revenue in the amount of $37.8 million has been moved from the operating revenues section to the nonoperating revenues (expenses) section of the Statements of Revenues, Expenses, and Changes in Net Position. This classification correction has also been made to the 2019, 2018, and 2017 columns of the Condensed Statements of Revenues, Expenses, and Changes in Net Position shown in Table 5.

***Overview of Condensed Statements of Revenues, Expenses, and Changes in Net Position***

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 FY21 change in net position of $113 million was significantly improved over the FY20 change in net position of $14 million. Primary factors in this shift include the following:

* $46 million in OPEB income, including a one-time reduction in expense of $49 million from a change in benefit terms, for FY21 compared with OPEB expense of $9.5 million for FY22;
* $13 million increase in net operating investment income; and
* $34 million increase in market returns for endowment investments.

The FY20 increase in net position of $14 million was up $10 million over that for FY19. The coronavirus relief funding of $15 million was a major factor in this increase, helping to compensate for room and board revenues lost from sending students home early in the spring semester due to the world-wide pandemic.

**Table 5: Condensed Statements of Revenues, Expenses, and Changes in Net Position**

**Years Ended June 30**

**(In millions)**

 2021 Restated 2020 2019 2018 2017
Operating Revenues     
Net student fees  $239   $248   $264   $256   $245 
Grants, contracts and recovery of indirect costs  136   121   113   110   112 
Other operating revenues  30   44   53   52   53 
Total Operating Revenues  405   413   430   418   410 
Operating Expenses  (679)  (716)  (724)  (692)  (668)
Operating Loss  (274)  (303)  (294)  (274)  (258)
Nonoperating Revenues (Expenses)     
Noncapital State of Maine appropriations  218   220   212   211   212 
Federal Pell grants  35   38   40   40   38 
Coronavirus relief funding  37   15   -   -   - 
Gifts currently expendable  19   19   16   14   13 
Endowment return used for operations  6   6   6   6   6 
Investment income  22   9   12   7   10 
Interest expense, net  (4)  (4)  (4)  (4)  (5)
Net Nonoperating Revenues (Expenses)  333   303   282   274   274 
Income (Loss) Before Other Changes in Net Position  59   -   (12)  -   16 
Other Changes in Net Position     
State of Maine capital appropriations  16   14   6   8   5 
Capital grants and gifts  8   3   4   4   3 
Endow. return, net of amount used for operations   29   (4)  (2)  3   8 
Other  1   1   8   1   1 
Total Other Changes in Net Position  54   14   16   16   17 
Change in Net Position  $113   $14   $4   $16   $33

Operating and Nonoperating Revenue

UMS revenues and expenses are categorized as either operating or nonoperating.

* In addition to tuition and fees, the System receives operating revenue from other sources such as governmental and privately funded grants and contracts; gifts from individuals, foundations, and corporations; state appropriations; and investment income.
* Certain significant recurring revenues and expenses are considered nonoperating including state noncapital appropriations, federal Pell grants, coronavirus relief funding, gifts, endowment return used for operations, investment income, and interest expense.

The following pie charts illustrate the total operating and net nonoperating revenue sources used to fund the System’s activities for FY21 and FY20.

**Chart 8: Total Operating and Net Nonoperating Revenue**

Net Student Fees  239 32%
Grants & Contracts  119 16%
Indirect Cost Recovery  17 2%
Educ. Sales & Services/Aux. Enterprises 30 4%
Noncapital State Appropriation  218 30%
Federal Pell Grants 35 5%
Coronavirus Relief Funding 37 5%
Other Nonoperating Revenues Net  43 6%
 738 100%

Net Student Fees  248 35%
Grants & Contracts  106 15%
Indirect Cost Recovery  15 2%
Educ. Sales & Services/Aux. Enterprises 44 6%
Noncapital State Appropriation  220 31%
Federal Pell Grants 38 5%
Coronavirus Relief Funding 15 2%
Other Nonoperating Revenues Net  30 4%
 716 100%

Net Student Fees Revenue

Net student fees of $239 million for FY21 are the largest source of revenues used to fund operating expenses, representing 32% of total operating and net nonoperating revenues. Net student fees of $248 million for FY20 represented 35% of that year’s total operating and net nonoperating revenues.

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

* Tuition and fees totaled $321 million in FY21, increasing $2 million, or less than 1%, from the prior year. FY20 revenues increased $6 million, or 2%, from FY19.
* Residence and dining fees of $40 million in FY21 were down $12 million, or 23%, compared with FY20 as the COVID-19 pandemic that began in late FY20 continued to impact operations. The System limited the number of students allowed to live on campus during FY21 as part of its emergency response to the continuing pandemic.

FY20 residence and dining fees decreased $13 million, or 20%, compared with FY19, 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.

* Scholarship allowances totaled $122 million in FY21, decreasing $1 million, or less than 1%, from the prior year. The FY20 scholarship allowances increased $9 million, or 8%, from FY19.

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 (operating), federal Pell grants revenue (nonoperating) or gift revenue (nonoperating) 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 as a component of the net student fees revenue line.
    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 FY21, total financial aid provided to students was $162 million, decreasing $1 million, or less than 1%, from FY20 financial aid of $163 million. The decrease includes a $3 million decrease in Pell awards and an increase of $1 million in FY21 funding from the federal Coronavirus Relief funds which were received for the first time in FY20.

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 of $7 million in institutional unrestricted aid, and a decrease of $2 million in Pell awards.

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.

Fiscal Year Federal, State, and Private Grants & Contracts Indirect Cost Recovery Total
FY17  $100   $12   $112 
FY18  $98   $12   $110 
FY19  $99   $14   $113 
FY20  $106   $15   $121 
FY21  $119   $17   $136 

Grants and contracts operating revenues totaled $119 million in FY21, increasing $13 million, or 12%, from FY20. This increase is the net change in funding from over 430 different sponsors. The largest single funding increase was $1.4 million related to a corporate grant regarding innovative manufacturing techniques related to composites. In all, direct non-SFA Federal funding increased $6.1 million while direct and pass-through funding from the State increased by $3.6 million from FY20.

FY20 operating grants and contracts revenues totaled $106 million, increasing $7 million, or 7%, from FY19. This increase was the net change in funding from over 400 different sponsors. The largest single funding increase was a $2 million corporate grant regarding production capability related to composites.

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 $17 million for FY21, increasing $2 million from FY20. Recovery of indirect costs totaled $15 million for FY20, which was an increase $1 million from FY19.

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 $218 million in noncapital state appropriation revenue during FY21, down $2 million, or 0.9% from FY20. The System received $220 million in noncapital state appropriation revenue during FY20, up $8 million, or 3.8%, from FY19.

At $218 million, noncapital state appropriation revenue covered 80% of the $274 million operating loss in FY21, up from the operating loss coverage level of 73% in FY20.

Coronavirus Relief Funding

The coronavirus relief funding of $36.6 million and $15.5 million for FY21 and FY20, respectively includes both a federal component and a state component.

***Federal Funding***

In response to the COVID-19 pandemic that began in March 2020, the federal government signed into law various acts to provide economic relief to the nation, including higher education. The U.S. Department of Education has awarded the System a total of $103.7 million under the following acts:

* Coronavirus Aid, Relief and Economic Security (CARES) Act - $17.9 million awarded in FY20.
* Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act - $31.7 million awarded in FY21.
* American Rescue Plan (ARP) Act - $54.1 million awarded in late FY21.

Under these acts, the System received total awards of $44.7 million to use for emergency aid to students and total awards of $59 million to use for various other pandemic related costs including reimbursement of FY20 refunded room and board revenues and recovery of lost revenues.

In the accompanying financial statements, the System has recognized revenue from the above federal awards in accordance with GASB guidance. Under this guidance, revenue recognition does not necessarily correlate with the same fiscal year that the System applied allowable costs against the awards. For example, some of the FY21 revenue recognized in the accompanying financial statements related to costs applied against the federal awards in FY20. Also, certain costs applied against the federal awards in FY21 will not be recognized as revenue until FY22.

FY21 federal coronavirus relief funding revenue totals $29.3 million and is related to the following costs:

* Emergency awards made to students in FY21 - $9.0 million
* Reimbursement of FY20 room and board refunds - $5.5 million
* Recovery of lost FY21 lost revenues - $13.6 million
* Other pandemic related costs - $1.2 million

FY20 federal coronavirus relief funding revenue totals $15.5 million and is related to the following costs:

* Emergency awards made to students in FY20 - $8.2 million
* Reimbursement of FY20 room and board refunds - $7.2 million
* Other pandemic related costs - $100 thousand

***State Funding***

During FY21, the System was awarded $14.9 million in coronavirus relief from the State of Maine to be used for COVID-19 testing costs, personal protective equipment, and quarantine related costs. The System has recognized coronavirus relief funding revenue from this award in the amount of $7.3 million for FY21.

***Cash Gifts***

As shown in Chart 12, total cash gifts of $26 million received in FY21 were up $6 million from the prior year. FY21 gifts from university foundations, corporations, non-profits, and other donor types each increased $1 million, while alumni gifts increased $2 million. FY20 gifts from the non-profits decreased $5 million, and corporations, alumni gifts, and other donor types each decreased $1 million.

Of the $26 million in gifts received in FY21, 85% were restricted, 10% were endowed, and 5% were unrestricted. Of the $20 million in gifts received in FY20, 95% were restricted, 4% 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)   
 2021  2020  2019  2018  2017 
Instruction   $185  27%  $183  25%  $181  25%  $174  25%  $171  26%
Academic support  77  11%  73  10%  73  10%  74  11%  71  10%
Student services  57  9%  62  9%  61  9%  58  8%  54  8%
Subtotal  319  47%  318  44%  315  44%  306  44%  296  44%
Research  86  13%  80  11%  80  11%  76  11%  73  11%
Public service  60  9%  58  8%  59  8%  57  8%  60  9%
Institutional support  12  2%  65  9%  74  10%  64  9%  55  8%
Operation and maintenance of plant  63  9%  50  7%  52  7%  51  8%  51  7%
Depreciation and amortization  42  6%  42  6%  41  6%  40  6%  38  6%
Student aid  40  6%  40  6%  36  5%  34  5%  31  5%
Auxiliary enterprises  57  8%  63  9%  67  9%  64  9%  64  10%
Total Operating Expenses  $679  100%  $716  100%  $724  100%  $692  100%  $668  100%

Table 7: Total Expenses by Natural Classification   
For the Years Ended June 30     
(In millions)        
 2021  2020  2019  2018  2017 
Operating:          
Compensation  $336  49%  $331  46%  $322  44%  $310  45%  $302  45%
Benefits  87  13%  129  18%  139  19%  124  18%  116  17%
Utilities  26  4%  28  4%  31  4%  30  4%  31  4%
Supplies and Services  148  21%  146  20%  155  21%  154  22%  150  22%
Depreciation and Amortization  42  6%  42  6%  41  6%  40  5%  38  6%
Student Aid  40  6%  40  5%  36  5%  34  5%  31  5%
Total Operating Expenses  679  99%  716  99%  724  99%  692  99%  668  99%
Nonoperating:          
Interest   4  1%  4  1%  4  1%  4  1%  5  1%
Total Expenses  $683  100%  $720  100%  $728  100%  $696  100%  $673  100%

Compensation costs were $336 million in FY21, up 1.5% from the FY20 total of $331 million while FY21 benefits totaled $87 million, down 33% from the FY20 total of $129 million. The FY21 decrease in benefits is primarily related to the changes in the System’s OPEB plan noted on page 17. Compensation costs for FY20 saw an increase of 2.8% over the FY19 total of $322 million and FY20 benefits were down 7% from the FY19 total of $139 million.

