NEW ISSUE **Ratings: See "Ratings" herein**

In the opinion of Preti, Flaherty, Beliveau & Pachios, LLP, Bond Counsel, under existing statutes and court decisions, and assuming compliance with certain covenants, interest on the Series 2007 Bonds (as defined below) will not be included in the gross income of the owners thereof for Federal income tax purposes pursuant to section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and such interest will not be treated as a preference item to be included in calculating alternative minimum taxable income under the Code with respect to individuals and corporations; such interest, however, is included in "adjusted current earnings" for purposes of computing the alternative minimum tax that may be imposed on corporations. Under existing statutes, regulations and court decisions, Bond Counsel is also of the opinion that the interest paid on the Series 2007 Bonds is exempt from taxation within the State of Maine. See "Tax Matters" herein.

$46,740,000
University of Maine System
Revenue Bonds, Series 2007

Dated: Date of Delivery Due: March 1, as shown below

The University of Maine System Revenue Bonds, Series 2007 (the "Series 2007 Bonds"), are issuable only as fully-registered bonds without coupons and will be available in book-entry form only, in the principal amount of $5,000 and whole multiples thereof. Purchasers of the Series 2007 Bonds will not receive certificates representing their interests in the Series 2007 Bonds. The Series 2007 Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Interest on the Series 2007 Bonds is payable on each March 1 and September 1, commencing September 1, 2007. The Series 2007 Bonds of each maturity will bear interest from their dated date to their date of maturity (or prior redemption) at the applicable rates set forth on the inside cover page. Principal of and interest on the Series 2007 Bonds are payable by U.S. Bank National Association, Boston, Massachusetts, as paying agent on behalf of the University of Maine System (the "University System") to Cede & Co.

The Series 2007 Bonds are subject to redemption prior to maturity, as more fully described herein. See "DESCRIPTION OF THE SERIES 2007 BONDS – Optional Redemption."

The Series 2007 Bonds are payable solely from available revenues of the University System. The University System has no taxing power.

The Series 2007 Bonds shall not constitute a debt or liability of the State of Maine (the "State") or of any municipality or any political subdivision thereof within the meaning of any provision of the Constitution, any statute or any other law of the State and shall not constitute a pledge of the faith and credit of the State. The University System is not authorized, directly, indirectly or contingently, to obligate the State or any political subdivision thereof to levy any form of taxation for the Series 2007 Bonds or to make any appropriation for their payment.

It is currently expected that the scheduled payment of the principal of and interest on the Series 2007 Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Series 2007 Bonds by MBIA Insurance Corporation.

MBIA

The Series 2007 Bonds are being offered when, as and if issued by the University System and received by the purchasers, subject to prior sale, withdrawal or modification of the offer without notice, and subject to the approval of legality by Preti, Flaherty, Beliveau & Pachios, LLP, Augusta, Maine, Bond Counsel to the University System, whose approving opinion will be delivered with the Series 2007 Bonds. Certain legal matters will be passed upon for the University System by its counsel, J. Kelley Wiltbank, Esq., Bangor, Maine. Public Financial Management, Inc., Boston, Massachusetts, has served as financial advisor to the University System in connection with the issuance of the Series 2007 Bonds. It is expected that the Series 2007 Bonds will be delivered in book-entry form on or about June 28, 2007 through the facilities of DTC.

PRAGER, SEALY & CO., LLC

June 7, 2007

MATURITIES, AMOUNTS, INTEREST RATES AND PRICES OR YIELDS
$46,740,000
University of Maine System
Revenue Bonds, Series 2007

Maturity (March 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP† No.	Maturity (March 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP† No.
2008	$ 195,000	4.000%	3.79%	914399HH6	2023	$3,235,000	4.750%	4.54%*	914399HY9
2009	710,000	4.000	3.85	914399HJ2	2024	3,380,000	4.750	4.58*	914399HZ6
2010	745,000	4.000	3.91	914399HK9	2025	1,510,000	4.750	4.60*	914399JA9
2011	780,000	4.000	3.95	914399HL7	2026	1,580,000	4.500	4.69	914399JB7
2012	805,000	5.000	3.99	914399HM5	2027	1,645,000	4.500	4.70	914399JC5
2013	850,000	5.000	4.02	914399HN3	2028	1,710,000	4.500	4.71	914399JD3
2014	895,000	5.000	4.06	914399HP8	2029	1,790,000	4.625	4.72	914399JE1
2015	930,000	5.000	4.10	914399HQ6	2030	1,885,000	4.625	4.73	914399JF8
2016	990,000	5.000	4.14	914399HR4	2031	1,975,000	4.625	4.74	914399JG6
2017	2,430,000	5.000	4.20	914399HS2	2032	2,060,000	4.750	4.73*	914399JH4
2018	2,555,000	5.000	4.27*	914399HT0	2033	475,000	4.750	4.74*	914399JJ0
2019	2,685,000	5.000	4.31*	914399HU7	2034	495,000	4.750	100	914399JK7
2020	2,805,000	5.000	4.35*	914399HV5	2035	500,000	4.750	100	914399JL5
2021	2,955,000	4.625	4.50*	914399HW3	2036	525,000	4.750	100	914399JM3
2022	3,095,000	4.625	4.54*	914399HX1	2037	550,000	4.750	100	914399JN1

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Series 2007 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized by the University System to give any information or to make any representation other than those contained herein, and, if given or made, such other information or representation must not be relied upon as having been authorized by the University System. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof.

---

† CUSIP numbers have been assigned by an independent company not affiliated with the University System and are included solely for the convenience of the holders of the Series 2007 Bonds. The University System is not responsible for the selection or uses of the CUSIP numbers and no representation is made as to their correctness on the Series 2007 Bonds or as indicated above. The CUSIP number for a specific maturity is subject to change after the issuance of the Series 2007 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2007 Bonds.

* Priced at the stated yield to the March 1, 2017 optional redemption date at a redemption price of 100%.

TABLE OF CONTENTS

	Page
INTRODUCTION	1
SOURCES OF PAYMENT OF THE SERIES 2007 BONDS	2
BOND INSURANCE	2
APPLICATION OF SERIES 2007 BOND PROCEEDS	6
PLAN OF REFUNDING	7
THE PROJECTS	8
DEBT SERVICE REQUIREMENTS	9
DESCRIPTION OF THE SERIES 2007 BONDS	10
THE UNIVERSITY OF MAINE SYSTEM	11
CERTAIN INFORMATION REGARDING THE FINANCIAL OPERATION OF THE UNIVERSITY SYSTEM	25
DEBT OF THE UNIVERSITY SYSTEM	31
CERTAIN LEGAL MATTERS	32
TAX MATTERS	32
FINANCIAL STATEMENTS	33
LITIGATION	33
FINANCIAL ADVISOR	34
RATINGS	34
CONTINUING DISCLOSURE	34
VERIFICATION OF MATHEMATICAL COMPUTATIONS	36
SALE OF SERIES 2007 BONDS	36
MISCELLANEOUS	36
APPENDIX A – Summary of Terms of Issuance of the Series 2007 Bonds	A-1
APPENDIX B – Form of Bond Counsel Opinion	B-1
APPENDIX C – The Depository Trust Company and the Book-Entry-Only System	C-1
APPENDIX D – Certain Financial Information pertaining to the University of Maine System for the Fiscal Years Ended June 30, 2005 and June 30, 2006	D-1
APPENDIX E – Specimen Financial Guaranty Insurance Policy	E-1

[THIS PAGE INTENTIONALLY LEFT BLANK]

OFFICIAL STATEMENT

$46,740,000
UNIVERSITY OF MAINE SYSTEM
Revenue Bonds, Series 2007

INTRODUCTION

This Official Statement, which includes the cover page hereof and the appendices attached hereto, is furnished by the University of Maine System (the "University System") to provide information regarding the $46,740,000 aggregate principal amount of the University of Maine System Revenue Bonds, Series 2007, including the Terms of Issuance thereof (the "Series 2007 Bonds"). Certain capitalized terms used in this Official Statement are defined and have the meanings set forth in Appendix A hereto.

The Series 2007 Bonds will be issued pursuant to the Maine Revised Statutes, Title 20-A, chapter 412, as amended from time to time (the "Act") and a resolution adopted on May 21, 2007 (the "Bond Resolution") by the Board of Trustees (the "Board") of the University System. The Series 2007 Bonds will be payable solely from available revenues of the University System. The University System has heretofore issued $295,465,000 in aggregate principal amount of its revenue bonds (the "Prior Bonds"), a portion of which were issued pursuant to a Master Trust Indenture dated as of September 1, 1989, as amended by a First Supplemental Master Indenture dated as of March 1, 1993 (the "Master Indenture"), both between the University System and U.S. Bank National Association, Boston, Massachusetts, as trustee (in such capacity, the "Indenture Trustee"). The Prior Bonds are Outstanding in the aggregate principal amount of $187,545,000 as of the date hereof. Amounts on deposit under the Master Indenture are not available to pay debt service on the Series 2007 Bonds.

Proceeds from the sale of the Series 2007 Bonds, together with certain other funds of the University System, will be used (i) to refund certain of the Prior Bonds, certain of which were issued pursuant to the Master Indenture, as more fully described under "PLAN OF REFUNDING" herein (the "Bonds to be Refunded"), (ii) to finance improvements to the University Plant and of a capital nature for the benefit of the University System (the "Projects"), (iii) to finance a portion of the interest on the Series 2007 Bonds and (iv) to pay certain expenses incurred in connection with the issuance of the Series 2007 Bonds. See "APPLICATION OF SERIES 2007 BOND PROCEEDS."

It is currently expected that the scheduled payment of the principal of and interest on the Series 2007 Bonds when due will be guaranteed under a financial guaranty insurance policy (the "Policy") to be issued concurrently with the delivery of the Series 2007 Bonds by MBIA Insurance Corporation ("MBIA" or the "Insurer"). A specimen of the Policy is set forth in Appendix E hereto. See also "BOND INSURANCE."

The University System covenants in the Series 2007 Bonds that it will, so long as any Series 2007 Bonds are Outstanding, establish, impose and collect tuition, fees and charges for its educational services, its auxiliary enterprises, including dormitory housing, food service and sale of textbooks, for use of the University Plant and for all other services and goods provided by the University System, which tuition, fees and charges, together with other available moneys, in each Fiscal Year, will be sufficient to permit the performance of all the covenants in and requirements of the University System under the Series 2007 Bonds, including the prompt

payment of principal of and interest on the Series 2007 Bonds as and when due, the prompt payment of principal of and interest on the Prior Bonds and the prompt payment and performance of all other obligations as and when due. See "SOURCES OF PAYMENT OF THE SERIES 2007 BONDS."

In addition to the Prior Bonds, the University System has incurred other debt from time to time. The University System may issue other evidences of indebtedness pursuant to the Act. See "DEBT OF THE UNIVERSITY SYSTEM."

SOURCES OF PAYMENT OF THE SERIES 2007 BONDS

General

The Series 2007 Bonds will be payable solely from available revenues of the University System.

Rate Covenant

The University System covenants in the Series 2007 Bonds that it will, so long as any Series 2007 Bonds are Outstanding, establish, impose and collect tuition, fees and charges for its educational services, its auxiliary enterprises, including dormitory housing, food service and sale of textbooks, for use of the University Plant and for all other services and goods provided by the University System, which tuition, fees and charges, together with other available moneys, in each Fiscal Year, will be sufficient to permit the performance of all the covenants in and requirements of the University System under the Series 2007 Bonds, including the prompt payment of principal of and interest on the Series 2007 Bonds as and when due, the prompt payment of principal of and interest on the Prior Bonds and the prompt payment and performance of all other obligations as and when due.

While there are currently no limits on the University System's power to set such tuition, fees and charges, there can be no assurance that legislation limiting the University System's power to set such tuition, fees and charges will not be enacted.

BOND INSURANCE

MBIA has supplied the following information for inclusion in this Official Statement. No representation is made by the University System or the underwriter listed on the cover page hereof as to the accuracy or completeness of this information.

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA for use in this Official Statement. Reference is made to Appendix E to this Official Statement for a specimen of the Policy.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth

under the heading "Bond Insurance." Additionally, MBIA makes no representation regarding the Series 2007 Bonds or the advisability of investing in the Series 2007 Bonds.

The Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the University System or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Series 2007 Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Series 2007 Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series 2007 Bonds. The Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Series 2007 Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Policy also does not insure against nonpayment of principal of or interest on the Series 2007 Bonds resulting from the insolvency, negligence or any other act or omission of any paying agent for the Series 2007 Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from any owner of a Series 2007 Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Series 2007 Bonds or presentment of such other proof of ownership of the Series 2007 Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series 2007 Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Series 2007 Bonds in any legal proceeding related to payment of insured amounts on the Series 2007 Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners payment of the insured amounts due on such Series 2007 Bonds.

MBIA Insurance Corporation

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of

New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Series 2007 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 2007 Bonds. MBIA does not guaranty the market price of the Series 2007 Bonds nor does it guaranty that the ratings on the Series 2007 Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2006, MBIA had admitted assets of $10.9 billion (audited), total liabilities of $6.9 billion (audited), and total capital and surplus of $4.0 billion (audited)

determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2007, MBIA had admitted assets of $11.2 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $4.2 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2006 and December 31, 2005 and for each of the three years in the period ended December 31, 2006, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2006 and the consolidated financial statements of MBIA and its subsidiaries as of March 31, 2007 and for the three month period ended March 31, 2007 and March 31, 2006 included in the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2007, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at http://www.mbia.com and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference in this Official Statement:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2006; and
(2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Insured Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the

SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA at its principal executive offices.

APPLICATION OF SERIES 2007 BOND PROCEEDS

Proceeds of the Series 2007 Bonds are expected to be applied as follows on the date of delivery thereof:

Refunding of Bonds to be Refunded (1)	$14,146,197.87
Project Fund (2)	32,811,357.75
Capitalized Interest	219,870.22
Costs of Issuance	148,009.90
Underwriter's Discount (3)	204,628.61
Total	$47,530,064.35

(1) A portion of the proceeds of the Series 2007 Bonds will be deposited with the escrow agent pursuant to the escrow agreement referred to below for refunding of the Bonds to be Refunded. See "PLAN OF REFUNDING" below.

(2) The Project Fund will be established by or on behalf of the University System and proceeds of the Series 2007 Bonds, together with interest earnings thereon, will be disbursed from the Project Fund to pay costs of the Projects or to reimburse the University System for costs of the Projects paid by the University System.