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.

Statements of Fiduciary net Position

The Statements of Fiduciary Net Position present assets that the System holds in a fiduciary or trustee capacity on behalf of various external entities and groups, including the following:

* UMS OPEB Trust
* UMS Defined Benefit plan
* Maine Maritime Academy
* University of Maine School of Law Foundation
* University of Maine at Fort Kent Foundation
* University of Southern Maine Foundation
* John L. Martin Scholarship Fund, Inc.
* Student government groups

As shown in the Condensed Statements of Fiduciary Net Position in Table 8, the System holds a total of $310 million in assets on behalf of the above noted entities. The vast majority of these assets are in the form of pooled investments, representing investment in the System’s MIP, either directly or indirectly through the UMS Endowment Pool. See the discussion of the UMS’ Managed Investment Pool and Endowments on pages 19 and 22, respectively for more information about these investments.

The Statements of Fiduciary Net Position also present liabilities and net position associated with the assets held on behalf of the external entities.

Table 8: Condensed Statements of Fiduciary Net Position as of June 30     
(In millions)     
 2021 % Change 2020 % Change 2019
Cash and cash equivalents  $2  0%  $2  0%  $2 
Investments - pooled  283  30%  218  4%  209 
Investments - other  25  0%  25  -7%  27 
Total Assets  310  27%  245  3%  238 
     
Total Liabilities  -  0%  -  0%  - 
Pensions  25  0%  25  -7%  27 
Postemployment benefits other than pensions  180  31%  137  5%  131 
Pool participants  102  26%  81  4%  78 
Student and other groups  3  50%  2  0%  2 
Total Net Position  $310  27%  $245  3%  $238 

Statements of Changes in Fiduciary net Position

The Statements of Changes in Fiduciary Net Position show the fiscal year changes in the net position associated with assets held on behalf of the external entities noted in the prior discussion of the Statements of Fiduciary Net Position.

Strategic Vision and Priorities

Unified Accreditation & Strategic Planning

UMS’s unified accreditation, effective since July 1, 2020, opens the door to previously unavailable strategic opportunities for the System’s universities to collaborate, share resources, and achieve educational efficiencies to better serve their students and the State of Maine. System leadership and representatives from all System universities and Maine Law are fully engaged in the significant work of preparing a self-study assessment report for the New England Commission of Higher Education (NECHE) in connection with NECHE’s planned Fall 2022 comprehensive evaluation of the System’s unified accreditation. RecognizTing that this work is ongoing, the Board recently charged the Chancellor to lead the System in the creation of a new UMS strategic plan. The UMS strategic planning process and resulting Strategic Plan will be informed by the NECHE unified accreditation self-study, Fall 2022 comprehensive evaluation visit and report, and the NECHE Standards for Accreditation.

***The Maine Jobs and Recovery Plan – University Funding Allocation***

The federal American Rescue Plan provided relief funding for states including a $1.13 billion allocation to the State of Maine for discretionary use by the Governor and Legislature to respond to the pandemic and support economic recovery. The passage of the Administration’s Maine Jobs and Recovery Plan identifies priorities for using these funds including $35 million to be invested in critical university workforce infrastructure and experience opportunities thereby advancing economic recovery and Maine’s 10-year strategic plan. These resources will accelerate talent development, research and innovation and the long-term economic growth and global competitiveness of Maine that responds to the COVID-19 public health emergency. Students will experience greater opportunities for exploratory learning, paid internships, and career preparation programs connected to the Maine workforce.

***Harold Alfond Foundation Investment***

Last fall, the Harold Alfond Foundation announced an historic $240 million investment over 12 years in the System. This extraordinary grant will support 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.

***Other Capital Investments***

Improving the System’s capital infrastructure is a strategic imperative with more than 50 percent of UMS’s physical plant constructed or last renovated more than 50 years ago. Greater investment in our facilities and innovative partnerships are part of our plan.

Earlier this year UMS Trustees authorized expending funds to develop the 580-bed Portland Commons affordable student housing residence hall project and the career and student success center on USM’s Portland campus. The [campus development project](https://usm.maine.edu/portland-campus-development-project) is part of a series of proposed housing initiatives that the System is exploring to bring more beds to campuses in addition to Portland. Further, USM’s new career and student success center will attract, retain, and prepare more career-ready college graduates for the Maine workforce.

Trustees also gave initial approval for UM to enter into a public-private partnership to repurpose two costly and currently unusable historic buildings on the Orono campus into a boutique hotel. An on campus facility of this nature will serve people attending academic conferences, cultural and athletic events, homecomings, commencements, and other functions, and may serve as a base of experiential learning opportunities for UMS students in tourism and hospitality programs.

In addition, Trustees approved funds at UMPI to renovate Weiden Hall to meet needs of the Owls’ athletic program and build enrollment in health-related academic programs and at UMA to create a hub for student spaces, admissions, advising, registrar and financial aid. The Board also authorized UMS to negotiate and execute a lease agreement for an interim home for the Law School and the Maine Center in downtown Portland, saving the need to spend far greater amounts to shore up the current law school building, which has fallen into obsolescence. These are just some of the exciting projects taking place throughout our System with more to come.

***University Credit Rating***

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 August 2021, S&P affirmed its AA- rating with a stable outlook for the UMS’ revenue bonds, reflecting the strength of UMS' available resources for the rating category relative to medians and peer institutions. The stable outlook placed UMS ahead of the negative outlook for the not-for-profit higher education sector. In its overview, S&P assessed UMS' enterprise profile as strong, characterized by our breadth and depth of institutions and assessed our financial profile as very strong while noting significant future debt plans as a limiting factor. 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 UM. 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, 2021 AND 2020 (IN THOUSANDS)***

 2021 2020 Restated
Assets  
Current Assets  
Cash and cash equivalents (Note 2)  $3,030   $7,282 
Operating investments (Note 3)  286,062   264,046 
Accounts, grants, and pledges receivable, net (Note 4)  74,647   52,312 
Inventories and prepaid expenses  5,562   5,582 
Notes and lease receivable, net (Note 5)  63   63 
Total Current Assets  369,364   329,285 
Noncurrent Assets  
Deposits with bond trustees (Notes 3 and 6)  34,203   5,778 
Accounts, grants and pledges receivable, net (Note 4)  4,069   3,660 
Notes and leases receivable, net (Note 5)  28,193   32,151 
Net OPEB asset (Note 14)  18,058   - 
Endowment investments (Note 3)  166,312   134,683 
Capital assets, net (Note 6)  688,587   683,173 
Irrevocable split interest agreements  847   1,765 
Total Noncurrent Assets  940,269   861,210 
Total Assets  1,309,633   1,190,495 
Deferred Outflows of Resources (Note 15)  17,636   31,407 
Total Assets and Deferred Outflows of Resources  $1,327,269   $1,221,902 
Liabilities  
Current Liabilities  
Accounts payable  $18,585   $12,638 
Unearned revenue and deposits (Note 8)  19,089   15,464 
Accrued liabilities - current portion (Notes 7, 11 and 13)  44,104   30,380 
Funds held for others - current portion  1,702   504 
Long-term debt - current portion (Note 7)  13,736   13,816 
Total Current Liabilities  97,216   72,802 
Noncurrent Liabilities  
Accrued liabilities (Notes 7, 11, 13 and 14)  54,081   132,530 
Funds held for others (Note 3)  248   201 
Long-term debt (Note 7)  153,105   123,735 
Government advances refundable (Note 9)  19,360   23,968 
Total Noncurrent Liabilities  226,794   280,434 
Total Liabilities  324,010   353,236 
Deferred Inflows of Resources (Note 15)  58,565   36,558 
Net Position  
Net investment in capital assets (Note 10)  549,870   547,323 
Restricted  
Nonexpendable (Note 10)  69,149   66,656 
Expendable (Notes 3 and 10)  143,604   115,378 
Unrestricted (Notes 3 and 10)  182,071   102,751 
Total Net Position  944,694   832,108 
Total Liabilities, Deferred Inflows of Resources and Net Position  $1,327,269   $1,221,902 

***UNIVERSITY OF MAINE SYSTEM***

Statements of Financial Position – Discretely Presented Component Unit

***JUNE 30, 2021 AND 2020 (IN THOUSANDS)***

    2021 2020
Assets     
 Cash and cash equivalents    $1,651   $2,361 
 Other receivables    129   119 
 "Promises to give, less allowance for uncollectible pledges
     of $140"    8,364   8,034 
 Short-term investments    25,130   23,481 
 Cash surrender value of life insurance    188   170 
 Long-term investments, endowment    310,056   228,117 
 Long-term investments, life income plans    5,873   4,818 
 Notes receivable    21   34 
 Equity in Buchanan Alumni House    2,663   2,679 
 Investment real estate    5,525   5,526 
 "Property and equipment, net of accumulated depreciation of 
     $234 and $287, respectively"    149   115 
 Other assets    524   543 
 Irrevocable trusts    7,662   6,794 
  Total Assets   $367,935   $282,791 
     
Liabilities     
 Accounts payable    $272   $336 
 Distributions due income beneficiaries    1,758   1,932 
 Accrued expenses    927   823 
 Deferred revenue    133   - 
 Notes payable    -   719 
 Custodial accounts payable    3,998   3,177 
  Total Liabilities   7,088   6,987 
Net Assets     
 Without donor restrictions    15,414   12,995 
 With donor restrictions    345,433   262,809 
  Total Net Assets   360,847   275,804 
  Total Liabilities and Net Assets   $367,935   $282,791

***UNIVERSITY OF MAINE SYSTEM***

Statements of Revenues, Expenses and Changes in Net Position

***YEARS ENDED JUNE 30, 2021 AND 2020 (IN THOUSANDS)***

 2021 2020
Operating Revenues  
Tuition and fees  $320,684   $319,350 
Residence and dining fees  39,894   52,111 
Less: scholarship allowances  (122,104)  (123,712)
Net student fees  238,474   247,749 
Federal, state and private grants and contracts  119,085   106,209 
Recovery of indirect costs  17,308   14,668 
Educational sales and services and other revenues  19,315   29,566 
Other auxiliary enterprises  10,894   14,823 
Total Operating Revenues  405,076   413,015 
Operating Expenses  
Instruction  185,295   183,097 
Research  85,791   80,098 
Public service  59,435   57,914 
Academic support  77,404   73,440 
Student services  56,904   61,856 
Institutional support  12,004   64,842 
Operation and maintenance of plant  63,407   50,533 
Depreciation and amortization (Note 6)  42,285   41,838 
Student aid  40,122   39,662 
Auxiliary enterprises  56,837   62,790 
Total Operating Expenses  679,484   716,070 
Operating Loss  (274,408)  (303,055)
Nonoperating Revenues (Expenses)  
Noncapital State of Maine appropriations  218,157   219,864 
Federal Pell Grants  34,591   37,808 
Coronavirus relief funding  36,602   15,456 
Gifts currently expendable  19,165   19,400 
Endowment return used for operations (Note 3)  6,006   5,603 
Investment income (Note 3)  22,485   9,074 
Interest expense, net (Note 7)  (3,818)  (4,044)
Net Nonoperating Revenues (Expenses)  333,188   303,161 
Income Before Other Changes in Net Position  58,780   106 
Other Changes in Net Position  
State of Maine capital appropriations  15,988   14,308 
Capital grants and gifts  8,225   3,387 
Endowment return, net of amount used for operations (Note 3)  29,406   (4,165)
True and quasi endowment gifts  2,582   787 
Loss on disposal of capital assets  (2,395)  (511)
Total Other Changes in Net Position  53,806   13,806 
Change in Net Position  112,586   13,912 
Net Position - Beginning of the Year  832,108   818,196 
Net Position - End of Year  $944,694   $832,108 


***UNIVERSITY OF MAINE SYSTEM***

***Statements of Activities – Discretely Presented Component Unit***

***YEAR ENDED JUNE 30, 2021 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE, 30 2020 (IN THOUSANDS)***

   Without Donor Restrictions With Donor Restrictions Total      2021  Total      2020 
      
Revenues, Gains, Losses, and Reclassification      
 Contributions   $4,585   $18,869   $23,454   $22,663 
 Advancement services   3,694   -   3,694   3,653 
 Investment returns and other revenue   2,484   74,851   77,335   3,176 
 Reinvestment of donor funds   148   (148)  -   - 
 Gain from extinguishment of debt -      
    Paycheck Protection Program   719   -   719   - 
 Net assets released from restrictions pursuant     
    to endowment spending distribution   6,721   (6,721)  -   - 
 Net assets released from restrictions - other   4,227   (4,227)  -   - 
 Total Revenues, Gains, Losses, and Reclassification   22,578   82,624   105,202   29,492 
Expenses and Losses      
 Program services   16,134   -   16,134   16,037 
 Management and general   1,003   -   1,003   1,051 
 Fundraising   3,022   -   3,022   3,273 
 Total Expenses   20,159   -   20,159   20,361 
 Change in Net Assets   2,419   82,624   85,043   9,131 
 Net Assets - Beginning of Year   12,995   262,809   275,804   266,673 
 Net Assets - End of Year   $15,414   $345,433   $360,847   $275,804

***UNIVERSITY OF MAINE SYSTEM***

***Statements of Cash Flows***

***Years Ended June 30, 2021 and 2020 (in thousands)***

 2021 2020 Restated
Cash Flows From Operating Activities  
Tuition, residence, dining, and other student fees  $236,417   $242,181 
Grants and contracts  123,120   115,671 
Educational sales and services and other auxiliary enterprise revenues  30,559   43,460 
Payments to and on behalf of employees  (463,985)  (453,110)
Financial aid paid to students  (44,475)  (45,476)
Payments to suppliers  (165,433)  (175,917)
Loans issued to students  (1,791)  (1,898)
Collection of loans to students  5,091   5,640 
Net Cash Used for Operating Activities  (280,497)  (269,449)
Cash Flows From Noncapital Financing Activities  
State appropriations  218,157   219,864 
Federal Pell Grants  34,733   38,624 
Coronavirus relief funding  23,339   13,521 
Noncapital grants and gifts  23,942   18,811 
Agency transactions  88   11,274 
Net Cash Provided by Noncapital Financing Activities  300,259   302,094 
Cash Flows From Capital and Related Financing Activities  
Proceeds from capital debt issuances  43,000   - 
Capital appropriations  15,758   11,886 
Capital grants and gifts  6,452   3,544 
Proceeds from sale of capital assets  41   35 
Acquisition and construction of capital assets  (46,210)  (31,686)
Principal paid on capital debt and leases  (12,869)  (13,690)
Interest paid on capital debt and leases  (5,334)  (5,848)
Net Cash Provided by (Used for) Capital and Related Financing Activities  838   (35,759)
Cash Flows From Investing Activities  
Proceeds from sales and maturities of investments  416,248   659,778 
Purchases of investments  (447,045)  (668,053)
Earnings from investments  5,945   8,045 
Net Cash Used for Investing Activities  (24,852)  (230)
Net Decrease in Cash and Cash Equivalents  (4,252)  (3,344)
Cash and Cash Equivalents - Beginning of Year-Restated  7,282   10,626 
Cash and Cash Equivalents - End of Year  $3,030   $7,282 

***UNIVERSITY OF MAINE SYSTEM***

***Statements of Cash Flows***

***Years Ended June 30, 2021 and 2020 (in Thousands)***

Reconciliation of operating loss to net cash used for operating activities:  
 2021 2020 Restated
Operating Loss  $(274,408)  $(303,055)
Adjustments to reconcile operating loss to net cash used for operating activities:  
Depreciation and amortization  42,285   41,838 
Changes in assets, liabilities, deferred outflows and deferred inflows:  
Accounts and grants receivable, net  (8,387)  (3,919)
Inventories and prepaid expenses  20   496 
Notes receivable, net  3,895   3,762 
Net OPEB asset  (18,057)  - 
Irrevocable split interest agreements  918   334 
Deferred outflows related to pensions  357   (8)
Deferred outflows related to OPEB  13,135   (8,943)
Accounts payable  2,176   (4,375)
Unearned revenue and deposits  3,601   953 
Accrued liabilities  (63,431)  17,582 
Grants refundable  (4,608)  (5,972)
Deferred inflows related to pensions  848   (371)
Deferred inflows related to OPEB  22,090   (7,008)
Deferred inflows related to split interest agreements  (918)  (334)
Deferred inflows related to dining contract  (13)  (429)
Net Cash Used for Operating Activities  $(280,497)  $(269,449)
Noncash investing, capital, and financing activities:  
Capital asset additions included in accounts payable and accrued liabilities as of June 30  $7,177   $3,406 
Capital asset additions acquired through long-term debt  $106   $2,389 
Capital asset additions acquired through long-term liabilities  $-   $4,386 
Capital asset additions acquired through service consession arrangements  $5   $1,433 

***UNIVERSITY OF MAINE SYSTEM***

***Statements of FiDUCIARY NET POSITION***

***Years Ended June 30, 2021 and 2020 (in Thousands)***

  2021   2020 
 Pension and Other Employee  Custodial Funds  Pension and Other Employee Custodial Funds 
 Benefit Trust Funds External Investment Pools Other Custodial Funds Benefit Trust Funds External Investment Pools Other Custodial Funds
Assets      
Cash and cash equivalents (Note 2)  $-   $-   $2,674   $-   $-   $2,377 
"Investment in UMS managed 
     investment pool (Note 3)"  180,270   66,958   -   137,400   55,083   - 
"Investment in UMS endowment
     pool (Note 3)"  -   35,190   -   -   25,857   - 
Other investments (Note 3)  25,291   -   -   24,609   -   - 
Prepaid expenses  -   -   5   -   -   - 
Total Assets  205,561   102,148   2,679   162,009   80,940   2,377 
Liabilities      
Accounts payable and other liabilities  -   -   29   -   -   22 
Total Liabilities  -   -   29   -   -   22 
Net Position Restricted for:      
Pensions  25,291   -   -   24,609   -   - 
"Postemployment benefits other
     than pensions"  180,270   -   -   137,400   -   - 
Pool participants  -   102,149   17   -   80,939   9 
Student and other groups  -   -   2,633   -   -   2,346 
Total Net Position  $205,561   $102,149   $2,650   $162,009   $80,939   $2,355

***UNIVERSITY OF MAINE SYSTEM***

Statements of Changes in FIDUCIARY Net Position

***Years Ended June 30, 2021 and 2020 (in Thousands)***

  2021   2020 
 Pension and Other Employee Custodial Funds  Pension and Other Employee  Custodial Funds 
 Benefit Trust Funds External Investment Pools Other Custodial Funds Benefit Trust Funds External Investment Pools Other Custodial Funds
Additions      
Contributions      
Employer contributions  $13,380   $-   $-   $13,590   $-   $- 
Retiree contributions  2,225   -   -   2,597   -   - 
Contributions to investment pools  -   4,501   -   -   3,111   - 
Private donations  -   -   23   -   -   29 
Total contributions  15,605   4,501   23   16,187   3,111   29 
Investment income      
Interest and dividends  2,226   1,101   1   2,431   1,196   36 
Net increase in fair value of investments  40,107   21,048   -   1,302   62   - 
Total investment income  42,333   22,149   1   3,733   1,258   36 
Less investment expense  (1,240)  (595)  -   (959)  (456)  - 
Net investment income  41,093   21,554   1   2,774   802   36 
Other additions      
Student activity fees  -   -   1,932   -   -   2,473 
Endowment income distribution  -   -   857   -   -   764 
Other income  -   -   267   -   -   471 
Total other additions  -   -   3,056   -   -   3,708 
Total additions  56,698   26,055   3,080   18,961   3,913   3,773 
Deductions      
Beneficiary payments  13,133   -   -   14,834   -   - 
Investment pool distributions  -   4,845   -   -   987   - 
Distribute activity fees  -   -   1,161   -   -   1,496 
Distribute other revenues  -   -   9   -   -   103 
Donations and sponsorships  -   -   845   -   -   744 
Purchases by student and other groups  -   -   770   -   -   1,215 
Administrative costs  13   -   -   33   -   - 
Total deductions  13,146   4,845   2,785   14,867   987   3,558 
Change in Fiduciary Net Position  43,552   21,210   295   4,094   2,926   215 
Net Position - Beginning of the Year  162,009   80,939   2,355   157,915   78,013   2,140 
Net Position - End of Year  $205,561   $102,149   $2,650   $162,009   $80,939   $2,355

***UNIVERSITY OF MAINE SYSTEM***

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2021 and 2020 (in thousands)

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 pell grants, coronavirus relief funding, gifts currently expendable, endowment return used for operations, net investment income, and interest expense.

In FY21 the System adopted GASB Statement No. 84, *Fiduciary Activities* (GASB No. 84). This statement addresses accounting and financial reporting related to the System’s fiduciary funds and activity. This statement establishes criteria for identifying fiduciary activities and describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

Under GASB No. 84, fiduciary activities are reported in the fiduciary fund financial

statements of the basic financial statements. The Statements of Fiduciary Net Position is used to report the assets, deferred outflows of resources, liabilities, deferred inflows of resources,

***1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED***

and fiduciary net position of pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and custodial funds. The Statement of Changes in Fiduciary Net Position is used to report additions to and deductions from identified fiduciary funds. The System adopted the provisions of GASB No. 84 retroactive to July 1, 2019, and has restated its FY20 financial statements in accordance with the provisions of GASB No. 84. The adoption of GASB No. 84 is described further in Note 18.

c. Fiduciary Funds

The System holds these funds on behalf of other entities as a trustee or fiduciary. The System is responsible for ensuring such assets are used only for their intended purposes and by those to whom the assets belong.

The System reports its fiduciary funds in the following financial statements that accompany these notes.

**Statements of Fiduciary Net Position** – Presents the assets held by the System in a fiduciary capacity as of June 30 along with the related deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

**Statements of Changes in Fiduciary Net Position** – Presents the components of the fiscal year change in net position of the fiduciary funds.

The System’s fiduciary financial statements include the following types of fiduciary funds:

**Pension and Other Employee Benefit Trusts** – These funds include the assets associated with the System’s Defined Benefit Plan for classified employees and its OPEB health plan.

**External Investment Pools** – These are a type of custodial fund and represent amounts invested by external parties in the System’s management investment and endowment pools.

**Other Custodial Funds** – These custodial funds are held on behalf of various student government groups.

d. Net Position

The accompanying Statements of Net Position present the System’s net position (assets plus deferred outflows of resources less liabilities and deferred inflows of resources) 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.

***1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED***

**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.

e. 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.

f. 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 Postemployment 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.

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.

***1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED***

**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 FY21 and FY20. 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).
* **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.