(3) Underwriter's discount includes the premium for the Policy.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

PLAN OF REFUNDING

The following amounts of the proceeds of the Series 2007 Bonds will be applied, on the dates set forth below, to refund, at the redemption price set forth below, the following amounts of the Bonds to be Refunded:

Series of Bonds	Maturity Date (March 1)	Amount to be Refunded	Redemption or Maturity Date	Redemption Price
1998 Series A	2017[1]	$1,405,000	Sept. 1, 2008	101%
	2018[1]	1,475,000	Sept. 1, 2008	101
	2019[2]	1,550,000	Sept. 1, 2008	101
	2020[2]	1,625,000	Sept. 1, 2008	101
	2021[2]	1,710,000	Sept. 1, 2008	101
	2022[2]	1,795,000	Sept. 1, 2008	101
	2023[2]	1,885,000	Sept. 1, 2008	101
	2024[2]	1,975,000	Sept. 1, 2008	101
		$13,420,000		
Series 2004	2008[3]	$ 105,000	March 1, 2008	100%
	2009[3]	110,000	March 1, 2009	100
	2010[3]	115,000	March 1, 2010	100
		$330,000		
TOTAL		$13,750,000		

1. Sinking fund installment of term bond with final maturity of March 1, 2018. Upon issuance of the Series 2007 Bonds, such term bond will no longer be outstanding, as described below under "Plan of Refunding."
2. Sinking fund installment of term bond with final maturity of March 1, 2024. Upon issuance of the Series 2007 Bonds, such term bond will no longer be outstanding, as described below under "Plan of Refunding."
3. Only a portion of the serial bond maturing on the date shown.

The Bonds to be Refunded are currently outstanding in the aggregate principal amount of $13,750,000. The refunding will achieve debt service savings for the University System and a restructuring of a portion of the debt service on certain of the Prior Bonds. In order to accomplish the refunding of the Bonds to be Refunded, a portion of the proceeds of the sale of the Series 2007 Bonds will be deposited into a special trust fund created pursuant to an escrow agreement (the "Escrow Agreement") to be entered into between the University System and U.S. Bank National Association, Boston, Massachusetts, as escrow agent (in such capacity, the "Escrow Agent"). The moneys so deposited in the special trust fund created pursuant to the Escrow Agreement will be used to acquire direct obligations of the United States of America (the "Investment Securities"), the principal of and interest on which, when due, will provide moneys sufficient for the payment of the redemption price of the Bonds to be Refunded and the interest due on the Bonds to be Refunded.

The accuracy of the arithmetical computations of the adequacy of the amounts of maturing principal of and interest on the Investment Securities to pay when due the principal and redemption price of, as the case may be, and interest on the Bonds to be Refunded will be verified by Chris D. Berens, CPA, P.C., certified public accountants and consultants. In the opinion of Bond Counsel, and in reliance upon such verification of mathematical computations, upon making such deposit with the Escrow Agent and upon the issuance of certain irrevocable instructions to the Escrow Agent, the Bonds to be Refunded will be deemed to have been paid, and the covenants, agreements and other obligations of the University System to the holders of the Bonds to be Refunded will be discharged and satisfied.

THE PROJECTS

The Projects consist of capital improvements to the University Plant for the benefit of the University System. The Projects are expected to include (a) renovation of the Maine Center for the Arts, certain dining facilities, certain residence halls and certain other facilities with major maintenance needs at the University of Maine, (b) expansion of the University of Maine's Hutchinson Center and (c) construction of a portion of the University Commons at the University of Southern Maine.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

DEBT SERVICE REQUIREMENTS

The following table sets forth estimated debt service requirements on the Prior Bonds and the Series 2007 Bonds. There may be discrepancies in the following table between entries and sum totals due to rounding.

Fiscal Year Ending June 30	Annual Debt Service on Prior Bonds[1]	Annual Debt Service on Series 2007 Bonds*	Total Annual Debt Service
2008	$ 14,918,111.25	$ 1,462,460.16	$ 16,380,571.41
2009	14,545,521.25	2,914,525.00	17,460,046.25
2010	14,638,946.25	2,921,125.00	17,560,071.25
2011	14,750,708.75	2,926,325.00	17,677,033.75
2012	45,285,990.00	2,920,125.00	48,206,115.00
2013	11,435,352.50	2,924,875.00	14,360,227.50
2014	11,430,821.25	2,927,375.00	14,358,196.25
2015	13,094,740.00	2,917,625.00	16,012,365.00
2016	8,960,115.00	2,931,125.00	11,891,240.00
2017	7,594,110.00	4,321,625.00	11,915,735.00
2018	7,663,732.50	4,325,125.00	11,988,857.50
2019	7,658,692.50	4,327,375.00	11,986,067.50
2020	8,014,792.50	4,313,125.00	12,327,917.50
2021	6,300,242.50	4,322,875.00	10,623,117.50
2022	6,308,167.50	4,326,206.25	10,634,373.75
2023	6,297,350.00	4,323,062.50	10,620,412.50
2024	6,304,402.50	4,314,400.00	10,618,802.50
2025	6,296,868.75	2,283,850.00	8,580,718.75
2026	6,309,968.75	2,282,125.00	8,592,093.75
2027	6,303,556.25	2,276,025.00	8,579,581.25
2028	6,296,368.75	2,267,000.00	8,563,368.75
2029	6,325,468.75	2,270,050.00	8,595,518.75
2030	7,194,556.25	2,282,262.50	9,476,818.75
2031	4,600,112.50	2,285,081.25	6,885,193.75
2032	4,605,075.00	2,278,737.50	6,883,812.50
2033	4,332,131.25	595,887.50	4,928,018.75
2034	4,339,056.25	593,325.00	4,932,381.25
2035	2,892,881.25	574,812.50	3,467,693.75
2036		576,062.50	576,062.50
2037		576,125.00	576,125.00
Total	$ 264,697,840.00	$ 80,560,697.66	$ 345,258,537.66

[1]Excludes debt service on the Bonds to be Refunded.

*The amounts set forth under the heading "Annual Debt Service on Series 2007 Bonds" were prepared by using the principal maturities and the interest rates of the Series 2007 Bonds set forth on the inside cover page hereof.

DESCRIPTION OF THE SERIES 2007 BONDS

General

The Series 2007 Bonds will bear interest from their date of delivery, payable on March 1 and September 1 of each year, commencing September 1, 2007, until payment of the principal or redemption price of the Series 2007 Bonds. Principal of and interest on the Series 2007 Bonds will be payable to The Depository Trust Company, New York, New York ("DTC") by U.S. Bank National Association, Boston, Massachusetts (in such capacity, the "Paying Agent") from monies provided by the University System on or before the Interest Payment Date. So long as DTC or its nominee is the registered owner of the Series 2007 Bonds, disbursement of such payments to DTC Participants (hereinafter defined) is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners (hereinafter defined) is the responsibility of DTC Participants or Indirect Participants (hereinafter defined) as more fully described herein. See Appendix C, "The Depository Trust Company and the Book-Entry-Only System." The Series 2007 Bonds will be dated, will bear interest at the rates and, subject to the redemption provisions thereof set forth below, will mature on the dates and in the amounts set forth on the inside cover page hereof. Interest on the Series 2007 Bonds will be computed on the basis of a 30-day month and 360-day year.

The Series 2007 Bonds will be issued in fully registered form, without coupons. Purchase of beneficial interests in the Series 2007 Bonds will be made in book-entry form, in the denomination of $5,000 or any whole multiple thereof. Purchasers of such beneficial interests will not receive certificates representing their interests in the Series 2007 Bonds.

Optional Redemption

If the University System is not then in default of its obligations pursuant to the Series 2007 Bonds, on not less than thirty (30) days prior notice, the Series 2007 Bonds maturing on or after March 1, 2018 will be subject to redemption prior to maturity, at the option of the University System, at any time on or after March 1, 2017, in whole or in part, in such order of their maturities as the University System in its discretion may determine, at a redemption price of 100% of the principal amount of the Series 2007 Bonds being redeemed, plus accrued interest to the redemption date. If less than all of the outstanding Series 2007 Bonds are to be redeemed, the Series 2007 Bonds to be redeemed shall be selected from such maturities as the University System may determine, or if no such determination is made, the Series 2007 Bonds shall be redeemed in inverse order of maturity. If all Series 2007 Bonds of one maturity are not redeemed, then the Series 2007 Bonds of such maturities to be redeemed shall be determined by lot for such maturity.

Notice of Redemption

Notice of redemption at the option of the University System will be given by the Paying Agent by sending a copy of such notice by registered or certified first-class, postage prepaid mail at least thirty (30) days prior to the redemption date to the registered owner of each Series 2007 Bond, or portion thereof, to be redeemed, to the address shown on the registration books kept by the Paying Agent as of the close of business of the Paying Agent on the fifth day prior to the mailing of notice. Notice having been given in the manner described, the Series 2007 Bond or

Bonds called for redemption will become due and payable on the redemption date designated and the Series 2007 Bonds to be redeemed will not be deemed to be outstanding and will cease to bear interest from and after such redemption date. Upon presentation of a Series 2007 Bond or Bonds to be redeemed at the office of the Paying Agent, the Paying Agent will pay the Series 2007 Bond or Bonds called for redemption with funds deposited with the Paying Agent by the University System.

THE UNIVERSITY OF MAINE SYSTEM

History

The University of Maine was created by the Maine Legislature in 1968 through the merger of the University of Maine, which consisted of a main campus in Orono, a School of Law in Portland, and branch campuses in Augusta and Portland, with Maine's five state colleges which, prior to the merger, had been operated under the State Board of Education. The University of Maine originated in 1865 as the State College of Agriculture and Mechanic Arts (Maine's land grant college). In 1895 its name was changed to the University of Maine. The University of Maine School of Law traces its origins to a law school opened in Bangor in 1898, but the modern school was started in 1961 when the Maine Legislature authorized the University of Maine to operate a law school in Portland.

The University System includes all public institutions of higher education in Maine, except for the Maine Maritime Academy and the State's seven community colleges. Following the merger of the University of Maine with the State Teachers Colleges, the University of Maine System consisted of seven campuses. The principal campus of the University of Maine became the University of Maine at Orono and was subsequently renamed the University of Maine. The campus of the original University of Maine located in Augusta became the University of Maine at Augusta and the campus located in Portland was combined with the Gorham State Teachers College and the University of Maine School of Law as the University of Maine at Portland-Gorham, which was subsequently renamed the University of Southern Maine. The other four remaining State Teachers Colleges became the University of Maine at Fort Kent, the University of Maine at Presque Isle, the University of Maine at Machias and the University of Maine at Farmington.

The University System currently consists of the following seven institutions (the "Institutions"):

The University of Maine ("UM");
The University of Maine at Augusta ("UMA");
The University of Maine at Farmington ("UMF");
The University of Maine at Fort Kent ("UMFK");
The University of Maine at Machias ("UMM");
The University of Maine at Presque Isle ("UMPI"); and
The University of Southern Maine ("USM").

In addition, the University System includes the University College ("UC" or "University College") which consists of 11 outreach centers located throughout the State.

The University System estimates that it occupies in excess of 13,500 acres of land and that its facilities provide approximately 9.6 million square feet of space. The University System estimates that the replacement value of its land, facilities, equipment, and furnishings is approximately $2.0 billion. The University System has 44 residence halls with an estimated capacity of 7,721 students.

Strategic Planning

In order to maintain high-quality academic programs and services and to continue meeting the needs of Maine citizens in the future while confronting the challenges of rising costs, evolving educational methodologies, and a changing economy, the University System adopted a strategic plan (the "Strategic Plan") in September 2004. As part of the Strategic Plan, nine strategic directions were developed covering academic quality, administrative structure, cost-effectiveness, and entrepreneurial partnership. Some of the strategic directions represent organizational strategies that will help the University System identify opportunities, organize or reorganize the delivery of services, and redistribute resources.

The next important step of this process, the implementation planning process, addressed both immediate and long-term goals for improving all aspects of the University System. The implementation planning process established a network of committees from both the campus and University System levels charged with carrying out the objectives of the Strategic Plan. This implementation planning process was concluded in May 2006 with priorities established by the Board. The Institutions are now in the process of establishing campus-based strategic plans consistent with the priorities established by the Board.

One important goal of the Strategic Plan is to renew capital assets to maintain and upgrade facilities so that they meet regulatory requirements and overall modernization needs. In order to implement this strategic direction, the University System's five year capital plan (the "Capital Plan") was updated in fiscal year 2006 by conducting a capital planning needs assessment to recognize and categorize facility needs under several major classifications. The primary funding sources available for these projects are State funds (see "CERTAIN INFORMATION REGARDING THE FINANCIAL OPERATION OF THE UNIVERSITY SYSTEM - Financial Support by the State") and University System revenue bonds which may be issued pursuant to the Act for any project which, the University System anticipates, will produce annual revenues not less than the anticipated annual cost of operation, maintenance and repair of the project, including debt service on any project financing. Based on the needs assessment and potential funding, the projects were prioritized based on the goals of the Institutions' strategic plans, perceived likelihood of public funding, extent of donor base and ability to meet debt service costs if applicable. Consistent with the Capital Plan, the University System is issuing the Series 2007 Bonds for the Projects. See "THE PROJECTS." The University System expects to update the Capital Plan in fiscal year 2008.

Board of Trustees

The University System is governed by a 16-member Board of Trustees. Fourteen members are appointed by the Governor for five-year terms. One member is a full-time student in the University System nominated by the Governor from a list of six eligible students submitted by the University System's organizations of student government. The student member serves for a

two-year term. The Commissioner of Education of the State serves as a voting member ex-officio of the Board. The nominations of the members appointed by the Governor are subject to review by the State Legislature's Joint Standing Committee on Education and to confirmation by the Legislature.

The Board is empowered by law to appoint a Chancellor to serve at the Board's pleasure and to appoint a president, nominated by the Chancellor, for each Institution of the University System. The Board, in consultation with the Chancellor, is the governing and planning body of the University System and is responsible for preparing and approving the operating and capital budgets of the University System and for presenting them to the State in accordance with law.

As of May 1, 2007 the members of the Board were as follows:

Member	Principal Occupation	Term Expires*	Residence
Margaret A. Weston, Chair	Corporate Officer (retired)	2008	Yarmouth
Barry D. McCrum, Vice Chair	Business Consultant	2009	Mars Hill
Judith W. Andrucki	Attorney	2007	Lewiston
Gregory G. Cyr	Corporate Officer	2007	Portage
P. James Dowe, Jr.	Corporate Officer	2010	Bangor
Jean M. Flahive	Business Consultant	2008	Eastport
Susan A. Gendron	Commissioner of Education	Ex-officio	Raymond
Charles L. Johnson, III	Corporate Officer	2008	Augusta
William D. Johnson	Corporate Officer (retired)	2011	Saco
Chad J. Marquis	Student Trustee	2007	Fort Kent
Marjorie Murray Medd	Business Consultant	2010	Norway
Paul J. Mitchell	Business Executive	2009	Waterville
Wayne A. Newell	Executive	2011	Princeton
Victoria M. Murphy	Business Executive	2009	Portland
Charles J. O'Leary	Corporate Officer (retired)	2010	Orono
Lyndel J. Wishcamper	Corporate Officer	2007	Freeport

* A member's term expires May 26 of the year indicated. A member serves until a successor is appointed by the Governor and confirmed by the Legislature.

Principal Officers of the University System

The Chancellor is the chief administrative and education officer of the University System and exercises such powers and fulfills such responsibilities as are delegated by the Board. The Chancellor may delegate such powers and responsibilities as the Chancellor deems necessary to such personnel as the Chancellor may appoint.

As of May 1, 2007, the persons listed below were serving as the principal administrative personnel of the University System.

Terrence J. MacTaggart began a one-year appointment as Chancellor of the University of Maine System in July 2006. He previously served as Chancellor from 1996 to 2001, having fulfilled a five-year commitment to the position. Dr. MacTaggart most recently served as University of Maine System Professor, in which he taught, advised students, and conducted and published research related to higher education policy, leadership, and governance. In addition to his past appointment as Maine's University System Chancellor, he served as Chancellor of the

Minnesota State University System and as Chancellor of the University of Wisconsin-Superior. Dr. MacTaggart is a widely published author and has served as a consultant for some of North America's most prominent colleges, universities, and university systems. He has held leadership positions within the New England Association of Schools and Colleges and has chaired multiple visiting teams for several regional accrediting groups. His academic credentials include a doctorate and master's degree in English literature from Saint Louis University; a master of business administration from St. Cloud State University; and an honorary doctor of law degree from the American College of Greece. He has served as a Fulbright Scholar to Thailand's Ministry of University Affairs.

Richard L. Pattenaude has been appointed as Chancellor of the University of Maine System effective July 1, 2007. He has been President of the University of Southern Maine since 1991, prior to which he was Vice President for Academic Affairs at Central Connecticut University. He has also served in faculty and administrative positions at the State University of New York at Binghamton, Drake University, The University of Colorado and Colorado State University. Dr. Pattenaude earned his B.A. at California State University, San Jose, and his Ph.D. from the University of Colorado.

James H. Breece is currently Vice Chancellor of Academic and Student Affairs for the University of Maine System. Over the past 23 years, Dr. Breece has held several other positions within the University System, most recently as Executive Director of Planning and Policy Analysis. In addition, Dr. Breece has served as interim President of the University of Maine at Machias; interim Chief Financial Officer for the University of Maine; and Associate Dean of the College of Social and Behavioral Sciences at the University of Maine. Dr. Breece first joined Maine's public university system in 1983 as a faculty member of the University of Maine's Economics Department. As an economist, Dr. Breece is a member of the Maine Revenue Forecasting Committee and has been a consultant to the Reserve Bank of New Zealand and the University of Melbourne in Australia. He received his B.A. in Economics from the University of Vermont and his Ph.D. in Economics from Boston College.

Joanne Yestramski has been the Chief Financial Officer and Treasurer of the University of Maine System since 2001. From 1996 to 2001 Ms. Yestramski was the Vice President, Finance and Treasurer of Bentley College. She served as Vice President & Corporate Controller for Providence Journal Company from 1994 to 1995 and the Vice President, Finance and Treasurer for the Boston Museum of Science from 1991 to 1994. From 1985 to 1991 she was the Vice President, Finance and Treasurer for BioTechnica International, Inc. and from 1977 to 1985 she held several audit and accounting positions with KPMG Peat Marwick. Ms. Yestramski received her B.S. in Accounting from the University of Massachusetts and her M.B.A from Texas A & M. She became a Certified Public Accountant in 1978.

J. Kelley Wiltbank has been Counsel to the University of Maine System since August, 1998. In December, 2002, Mr. Wiltbank was appointed the Clerk of the Board. He was General Counsel to Idaho State University ("ISU") for 15 years, and on two separate occasions during that time, was Director of Intercollegiate Athletics at ISU. Prior to his position at ISU he was a deputy prosecuting attorney in the Ada County (Boise, Idaho) Prosecuting Attorney's Office. He has served on the Board of Directors of the National Association of College and University Attorneys. Mr. Wiltbank is a graduate of Gonzaga University School of Law (J.D. 1977), and the University of Florida (B.A. History 1972) and Idaho State University (B.A. French 1989).

Presidents of the Institutions

The president of an Institution is the chief administrative and educational officer of that Institution and is responsible for the day-to-day operation and development of its academic program within limits set by the Board and the Chancellor. In addition, an Institution's president may exercise such rights and privileges as are generally recognized in the administering of admissions, curriculum development, extracurricular programs, long-range planning within the framework of the overall University System plan, and supervision of faculty.

As of May 1, 2007, the persons listed below were serving as the presidents of the Institutions:

Robert A. Kennedy was appointed President of the University of Maine in 2005. From 2000 to 2005, he held positions as Vice President for Academic Affairs and Provost, Executive Vice President and Provost, and Interim President at the University of Maine. Prior to 2000, Dr. Kennedy was the Vice President for Research and Associate Provost for Graduate Studies at Texas A&M University; Vice President for Research and Associate Dean and Director of the Colleges of Agriculture and Life Sciences at the University of Maryland; Department of Horticulture Chair at Ohio State University; and Assistant Director of Research, Director of Graduate Program in Horticulture, and Vice Chair and Chair of Faculty Advisory Committee at Washington State University. He has also served as the Director of the Cellular Biochemistry Program and Physiological Processes Program Expert with the National Science Foundation. Dr. Kennedy holds a B.S. degree in Plant Science from the University of Minnesota, Twin Cities and Ph.D. from the University of California, Berkeley in Botany.

Richard J. Randall became Interim President of the University of Maine at Augusta on July 1, 2005. He began his service to the University in 1967. Throughout his 34 years of service to the University of Maine at Augusta, Mr. Randall has worked as a full-time faculty member, Dean of Student and Educational Services, and for 13 years served as Provost and Vice President of Academic Affairs. Mr. Randall received his Bachelor's and Master's degrees in Sociology from the University of Maine. He currently is a member of the Kennebec Valley Chamber of Commerce and the Augusta Board of Trade.

Theodora J. Kalikow began her appointment as President of the University of Maine at Farmington in 1994. She has held academic and administrative positions as an Assistant to the President, Chairperson in the Department of Philosophy and President of the Faculty Federation at Southeastern Massachusetts University, an American Council on Education Fellow in Academic Administration at Brown University, Dean of the College of Arts & Sciences and Professor of Philosophy at the University of Northern Colorado, and Dean of the College and Professor of Philosophy at Plymouth State College. Dr. Kalikow also served as Interim President of Plymouth State College before her appointment in Maine. She earned a Doctorate of Philosophy at Boston University.

Richard W. Cost became President of the University of Maine at Fort Kent on August 1, 2002, having previously served as Vice President for Institutional Advancement at Bridgewater State College in Middleboro, Massachusetts from 1994. At Bridgewater State College, Dr. Cost was responsible for fund raising, public affairs, alumni relations, and for three years, admissions.

Prior to that, Dr. Cost was Vice President of the Independent College Fund of New Jersey from 1979 to 1983 and Executive Assistant to the President and Chief Planning Officer at New Jersey Institute of Technology from 1979 to 1983. He served as Vice President for Institutional Advancement from 1989 to 1994 at Moravian College, Bethlehem, Pennsylvania. Dr. Cost received his Ed.D. from Rutgers University, his M.B.A. from Old Dominion University, and his B.A. from Syracuse University.

Cynthia E. Huggins was appointed President of the University of Maine at Machias for a two-year term beginning July 1, 2005. Dr. Huggins is a South Carolina native who did her undergraduate work in music at Furman University and then received master's and doctoral degrees in English from the University of North Carolina at Greensboro. She came to the University of Maine at Machias in 1997 as an English professor specializing in British and women's literature. Active in several campus committees and initiatives, she worked closely with administrators on strategic planning and accreditation work during the tenure of former President John Joseph. She served as Interim Vice President for Academic Affairs under the presidency of Dr. Sue Huseman and as interim president after Dr. Huseman's departure.

Don Zillman has been President of the University of Maine at Presque Isle since September 2006. He has his bachelors and law degree from the University of Wisconsin and a further Law Degree from the University of Virginia. In his career he has been a clerk to a United States Circuit Court Judge, a public defender lawyer, an Army Judge Advocate General's Corps legal officer, and a Special Assistant Attorney General for the State of Arizona. In his academic career he has served on the law faculties of Arizona State University and the University of Utah. He came to Maine as the Dean of the University of Maine School of Law in Portland in 1991. He returned to his faculty position as Edward Godfrey Professor of Law in 1998. Since then he served as Interim Provost and Academic Vice President of the University of Maine in 1999-2000 and Interim President of the University of Maine at Fort Kent from 2001-02. He is the author of 10 books and over 50 scholarly journal articles in his fields of energy law, military law, and professional writing.

Richard L. Pattenaude has been the President of the University of Southern Maine since 1991 and has been appointed as Chancellor of the University of Maine System effective July 1, 2007. Prior to accepting his position as President of the University of Southern Maine, he was Vice President for Academic Affairs at Central Connecticut University. He has also served in faculty and administrative positions at the State University of New York at Binghamton, Drake University, The University of Colorado and Colorado State University. Dr. Pattenaude earned his B.A. at California State University, San Jose, and his Ph.D. from the University of Colorado.

Joseph Wood will succeed Richard Pattenaude as Interim President of the University of Southern Maine effective July 1, 2007. He has been Professor of Geography and Provost at the University of Southern Maine since 2000. He holds degrees in geography from Middlebury College (1968), the University of Vermont (1974), and Penn State University (1978) and has taught cultural and urban geography at the University of Nebraska at Omaha (1977-1987) and George Mason University (1987-2000). His scholarship focuses on the North American cultural landscape, and he has published on such topics as the New England village as an invented tradition, historic preservation of warehouse districts in Midwestern cities, the idea of a National Road in antebellum America, and Vietnamese place-making in American suburbs, especially

around Washington, DC. He also teaches and writes about East and Southeast Asia, was a visiting professor of geography at South China Normal University (1984), and has lectured to travel groups in Vietnam, where he served in the Army as a combat engineer. At George Mason University he was founding chair of the Department of Geography and Earth System Sciences, taught in New Century College, led University-wide strategic planning, and served as Vice Provost for Academic Affairs. He has been a Councilor and Treasurer of the Association of American Geographers and served on the boards of the American Geographical Society and the Vernacular Architecture Forum. He is presently a board member of the Maine Philanthropy Center and board president of the Maine-based Center for Prevention of Hate Violence.

Academic Programs

Located in Orono, Maine, the University of Maine is the State's land-grant and sea-grant institution and is the principal graduate institution in the State. In addition to the Graduate School, it has five other colleges: Business, Public Policy and Health; Education and Human Development; Engineering; Liberal Arts and Sciences; Natural Sciences, Forestry, and Agriculture. The University of Maine also contains the Maine Agricultural & Forest Experiment Station and the Cooperative Extension Service. The University of Maine offers doctoral degrees in 25 fields, in the arts, sciences and engineering and education; master's degrees in 64 disciplines; and 88 baccalaureate degree programs.

The principal research resource at the University of Maine is the Raymond H. Fogler Library. Fogler contains over 917,000 bound volumes, books and other holdings and over 5,400 periodical subscriptions. It is the regional depository for U.S. Government publications and a selective depository for Canadian federal documents. The University of Maine has 20 centers directed to research, exhibit or professional development, including the National Center for Geographic Information and Analysis, a joint venture with the State University of New York at Buffalo and the University of California at Santa Barbara, originally funded by a $10,000,000 National Science Foundation Grant. The Hudson Museum houses one of the finest collections of pre-Columbian artifacts in this country.

The University of Maine academic programs are accredited by 14 national professional associations, as well as by the New England Association of Schools and Colleges. As the Land Grant and Sea Grant University, it provides the majority of the State's research and development efforts.

The University of Maine at Augusta offers 16 associate degree programs at two campuses (Augusta and Bangor) and 24 baccalaureate degrees, primarily in Augusta. Six associate degrees and 3 baccalaureate degrees are offered statewide, including 2 degrees (1 associate and 1 baccalaureate) being available (and enrolled) internationally as web-based programs. UMA serves a diverse commuter population of traditional and non-traditional learners in its region, many of whom are already in the workforce.

University College is part of the University System and provides access to higher education for those who are not able to pursue studies at one of the Institutions. Students can earn one of 33 degree or certificate programs offered by the Institutions at more than 100 locations in Maine. Approximately four thousand Maine people take courses and work toward

degrees at University College outreach centers and sites each semester. Another 4,000 students enroll in web-based courses through distance education.

The University of Maine at Farmington, Maine's public liberal arts college, is the oldest campus in the University System, founded in 1864. Teacher education, including early childhood and special education, and human service programs remain a major part of Farmington's mission. It offers 39 baccalaureate degree programs. In addition to regional accreditation, UMF programs are accredited by the National Council for Accreditation of Teacher Education.

The University of Maine at Fort Kent was founded in 1878 with the special mission of educating bilingual teachers for the Franco-American St. John Valley region. Its mission has broadened to serve the needs of the St. John Valley as well as the region. The focus remains on teacher education but has expanded to include degrees in forestry, nursing, electronic commerce, and public safety administration as well as liberal arts.

Founded in 1909 as a teacher preparation college, the University of Maine at Machias now serves the needs of eastern Maine as a multi-purpose university, offering 12 baccalaureate degrees and associate degrees in three fields. UMM's strong programs in marine biology, environmental studies, fine arts, and recreation management emphasize its unique coastal location.

The University of Maine at Presque Isle serves the needs of a diversity of in-state and out-of-state students. Five associate degrees, twenty-four baccalaureate degrees including two pre-professional programs, and six coordinated transfer programs are offered all within a theme of intellectual, cultural and outdoor Adventurous Learning. Programs include Management Information Systems and Business Management, Social Work, Psychology, Teacher Preparation, Athletic Training, Recreation and Leisure Services, Criminal Justice, Liberal Arts, International Studies, Biology, Environmental Studies, and several others.

The University of Southern Maine, with campuses in Portland, Gorham and Lewiston-Auburn, is one of two graduate institutions in the University System. USM's Colleges include the College of Arts and Sciences, Lewiston-Auburn College, the College of Education and Human Development and the College of Nursing and Health Professions. Schools include the School of Applied Science, Engineering and Technology, School of Business, Edmund S. Muskie School of Public Service and the University of Maine School of Law. USM offers 48 baccalaureate degree programs. In addition, USM awards graduate degrees in 17 fields and, in cooperation with the University of Maine, in electrical engineering. USM offers a doctoral degree in Public Policy and Management and the professional degree, Doctor of Jurisprudence. Seven research or development centers support USM's graduate programs and public service programs. USM is accredited by the New England Association of Schools and Colleges. The College of Nursing and Health Professions is accredited by the National League for Nursing. The College of Education and Human Development is accredited by the National Council for Accreditation of Teacher Education. The School of Business is accredited by AACSB International. Several departments within the various colleges are accredited through specialized agencies. The University of Maine School of Law is accredited by the American Bar Association and the Association of American Law Schools.

URSUS, the University System's automated card catalog, provides shared access to the libraries of all University System campuses, the State Library, the Maine Law and Legislative Library and the Bangor Public Library. In addition, URSUS provides links to several private libraries in Maine and to national library catalogs including the Library of Congress and the Smithsonian Institution.