***1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED***

**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, 2021 and 2020:

|  | **2021** | **2020** |
| --- | --- | --- |
| Equity securities | 49-69% | 45-65% |
| Fixed income securities | 16-36% | 15-35% |
| Other | 5-25% | 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.

g. Gifts and Pledges

Gifts are recorded at their fair value at the date of gift. Promises to donate to the System are recorded as receivables and revenues when the System has met all applicable eligibility and time requirements. Gifts and bequests to be used for endowment purposes are categorized as endowment gifts. Other gifts are categorized as currently expendable. 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.

h. 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.

i. Inventories

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

j. 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.

k. 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.

l. 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***

m. 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.

n. 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***

o. 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.

p. 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.

q. 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.

r. Reclassifications

Certain FY20 items in the accompanying financial statements have been reclassified, without effect on total net position, to conform to the FY21 presentation. The most significant change was the reclassification of federal Pell grant revenue from the operating revenues section of the Statements of Revenues, Expenses and Changes in Net Position to the nonoperating revenues section.

2. CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of bank failure, the System’s deposits, including those held in a fiduciary capacity, 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, 2021and 2020, bank balances with uninsured or uncollateralized operating cash deposits were $1,156 and $726, respectively.

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 bond proceeds from bond issuances, bond anticipation notes and escrow accounts associated with the System’s lease-purchase program.

***Endowment Investments:*** Except for certain gifts invested separately at the request of the donors ($716 and $491 at June 30, 2021 and 2020, 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, 2021 and 2020, respectively are $35,190 and $25,857, and are reported as investments in the UMS endowment pool in the accompanying Statements of Fiduciary 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:

|  | **2021** | **2020** |
| --- | --- | --- |
| Restricted - expendable | $76,199 | $51,028 |
| Unrestricted | 20,697 | 16,754 |
| Total available for spending | $96,896 | $67,782 |

***3. INVESTMENTS - CONTINUED***

***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”.

*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:

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.
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.
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.

***3. INVESTMENTS - CONTINUED***

The **System’s operating investments and deposits with bond trustees** were composed of the following at June 30, 2021:

   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  $52,919   $52,919   $-   $-    
Fixed income funds:       
Bonds  117,535   41,482   76,053   -   Not rated   1.28-6.58 years  Duration
Money markets  28,519   28,519   -   -   Not rated   28-47 days  Weighted Average Maturity
Total operating investments at fair value level  198,973   $122,920   $76,053   $-    
Operating investments measured at NAV       
Equities:  Multi-Strategy  15,706       
Bank loans  18,587      Not rated   .30 years  Duration
Total operating investments measured at NAV  34,293       
Total operating investments measured at fair value plus NAV  233,266       
State pool measured at amortized cost  52,796      Not rated  .69 years Duration
Total operating investments  $286,062       
       
Deposits with Bond Trustees:       
Bonds and money markets  $34,203   $34,203   $-   $-   Not rated   28-47 days  Weighted Average Maturity

***3. INVESTMENTS - CONTINUED***

The **System’s DB Plan and MIP investments** were composed of the following at June 30, 2021:

   Fair Value Measurements Using:    Credit  
  Total   Level 1   Level 2   Level 3   Rating   Interest Rate Risk  
Investments measured at fair value:       
Equities:       
Equity securities  $13,600   $13,600   $-   $-    
Equity funds  51,613   51,613   -   -    
Multi-strategy funds  31,396   31,396   -   -   Not rated   Not rated  
Fixed income funds:       
Money markets  2,490   2,490   -   -   Not rated   27 days  Weighted Average Maturity
Bonds  60,494   60,494   -   -   Not rated  1.28-7.5 years Duration
Real assets  2,161   -   -   2,161   Not rated   Not rated  
Total DB Plan and MIP investments at fair value level  161,754   $159,593   $-   $2,161    
Investments measured at NAV:       
Equity securities  92,541       
Equity funds  118,188       
Multi-strategy funds  33,770       
Fixed income funds - bonds  41,177       
Bank loans  21,602      Not rated  0.3 years Duration
Total DB Plan and MIP investments measured at NAV  307,278       
Total DB Plan and MIP investments  $469,032       
Breakdown of above investments by portfolio:       
DB Plan at fair value level  $13,917   $11,756   $-   $2,161    
DB Plan at NAV  11,374       
Total DB Plan Investments  $25,291       
MIP held on behalf of outside entities at fair level  $82,367   $82,367   $-   $-    
MIP held on behalf of outside entities at NAV  164,861       
Total MIP held on behalf of outside entities  $247,228       
Fiduciary Funds held in Endowment Pool at fair value level  $11,724   $11,724   $-   $-    
Fiduciary Funds held in Endowment Pool at NAV  23,466       
Total Fiduciary Funds  $35,190       
Endowment pool investments included in the MIP at fair value  $53,746   $53,746   $-   $-    
Endowment pool investments included in the MIP at NAV  107,577       
Total endowment pool investments included in the MIP  161,323       
Endowment investments - separately invested  4,989   $4,989   $-   $-    
Total endowment investments  $166,312

***3. INVESTMENTS - CONTINUED***

Additional disclosures for **System investments,** including the DB Plan and MIP, measured at NAV at June 30, 2021:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Fair Value** | **Redemption Frequency (If Currently Eligible)** | **Redemption Period Notice** |
| **Operating Investments measured at NAV:** |  |  |  |
| Equities: Multi-strategy ₁ | $ 15,706 | Quarterly, Monthly | 60, 90 days |
| Bank loans ₂ | 18,587 | Bi-monthly | 15 days |
| **Total operating investments measured at NAV** | **$ 34,293** |  |  |
| **Investments measured at NAV:**  Equity securities | $ 92,541 | Monthly | 30 days |
| Equity funds | 118,188 | Monthly | 30 days |
| Multi-strategy funds ₁ | 33,770 | Quarterly, Monthly | 30, 45, 60, 90 days |
| Fixed income funds - bonds | 41,177 | Monthly | 5 days |
| Bank loans ₂ | 21,602 | Monthly | 30 days |
| **Total DB Plan and MIP investments measured at NAV** | **$ 307,278** |  |  |
| **Further breakdown of above DB Plan and MIP investments:**  DB Plan at NAV | $ 11,374 |  |  |
| MIP held on behalf of outside entities at NAV | 164,861 |  |  |
| Fiduciary funds held in the Endowment Pool for others | 23,466 |  |  |
| ***Endowment pool investments included in the MIP at NAV*** | ***107,577*** |  |  |
| **Total investments measured at NAV by portfolio** | **$ 307,278** |  |  |

***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

***3. INVESTMENTS - CONTINUED***

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

   Fair Value Measurements Using:    Credit  
  Total   Level 1   Level 2   Level 3   Rating   Interest Rate Risk  
Investments measured at fair value:       
Equities:       
Equity securities  $12,747   $12,747   $-   $-    
Equity funds  42,714   42,714   -   -    
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  48,947   48,947   -   -   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  159,815   $157,811   $-   $2,004    
Investments measured at NAV:       
Equity securities  75,882       
Equity funds  72,179       
Multi-strategy funds  29,696       
Fixed income funds - bonds  22,643       
Bank loans  17,286      Not rated  0.25 Duration
Total DB Plan and MIP investments measured at NAV  217,686       
Total DB Plan and MIP investments  $377,501       
Breakdown of above investments by portfolio:       
DB Plan at fair value level  $13,668   $11,664   $-   $2,004    
DB Plan at NAV  10,941       
Total DB Plan Investments  $24,609       
MIP held on behalf of outside entities at fair level  $79,715   $79,715   $-   $-    
MIP held on behalf of outside entities at NAV  112,768       
Total MIP held on behalf of outside entities  $192,483       
Fiduciary Funds held in Endowment Pool at fair value level  $10,708   $10,708   $-   $-    
Fiduciary Funds held in Endowment Pool at NAV  15,149       
Total Fiduciary Funds  $25,857       
Endowment pool investments included in the MIP at fair value  $55,724   $55,724   $-   $-    
Endowment pool investments included in the MIP at NAV  78,828       
Total endowment pool investments included in the MIP  134,552       
Endowment investments - separately invested  131   $131   $-   $-    
Total endowment investments  $134,683


***3. INVESTMENTS - CONTINUED***

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

 " 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  $75,882  Monthly 30 days
Equity funds  72,179  Monthly 30 days
Multi-strategy funds ₁  29,696  "Quarterly, 
Monthly" "30, 45, 
60, 90 days"
Fixed income funds - bonds  22,643  Monthly 5 days
Bank loans ₂  17,286  Monthly 30 days
Total DB Plan and MIP investments measured at NAV  $217,686   
   
Further breakdown of above DB Plan and MIP investments:   
DB Plan at NAV  $10,941   
MIP held on behalf of outside entities at NAV  112,768   
Fiduciary funds held in the Endowment Pool for others  15,149   
Endowment pool investments included in the MIP at NAV  78,828   
Total investments measured at NAV by portfolio  $217,686

Additional information for investments measured at NAV at June 30, 2021 and 2020 is as follows:

1Multi-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.

2Bank 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.f.

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 6.61 years and 6.01 years at June 30, 2021 and 2020, 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 6.61 years and 6.01 years at June 30, 2021 and 2020, 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 $6,622 and $21,712 at June 30, 2021 and 2020, 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 $ 54,847 and $ 61,865 at June 30, 2021 and 2020, respectively. This includes $9,822 and $9,972 at June 30, 2021 and 2020, respectively, for investments held for affiliated organizations.

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 $4,956 and $9,095 at June 30, 2021 and 2020, respectively.

3. INVESTMENTS - CONTINUED

d. Investment Income

Income related to the **System’s investments** and reported in the accompanying Statements of Revenues, Expenses and Changes in Net Position is as follows:

2021    
 "Net
Gains
(Losses)" "Interest
and
Dividends" "Investment
Fees" "Net
Income
(Loss)"
Endowment investment income and fees  $34,619   $1,803   $(963)  $35,459 
Net income allocated to annuities payable to others     (47)
System endowment net income     $35,412 
Reported as endowment return used for operations     $6,006 
Reported as endowment return, net of amount used for operations     29,406 
System endowment income     $35,412 
Operating investments  $17,595   $5,877   $(999)  $22,473 
Perkins savings account  -   9   -   9 
Deposits with bond trustees  -   3   -   3 
Total other investment income (loss)  $17,595   $5,889   $(999)  $22,485 
    
2020 Restated   
 "Net
Gains
(Losses)" "Interest
and
Dividends" "Investment
Fees" "Net
Income
(Loss)"
Endowment investment income and fees  $157   $2,049   $(765)  $1,441 
Net income allocated to annuities payable to others     (3)
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 

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

4. ACCOUNTS, GRANTS, AND PLEDGES RECEIVABLE

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

 2021   2020  
 Total "Current
Portion" "Noncurrent 
Portion" Total "Current
Portion" "Noncurrent 
Portion"
Student and other accounts receivable  $45,729   $45,236   $493   $38,798   $38,362   $436 
Grants receivable  51,705   48,530   3,175   28,587   25,642   2,945 
Pledges receivable  528   106   422   2,086   1,794   292 
Total gross receivables  97,962   93,872   4,090   69,471   65,798   3,673 
Less allowance for doubtful accounts  (19,233)  (19,225)  (8)  (13,492)  (13,486)  (6)
Less discount on pledges receivable  (13)  -   (13)  (7)  -   (7)
Total receivables, net  $78,716   $74,647   $4,069   $55,972   $52,312   $3,660

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:

 2021   2020  
 Total "Current
Portion" "Noncurrent 
Portion" Total "Current
Portion" "Noncurrent 
Portion"
      
Perkins loans  $15,355   $-   $15,355   $19,804   $-   $19,804 
Nursing loans  2,141   -   2,141   2,240   -   2,240 
Institutional loans  11,145   -   11,145   10,749   -   10,749 
Lease receivable (a)  500   63   437   563   63   500 
Total notes and leases receivable  29,141   63   29,078   33,356   63   33,293 
Less allowance for doubtful accounts  (885)  -   (885)  (1,142)  -   (1,142)
Total notes and leases receivable, net  $28,256   $63   $28,193   $32,214   $63   $32,151

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.