Student Enrollment

As of October 18, 2006, the University System enrolled 34,209 students. Full time equivalent (FTE) enrollment was 24,227. The following table sets forth total headcount and full-time equivalent enrollments at each Institution as of October 18, 2006.

Institution	Total Enrollment			FTE Enrollment
	Undergraduate	Graduate	Total	
UM	9,527	2,270	11,797	9,401
UMA	5,257	----	5,257	2,689
UMF	2,421	3	2,424	2,126
UMFK	1,339	----	1,339	954
UMM	1,259	---	1,259	617
UMPI	1,655	---	1,655	1,260
USM	8,287	2,191	10,478	7,180
Total	29,745	4,464	34,209	24,227

From Fall 2000 to Fall 2005, headcount enrollment increased by a total of 1,873 students or 5.8%. Over the same five year period, the number of FTE students increased by a total of 2,309 or 10.5%. Comparing Fall 2005 to Fall 2006, FTE and headcount decreased slightly but the number of full-time students increased by 61 or .3% while the number of part-time students decreased by 97 or .7%. For additional information about student enrollment, see the Audited Financial Statements of the University of Maine System for the Fiscal Years Ended June 30, 2006 and June 30, 2005, Management's Discussion and Analysis – Impact of Future Economic Factors on page D-13 hereof.

The following table shows the Fall FTE enrollment from 2002 to 2006.

Institution	2002	2003	2004	2005	2006
UM	8,665	8,923	9,054	9,204	9,401
UMA	2,769	2,936	2,806	2,759	2,689
UMF	2,093	2,116	2,087	2,149	2,126
UMFK	708	779	907	919	954
UMM	680	754	666	626	617
UMPI	1,158	1,207	1,293	1,242	1,260
USM	7,296	7,223	7,305	7,348	7,180
TOTAL	23,369	23,938	24,118	24,247	24,227

The following table, based on registration for the fall semester as of October 15, sets forth full-time enrollments, part-time enrollments, and total enrollments for the University System for the five academic years 2002/2003 through 2006/2007.

	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007
Full-time	19,623	20,419	20,714	20,777	20,838
Part-time	14,466	13,956	13,539	13,468	13,371
Total	34,089	34,375	34,253	34,245	34,209

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

The number of applicants to the University System has also increased in the past five years. The following table shows the number of applicants, accepted applicants and enrolled students from Fall 2002 to Fall 2006.

University of Maine System
Fall First-Time First-Year Students
System Total

	Applicants	Accepted Applicants	Enrolled Students
Fall 2002			
Number	12,489	9,813	4,508
Percent[1]	-	79	46
Average SAT Scores[2]	1008	1032	1018
Fall 2003			
Number	12,788	9,800	4,423
Percent[1]	-	77	45
Average SAT Scores[2]	1014	1039	1017
Fall 2004			
Number	12,964	10,190	4,253
Percent[1]	-	79	42
Average SAT Scores	1021	1042	1017
Fall 2005			
Number	12,346	9,885	4,237
Percent[1]	-	80	43
Average SAT Scores	1032	1053	1026
Fall 2006			
Number	13,017	10,385	4,353
Percent[1]	-	80	42
Average SAT Scores	1009	1033	1015

[1]This is the percent of the previous category, i.e., enrolled students as a % of accepted applicants or accepted applicants as a % of applicants.
[2] Combined Math and Verbal averages. All scores are recentered.

As of October 15, 2006, approximately 87% of the University System's students were residents of Maine and the remaining students were from 48 other states, the District of Columbia, and 83 foreign countries.

The University System awarded 5,508 degrees during academic year 2005/2006.

Tuition and Fees

The costs of the educational program of the University System are paid primarily from State appropriations and from tuition, fees and charges set by the Board. See "CERTAIN INFORMATION REGARDING THE FINANCIAL OPERATION OF THE UNIVERSITY SYSTEM." The following tables set forth annual tuition and room and board fees charged to full-time students on the basis of in-state and out-of-state residence for the five academic years 2002/2003 through 2006/2007.

Annual Tuition

	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007
IN-STATE					
Undergraduate					
UM	$4,380	$4,710	$5,100	$5,520	$5,970
UMA	3,420	3,690	3,960	4,290	4,710
UMF	3,990	4,290	4,650	5,010	5,824
UMFK/UMM/UMPI	3,420	3,690	3,960	4,290	4,650
USM	4,020	4,320	4,620	4,980	5,400
Graduate					
UM	$3,924	$4,230	$4,572	$4,932	$5,328
USM	3,600	3,870	4,122	4,464	4,860
Law:					
1st Year	10,800	12,000	13,350	15,750	16,590
2nd Year	10,800	11,700	13,350	14,700	16,590
3rd Year	10,800	11,700	13,350	14,700	15,540
OUT-OF-STATE					
Undergraduate					
UM	$12,450	13,410	$14,490	$15,660	$16,920
UMA	8,310	8,940	9,600	10,380	11,400
UMF	9,750	10,470	11,340	12,240	13,536
UMFK	8,310	8,940	9,600	11,640	11,220
UMM	8,730	9,630	10,320	10,380	12,510
UMPI	8,580	9,240	9,900	10,680	11,550
USM	11,190	12,000	12,780	13,800	14,640
Graduate					
UM	$11,214	12,060	$13,032	$14,076	$15,210
USM	10,080	10,836	11,520	12,456	13,572
Law:					
1st Year	18,990	20,250	21,750	25,050	26,280
2nd Year	18,990	19,800	21,750	23,400	26,280
3rd Year	18,990	19,800	21,750	23,400	24,630

Annual Room and Board Charges

	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007
UM	$5,922	$6,156	$6,402	$6,722	$7,125
UMF	5,064	5,318	5,568	5,846	6,164
UMFK	4,436	4,880	5,124	5,672	5,947
UMM	4,880	5,150	5,408	5,678	5,962
UMPI	4,494	4,965	5,114	5,246	5,658
USM	5,738	6,014	6,315	6,689	7,152

The University System currently expects that tuition rates for fiscal year 2008 will increase by approximately 10%. The University System does not currently expect that such an increase will have a material adverse effect on enrollment.

The following table sets forth weighted University System charges for tuition, mandatory fees and room and board assessed to full-time and part-time undergraduate students on the basis of in-state and out-of-state residences for the past five academic years.

Weighted Average Undergraduate Annual Total Student Charges [1]

	Annual Tuition	Mandatory Fees	Room & Board	Total
In-State				
2002/2003	$3,991	$755	$5,621	$10,367
2003/2004	4,297	820	5,879	10,996
2004/2005	4,623	863	6,117	11,603
2005/2006	5,005	908	6,451	12,364
2006/2007	5,440	989	6,840	13,269
Out-of-State				
2002/2003	$10,767	$755	$5,621	$17,143
2003/2004	11,616	820	5,879	18,315
2004/2005	12,957	863	6,117	19,937
2005/2006	14,200	908	6,451	21,559
2006/2007	15,277	989	6,840	23,106

[1] Tuition is charged on a per-credit-hour basis and thus part-time students are billed based on their credit-hour load. In-State undergraduate per-credit-hour charges for Fall semester 2006 are: UM - $199, UMA - $157, UMF - $182, UMFK - $155, UMM - $155, UMPI - $155 and USM - $180.

Approximately 20% of the University System's students live in housing owned by the University System.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

Financial Aid to Students

Students receive various forms of financial aid including grants, scholarships, work study programs, loans, and tuition waivers.

The following table sets forth sources and amounts (in millions of dollars) of financial assistance provided to students through the University System for the last five fiscal years ended June 30. Also included are Federal Family Education Loan Program loans.

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Federal Funding	$ 95.5	$103.2	$112.0	$121.8	$128.5
University Funding	32.7	33.5	35.2	39.2	41.0
State Funding	7.5	7.7	7.9	7.7	8.1
Total	$135.7	$144.4	$155.1	$168.7	$177.6

Any change in the availability of financial aid may affect the University System's enrollment.

Faculty and Employees

For the 2006/2007 academic year, the University System had 1,402 full-time regular faculty members. Tenure has been awarded to 892 faculty members.

As of April 30, 2007, the University System employed 5,333 full-time and part-time regular employees as shown by the following table:

Location	Number of Employees
UM	2,417
UMA	306
UMF	389
UMFK	126
UMM	113
UMPI	170
USM	1,579
System-wide Services	233
Total	5,333

Certain employees of the University System are represented by six collective bargaining units: the full-time Faculty Unit; the Part-Time Faculty Unit; Professional and Administrative Staff Unit; Clerical, Office, Laboratory and Technical Unit (COLT); Service and Maintenance Unit and Police Unit. All units are covered by two-year contracts which will expire on June 30 or August 31, 2007. Negotiations on successor agreements are underway. Two additional units, the law school faculty and classified supervisors, have no bargaining agent and are therefore non-represented employees.

The University System has several retirement plans covering the majority of its full-time employees. For additional information, see Appendix D, "Certain Financial Information pertaining to the University of Maine System for the Fiscal Years Ended June 30, 2005 and June 30, 2006."

Accreditation and Affiliations

All seven Institutions in the University System are accredited by the New England Association of Schools and Colleges. The Institutions are affiliated with or are members of many national and international associations, such as the National Association of State Universities and Land Grant Colleges, the American Association of State Colleges and Universities, the American Association of Colleges, the American Council on Education, the American Association for Higher Education, and the Council of Graduate Schools in the United States. In addition, the many professional programs, such as engineering, nursing and business, are accredited by national organizations such as the Commission on Collegiate Nursing Education, the Association to Advance Collegiate Schools of Business and the Accreditation Board for Engineering and Technology. All seven Institutions have articulation agreements with the Maine Community College System.

CERTAIN INFORMATION REGARDING THE FINANCIAL OPERATION OF THE UNIVERSITY SYSTEM

Revenues of the University System

The operating revenues for the University System are derived from appropriations made to the University System by the State; sales and services of auxiliary operations; tuition, fees, self-funded activities; Federal, State and local government grants and contracts; private gifts, grants and contracts; and miscellaneous sources. Tuition, fees and other charges are set by the Board in its discretion and paid directly to the University System. See "THE UNIVERSITY OF MAINE SYSTEM - Tuition and Fees."

Financial Support by the State

The University System receives appropriations for support of its operations from the State Legislature. The State operates on a biennial budget cycle although the Legislature meets annually. A two-year State budget is approved during the first annual session, and the second session considers supplemental requests or reductions for the second year of the biennium. The University System's request for a State appropriation for operations is submitted by the Board to the State Budget Office in September of each even-numbered year. The Governor reviews the request of the University System, prepares a recommended budget allocating State resources among the agencies and departments of the State, and forwards the budget to the State Legislature. The Legislature's Appropriations Committee recommends an appropriations act to the full Legislature. Upon passage and the Governor's signature, the budget becomes final, usually in June or July of the first legislative session of the biennium. Generally, appropriations are disbursed in monthly installments to the University System. Appropriations for the University System are subject to increase or decrease by legislation which may be subsequently enacted or to reduction by action of the Governor.

Over the last five years, State appropriation curtailments and deappropriations have resulted in the University System receiving less appropriation than originally requested or approved. However, despite the reductions in appropriation, the Institutions have continued to balance their budgets through cost cutting efforts and tuition increases. The University System is not currently aware of any proposed or pending change to the fiscal year 2007 appropriation, but no assurances can be made that an appropriation will not change.

The following table sets forth State general fund appropriations made and expected to be made to the University System for its operations during the eight fiscal years listed.

Fiscal Year Ending June 30	Amount
2002	$176,463,272
2003	173,336,418
2004	172,596,418
2005	179,971,418
2006	183,221,418
2007	193,596,418*
2008	199,471,418*
2009	203,861,418*

* Appropriations for the University System are subject to increase or decrease by legislation which may be subsequently enacted or to reduction by action of the Governor.

For additional information about State appropriations, see the Audited Financial Statements of the University of Maine System for the Fiscal Years Ended June 30, 2006 and June 30, 2005, Management's Discussion and Analysis – Impact of Future Economic Factors on page D-13 hereof.

In addition to appropriations for operations, the State Legislature from time to time authorizes borrowing, subject to ratification by the voters of the State, for construction, renovation and improvement of facilities and for other capital projects considered by the University System to be non-revenue producing facilities and projects. Following is information pertaining to such borrowings authorized by the voters of the State and amounts received by the University System as of April 13, 2007.

Voter Authorization Date	Amount Authorized	Amount Received
November, 2001	$31,500,000	$31,338,168
June, 2002	14,807,000	12,732,787
June, 2003	18,000,000	15,545,940
November, 2003	4,500,000	4,290,676
November, 2005	5,800,000	1,698,260

The University System does not reimburse the State for debt service on such borrowing, unless required to do so by the State. The University System has no outstanding obligation to reimburse the State for any debt service on any such borrowing by the State.

In November 2007, Maine voters will be asked to approve two separate bond proposals which include (a) $23,000,000 that would be used to improve classrooms, labs, and libraries at Maine's public universities including the University System and (b) $50,000,000 which would be available, on a competitive basis, to university researchers and others and would be distributed in connection with federal and private-sector research and development grants. If the $23,000,000 bond proposal is approved by the voters, the University System currently expects that it would receive a portion of that amount to provide financing for a portion of the renovation and renewal needs which the Institutions have not been able to finance from currently available sources. For additional information about such renovation and renewal needs, see the Audited Financial Statements of the University of Maine System for the Fiscal Years Ended June 30, 2006 and June 30, 2005, Management's Discussion and Analysis – Impact of Future Economic Factors on page D-14 hereof.

In addition to appropriations and to borrowing on behalf of the University System by the State, the University System is authorized to borrow money pursuant to the Act for certain purposes. See "DEBT OF THE UNIVERSITY SYSTEM – Provisions of the Act Enabling the University System to Incur Debt."

Auxiliary and Self-Funded Activities

The University System operates various revenue-producing auxiliary enterprises which serve the student population. Among these enterprises are student housing, dining halls, student center and bookstores, student health centers, recreation facilities and organized student activities. Revenue from such enterprises includes dormitory and other facility rentals, food and book sales, student fees and other miscellaneous items.

Other Sources of Funds

Other sources of revenue include interest income, earnings on investments of the University System, sales and services of the educational departments, endowment, land and permanent fund income, indirect cost recovery, sale of assets and public service fees.

Restricted Revenues

The United States of America, through various appropriations, grant and contract programs and financial aid programs, provides a substantial portion of the University System's current restricted funds revenues. The University System also receives grants and contracts from State and private sources for sponsored research and instruction, as well as gifts and grants for scholarships and fellowships. The University System believes it has complied with all material conditions and requirements of these various grants and contracts. See Appendix D, "Certain Financial Information pertaining to the University of Maine System for the Fiscal Years Ended June 30, 2005 and June 30, 2006" for additional information.

Endowment

The market value of the University System's total endowment investments as of the end of fiscal years 2002 through 2006 is summarized below.

Fiscal Year	Endowment Market Value
2002	$77,435,080
2003	78,343,705
2004	92,832,963
2005	100,836,664
2006	107,976,205

Post-Employment Health Care Benefits

The Governmental Accounting Standards Board ("GASB") has promulgated its statement 45 ("GASB 45") which will require the University System, for fiscal years beginning on and after July 1, 2007, to account for retiree health care benefits and other post-employment benefits in a manner similar to that required for pension benefits. GASB 45 does not require that such benefits be funded in advance. If the University System continues to pay such benefits as they come due, however, it is expected that annual cost and liability accruals will increase due to GASB 45.

The University System funds certain post-employment health care benefits for certain of its retired employees. For additional information about such post-employment health care benefits, see the Audited Financial Statements of the University of Maine System for the Fiscal Years Ended June 30, 2006 and June 30, 2005, Management's Discussion and Analysis – Impact of Future Economic Factors on page D-13 hereof, and note 14 beginning on page D-43 hereof.

An actuarial study was completed to determine the actuarial accrued liability as of June 30, 2006. The study determined that the unfunded actuarial accrued liability was approximately $330,000,000. GASB 45 does not mandate the prefunding of postemployment benefit liabilities. The University System is currently considering various funding alternatives and changes to its post-employment health care benefits.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

Summary of Historical Financial Performance

The University System's financial performance for the years ended June 30, 2004 through 2006 is summarized below. This summary information is derived from the University System's audited financial statements for those years. See Appendix D, "Certain Financial Information pertaining to the University of Maine System for the Fiscal Years Ended June 30, 2005 and June 30, 2006."

Statements of Net Assets
(In Thousands of Dollars)
Fiscal Years Ended June 30

ASSETS	2006	2005	2004
Current Assets:			
Cash and cash equivalents	$ 8,378	$ 1,299	$ -
Short-term investments	127,466	131,261	131,925
Accounts, grants, and pledges receivable, net	44,177	32,887	31,345
Inventories and prepaid expenses	5,757	5,631	5,657
Notes receivable, net	489	202	-
Total Current Assets	186,267	171,280	168,927
Noncurrent Assets:			
Deposits with bond trustees	61,128	20,907	37,822
Accounts, grants, and pledges receivable, net	6,241	5,422	5,868
Notes receivable, net	41,114	41,205	38,374
Endowment investments	107,976	100,837	92,833
Bond issuance costs, net	2,198	1,888	2,004
Capital assets, net	519,273	483,487	440,319
Total Noncurrent Assets	737,930	653,746	617,220
Total Assets	$ 924,197	$ 825,026	$ 786,147
LIABILITIES			
Current Liabilities:			
Accounts payable	$ 18,290	$ 11,048	$ 12,354
Deferred revenue and deposits	17,964	18,960	20,348
Accrued liabilities	27,242	22,101	20,571
Funds held for others	606	2,322	603
Current portion of capital lease obligations	223	221	265
Current portion of bonds and note payable	6,329	6,347	5,750
Total Current Liabilities	70,654	60,999	59,891
Noncurrent Liabilities:			
Accrued liabilities	35,527	34,357	33,637
Funds held for others	8,132	7,137	5,401
Capital lease obligations	364	435	441
Bonds and note payable, net	189,468	135,524	141,495
Government advances refundable	31,514	31,911	32,104
Total Noncurrent Liabilities	265,005	209,364	213,078
Total Liabilities	335,659	270,363	272,969
NET ASSETS			
Invested in capital assets, net of related debt	379,235	358,418	326,859
Restricted:			
Nonexpendable	48,153	47,405	47,047
Expendable	99,414	88,849	81,985
Unrestricted	61,736	59,991	57,287
Contingencies	-	-	-
Total Net Assets	588,538	554,663	513,178
Total Liabilities and Net Assets	$ 924,197	$ 825,026	$ 786,147

Statements of Revenues, Expenses, and Changes in Net Assets
(In Thousands of Dollars)
Fiscal Years Ended June 30

	2006	2005	2004
REVENUES			
Operating Revenues:			
Tuition and fees	$ 182,616	$ 170,603	$ 157,186
Residence and dining fees	51,491	49,320	46,832
Less: scholarship allowances	(52,249)	(50,617)	(44,209)
Net student fees	181,858	169,306	159,809
Federal, state, and private grants and contracts	134,145	135,411	134,046
Recovery of indirect costs	13,963	13,468	12,873
Educational sales and services and other revenues	31,405	26,537	38,538
Other auxiliary enterprises	29,053	30,513	22,929
Total Operating Revenues	390,424	375,235	368,195
EXPENSES			
Operating Expenses:			
Instruction	158,670	152,001	147,374
Research	71,750	73,191	72,216
Public service	51,716	49,405	47,849
Academic support	59,674	56,667	61,336
Student services	41,656	40,170	38,661
Institutional support	42,991	37,870	40,335
Operation and maintenance of plant	44,847	38,655	35,562
Depreciation and amortization	20,325	19,928	20,724
Student aid	21,376	20,721	26,319
Auxiliary enterprises	73,366	74,504	62,248
Total Operating Expenses	586,371	563,112	552,624
Operating Loss	(195,947)	(187,877)	(184,429)
NONOPERATING REVENUES (EXPENSES)			
Noncapital State of Maine appropriations	184,688	179,904	172,121
Gifts currently expendable	12,121	10,752	9,564
Endowment return used for operations	4,632	4,196	4,765
Investment income	7,909	5,827	2,625
Interest expense	(5,161)	(4,280)	(3,370)
Other nonoperating expense	-	-	(1,328)
Net Nonoperating Revenue	204,189	196,399	184,377
Income Before Other Changes in Net Assets	8,242	8,522	(52)
OTHER CHANGES IN NET ASSETS			
State of Maine capital appropriations	12,500	18,360	20,725
Capital grants and gifts	4,746	7,904	5,033
Endowment return, net of amount used for operations	5,155	4,613	9,667
True and quasi endowment gifts	411	1,778	1,784
Gain on disposal of capital assets	2,821	308	-
Total Other Changes in Net Assets	25,633	32,963	37,209
Increase in Net Assets	33,875	41,485	37,157
NET ASSETS			
Net Assets - beginning of year	554,663	513,178	476,021
Net Assets - end of year	$ 588,538	$ 554,663	$ 513,178

Internal Audits

The University System's Internal Audit Staff was established in 1977 and conducts special audits of the University System and the Institutions including enrollments, fund balances, compliance with statutory requirements and comparison of expenditures to budgets. The University System has retained, and expects to continue to retain, consultants to conduct such special audits. The University System's Internal Audit Staff and such consultants report directly to the Audit Committee of the Board.

DEBT OF THE UNIVERSITY SYSTEM

Existing Indebtedness

The Prior Bonds are Outstanding in the aggregate principal amount of $187,545,000 as of the date hereof. Certain of the Prior Bonds were issued pursuant to the Master Indenture. Annual debt service requirements for the Prior Bonds are presented under "DEBT SERVICE REQUIREMENTS" herein.

Provisions of the Act Enabling the University System to Incur Debt

The Act enables the University System to borrow money and enter into financing transactions in its own name, on behalf of the State, and to provide money for the financing of acquisition, construction, reconstruction, improvement and equipping of facilities, structures and related systems in furtherance of the purposes of the University System, all to the public benefit and good. The exercise of these powers, to the extent and manner provided in the Act, is declared by the Act to be for a public purpose and to be the exercise of an essential governmental function. Pursuant to the Act, the University System is authorized to borrow money and issue evidences of indebtedness to finance the acquisition, construction, reconstruction, improvement or equipping of any one project, or more than one, or any combination of projects, or to refund evidences of indebtedness issued to finance any project or projects, or to refund any such refunding evidences of indebtedness or for any one, or more than one, or all of those purposes, or any combination of those purposes, and to provide for the security and payment of those evidences of indebtedness and for the rights of the holders of them.

The Act provides that any borrowing pursuant to the Act, exclusive of borrowing to refund evidences of indebtedness, to refund general obligation debt of the State, or to fund issuance costs or necessary reserves, shall not exceed in the aggregate principal amount outstanding at any time an amount specified in the Act (presently $220,000,000) (the "Debt Ceiling"), except that no borrowing may be effected pursuant to the Act unless the amount of the borrowing and the project or projects are submitted to the State Legislature's Office of Fiscal and Program Review for review by the State Legislature's Joint Standing Committee on Appropriations and Financial Affairs at least thirty days before closing on such borrowing for the project or projects is to be initiated, unless such thirty-day period is waived by law. The amount of the borrowing for the projects to be financed with the proceeds of the Series 2007 Bonds was submitted to the Office of Fiscal and Program Review on April 30, 2007. As of the date of delivery of the Series 2007 Bonds, it is expected that approximately $217,178,824 of debt (exclusive of (i) borrowing to refund debt, (ii) debt issued to refund general obligation debt of the State of Maine and (iii)

debt issued to finance issuance costs and necessary reserves) will be outstanding pursuant to the Debt Ceiling.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, issuance, sale and delivery of the Series 2007 Bonds are subject to the approving opinion of Preti, Flaherty, Beliveau & Pachios, LLP, Augusta, Maine, Bond Counsel to the University System, in substantially the form of Appendix B hereto. Bond counsel is not passing upon and does not assume responsibility for the accuracy or adequacy of the statements made in this Official Statement (other than matters set forth as their opinion) and makes no representation that they have independently verified the same. Certain legal matters will be passed upon for the University System by its counsel, J. Kelley Wiltbank, Esq., Bangor, Maine.

TAX MATTERS

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met subsequent to the issuance and delivery of the Series 2007 Bonds in order that interest on the Series 2007 Bonds be and remain not included in gross income pursuant to section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use, investment and expenditure of bond proceeds and the requirement that certain earnings be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2007 Bonds to become subject to Federal income taxation retroactive to the date of issuance of the Series 2007 Bonds, regardless of when such noncompliance occurs or is ascertained.

The Arbitrage and Use of Proceeds Certificate of the University System, which will be delivered concurrently with the delivery of the Series 2007 Bonds, will contain provisions and procedures regarding compliance with the requirements of the Code. The University System, in executing its Arbitrage and Use of Proceeds Certificate, will covenant to comply with the provisions and procedures set forth therein and to do and perform all acts and things necessary or desirable in order to assure that interest paid on the Series 2007 Bonds will not be included in gross income under section 103 of the Code.

Preti, Flaherty, Beliveau & Pachios, LLP, Bond Counsel to the University System, is of the opinion that, under existing statutes and court decisions and assuming that the University System complies with the covenants set forth in its Arbitrage and Use of Proceeds Certificate, interest on the Series 2007 Bonds will not be included in the gross income of the owners thereof for Federal income tax purposes pursuant to section 103 of the Code. In addition, such interest will not, under the Code, be treated as a preference item in calculating the alternative minimum taxable income of individuals or corporations. Such interest, however, is included in "adjusted current earnings" for purposes of computing the alternative minimum tax that may be imposed on corporations.

In the opinion of Bond Counsel, under existing statutes, regulations and court decisions, interest on the Series 2007 Bonds is exempt from taxation within the State of Maine.

Except as described above, Bond Counsel will express no opinion as to any tax consequences of holding the Series 2007 Bonds.

Prospective purchasers of the Series 2007 Bonds should be aware that ownership of governmental obligations, such as the Series 2007 Bonds, may have collateral federal income tax consequences for certain taxpayers, including financial institutions, property and casualty insurance companies, S corporations, certain foreign corporations, individual recipients of Social Security or Railroad Retirement benefits, taxpayers otherwise eligible for the earned income credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry such obligations. Prospective purchasers should consult their tax advisors as to any possible collateral consequences from the ownership of the Series 2007 Bonds. Prospective purchasers of the Series 2007 Bonds may also wish to consult with their tax advisors with respect to the need to provide certain taxpayer information in order to avoid so-called "backup withholding" of a portion of interest payments on the Series 2007 Bonds, calculated in the manner set forth in the Code. Bond Counsel expresses no opinion regarding any such collateral federal income tax consequences.

Tax legislation and administrative actions by tax authorities, which may be enacted, proposed or taken after the date of issuance of the Series 2007 Bonds, and court decisions, which may be rendered after the date of issuance of the Series 2007 Bonds, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Series 2007 Bonds under federal or state law and may adversely affect the market price for, or the marketability of, the Series 2007 Bonds. Prospective purchasers of the Series 2007 Bonds should consult their own tax advisors regarding the foregoing matters.

FINANCIAL STATEMENTS

Included in Appendix D hereto are the audited financial statements of the University System as of, and for the years ended June 30, 2006 and June 30, 2005, together with the report dated October 20, 2006 of KPMG LLP, independent auditors on the financial statements for the year ended June 30, 2006. The financial statements for the years ended June 30, 2005 and June 30, 2006 have been included herein in reliance upon the report of KPMG LLP.

KPMG LLP, independent auditors on the financial statements for the year ended June 30, 2006, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this Official Statement.

LITIGATION

There is not now pending or threatened any litigation or proceeding restraining or enjoining, or seeking to restrain or enjoin, the issuance and delivery of the Series 2007 Bonds or the effectiveness of the Bond Resolution, or contesting, questioning or affecting the proceedings and authority under which the Series 2007 Bonds have been authorized and are to be issued, sold, executed or delivered, or the validity of the Series 2007 Bonds. Neither the creation, organization or existence of the University System nor the appointment or qualification of the present members of the Board or the present officers of the University System to their respective offices is being questioned or contested.

The University System is a party to various legal proceedings seeking damages or injunctive relief and generally incidental to its operations. These proceedings are unrelated to the Series 2007 Bonds or the proceedings relating to the issuance of the Series 2007 Bonds. The ultimate disposition of such proceedings is not presently determinable, but will not, in the opinion of counsel for the University System, have a material adverse effect on the Series 2007 Bonds or the financial condition of the University System.

FINANCIAL ADVISOR

Public Financial Management, Inc. ("PFM") has served as financial advisor to the University System in connection with the issuance of the Series 2007 Bonds. PFM is not obligated to undertake, and has not undertaken, either to make an independent verification of, or to assume responsibility for, the accuracy, completeness or fairness of the information contained in this Official Statement including the appendices hereto. PFM is an independent financial advisory firm and is not engaged in the business of underwriting, trading, or distributing municipal securities, including the Series 2007 Bonds, or other public securities.

RATINGS

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), is currently expected to assign its municipal bond rating of "AAA" to the Series 2007 Bonds based on the issuance of the Policy by the Insurer. In addition, S&P has assigned an underlying rating of "AA-" to the Series 2007 Bonds based solely on its evaluation of the Series 2007 Bonds without giving effect to the Policy. Such ratings express only the views of such rating agency. Certain information and materials were furnished to such rating agency to be considered in evaluating the Series 2007 Bonds. Any desired explanation of the significance of such rating should be obtained from such rating agency. There is no assurance that such rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of such rating agency, circumstances so warrant. Any such change in or withdrawal of such rating could have an adverse effect on the market price of the Series 2007 Bonds. The rating is not a recommendation to buy, sell or hold the Series 2007 Bonds.