1. 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.

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2021 is as follows:

 "Beginning
Balance" Additions Reclassifications Retirements "Ending
Balance"
Land  $18,376   $-   $-   $-   $18,376 
Library materials  25,686   -   -   -   25,686 
Construction in progress  23,582   45,985   (19,112)  -   50,455 
Total nondepreciable assets  67,644   45,985   (19,112)  -   94,517 
Land improvements  62,884   -   874   (162)  63,596 
Buildings & improvements  951,172   -   14,674   (4,564)  961,282 
Equipment  171,421   3,978   3,564   (4,122)  174,841 
Software  35,794   -   -   (98)  35,696 
Total depreciable assets  1,221,271   3,978   19,112   (8,946)  1,235,415 
Less accumulated depreciation:     
Land improvements  42,544   2,304   -   (162)  44,686 
Buildings & improvements  414,067   27,015   -   (2,822)  438,260 
Equipment  120,773   10,961   -   (3,634)  128,100 
Software  28,358   2,005   -   (64)  30,299 
Total accumulated depreciation  605,742   42,285   -   (6,682)  641,345 
Net depreciable assets  615,529   (38,307)  19,112   (2,264)  594,070 
Total capital assets  $683,173   $7,678   $-   $(2,264)  $688,587 


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 

***6. CAPITAL ASSETS - CONTINUED***

As of June 30, 2021 and 2020, $34,179 and $5,755, respectively, in proceeds from debt issuances remain unspent. These amounts are included in the accompanying Statements of Net Position as part of deposits with bond trustees along with amounts restricted for debt service.

Also remaining unspent as of June 30, 2021 and 2020 is $33,401 and $41,057, 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 debt proceeds 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 $52,403 and $21,289 at June 30, 2021 and 2020, respectively.

7. ACCRUED LIABILITIES AND LONG-TERM DEBT

Changes in accrued liabilities and long-term debt during the year ended June 30, 2021 include the following:

 "Beginning
Balance" Additions Reductions "Ending
Balance" "Current
Portion"
Accrued liabilities:     
Workers' compensation (Note 11)  $2,200   $160   $(159)  $2,201   $553 
Health insurance (Note 11)  6,982   84,540   (85,235)  6,287   6,287 
Postemployment health plan (Note 14)  76,031   29,681   (105,712)  -   - 
Other employee benefit programs (Note 13)  56,307   68,622   (69,391)  55,538   6,039 
Other  21,390   28,727   (15,958)  34,159   31,225 
Total accrued liabilities  $162,910   $211,730   $(276,455)  $98,185   $44,104 
Long-term debt:     
Capital lease obligations (a)  $1,972   $-   $(503)  $1,469   $162 
Bonds and notes payable (b)  131,776   43,000   (12,510)  162,266   12,712 
Lease purchase agreement (b)  3,803   106   (803)  3,106   862 
Total long-term debt  $137,551   $43,106   $(13,816)  $166,841   $13,736 

***7. ACCRUED LIABILITIES AND LONG-TERM DEBT - CONTINUED***

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   75,714   (76,903)  6,982   6,982 
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   19,894   (13,413)  21,390   16,996 
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

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, 2021 are as follows:

Year Ending          June 30: Capital Leases  Operating Leases Total
 Principal Interest  
2022  $162   $63   $245   $470 
2023  169   56   239   464 
2024  177   48   237   462 
2025  185   40   239   464 
2026  193   32   239   464 
2027-2031  583   42   1,246   1,871 
2032-2036  -   -   659   659 
2037-2041  -   -   131   131 
Total minimum 
lease payments  $1,469   $281   $3,235   $4,985

The rent expense related to operating leases amounted to $233 for the year ended June 30, 2021 and $395 for the year ended June 30, 2020.

b. Bonds Payable and Direct Borrowings

Bonds payable and direct borrowings consist of the following at June 30:

|  | **2021** | **2020** |
| --- | --- | --- |
| **Bonds Payable:** |  |  |
| 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 $1,073 and $1,604, respectively. | $ 17,048 | $ 21,024 |
| 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 $1,467 and $1,898, respectively. | 38,507 | 41,203 |
| 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 $2,063 and $2,637. | 46,233 | 49,592 |
| 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 $374 and $478, respectively. | 15,714 | 17,763 |
| Total bonds payable, net | 117,502 | 129,582 |
| **Direct Borrowings:** |  |  |
| TD Bank, N.A.: $43,000 bond anticipation note, Series 2021, monthly interest only payments at .31%, matures July 2022.  The note agreement contains a provision that in an event of default, the Purchaser may declare principal of and interest on the note to be immediately due and payable. In the event of a default, the unpaid principal of the note shall, at the option of the Purchaser, bear interest at the lesser of a rate which is four percentage points per annum greater than that which would otherwise be applicable or the maximum interest rate permitted by applicable law. Late payments will be assessed a 6% late fee. | 43,000 |  |

b. Bonds Payable and Direct Borrowings - continued

|  | **2021** | **2020** |
| --- | --- | --- |
| University of Maine Foundation: Note payable, secured by equipment, with annual payments of $15, including interest at 4.25%, matures 2023. The promissory note contains a provision that in the event of default of payment, the unpaid balance of the principal shall, at the option of the holder, become immediately due and payable. Any amount due at the time of default, shall accrue interest until payment at the rate of 5% per year. | 21 | 35 |
| Key Government Finance Inc. (KGF): $832 loan secured by five-year software license agreement, annual payments of $182, including interest at 3.78%, matures July 2023. The loan agreement contains a provision that in the event of default, KGF may exercise one or more of the following remedies in its sole discretion: a) terminate the agreement and all of the UMS’ rights to the software license agreement, b) seek court action to enforce payment, c) cause the Licensor to terminate the license with the UMS, d) declare all unpaid installment payments to be immediately due and payable. Late charges will be assessed on any delinquent payments from the due date of the payment until paid at the rate of 5% per annum or the highest rate permitted by law, whichever is less. | 510 | 667 |
| 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.  The promissory note contains a provision that in the event of default, all outstanding principal shall be immediately due and payable, and interest on the unpaid principal balance shall thereafter accrue at an interest rate equal to 12%. | 1,233 | 1,492 |
| Banc of America Public Capital Corp. (BOAPCC): Master lease purchase agreement, secured by equipment and vehicles, quarterly or semi-annual payments including interest at 1.19% to 4.14%, maturing from October 2022 to May 2037. The master lease purchase agreement contains a provision that in the event of default, BOAPCC has the right, at its sole option, to take one or any combination of the following steps: a) declare all remaining payments due and payable, b) repossess the financed property, c) whatever action at law or in equity may appear necessary or desirable to enforce its rights under the agreement. | 3,106 | 3,803 |
| Total direct borrowings | 47,870 | 5,997 |
| Total bonds payable and direct borrowings | $165,372 | $135,579 |

b. Bonds Payable and Direct Borrowings - continued

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 payable and direct borrowings for the next five years and in subsequent five-year periods are as follows at June 30, 2021:

|  | **Bonds Payable** | | **Direct Borrowings** | |
| --- | --- | --- | --- | --- |
| **Year Ending June 30:** | **Principal** | **Interest** | **Principal** | **Interest** |
| 2022 | $ 10,910 | $ 4,670 | $ 1,299 | $250 |
| 2023 | 10,395 | 4,145 | 44,269 | 91 |
| 2024 | 10,880 | 3,647 | 1,000 | 37 |
| 2025 | 9,560 | 3,134 | 433 | 18 |
| 2026 | 10,015 | 2,687 | 254 | 18 |
| 2027-2031 | 40,300 | 8,095 | 196 | 43 |
| 2032-2036 | 20,025 | 1,650 | 375 | 21 |
| 2037-2041 | 440 | 15 | 44 | 1 |
| **Total Payments** | $112,525 | $28,043 | $47,870 | $473 |

Interest costs related to the revenue bonds for FY21 and FY20 were $3,620 and $3,842, respectively.

8. UNEARNED REVENUE AND DEPOSITS

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

|  | **2021** | **2020**  **Restated** |
| --- | --- | --- |
| Unearned grant advances | $ 6,447 | $ 6,774 |
| Unearned summer session revenue | 8,014 | 7,899 |
| Other unearned revenue and deposits | 4,628 | 791 |
| Total unearned revenue and deposits | $ 19,089 | $ 15,464 |

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, 2021 and 2020, the portion of outstanding awards excluded from the financial statements totaled $127,831 and $66,118, 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, 2021 and 2020 has been included in the accompanying Statements of Net Position as a noncurrent liability.

10. NET POSITION

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

|  | **2021** | **2020** |
| --- | --- | --- |
| Net investment in capital assets | $ 549,870 | $ 547,323 |
| Restricted - Nonexpendable: |  |  |
| Endowment funds | 69,149 | 66,656 |
| Restricted - Expendable: |  |  |
| Student financial aid | 63,081 | 47,441 |
| Capital assets and retirement of debt | 1,340 | 1,873 |
| Loans | 17,391 | 17,059 |
| Academic support | 17,946 | 14,246 |
| Research and public service | 11,011 | 6,863 |
| Library | 4,519 | 3,775 |
| Other | 28,316 | 24,121 |
| Total restricted - expendable | 143,604 | 115,378 |
| Unrestricted: |  |  |
| Educational and general reserves | 88,619 | 81,098 |
| Risk management | 3,888 | 2,450 |
| Budget stabilization | 21,500 | 12,114 |
| Auxiliary enterprises | 1,253 | 7,865 |
| Benefit pool carryover | 28,286 | 19,563 |
| Implementation of GASB 75 for OPEB | (33,795) | (83,264) |
| Information technology initiatives | 1,120 | 1,199 |
| Internally designated projects | 8,632 | 13,535 |
| Facility projects | 36,772 | 26,193 |
| Quasi endowment corpus | 13,398 | 11,093 |
| Endowment appreciation | 7,299 | 5,661 |
| Cost sharing and other | 5,099 | 5,244 |
| Total unrestricted | 182,071 | 102,751 |
| Total Net Position | $ 944,694 | $ 832,108 |

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 $200 per loss retention with an aggregate limit of $25,000. 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, 2021 and 2020 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. 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, 2021 and 2020 of $2,201 and $2,200, 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 UMS’ insurable exposure for any one incident to $1.5.

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 began offering two health plan options beginning in calendar year 2021 to retirees who are Medicare eligible. The legacy option is a fully insured Medicare Advantage Private Fee for Service program with a commercial carrier. The new option is a funded Health Reimbursement Account (HRA) through a Medicare Exchange program. As of June 30, 2021 and 2020, the estimated liability for claims incurred but not reported is included in total health insurance accrued liabilities in the

***11. COMMITMENTS AND CONTINGENCIES - CONTINUED***

accompanying Statements of Net Position (see Note 7). The System purchases stop-loss insurance which limits the exposure to $1,000 per individual.