CONTINUING DISCLOSURE

In order to assist any purchaser of the Series 2007 Bonds who is obligated to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12"), the University System will deliver its Continuing Disclosure Certificate (the "Continuing Disclosure Certificate") for the benefit of the holders of the Series 2007 Bonds to provide continuing disclosure. The University System will undertake for the benefit of the holders of the Series 2007 Bonds to provide to each Nationally Recognized Municipal Securities Information Repository (each a "Repository") and, if and when one is established, the Maine State information depository (the "State Information Depository"), in an annual report (the "Annual Report"), on or before 180 days after the end of each Fiscal Year, commencing with the Fiscal Year ending June 30, 2007, (i) the audited financial statements of the University System for such Fiscal Year, if the audited financial statements are then available, and (ii) financial information and operating data for such Fiscal Year consisting of (A) enrollment information for the University System, (B) information regarding tuition and room and board fees charged by the University System, (C) information regarding financial assistance provided to students through

the University System and (D) information regarding the number of faculty members and other employees of the University System (collectively referred to herein as the "Annual Information"). In addition, the University System will undertake, for the benefit of the holders of the Series 2007 Bonds, to provide to each such Repository, and to the State Information Depository, in a timely manner, the notices described below (the "Notices").

The Notices include notices of any of the following events with respect to the Series 2007 Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Series 2007 Bonds; (7) modifications to the rights of the holders of the Series 2007 Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2007 Bonds; and (11) rating changes.

The sole and exclusive remedy for breach or default under the Continuing Disclosure Certificate is an action to compel specific performance of the undertakings of the University System, and no person, including any holder of the Series 2007 Bonds, may recover monetary damages thereunder under any circumstances. The University System may be compelled to comply with its obligations under the Continuing Disclosure Certificate by any owner of Outstanding Series 2007 Bonds. A breach or default under the Continuing Disclosure Certificate does not constitute an Event of Default under the Series 2007 Bonds. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the Continuing Disclosure Certificate, insofar as the provision of Rule 15c2-12 no longer in effect required the providing of such information, shall no longer be required to be provided.

The foregoing undertakings are intended to set forth a general description of the type of financial information and operating data that will be provided. The descriptions are not intended to state more than general categories of financial information and operating data. Where an undertaking calls for information that no longer can be generated or is no longer relevant because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided. The Continuing Disclosure Certificate, however, may be amended or modified without the consent of the Holders of the Series 2007 Bonds under certain circumstances set forth in the Continuing Disclosure Certificate. Copies of the Continuing Disclosure Certificate executed by the University System will be on file at the principal office of the University System after the delivery of the Series 2007 Bonds.

Except as described below, the University System has not failed in the previous five years to comply in all material respects with any previous undertakings with respect to Rule 15c2-12 to provide annual financial information or notices of material events. The University System and the Indenture Trustee entered into a continuing disclosure agreement (the "1998 Agreement") for the benefit of the holders of the University System's 1998 Series A Bonds to provide continuing disclosure and to assist the underwriters of the 1998 Series A Bonds in complying with Rule 15c2-12. On or about July 25, 2000, the University System filed with the Repositories annual reports for the Fiscal Years ending June 30, 1998 and June 30, 1999 for purposes of the 1998 Agreement. The University System and the Indenture Trustee also entered into a continuing disclosure agreement (the "2000 Agreement") for the benefit of the holders of

the University System's 2000 Series A Bonds to provide continuing disclosure and to assist the underwriter of the 2000 Series A Bonds in complying with Rule 15c2-12. In December, 2000 and December, 2001, respectively, the Indenture Trustee filed with the Repositories annual reports for the Fiscal Years ending June 30, 2000 and June 30, 2001 for purposes of the 1998 Agreement and the 2000 Agreement. The University System supplemented the December, 2001 filing in March, 2002 with a letter to the Repositories and in May, 2002 by filing the Preliminary Official Statement for the Series 2007 Bonds with the Repositories and with the Municipal Securities Rulemaking Board.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of (a) the mathematical computations of the adequacy of the maturing principal amounts of and interest on the Investment Securities to pay when due all principal or redemption price of and interest on the Bonds to be Refunded and (b) the mathematical computations supporting the conclusion that the Series 2007 Bonds are not "arbitrage bonds" under the Code will be verified by Chris D. Berens, CPA, P.C., certified public accountants and consultants.

SALE OF SERIES 2007 BONDS

The Series 2007 Bonds are being sold to Prager, Sealy & Co., LLC ("Prager") at a purchase price of $47,325,435.74 which purchase price reflects a discount of $204,628.61 from the initial public offering prices of the Series 2007 Bonds. The initial public offering prices may be changed, from time to time, by Prager. Prager may offer and sell the Series 2007 Bonds to certain dealers (including dealers depositing Series 2007 Bonds into unit investment trusts, certain of which may be sponsored or managed by Prager) and others at prices lower than the public offering prices stated on the inside cover page hereof.

MISCELLANEOUS

Any provision of the laws of the State, the Series 2007 Bonds and other documents set forth or referred to in this Official Statement are only summarized and such summaries do not purport to be complete, comprehensive or definitive statements of any of such provisions. Statements regarding specific documents, including the Series 2007 Bonds, are subject to the detailed provisions of such documents and are qualified in their entirety by reference to each such document, copies of which will be on file with the University System, 16 Central Street, Bangor, Maine 04401.

This Official Statement contains certain forward-looking statements that are subject to a variety of risks and uncertainties that could cause actual results to differ from the projected results, including without limitation general economic and business conditions, conditions in the financial markets, the financial condition of the State and various state agencies and authorities, receipt of federal grants, litigation, arbitration, force majeure events and various other factors that are beyond the control of the State and its various agencies and authorities. Because of the inability to predict all factors that may affect future decisions, actions, events or financial circumstances, what actually happens may be different from what is set forth in such forward-looking statements. Forward-looking statements are indicated by use of such words as "may," "should," "intends," "expects," "believes," "anticipates," "estimates" and others.

All estimates and assumptions in this Official Statement have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates and assumptions are correct. So far as any statements in this Official Statement involve any matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. No representation is made that any such opinion will actually be borne out. The various tables may not add due to rounding of figures.

KPMG LLP has not compiled, examined or performed any procedures with respect to any financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information.

The information, estimates and assumptions and expressions of opinion in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale made pursuant to this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the University System since the date of this Official Statement, except as expressly stated.

This Official Statement is not to be construed as a contract or agreement between the University System and the purchasers or owners of any of the Series 2007 Bonds. The execution and distribution of this Official Statement has been duly authorized by the Board.

The information relating to DTC and the book-entry-only system set forth in Appendix C, “The Depository Trust Company and the Book-Entry-Only System,” has been furnished by DTC. The information relating to the Insurer under the caption "BOND INSURANCE" and the Policy contained in Appendix E hereto have been furnished by the Insurer. No representation is made by the University System as to the adequacy or accuracy of such information as of the date hereof or as to the absence of material adverse changes in such information subsequent to the date hereof. The University System has not made any independent investigation of the Insurer or the Policy, and reference should be made to the information set forth under the caption "BOND INSURANCE" herein and in Appendix E attached hereto. There can be no assurance that the Insurer will be financially able to meet its contractual obligations under the Policy.

UNIVERSITY OF MAINE SYSTEM

By: s/Joanne Yestramski

June 7, 2007

Joanne Yestramski
Chief Financial Officer and Treasurer

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

TERMS OF ISSUANCE OF THE SERIES 2007 BONDS

Following are the Terms of Issuance of the Series 2007 Bonds which will be incorporated by reference in the Series 2007 Bonds.

ARTICLE I

DEFINITIONS

The following terms shall, for all purposes of these Terms, have the following meanings unless the context shall clearly indicate some other meaning:

"Act" means Title 20-A, Chapter 412 of the Maine Revised Statutes, as amended from time to time.

"Act of Bankruptcy" means the filing of a petition in bankruptcy (or any other commencement of a bankruptcy or similar proceeding) by or against the Issuer under applicable bankruptcy, insolvency, reorganization or similar law, now or hereafter in effect.

"Arbitrage and Use of Proceeds Certificate" means any such certificate so named and delivered by the Issuer in connection with the issuance of the Bonds.

"Bond" or "Bonds" means the University of Maine System Revenue Bonds, Series 2007 dated as of the date of their delivery and executed on behalf of the Issuer including the Terms which are incorporated in the Bonds by reference and made a part of the Bonds to the same extent as if the Terms were fully set forth therein and including any bond or bonds issued in exchange or replacement therefor.

"Bond Counsel" means an attorney or firm of attorneys with recognized standing in the field of municipal bond financing.

"Bondholder" or "Holder of Bonds" or "owner of Bonds" or "Holder" means the registered owner of any Bond, as the context requires.

"Business Day" means any day of the year other than (i) a Saturday or Sunday, (ii) a day on which commercial banks located in Portland, Maine, or in the city in which the Principal Office of the Paying Agent is located, are authorized by law to close, or (iii) a day on which the New York Stock Exchange is closed.

"Cede" means Cede & Co. as nominee of DTC or any successor nominee with respect to the Bonds.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor provisions thereto and the regulations from time to time promulgated or proposed thereunder.

"Costs" mean all items permitted to be financed under the provisions of the Act, including, but not limited to, the following costs as applied to a Project or any portion of a Project:

(i) the purchase price or acquisition cost of a Project;

(ii) the cost of construction, building, alteration, enlargement, reconstruction, renovation, improvement, equipping and remodeling;

(iii) the cost of all labor, materials, building systems, machinery and equipment;

(iv) the cost of all lands, structures, real or personal property, rights, easements and franchises acquired;

(v) the cost of all utility extensions, access roads, site development, financing charges, premium for insurance, interest prior to and during construction and for 6 months thereafter;

(vi) the cost of working capital related to the Project;

(vii) the cost of plans and specifications, surveys and estimates of cost and of revenues;

(viii) the cost of engineering, feasibility studies, legal and other professional services;

(ix) the cost of reserves for payment of future debt service related to bonds issued pursuant to the Act and for improvements;

(x) the cost of all other expenses necessary or incident to determining the feasibility or practicability of such construction;

(xi) administrative and operating expenses; and

(xii) such other expenses as may be necessary or incident to the issuance of bonds pursuant to the Act.

"Counsel" means an attorney duly admitted to practice law before the highest court of any state or the District of Columbia.

"DTC" means The Depository Trust Company, the principal office of which is in New York, New York.

"Event of Default" means any occurrence or event specified in Section 6.01 hereof.

"Fiscal Year" means a 12-month period commencing on the first day of July of any year, and ending on the next succeeding June 30, or such other 12-month period adopted as the fiscal year of the Issuer.

"Interest Payment Date" means March 1 and September 1 of each year in which Bonds are Outstanding.

"Issuance Expenses" means, without limitation, legal, accounting, underwriting and placement fees and expenses, printing costs, rating agency fees, initial fees and expenses of the Paying Agent, the fees, expenses and other fees and expenses of Bond Counsel and other counsel fees and expenses, and other fees and expenses incurred or to be incurred by or on behalf of the Issuer, as may be necessary or incident to the preparation of documents and the issuance and sale of the Bonds.

"Issuer" means the University of Maine System, an agency and instrumentality of the State of Maine, or any successor thereto. The "Principal Office" of the Issuer is located in Bangor, Maine and may be relocated by the Issuer without notice to Bondholders.

"Issuer Officer" means the Chancellor, Treasurer, Controller, Clerk or University Counsel of the Issuer and, when used with the reference to an act or document, also means any other person authorized by resolution of the Issuer to perform such act or sign such document.

"Opinion of Counsel" means an opinion in writing of Counsel, who may but need not be Counsel to the Issuer and who shall not be a full-time employee of the Issuer.

"Outstanding" or "Bonds Outstanding" means all Bonds which have been delivered by the Issuer, excluding:

(a) Bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity;

(b) Bonds which have not been presented for payment when the principal thereof becomes due, as more fully set forth in Section 2.06 hereof;

(c) Bonds deemed paid under Article V hereof; and

(d) Bonds in lieu of which other Bonds have been issued under Section 2.03 or 2.04 hereof.

"Paying Agent" means any commercial bank or trust company designated pursuant hereto to serve as a paying agency or place of payment for the Bonds, including any co-paying agent, and any successors designated pursuant hereto. Initially, the Paying Agent shall be U.S. Bank National Association. The "Principal Office" of the Paying Agent means the office of the Paying Agent located in Boston, Massachusetts.

"Payment Date" means March 1 and September 1 of each year in which Bonds are Outstanding.

"Person" means any natural person, firm, association, corporation, company, trust, partnership, joint venture, joint stock company, municipal corporation, public body or other entity.

"Principal Installments" mean the payments of principal of the Bonds due on any Principal Payment Date, which are required to be made by the Issuer herein or pursuant to the Bonds.

"Principal Payment Date" means March 1 of each year in which Bonds are Outstanding.

"Project" means any structure designed for use as a dormitory or other housing facility, dining facility, student union, academic building, administrative facility, library, classroom building, research facility, faculty facility, office facility, athletic facility, health care facility, laboratory, maintenance, storage or utility facility or other building or structure essential, necessary or useful for instruction in a program of education provided by the Issuer; or any multipurpose structure designed to combine 2 or more of the functions performed by the types of structures enumerated in this paragraph, including, without limitation, improvements, reconstruction, additions and equipment acquired in connection with the project or in connection with the operation of any such currently existing facilities. "Project" includes all real and personal property, lands, improvements, driveways, roads, approaches, pedestrian access roads, parking lots, parking facilities, rights-of-way, utilities, easements and other interests in land, machinery and equipment, and all appurtenances and facilities either on, above or under the ground that are used or usable in connection with any of the structures mentioned in this paragraph. "Project" also includes landscaping, site preparation, furniture, machinery, equipment and other similar items necessary or convenient for the operation of a particular facility or structure in the manner for which its use is intended, but does not include such items as books, fuel, supplies or other items that are customarily considered as a current operating charge, together with any other asset included within the definition of "Project" as such term is defined in the Act.

"Record Date" means, as the case may be, the applicable Regular Record Date or Special Record Date.

"Redemption Price" means the price, including the applicable premium, if any, payable upon redemption of the Bonds as shall be specified herein or in the Bonds.

"Regular Record Date" shall mean the fifteenth day of the calendar month immediately preceding an Interest Payment Date or, if any such day shall not be a Business Day, the next preceding Business Day.

"Special Record Date" means any date established by the Issuer as a date, which may also be a Regular Record Date, for giving notice or consent, for taking action, for the payment of defaulted interest or for any purpose specified by the Issuer.

"State" means the State of Maine.

"Terms" means the Terms of Issuance of the University of Maine System Revenue Bonds, Series 2007, dated as of the date of delivery of the Bonds and executed on behalf of the Issuer which Terms are incorporated in the Bonds by reference and made a part of the Bonds to the same extent as if the Terms were fully set forth therein.

"University Plant" means and consists of all buildings, structures, improvements, facilities and equipment in the present and future, owned or operated by the Issuer including, without limitation, dormitories, student unions, auditoriums, dining halls, book stores, stadiums, golf courses, swimming pools, hospitals or infirmaries, and printing plants and as additional structures and other facilities are acquired by the Issuer from time to time hereafter, and as existing facilities in the University Plant are improved or extended, such additional, improved or extended facilities shall become part of the University Plant.

Unless the context shall otherwise indicate, words importing the singular number shall include the plural number and vice versa.

ARTICLE II

THE BONDS

Section 2.01. The Bonds. (a) The Bonds are being lettered "R" and numbered consecutively from 01 upward in order of maturity. The Bonds bear interest at the following rates per annum and mature as follows:

Maturity March 1	Principal Amount	Interest Rate
2008	$ 195,000	4.000%
2009	710,000	4.000
2010	745,000	4.000
2011	780,000	4.000
2012	805,000	5.000
2013	850,000	5.000
2014	895,000	5.000
2015	930,000	5.000
2016	990,000	5.000
2017	2,430,000	5.000
2018	2,555,000	5.000
2019	2,685,000	5.000
2020	2,805,000	5.000
2021	2,955,000	4.625
2022	3,095,000	4.625
2023	3,235,000	4.750
2024	3,380,000	4.750
2025	1,510,000	4.750
2026	1,580,000	4.500
2027	1,645,000	4.500
2028	1,710,000	4.500
2029	1,790,000	4.625
2030	1,885,000	4.625
2031	1,975,000	4.625
2032	2,060,000	4.750
2033	475,000	4.750
2034	495,000	4.750
2035	500,000	4.750
2036	525,000	4.750
2037	550,000	4.750

(b) Sale and Delivery of Bonds.

(i) At the direction of the initial purchasers of the Bonds, the ownership of one fully registered Bond for each maturity shall be registered in the name of Cede.

(ii) The Issuer shall have no responsibility or obligation to any DTC participant or to any beneficial owner of the Bonds. Without limiting the immediately preceding sentence, the Issuer and the Paying Agent shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede or any DTC participant with respect to any beneficial ownership interest in the Bonds, (ii) the delivery to any DTC participant, beneficial owner or other person, other than DTC, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any DTC participant, beneficial owner or other person, other than DTC, of any amount with respect to the principal or Redemption Price of, or interest on, the Bonds. The Issuer and the Paying Agent may treat DTC as, and deem DTC to be, the absolute owner of each Bond for all purposes whatsoever, including but not limited to (i) payment of the principal or Redemption Price of, and interest on, each Bond, (ii) giving notices of redemption and other matters with respect to such Bonds, and (iii) registering transfers with respect to the Bonds. The Paying Agent shall pay the principal or Redemption Price of, and interest on, all Bonds only to or upon the order of DTC, and all such payments shall be valid and effective to fully satisfy and discharge the Issuer's obligations with respect to such principal or Redemption Price, and interest, to the extent of the sum or sums so paid. No person other than DTC shall receive a Bond evidencing the obligation of the Issuer to make payments of principal or Redemption Price of, and interest on, the Bonds respectively, pursuant to these Terms. Upon delivery by DTC to the Paying Agent of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede, and subject to the transfer provisions hereof, the word "Cede" herein shall refer to such new nominee of DTC.

(iii) (A) DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving written notice to the Issuer or the Paying Agent and discharging its responsibilities with respect to the Bonds under applicable law.

(B) The Issuer, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Bonds if the Issuer determines that the continuation of the system of book-entry-only transfers through DTC (or a successor securities depository) is not in the best interests of the beneficial owners of the Bonds or is burdensome to the Issuer, and shall terminate the services of DTC with respect to the Bonds upon receipt by the Issuer or the Paying Agent of notice to the effect that DTC has received written notice from DTC participants having interests, as shown in the records of DTC, in an aggregate principal amount of not less than fifty percent (50%) of the aggregate principal amount of the then Outstanding Bonds to the effect that: (I) DTC is unable to discharge its responsibilities with respect to the Bonds; or (II) a continuation of the requirement that all of the Outstanding Bonds be registered in the registration books kept by the Paying Agent in the name of Cede is not in the best interest of the beneficial owners of the Bonds.

(C) Upon the termination of the services of DTC with respect to the Bonds pursuant to subsection (d)(iii)(B)(II) hereof, or upon the discontinuance or termination of the services of DTC with respect to the Bonds pursuant to subsection (d)(iii)(A) or subsection (d)(iii)(B)(I) hereof after which no substitute securities depository willing to undertake the functions of DTC hereunder can be found which, in the opinion of the Issuer, is willing and able to undertake such functions upon reasonable and customary terms, the Bonds shall no longer be restricted to being registered in the registration books kept by the Paying Agent in the name of Cede as nominee of DTC. In such event, the

Issuer shall issue, transfer and exchange Bond certificates as requested by DTC of like principal amount and maturity, in authorized denominations to the identifiable beneficial owners in replacement of such beneficial owners' beneficial interests in the Bonds, and the provisions hereof regarding registration, transfer and payment shall thereafter govern the Bonds.

(D) Notwithstanding any other provisions hereof to the contrary, so long as any Bond is registered in the name of Cede, all payments with respect to the principal or Redemption Price of, and interest on, such Bond and notices with respect to such Bonds shall be made and given, respectively, to DTC as provided in the representation letter of the Issuer.

(E) In connection with any notice or other communication to be provided to Bondholders pursuant hereto by the Issuer with respect to any consent or other action to be taken by Bondholders, the Issuer shall establish a Special Record Date for such consent or other action and give DTC notice of such Special Record Date not less than 15 calendar days in advance of such Special Record Date to the extent possible.

(c) Bonds issued in exchange for or upon the transfer of Bonds on or after the first Interest Payment Date thereon shall be dated as of the Interest Payment Date next preceding the date of such issuance thereof, unless the date of such issuance shall be an Interest Payment Date to which interest on the Bonds has been paid in full or duly provided for, in which case they shall be dated as of such Interest Payment Date; provided that if interest on any Bonds shall be in default, Bonds issued in exchange for or upon the registration of transfer of such Bonds shall be dated the date to which interest has been paid in full on such Bonds, or if no interest has been paid on such Bonds, the initial date from which any fully executed Bonds are to bear interest as set forth herein.

Section 2.02. Execution. The Bonds are being executed on behalf of the Issuer with the manual signature of its Treasurer and attested with the manual or authorized facsimile signature of the Clerk or University Counsel of the Issuer. The official seal or an authorized facsimile of the official seal of the Issuer is impressed or imprinted on the Bonds. All authorized facsimile signatures and seals shall have the same force and effect as if manually signed or imprinted.

Section 2.03. Mutilated, Lost, Stolen, Destroyed or Untendered Bonds. (a) In the event any Bond is mutilated, lost, stolen or destroyed, the Issuer shall execute and deliver a new Bond of like date, maturity and denomination as that mutilated, lost, stolen or destroyed, provided that, in the case of any mutilated Bond, such mutilated Bond shall first be surrendered to the Issuer, and in the case of any lost, stolen, or destroyed Bond, there first shall be furnished to the Issuer evidence of such loss, theft or destruction satisfactory to the Issuer, together with the indemnity satisfactory to it. In the event any such Bond shall have matured, the Issuer, instead of delivering a duplicate Bond, may pay the same without surrender thereof, making such requirements as it deems fit for its protection, including a lost instrument bond. The Issuer may charge the owner of such Bond reasonable fees and expenses for such service.

(b) Every substitute Bond issued pursuant to the provisions of this Section 2.03 by virtue of the fact that any Bond is mutilated, lost, stolen or destroyed shall constitute a contractual obligation of the Issuer, whether or not the mutilated, lost, stolen or destroyed Bond shall be at any time enforceable. All Bonds shall be owned upon the express condition that, to the extent permitted by law, the foregoing provisions are exclusive with respect to the replacement or payment of mutilated, lost, stolen or destroyed Bonds, notwithstanding any law or statute now existing or hereafter enacted.

Section 2.04. Exchangeability and Registration of Bonds; Persons Treated as Owners. The Issuer shall cause books or other records for the registration and transfer of the Bonds as provided herein to be kept by the Paying Agent.

The transfer of Bonds may be registered on the books of registration kept by the Paying Agent, by the registered owner in person or by his duly authorized attorney, upon surrender thereof, together with a written

instrument of transfer executed by the registered owner or his duly authorized attorney. Upon surrender for registration of transfer of any Bond at the Principal Office of the Paying Agent, the Issuer shall execute and deliver in the name of the transferee or transferees a new Bond or Bonds of the same tenor, in the same aggregate principal amount and in any authorized denomination or denominations.

Bonds may be exchanged at the Principal Office of the Paying Agent for an equal aggregate principal amount of Bonds of the same tenor in any authorized denomination or denominations. The Issuer shall execute and deliver Bonds which the owner making the exchange is entitled to receive, bearing numbers not contemporaneously then Outstanding.

Such registration of transfer or exchanges of Bonds shall be without charge to the owners of such Bonds, but any taxes or other governmental charges required to be paid with respect to the same shall be paid by the owner of the Bond requesting such transfer or exchange as a condition precedent to the exercise of such privilege.

The Paying Agent shall not be required to transfer or exchange any Bond during a period beginning on the Record Date for any date of payment of principal of or interest on the Bonds and ending at the close of business on such payment date or during a period beginning at the close of business on the fifteenth day next preceding any date fixed for mailing any notice of redemption if such Bond is eligible to be selected for such redemption and ending at the close of business on the date fixed for mailing such notice if the Bond is not so selected and on the date fixed for redemption if the Bond is selected for redemption.

The person in whose name any Bond shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal of any such Bond shall be made only to or upon the order of the registered owner thereof or his duly authorized attorney, and neither the Issuer nor the Paying Agent shall be affected by any notice to the contrary, but such registration may be changed as hereinabove provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

Section 2.05. Destruction of Bonds. Whenever any Outstanding Bond shall be delivered to the Paying Agent for cancellation, upon payment of the principal amount thereof or for replacement pursuant to Section 2.03 hereof or for transfer or exchange pursuant to Section 2.04 hereof, such Bond shall be cancelled and destroyed by the Paying Agent and evidence of such destruction shall be furnished by the Paying Agent to the Issuer.

Section 2.06. Nonpresentment of Bonds. In the event any Bond shall not be presented for payment within thirty (30) days after the principal thereof becomes due, either at maturity, or at the date fixed for redemption thereof, or if any interest check shall not be cashed within thirty (30) days after the date on which such interest is due, all liability of the Issuer to the owner thereof for the payment of such Bond, premium, if any, or interest thereon or for the purchase thereof, as the case may be, shall forthwith cease, terminate and be completely discharged and the owner of such Bond, premium, if any, or interest, as the case may be, shall thereafter, as an unsecured general creditor, look only to the Issuer for payment thereof and the Issuer shall have no liability for interest on any unclaimed amount.

ARTICLE III

REDEMPTION OF THE BONDS

Section 3.01. Manner of Redemption. The Bonds shall be subject to such provisions, if any, for optional redemption, including Redemption Prices thereof, and for mandatory sinking fund redemption as are set forth in the Bonds and herein.

Section 3.02. Notice of Optional Redemption. Upon presentation of a Bond or Bonds to be redeemed at the Principal Office of the Paying Agent, the Paying Agent will pay the Bond or Bonds called for redemption with funds deposited with the Paying Agent by the Issuer. Any notice mailed as provided in the Bonds shall be conclusively presumed to have been duly given, whether or not the owner of any Bond actually receives notice.

Each notice of redemption at the option of the Issuer shall specify the date fixed for redemption, the place or places of payment, that payment will be made upon presentation and surrender of the Bonds to be redeemed, that interest, if any, accrued to the date fixed for redemption will be paid as specified in said notice, and that in and after said date interest thereon will cease to accrue. If less than all the Bonds are to be redeemed, the notice of redemption shall specify the numbers of the Bonds or portions thereof (in $5,000 portions or any integral multiple thereof) to be redeemed. Such notice may provide that any redemption is subject to (a) receipt of proceeds of bonds issued to provide for such redemption or (b) satisfaction of any other condition.

Section 3.03. Bonds Due and Payable on Redemption Date. On the redemption date, the principal amount of each Bond to be redeemed, together with the premium, if any, and accrued interest thereon to such date, shall become due and payable. Funds shall be deposited with the Paying Agent to pay, and the Paying Agent is hereby authorized and directed to apply such funds to the payment of, the Bonds called for redemption, together with accrued interest thereon to the redemption date and redemption premium, if any.

Section 3.04. Cancellation. All Bonds which have been redeemed shall be cancelled and destroyed as provided in Section 2.05 hereof.

Section 3.05. Partial Redemption of Bonds. (a) If Bonds are to be redeemed in part hereunder, other than by mandatory sinking fund redemption, if any, the Bonds to be redeemed shall be redeemed only in the principal amount of $5,000 or any integral multiple thereof and the Bonds to be redeemed shall be selected from such maturities as the Issuer may determine, or if no such determination is made, the Bonds shall be redeemed in inverse order of maturity. Upon surrender of any Bond in a denomination greater than $5,000, as the case may be, called for redemption in part only, the Issuer shall execute and deliver to the registered owner thereof, without charge therefor to such owner, a new Bond or Bonds of authorized denomination or denominations in an aggregate principal amount equal to the unredeemed portion of the Bond surrendered.

(b) The Bonds or portions of Bonds, within a maturity, to be redeemed in part shall be selected by the Issuer by lot or in such other manner as the Issuer in its discretion may determine.

(c) If any of the Bonds which are subject to mandatory sinking fund redemption are redeemed in part other than by mandatory sinking fund redemption, the principal amount of the Bonds so redeemed shall be credited against future sinking fund redemption installments. The Issuer, shall, at the time of any such partial redemption, determine to which year or years the credit shall be applied and the amount of the credit which shall be applied in each of such years, provided that the aggregate principal amount of such credits shall never exceed the aggregate principal amount of the Bonds which have been so redeemed. If the Issuer fails to make a determination with respect to such credits, the credits shall be applied in inverse order of the dates set forth in the Bonds. Notwithstanding the foregoing, the Issuer may purchase Bonds on the open market at its discretion and may credit the Bonds so purchased against future sinking fund redemption installments with respect to the Bonds as and in the order it selects at the time of purchase.

ARTICLE IV

COVENANTS

Section 4.01. Payment of Principal, Premium, If Any, And Interest. The Issuer covenants that it will promptly pay or cause to be paid the principal of, premium, if any, and interest on every Bond at the place, on the dates, and in the manner provided herein, and in said Bond according to the true intent and meaning thereof.