The System’s health insurance liability at June 30 consists of the following:

|  | **2021** | **2020** |
| --- | --- | --- |
| Claims incurred but not reported | $ 5,382 | $ 5,703 |
| Reported claims | 905 | 1,279 |
| Total health insurance liability *(Note 7)* | $ 6,287 | $ 6,982 |

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 until the end of the calculation period, which was December 31, 2020.  As of June 30, 2021 and 2020 the estimated liability for the premium rebate of $2,750 and $0, respectively, has been included in the accompanying Statements of Net Position as a current liability.

12. PASS THROUGH GRANTS

During FY21 and FY20, the System distributed $103,358 and $112,555, respectively, for student loans through the U.S. Department of Education Federal Direct Lending Program. These distributions and related funding sources are not included as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements.

13. PENSION PLANS

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

|  | **2021** | **2020** |
| --- | --- | --- |
| Faculty and Professional Employees: |  |  |
| Contributory retirement plan | $ 22,602 | $ 21,809 |
| Incentive retirement plan | 1,526 | 1,443 |
| Hourly Employees: |  |  |
| Basic retirement plan | 3,201 | 3,139 |
| Defined benefit plan (Income)/Expense | (216) | 1,361 |
| Total net pension expense | $ 27,113 | $ 27,752 |

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 has 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 $9,042 in FY21 and $8,723 in FY20.

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 may elect to retire at any age on or after 55.

***Plan Membership:*** At June 30, 2021 and 2020, active plan participants consisted of 794 and 859, 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, 2021 and 2020 was $21,208 and $21,049, 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, 2021 and July 1, 2019 rolled forward to the measurement date of June 30, 2020 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 2.16% as of June 30, 2021

2.21% as of June 30, 2020

Life expectancy 2021: Mortality rates were based on the Pub-2010 Mortality Table projected with Scale MP-2020

2020: Mortality rates were based on the RP-2014 Mortality Table projected with MP-2018

***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 2.16% and 2.21% as of June 30, 2021 and 2020, respectively. The rates are based on the municipal bond rates as of the measurement dates. The municipal bond rates for 2021 and 2020 are based on the Bond Buyer 20-Bond General Obligation (GO) Index published for the weeks of June 30, 2021 and June 30, 2020, 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, 2021** | | | **June 30, 2020** | | |
| --- | --- | --- | --- | --- | --- | --- |
|  | 1%  Decrease | Current Discount  Rate | 1%  Increase | 1% Decrease | Current Discount  Rate | 1%  Increase |
|  | (1.16%) | (2.16%) | (3.16%) | (1.21%) | (2.21) | (3.21%) |
| Total pension liability | $ 21,844 | $ 21,208 | $ 20,552 | $21,689 | $21,049 | $20,390 |

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

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

| **Fiscal Year Ended June 30** | **2021** | **2020** |
| --- | --- | --- |
| Total pension liability – beginning | $ 21,049 | $ 21,082 |
| Changes for the year: |  |  |
| Service cost | 692 | 538 |
| Interest | 456 | 719 |
| Differences between expected and actual experience | 833 | - |
| Changes of assumptions and other inputs | 376 | 851 |
| Benefit payments | (2,198) | (2,141) |
| Total pension liability – ending (a) | 21,208 | 21,049 |
| Fiduciary net position – beginning | - | - |
| Contributions – employer | 2,198 | 2,141 |
| Benefit payments | (2,198) | (2,141) |
| Fiduciary net position – ending (b) | - | - |
| Net pension liability – ending (a)-(b) | $ 21,208 | $ 21,049 |
| Plan fiduciary net position as a percentage of the total pension liability | 0.00% | 0.00% |
| Covered payroll | $ 62,646 | $ 67,303 |
| Net pension liability as a percentage of covered payroll | 33.85% | 31.27% |
| Contributions as a percentage of covered payroll | 3.51% | 3.18% |
|  |  |  |

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.

13c. Basic Retirement Plan – Classified Employees - continued

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 $1,346 in FY21 and $1,340 in FY20.

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:

1. 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
2. 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

13d. Defined Benefit Plan – Classified Employees – continued

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:

|  | **2021** | **2020** |
| --- | --- | --- |
| Inactive plan participants or beneficiaries currently receiving benefits | 700 | 724 |
| Inactive plan participants entitled to but not yet receiving benefits | 191 | 199 |
| Active plan participants | 2 | 3 |
| Total plan participants | 893 | 926 |

***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 $672 through and including FY51, 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.

***13d. Defined Benefit Plan – Classified Employees – continued***

***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 in effect as of June 20, 2021 and 2020:

|  | **2021** | **2020** |
| --- | --- | --- |
| Equity securities | 25-45% | 25-45% |
| Fixed income securities | 35-55% | 35-55% |
| Other | 15-35% | 15-35% |
| Cash | 0-10% | 0-10% |

***Rate of Return:*** For the years ended June 30, 2021 and 2020, the annual money-weighted rate of return, net of investment expenses, was 15.86% and 4.48%, respectively.

**Net Pension Liability**

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

|  | **2021** | **2020** |
| --- | --- | --- |
| Total pension liability | $ 33,840 | $ 36,318 |
| Fiduciary net position | (25,291) | (24,609) |
| Net pension liability | $ 8,549 | $ 11,709 |
| Fiduciary net position as a percentage of the total pension liability | 74.7% | 67.8% |

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

***13d. Defined Benefit Plan – Classified Employees - continued***

***Actuarial Assumptions:*** The total pension liability as of June 30, 2021 and 2020 was determined by an actuarial valuation as of July 1, 2021 and as of July 1, 2019 rolled forward to the measurement date of June 30, 2020, 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 2.5% as of June 30, 2021

2.4% as of June 30, 2020

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 Pub-2010 amount-weighted Mortality Table with Scale MP-2020. For disabled lives, the mortality rates were based on the Pub-2010 amount-weighted Disabled Mortality Table with Scale MP-2020.

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 allocationpercentage and by adding expected inflation.

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:

|  |  | **2021** |  | **2020** |
| --- | --- | --- | --- | --- |
| **Asset Class** | **Target Allocation** | **Long-Term  Expected Real  Rates of Return** | **Target Allocation** | **Long-Term  Expected Real  Rates of Return** |
| Global Equity | 30 % | 4.40% | 30% | 5.70% |
| Emerging Market Equity | 3% | 6.10% | 3% | 7.60% |
| Core Fixed Income | 43% | 0.97% | 43% | 0.50% |
| Global Asset Allocation | 8 % | 2.30% | 8% | 2.20% |
| Real Estate | 8% | 3.10% | 8% | 3.30% |
| Alternative Investments | 5% | 3.10% | 5% | 3.20% |
| Cash | 3% | -0.10% | 3% | -0.60% |
| Total | 100% |  | 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, 2021 and 2020 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.

***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, 2021** | | | **June 30, 2020** | | |
| --- | --- | --- | --- | --- | --- | --- |
|  | 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 | $ 36,194 | $ 33,840 | $ 31,762 | $ 38,945 | $ 36,318 | $ 34,010 |
| Fiduciary net position | 25,291 | 25,291 | 25,291 | 24,609 | 24,609 | 24,609 |
| Net pension liability | $ 10,903 | $ 8,549 | $ 6,471 | $ 14,336 | $ 11,709 | $ 9,401 |

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

| **Fiscal Year Ended June 30** | **2021** | **2020** |
| --- | --- | --- |
| Total pension liability – beginning | $ 36,318 | $ 38,105 |
| Changes for the year: |  |  |
| Service cost | 1 | 1 |
| Interest | 2,148 | 2,255 |
| Differences between expected and actual experience | (285) | - |
| Changes of assumptions | (426) | - |
| Benefit payments | (3,916) | (4,043) |
| Total pension liability – ending (a) | 33,840 | 36,318 |
| Fiduciary net position – beginning | 24,609 | 26,576 |
| Contributions – employer | 907 | 896 |
| Net investment income | 3,704 | 1,213 |
| Benefit payments | (3,916) | (4,043) |
| Administrative expenses | (13) | (33) |
| Fiduciary net position – ending (b) | 25,291 | 24,609 |
| Net pension liability – ending (a)-(b) | $ 8,549 | $ 11,709 |
| Plan fiduciary net position as a percentage of the total pension liability | 74.74% | 67.76% |
| Covered payroll | $ 65 | $ 68 |
| Net pension liability as a percentage of covered payroll | 13158.91% | 17284.43% |
| Contributions as a percentage of covered payroll | 1396.00% | 1322.06% |
| Plan assets measured at fair value | $ 25,291 | $ 24,609 |

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 post-retirement health coverage. This coverage is also extended to those former eligible employees who receive 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 Medicare eligible retiree health plan options include a Medicare Exchange program with an HRA and a group health plan which subsidizes the cost of insurance for eligible persons who are retired from the System and have reached age 65, who are under age 65 and are part of a special retirement incentive program, and who are former employees and approved for LTD benefits regardless of age or years of service. The level of subsidy varies with retirement date and years of service. The System also provides a subsidy for eligible spouses and dependents. With certain restrictions, spouses and dependents are eligible to continue coverage after the death of a retiree meeting the above criteria.

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 (income)/expense for June 30, 2021 and 2020 was $(46,390) and $9,528, respectively.

***14. POSTEMPLOYMENT HEALTH PLAN - CONTINUED***

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

|  | **2021** | **2020** |
| --- | --- | --- |
| Inactive plan participants or beneficiaries currently receiving benefits | 2,137 | 2,562 |
| Active plan participants | 4,014 | 3,976 |
| Total plan participants | 6,151 | 6,538 |

***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 1f and 3 for more information on the pool and the OPEB Plan’s share.

***14. POSTEMPLOYMENT HEALTH PLAN - CONTINUED***

**Net OPEB Liability**

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

|  | **2021** | **2020** |
| --- | --- | --- |
| Total OPEB liability | $162,212 | $213,431 |
| Fiduciary net position | (180,270) | (137,400) |
| Net OPEB liability (asset) | $ (18,058) | $ 76,031 |
| Fiduciary net position as a percentage of the total OPEB liability | 111.13% | 64.38% |

***Actuarial Assumptions:*** The total OPEB liability as of June 30, 2021 and 2020 was determined by an actuarial valuation as of July 1, 2021 and as of July 1, 2019 rolled forward to the measurement date of June 30, 2020 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 2.2% as of June 30, 2021; 2.4% as of June 30, 2020

Investment rate of return 7.25% net of investment expenses, including inflation as of June 30, 2021 and 2020

Healthcare cost trend rate 6% for 2021 decreasing .25% per year to 5.25%, then grading down to an ultimate trend rate of 4%, utilizing the Society of Actuaries Getzen Medical Trend Model. The ultimate medical inflation rate is reached in 2075.

8% for 2020 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.

Prescription drug trend rates 6.5% for 2021, decreasing .25% per year to an ultimate

(Catastrophic prescription trend rate of 5 percent. Drug HRA)

Drug HRA)

Life expectancy Pre-retirement and post-retirement mortality rates were based on the Pub-2010 headcount-weighted Mortality Table projected with fully generational mortality improvement using Scale MP-2020.

For disabled lives, the mortality rates were based on the Pub-2010 headcount-weighted Disabled Mortality Table projected with fully generational mortality improvement using Scale MP-2020.

***14. POSTEMPLOYMENT HEALTH PLAN – CONTINUED***

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.

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:

|  |  | **2021** |  | **2020** |
| --- | --- | --- | --- | --- |
| **Asset Class** | **Target Allocation** | **Long-Term Expected Real Rate of Return** | **Target Allocation** | **Long-Term Expected Real Rate of Return** |
| Large Cap Equities | 22.0% | 3.80% | 17.0% | 5.00% |
| Domestic Small/Mid Cap | 6.0% | 3.90% | 7.0% | 5.20% |
| International Equities | 10.0% | 3.80% | 10.0% | 5.20% |
| International Small Cap Equities | 4.0% | 4.10% | 4.0% | 5.60% |
| Emerging Market Equities | 3.5% | 5.90% | 3.5% | 7.10% |
| Emerging Small Cap Market Equities | 3.5% | 6.10% | 3.5% | 7.60% |
| Global Equity | 10.0% | 4.40% | 10.0% | 5.70% |
| Domestic Core Bonds | 9.5% | 0.70% | 7.0% | 0.20% |
| TIPS | 3.5% | 0.20% | 7.0% | -0.40% |
| Short-term TIPS | 3.5% | 0.00% | 0.0% | 0.00% |
| Bank Loans | 5.0% | 2.80% | 5.0% | 2.70% |
| Absolute Return Fixed Income | 5.0% | 1.80% | 5.0% | 1.10% |
| Global Asset Allocation | 7.5% | 2.30% | 15.0% | 2.90% |
| Hedge Funds | 7.0% | 3.10% | 6.0% | 3.20% |
| 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.

***14. POSTEMPLOYMENT HEALTH PLAN - CONTINUED***

The discount rate used to measure the total OPEB liability at the measurement dates of June 30, 2021 and 2020 was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from the System will be made in accordance with the 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, 2021** | | | | **June 30, 2020** | | |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | 1% Decrease | Current Discount Rate | 1% Increase | 1%  Decrease | Current Discount  Rate | 1%  Increase |
|  | | (6.25%) | (7.25%) | (8.25%) | (6.25%) | (7.25%) | (8.25%) |
| Total OPEB liability | | $182,043 | $162,212 | $145,667 | $240,075 | $213,431 | $191,170 |
| Fiduciary net position | | 180,270 | 180,270 | 180,270 | 137,400 | 137,400 | 137,400 |
| Net OPEB liability (asset) | | $ 1,773 | $(18,058) | $(34,603) | $102,675 | $ 76,031 | $ 53,770 |

***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, 2021** | | | **June 30, 2020** | | |
| --- | --- | --- | --- | --- | --- | --- |
|  | 1%  Decrease  5% Year 1 Decreasing to 3% | Healthcare Cost TrendRates6% Year 1 Decreasing to 4% | 1%  Increase  7% Year 1 Decreasing to 5% | 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% |
| Total OPEB liability | $143,919 | $162,212 | $184,474 | $187,627 | $213,431 | $244,558 |
| Fiduciary net position | 180,270 | 180,270 | 180,270 | 137,400 | 137,400 | 137,400 |
| Net OPEB liability (asset) | $(36,351) | $(18,058) | $ 4,204 | $ 50,227 | $ 76,031 | $107,158 |

***14. POSTEMPLOYMENT HEALTH PLAN - CONTINUED***

Changes in the net OPEB liability:

| **Fiscal Year Ended June 30** | **2021** | **2020** |
| --- | --- | --- |
| Total OPEB liability – beginning | $ 213,431 | $ 194,586 |
| Changes for the year: |  |  |
| Service cost | 6,964 | 6,434 |
| Interest | 15,725 | 14,769 |
| Changes of benefit terms | (49,469) | (102) |
| Differences between expected and actual experience | (8,908) | - |
| Changes of assumptions | (8,539) | 5,938 |
| Benefit payments | (6,992) | (8,194) |
| Total OPEB liability (asset) – ending (a) | 162,212 | 213,431 |
| Fiduciary net position – beginning | 137,400 | 131,339 |
| Contributions – employer | 12,473 | 12,694 |
| Net investment income | 37,389 | 1,561 |
| Benefit payments | (6,992) | (8,194) |
| Fiduciary net position – ending (b) | 180,270 | 137,400 |
| Net OPEB liability (asset)– ending (a)-(b) | $ (18,058) | $ 76,031 |
| Plan fiduciary net position as a percentage of the total OPEB liability (asset) | 111.13% | 64.38% |
| Covered payroll | $ 258,827 | $ 241,501 |
| Net OPEB liability (asset) as a percentage of covered employee payroll | -6.98% | 31.48% |
| Contributions as a percentage of covered payroll | 4.82% | 5.26% |
| Plan assets measured at fair value | $ 180,270 | $ 137,400 |

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: 2021      
Pension Liability OPEB Deferred Amount on Debt Refunding Irrevocable Split-Interest Agreements Service Concession 
Arrangement Total
Deferred outflows of resources  $2,662   $11,514   $3,460   $-   $-   $17,636 
Deferred inflows of resources  $1,916   $51,094   $-   $847   $4,708   $58,565 
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 

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:

**2021**

|  | Incentive Retirement Plan | Defined Benefit Plan | Total Pension | OPEB |
| --- | --- | --- | --- | --- |
| Deferred outflows of resources |  |  |  |  |
| Changes of assumption or other inputs | $1,560 | $ - | $ 1,560 | $11,514 |
| Difference between expected and actual experience | 1,102 | - | 1,102 | - |
| Total deferred outflows of resources | 2,662 | - | 2,662 | 11,514 |
| Deferred inflows of resources |  |  |  |  |
| Changes of assumption or other inputs | 296 | - | 296 | 7,287 |
| Difference between expected and actual experience | 401 | 1,219 | 1,620 | 29,598 |
| Net difference between projected and actual earnings on plan investments | - | - | - | 14,209 |
| Total deferred inflows of resources | 697 | 1,219 | 1,916 | 51,094 |
| Net deferred outflows (inflows) | $1,965 | $(1,219) | $ 746 | $(39,580) |

***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:

**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) |

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 |
| --- | --- | --- | --- | --- |
| 2022 | $ 378 | $ (151) | $ 227 | $(8,765) |
| 2023 | 496 | (252) | 244 | (8,701) |
| 2024 | 388 | (369) | 19 | (8,486) |
| 2025 | 349 | (447) | (98) | (9,702) |
| 2026 | 291 | - | 291 | (1,829) |
| Thereafter | 63 | - | 63 | (2,097) |
|  | $ 1,965 | $(1,219) | $ 746 | $(39,580) |

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, 2021 and 2020, 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 the Foundation’s endowments with donor restrictions were $16,580 for FY21 and $7,082 for FY20.

The Foundation asset category, long-term investments, endowment, comprised 84% and 81% of the Foundation’s total assets as of June 30, 2021 and 2020, 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 2021 and 2020. 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, 2021 and 2020 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, 2021 and 2020, the Foundation distributed $14,184 and $13,596, 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:

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.
2. Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
3. Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

*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, 2021 and 2020 were $25,130 and $23,481, 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:

**2021**

|  | **NAV** | **Level 1** | **Level 2** | **Level 3** | **Total** | **Liquidity** |
| --- | --- | --- | --- | --- | --- | --- |
| U.S. equities | $ 81,542 | $ 15,241 | $ - | $ - | $ 96,783 | Daily/Monthly |
| Non-U.S. equities | 25,056 | 35,463 | - | - | 60,519 | Daily/Monthly/Quarterly |
| Global equities | 41,908 | - | - | - | 41,908 | Monthly/Quarterly |
| U.S. fixed income | - | 35,361 | - | - | 35,361 | Daily |
| Total private investments | 36,161 | - | - | - | 36,161 | Illiquid |
| Alternative investments | 39,237 | - | - | - | 39,237 | Illiquid/Monthly/Quarterly/Semi-Annually/Annually |
| Cash | - | 87 | - | - | 87 | Daily |
| **Total long-term investments, endowment** | **$223,904** | **$86,152** | **$ -** | **$ -** | **$310,056** |  |

**2020**

|  | | **NAV** | **Level 1** | | **Level 2** | | **Level 3** | | **Total** | | **Liquidity** | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| U.S. equities | | $ 53,031 | $ 7,603 | | $ - | | $ - | | $ 60,634 | | Daily/Monthly | |
| Non-U.S. equities | | 61,518 | 18 | | - | | - | | 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 | | 42,444 | 25 | | - | | - | | 42,469 | | Illiquid/Monthly/Quarterly/Semi-Annually/Annually | |
| Cash | | - | 546 | | - | | - | | 546 | | Daily | |
| **Total long-term investments, endowment** | **$191,513** | | **$36,604** | **$ -** | | **$ -** | | **$228,117** | |  | |

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, 2021 and 2020 are recorded as a receivable in the amount of $0 and $5, respectively, in the Statement of Net Position.

As of June 30, 2021 and 2020, 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, 2021 and 2020 the balance of the deferred inflows of resources related to the Sodexo service concession arrangement is $4,708 and $4,721, respectively (see Note 15). During FY21 and FY20, amortization in the amount of $513 and $429, respectively, has been recognized as auxiliary revenue.

18. PRIOR PERIOD ADJUSTMENTS

The provisions of GASB No. 84 are effective for periods beginning after December 15, 2019. This statement applies to the System’s fiduciary funds (see Note 1c.) and the System adopted GASB No. 84 for its June 30, 2021 financial statements. The change represents a change from one generally accepted accounting principle to another generally accepted accounting principle that is the current industry practice.

The changes adopted to conform to the provisions of GASB No. 84 are applied retroactively by restating the FY20 financial statements. The impact of the restatement was to reduce the balances of certain items in the System’s FY20 Statements of Net Position and to move those reductions to the Statements of Fiduciary Net Position. A condensed version of the System’s FY20 Statements of Net Position is presented below, showing the originally stated balances,

*18. PRIOR PERIOD ADJUSTMENTS - CONTINUED*

the impact of GASB No. 84, and the restated FY20 balances. There was no impact on the System’s Statements of Revenues, Expenses, and Changes in Net Position.

** 2020 As Originally Stated Moved to Statements of Fiduciary Net Position 2020 as Restated
   
Assets   
Cash  $9,659   $(2,377)  $7,282 
Endowment investments  160,540   (25,857)  134,683 
Other assets  1,048,530   -   1,048,530 
Total Assets  1,218,729   (28,234)  1,190,495 
Deferred Outflows of Resources  31,407   -   31,407 
Total Assets and Deferred Outflows of Resources  $1,250,136   $(28,234)  $1,221,902 
Liabilities   
Unearned revenue and deposits  $15,486   $(22)  $15,464 
Funds held for others - current portion  2,859   (2,355)  504 
Funds held for others - noncurrent  26,058   (25,857)  201 
Other liabilities  337,067   -   337,067 
Total Liabilities  381,470   (28,234)  353,236 
Deferred Inflows of Resources  36,558   -   36,558 
Net Position  832,108   -   832,108 
Total Liabilities, Deferred Inflows of Resources and Net Position  $1,250,136   $(28,234)  $1,221,902**

19. UNCERTAINTIES

During FY20, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. Subsequent to the FY21 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 FY22 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, 2021 (UNAUDITED)***

***(IN THOUSANDS)***

Incentive Retirement Plan:

**Changes in Total Pension Liability and Related Ratios**

| **Fiscal Year Ended June 30** | **2021** | **2020** | **2019** | **2018** | **2017** | **2016** | **2015** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Service cost | $ 692 | $ 538 | $ 595 | $ 604 | $ 862 | $ 718 | $ 880 |
| Interest | 456 | 719 | 813 | 785 | 629 | 877 | 1,110 |
| Differences between expected and actual experience | 833 | - | (217) | - | 1,287 | - | (1,831) |
| Changes of assumptions and other inputs | 376 | 851 | 562 | (225) | (628) | 921 | 505 |
| Benefit payments | (2,198) | (2,141) | (2,175) | (1,972) | (2,084) | (5,260) | (3,114) |
| Net change in total pension liability | 159 | (33) | (422) | (808) | 66 | (2,744) | (2,450) |
| Total pension liability – beginning | 21,049 | 21,082 | 21,504 | 22,312 | 22,246 | 24,990 | 27,440 |
| Total pension liability – ending | $21,208 | $21,049 | $21,082 | $21,504 | $22,312 | $22,246 | $24,990 |
| Covered payroll | $62,646 | $67,303 | $68,685 | $72,541 | $77,644 | $95,653 | $92,419 |
| Total pension liability as a percentage of covered payroll | 33.85% | 31.27% | 30.69% | 29.64% | 28.74% | 23.26% | 27.04% |

**Schedule of Employer Contributions**

| **Fiscal Year Ended June 30** | **2021** | **2020** | **2019** | **2018** | **2017** | **2016** | **2015** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Actuarially determined contribution | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Contributions in relation to the actuarially determined contribution | 2,198 | 2,141 | 2,175 | 1,972 | 2,084 | 5,260 | 3,114 |
| Contribution deficiency (excess) | $(2,198) | $(2,141) | $(2,175) | $(1,972) | $(2,084) | $(5,260) | $(3,114) |
| Covered payroll | $62,646 | $67,303 | $68,685 | $72,541 | $77,644 | $95,653 | $92,419 |
| Contributions as a percentage of covered payroll | 3.51% | 3.18% | 3.17% | 2.72% | 2.68% | 5.50% | 3.37% |

*Incentive Retirement Plan – continued:*

### Notes to Required Supplementary Information:

*Changes of benefit terms:* None.

*Changes of assumptions and other inputs:*

2021: The discount rate changed from 2.21% as of the beginning of the measurement period to 2.16% as of the end of the measurement period. In addition, the mortality tables were updated to the Pub-2010 mortality tables with mortality improvement scale MP-2020.

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. |

Defined Benefit Pension Plan:

Changes in Total Pension Liability and Related Ratios        
Fiscal Year Ended June 30 2021 2020 2019 2018 2017 2016 2015 2014**
Changes for the year:        
Service cost  $1   $1   $1   $1   $6   $5   $40   $ 
Interest  2,148   2,255   2,270   2,385   2,545   2,769   2,884  
Differences between expected and actual experience   (285)   (1,238)  -   (759)  -   12  
Changes of assumptions  (426)  -   2,828   -   -   1,427   -  
Benefit payments  (3,916)  (4,043)  (4,153)  (4,280)  (4,435)  (4,585)  (4,693) 
Net change in total pension liability  (2,478)  (1,787)  (292)  (1,894)  (2,643)  (384)  (1,757) 
Total pension liability – beginning   36,318   38,105   38,397   40,291   42,934   43,318   45,075  
Total pension liability – ending (a)  33,840   36,318   38,105   38,397   40,291   42,934   43,318   45,075 
Contributions – employer  907   896   714   695   735   538   1,100  
Net investment income  3,704   1,213   1,112   1,335   2,173   202   27  
Benefit payments  (3,916)  (4,043)  (4,153)  (4,280)  (4,435)  (4,585)  (4,693) 
Administrative expenses   (13)  (33)  (27)  (36)  (20)  (19)  (8) 
Net change in plan fiduciary net position  682   (1,967)  (2,354)  (2,286)  (1,547)  (3,864)  (3,574) 
Fiduciary net position – beginning   24,609   26,576   28,930   31,216   32,763   36,627   40,201  
Fiduciary net position – ending (b)  25,291   24,609   26,576   28,930   31,216   32,763   36,627   40,201 
Net pension liability – ending (a)-(b)  $8,549   $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 74.74% 67.76% 69.74% 75.34% 77.48% 76.31% 84.56% 89.19%
Covered payroll*  $65   $68   $156   $105   $168   $312   $301   $692 
Net pension liability as a percentage of covered payroll 13158.91% 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.

*Defined Benefit Pension Plan – continued:*

**Schedule of Employer Contributions**

| **Fiscal Year Ended June 30** | **2021** | **2020** | **2019** | **2018** | **2017** | **2016** | **2015** | **2014** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Actuarially determined contribution | $ 907 | $ 896 | $ 714 | $ 695 | $ 735 | $ 538 | $ 550 | $ 550 |
| Contributions in relation to the actuarially determined contribution | 907 | 896 | 714 | 695 | 735 | 538 | 1,100 | 550 |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - | $ - | $ - | $ (550) | $ - |
| Covered payroll | $ 65 | $ 68 | $ 156 | $ 105 | $ 168 | $ 312 | $ 301 | $ 692 |
| Contributions as a percentage of covered payroll | 1396.00% | 1322.06% | 458.23% | 664.54% | 437.48% | 172.49% | 364.84% | 79.47% |

*Defined Benefit Pension Plan – continued:*

### Notes to Required Supplementary Information:

*Changes of benefit terms:* None.

*Changes of assumptions and other inputs:*

2021: The mortality tables were updated to the Pub-2010 amount-weighted mortality tables with scale MP-2020

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 2021: Entry age normal  2014: Projected Unit Credit |
| --- | --- |
| Asset valuation method | The actuarial value of assets is the market value of assets. |
| Inflation | 2021: 2.5% per year  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 2021: 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 |

*Defined Benefit Pension Plan – continued:*

| **Investment Returns: Fiscal Year Ended June 30** | **2021** | **2020** | **2019** | **2018** | **2017** | **2016** | **2015** | **2014** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Annual money-weighted rate of return, net of investment expenses | 15.86% | 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.

OPEB Plan:

Changes in Net OPEB Liability and Related Ratios      
Fiscal Year Ended June 30 2021 2020 2019 2018 2017 2016**
Changes for the year:      
Service cost  $6,964   $6,434   $6,583   $6,330   $6,174   $ 
Interest  15,725   14,769   15,354   14,482   15,567  
Changes in benefit terms  (49,469)  (102)  -   -   (8,670) 
Differences between expected and actual experience   (8,908)  -   (30,871)  -   (17,138) 
Changes of assumptions  (8,539)  5,938   10,090   -   6,051  
Benefit payments  (6,992)  (8,194)  (9,425)  (9,454)  (10,364) 
Net change in total OPEB liability  (51,219)  18,845   (8,269)  11,358   (8,380) 
Total OPEB liability – beginning   213,431   194,586   202,855   191,497   199,877  
Total OPEB liability – ending (a)  162,212   213,431   194,586   202,855   191,497   199,877 
Contributions – employer  12,473   12,694   11,868   11,942   16,146  
Net investment income  37,389   1,561   3,546   7,979   11,565  
Benefit payments  (6,992)  (8,194)  (9,425)  (9,454)  (10,364) 
Net change in plan fiduciary net position  42,870   6,061   5,989   10,467   17,347  
Fiduciary net position – beginning   137,400   131,339   125,350   114,883   97,536  
Fiduciary net position – ending (b)  180,270   137,400   131,339   125,350   114,883   97,536 
Net OPEB liability (asset) – ending (a)-(b)  $(18,058)  $76,031   $63,247   $77,505   $76,614   $102,341 
Plan fiduciary net position as a percentage of the total OPEB liability (asset) 111.13% 64.38% 67.50% 61.79% 59.99% 48.80%
Covered payroll  $258,827   $241,501   $237,125   $220,849   $214,956  
Net OPEB liability (asset) as a percentage of covered payroll -6.98% 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** | **2021** | **2020** | **2019** | **2018** | **2017** |
| --- | --- | --- | --- | --- | --- |
| Actuarially determined contribution | $ 13,564 | $ 11,942 | $ 13,216 | $ 12,819 | $ 14,970 |
| Contributions in relation to the actuarially determined contribution | 12,473 | 12,694 | 11,868 | 11,942 | 16,146 |
| Contribution deficiency (excess) | $ 1,091 | $ (752) | $ 1,348 | $ 877 | $ (1,176) |
| Covered payroll | $258,827 | $241,501 | $237,125 | $220,849 | $214,956 |
| Contributions as a percentage of covered payroll | 4.82% | 5.26% | 5.00% | 5.41% | 7.51% |

*OPEB Plan - continued:*

### Notes to Required Supplementary Information:

*Changes of benefit terms:*

Effective January 1, 2021 UMS offered a funded Health Reimbursement Account (HRA) through a retiree health exchange. Retirees can choose from various individual Medicare coverages or the UMS sponsored group coverage. The total OPEB liability decreased $51,219 from the prior year including changes of benefit terms of $49,469.

*Changes of assumptions*:

2021: The mortality tables were updated to the Pub-2010 amount-weighted mortality tables with scale MP-2020. The health care cost rate was updated to reflect more recent trends. The inflation rate was changed from 2.4% to 2.2%.

2020: The investment rate of return/discount rate was changed from 7.5% 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 2021: Entry age normal  2016: Projected Unit Credit |
| Amortization method | 2021: Level dollar amount over 25 years on a closed amortization period  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 | 2021: 25 years  2020: 26 years  2019: 28 years  2017 to 2018: 30 years |
| Asset valuation method | Market value |

*OPEB Plan - continued:*

|  |  |
| --- | --- |
| Inflation | 2021: 2.2%  2020: 2.4%  2019: 2.6% |
|  | 2017 to 2018: 3% per year |
| Healthcare cost trend rate | 2021: 6% decreasing .25% per year to 5.25%, then grading down to an ultimate trend rate of 4%, utilizing the Society of Actuaries Getzen Medical Trend Model. The ultimate medical inflation rate is reached in 2075.  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 to 2021: 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 |

| **Investment Returns: Fiscal Year Ended June 30** | **2021** | **2020** | **2019** | **2018** | **2017** |
| --- | --- | --- | --- | --- | --- |
| Annual money-weighted rate of return, net of investment expenses | 26.88% | 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, 2021      
Functions/Programs Expenses "Charges for
Services" "Program
Investment
Income" "Operating
Grants/ 
Contributions" "Capital
Grants/
Contributions" "Net
(Expense)
Revenue"
University of Maine System  $683,302   $268,683   $29,406   $161,564   $8,225   $(215,424)
 General Revenues:     
 Unrestricted interest and investment income      22,485 
 Additions to endowments - gifts       2,582 
 State of Maine noncapital appropriation      218,157 
 State of Maine capital appropriation      15,988 
 Federal Pell grants      34,591 
 Coronavirus relief funding      36,602 
 Loss on disposal of capital assets      (2,395)
 Total Revenues and Extraordinary Items      328,010 
 Change in Net Position      112,586 
 Net Position, Beginning of Year      832,108 
 Net Position, End of Year      $944,694 
      
Year Ended June 30, 2020 (Restated)      
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)  $145,880   $3,387   $(282,874)
 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 
 Federal Pell grants     37,808 
 Coronavirus relief funding     15,456 
 Loss on disposal of capital assets    (511)
 Total Revenues and Extraordinary Items   296,786 
 Change in Net Position     13,912 
 Net Position, Beginning of Year    818,196 
 Net Position, End of Year     $832,108 

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, the discretely presented component unit and the aggregate remaining fund information of the University of Maine System (the System) as of and for the year ended June 30, 2021, and the related
notes to the financial statements, which collectively comprise the System’s basic financial statements, and have issued our report thereon dated November 30, 2021. 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, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

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) as a basis for designing 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.

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 financial statements. 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
Quincy, Massachusetts
November 30, 2021