The Issuer shall deposit with the Paying Agent on or before each Interest Payment Date and Principal Payment Date for the Bonds, an amount equal to the next succeeding payment of interest or principal and interest due with respect to the Bonds.

Section 4.02. Performance of Covenants. The Issuer covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in any and every Bond and in these Terms. The Issuer represents and warrants that it is duly authorized under the Constitution and laws of the State,

including particularly and without limitation the Act, to execute, issue and deliver the Bonds, that all action on its part for the issuance of the Bonds has been duly and effectively taken, and that the Bonds in the hands of the owners thereof are and will be valid and enforceable obligations of the Issuer according to the terms thereof and hereof.

Section 4.03. Tax Covenants. The Issuer hereby covenants to diligently fulfill and abide by the covenants and the restrictions set forth in the Arbitrage and Use of Proceeds Certificate. Notwithstanding any other provision herein to the contrary, the Issuer shall not take or cause any action to be taken or omit to take or permit the omission of any action if such action or omission would cause the interest on any Bond to be included in gross income for federal income tax purposes. To the extent within its power, the Issuer shall not permit at any time or times any of the proceeds of any Bond to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in the Code. The Issuer shall invest proceeds of the Bonds in accordance with the Arbitrage and Use of Proceeds Certificate, and shall restrict the yield on such amounts in accordance with the Arbitrage and Use of Proceeds Certificate.

Section 4.04. Completion of the Projects. The Issuer shall proceed diligently to complete each Project or any portion thereof for which the Bonds have been issued or to cause each Project or such portion to be completed in an economical and efficient manner with all practical dispatch and shall perform all other acts necessary and reasonably possible to enable it to collect the maximum revenues possible as a result of the reasonable operation of each Project or such portion thereof at the earliest practicable time.

Section 4.05. Operation and Maintenance of the University Plant. The Issuer shall maintain the University Plant or cause the University Plant to be maintained in good condition and shall continuously operate the University Plant or cause the University Plant to be operated in an efficient and effective manner and at a reasonable cost.

Section 4.06. Books and Records. The Issuer shall keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made relating to the University Plant.

Section 4.07. Annual Budgets. The Issuer shall establish an annual budget for each Fiscal Year, including provision for payment of principal of and interest on the Bonds for such Fiscal Year.

Section 4.08. Rate Covenant. The Issuer covenants and agrees that it will, at all times as long as any Bonds are Outstanding, establish, impose and collect tuition, fees and charges for its educational services, its auxiliary enterprises, including dormitory housing, food service and sale of textbooks, for use of the University Plant and for all other services and goods provided by the Issuer, which tuition, fees and charges, together with other available moneys, in each Fiscal Year, will be sufficient to permit the performance of all the covenants in and requirements of the Issuer under the Bonds, including the prompt payment of principal of and interest on the Bonds as and when due, the prompt payment of principal of and interest on any other bonds of the Issuer from time to time outstanding and the prompt payment and performance of all other obligations as and when due, including without limitation the obligations of the Issuer pursuant to the Arbitrage and Use of Proceeds Certificate.

Section 4.09. Insurance. The Issuer shall maintain or cause to be maintained the types and amounts of insurance on the University Plant as shall be deemed appropriate by the Issuer.

ARTICLE V

DEFEASANCE

Bonds, any portion thereof, or any portion of the interest thereon shall be deemed to be paid when (1) payment of the principal of and premium, if any, on such Bonds or any portion thereof or any portion of interest thereon, plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption as provided herein), either (i) shall have been paid or caused to be paid in accordance with the terms thereof, or (ii) shall have been provided for by irrevocably depositing with a trustee in trust and irrevocably setting aside exclusively for such payment (x) moneys sufficient to make such payment or (y) instruments which provide for payments in such amounts and at such time as will assure the availability of sufficient moneys to make such payment or (z) a combination of money and such instruments, and (2) all necessary and proper fees, compensation

and expenses of and other amounts payable with respect to which such deposit is made shall have been paid or the payment thereof provided for. At such times as a Bond or any portion thereof or any portion of interest thereon, shall be deemed to be paid hereunder, as aforesaid, such Bond or any portion thereof or any portion of interest thereon, shall no longer be entitled to the benefits hereof, except for the purposes of any such payment from such moneys or such instruments.

Notwithstanding the foregoing paragraph, no deposit under clause (i) or (ii) of the immediately preceding paragraph shall be deemed a payment of such Bonds or any portion thereof or any portion of interest thereon, as aforesaid (x) until the Issuer shall have given the trustee, in form satisfactory to the trustee, irrevocable written instructions:

(i) Stating the date when the principal of, premium, if any, and accrued interest on each such Bond or any portion thereof or any portion of interest thereon, is to be paid, whether at maturity or on a redemption date (which shall be any redemption date permitted by the Bonds);

(ii) to call for redemption pursuant to the Bonds to be redeemed prior to maturity pursuant to (i) hereof; and

(iii) if all the Bonds are not to be redeemed within thirty (30) days, to mail, as soon as practicable, in the manner prescribed by Article III hereof, a notice to the owners of such Bonds that the deposit required by clause (1)(ii) of the immediately preceding paragraph has been made with the trustee and that said Bonds, or portion thereof or portion of interest thereon are deemed to have been paid in accordance with this Article V and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds or portion thereof or portion of interest thereon as specified in (i) hereof;

and (y) if any Bonds or portion thereof or portion of interest thereon are to be redeemed within the next thirty (30) days, until proper notice of redemption of such Bonds has been given.

Any moneys so deposited with the trustee as provided in the two foregoing paragraphs shall at the direction of the Issuer be used solely for the purpose of obtaining instruments which provide for payments in the amounts and at the times as hereinbefore set forth, and all income from all such instruments or other moneys in the hands of the trustee pursuant to this Article V which is not required for the payment of the Bonds (including premium, if any, and interest thereon) with respect to which such moneys shall have been so deposited, shall be paid to the Issuer as and when realized if not needed to pay any fees or expenses provided for hereunder.

Notwithstanding any provision of any other Article which may be contrary to the provisions of this Article V, all moneys or instruments set aside and held in trust pursuant to the provisions of this Article V for the payment of Bonds (including premium, if any, and interest thereon) shall, prior to payment thereof from any other source, be applied to and used solely for the payment of the particular Bonds (including premium, if any, and interest thereon) with respect to which such moneys or instruments have been so set aside in trust.

Anything in Article V hereof to the contrary notwithstanding, if moneys or instruments have been deposited or set aside with the trustee pursuant to this Article for the payment of Bonds (including premium, if any, and interest thereon) when due and such Bonds (including premium, if any, and interest thereon) shall not have in fact been actually paid in full when due, no amendment to the provisions of this Article shall be made without the consent of the owner of each Bond affected thereby.

ARTICLE VI

DEFAULTS AND REMEDIES

Section 6.01. Events of Default. If any of the following events occur, it is hereby defined as and declared to constitute an "Event of Default":

(a) Default in the due and punctual payment of any interest on any Bond;

(b) Default in the due and punctual payment of the principal of or premium if any, on any Bond, whether at the stated maturity thereof, or upon proceedings for redemption thereof;

(c) Default in the performance or observance of any covenant, agreement or condition on the part of the Issuer contained in these Terms or in the Bonds (other than defaults mentioned in Section 6.01 (a) and (b)) and failure to remedy the same after notice of default pursuant to Section 6.07 hereof; and

(d) The Issuer shall file a petition, or an involuntary petition shall be filed against the Issuer, seeking a composition of the Issuer's indebtedness under the federal bankruptcy laws or under any other applicable law or statute of the United States of America or of the State.

Section 6.02. Remedies; Rights of Bondholders.

The rights and remedies of the Bondholders pursuant to Article VI hereof are subject to Section 8.09 hereof.

Upon the occurrence of an Event of Default, the Bondholders shall have the following rights and remedies:

(a) The Bondholders may declare the Bonds due and payable, pursue any available remedy at law or in equity or by statute to enforce the payment of the principal of, premium, if any, and interest on the Bonds then Outstanding or take any combination of the foregoing actions;

(b) The Bondholders may pursue and enforce any other right of any Bondholder conferred by law or hereunder and may pursue and enforce any other rights conferred upon then by these Terms;

(c) The Bondholders may by action or suit in equity require the Issuer to account as if it were the trustee of an express trust for the owners of the Bonds; and

(d) The Bondholders may pursue any remedy available at law or in equity to remedy any default hereunder.

The Bondholders shall give notice of any Event of Default to the Issuer and the Paying Agent as promptly as practicable after the occurrence of an Event of Default becomes known to Bondholders.

No right or remedy by these Terms conferred upon or reserved to the Bondholders is intended to be exclusive of any other right or remedy, but each and every such right or remedy shall be cumulative and shall be in addition to any other right or remedy given to the Bondholders hereunder or now or hereafter existing at law or in equity or by statute. The assertion or employment of any right or remedy shall not prevent the concurrent or subsequent assertion or employment of any other right or remedy.

No delay or omission in exercising any such right or remedy accruing upon any default or Event of Default shall impair any such right or remedy or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein; and every such right or remedy may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or Event of Default hereunder by the Bondholders shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

Section 6.03. Application of Moneys. All moneys received by the Bondholders pursuant to any right given or action taken under the provisions of this Article VI shall, after payment of the costs and expenses of the proceedings resulting in the collection of such money (and any unpaid amounts owing to the Paying Agent), and after depositing any required amount in accordance with the Arbitrage and Use of Proceeds Certificate, be applied as follows:

(a) Unless the principal of all the Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

FIRST - to the payment to the persons entitled thereto of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to

pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege;

SECOND - To the payment to the persons entitled thereto of the unpaid principal of and premium, if any, on any of the Bonds which shall have become due (other than Bonds matured or called for redemption for the payment of which moneys are held by the Paying Agent or pursuant to Article V), and, if the amount available shall not be sufficient to pay in full all Bonds due on any particular date, then to the payment ratably according to the amount of principal and premium, if any, due on such date, to the persons entitled thereto without any discrimination or privilege; and

THIRD - To the payment to the persons entitled thereto as the same shall become due of the principal of and premium, if any, and interest on the Bonds which may thereafter become due and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with interest and premium, if any, then due and owing thereon, payment shall be made ratably according to the amount of principal, premium, if any, and interest due on such date to the persons entitled thereto without any discrimination or privilege.

(b) If the principal of all the Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid on the Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due, respectively, for principal and interest, to the persons entitled thereto without any discrimination or privilege.

Whenever moneys are to be applied pursuant to the provisions of this Section 6.03, such moneys shall be applied at such times, and from time to time, as the Bondholders shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Bondholders shall apply such funds, they shall fix the rate (which shall be the earliest Interest Payment Date unless the Bondholders shall deem another date more suitable) upon which such application is to be made and upon such date interest on such amounts of principal and past-due interest to be paid on such dates shall cease to accrue. Defaulted interest on a Bond shall, except as otherwise provided herein, be payable to the person in whose name such Bond is registered at the close of business on a Special Record Date for the payment of defaulted interest established by notice mailed by the Bondholders to the registered owners of Bonds not more than fifteen (15) days preceding such Special Record Date. Such notice shall be mailed to the person in whose name the Bonds are registered at the close of business on the fifth (5th) day preceding the date of mailing. The Bondholders shall not be required to make payment to the owner of any Bond until such Bond shall be presented to the Paying Agent for appropriate endorsement or for cancellation if fully paid.

Whenever all principal of and interest on all Bonds have been paid under the provisions of this Section 6.03, all expenses and charges of the Paying Agent have been paid and after depositing any required amount in accordance with the Arbitrage and Use of Proceeds Certificate, any balance remaining shall be paid as provided in Article V hereof.

Section 6.04. Remedies. All rights of action (including the right to file proof of claims) hereunder may be enforced by the Bondholders without the possession of any of the Bonds or the production thereof in any trial or other proceeding relating hereto, and any such suit or proceeding instituted by Bondholders without the necessity of joining as plaintiffs or defendants all owners of the Bonds, and any recovery of judgment shall be for the equal and ratable benefit of the owners of the Outstanding Bonds.

Section 6.05. Termination of Proceedings. In case the Bondholders shall have proceeded to enforce any right hereunder by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case, the Issuer and the owners of Bonds shall be restored to their former positions and rights hereunder, respectively.

Section 6.06. Waivers of Events of Default. Any Event of Default may be waived by the owners of (1) 100% in aggregate principal amount of all Outstanding Bonds in respect of which default in the payment of principal, premium or interest exists or (2) more than two-thirds (2/3) in aggregate principal amount of Outstanding Bonds in the case of any other Event of Default, provided that there shall not be waived any Event of Default

specified in subsection (a) or (b) of Section 6.01 hereof unless prior to such waiver or rescission, all arrears of principal of, premium, if any, and interest on the Bonds and all expenses of the Bondholders in connection with such Event of Default shall have been paid or provided for. In case of any waiver or rescission described above, or in case any proceeding taken by the Bondholders on account of any such Event of Default shall have been continued or concluded or determined adversely, then and in every case, the Issuer and the owners of Bonds shall be restored to their former positions and rights hereunder, respectively, but no such waiver or rescission shall extend to any subsequent or other Event of Default, or impair any right consequent thereon. No such waiver shall affect the rights of third parties of amounts provided for hereunder.

Section 6.07. Notice of Events of Defaults under Section 6.01(c); Opportunity to Cure Such Event of Default. Anything herein to the contrary notwithstanding, no Event of Default under Section 6.01(c) hereof shall be deemed an Event of Default until notice of such Event of Default shall be given to the Issuer by the owners of not less that twenty-five percent (25%) in aggregate principal amount of all Outstanding Bonds, and the Issuer shall have had thirty (30) days after receipt of such notice to correct said Event of Default or to cause said Event of Default to be corrected and shall not have corrected said Event of Default or caused said Event of Default to be corrected within the applicable period; provided, however, if said Event of Default be such that it cannot be corrected within the applicable period, it shall not constitute an Event of Default if corrective action is instituted by the Issuer within the applicable period and diligently pursued until the Event of Default is corrected unless a different course of action or a period of less than thirty (30) days is required in order to protect the tax-exempt status of any Bonds.

ARTICLE VII

SUPPLEMENTAL TERMS

Section 7.01. Supplemental Term Not Requiring Consent of Owners of Bonds. The Issuer may, without consent of or notice to any of the owners of Bonds, stipulate terms supplemental to hereto for any one or more of the following purposes:

(a) To cure any ambiguity herein;

(b) To grant to or confer upon the owners of the Bonds or the Paying Agent any additional rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the owners of Bonds or the Paying Agent;

(c) To modify, amend or supplement these terms in such manner as to permit the qualification of the Bonds for sale under the Securities Act of 1933, as amended, or the securities laws of any of the states of the United States of America;

(d) To effect any change herein which, in the judgment of the Issuer, will not adversely affect the rights of any owner of Bonds;

(e) To maintain the tax-exempt status of the Bonds including any modification, amendment or change required in order to make the provisions hereof conform to any provision or interpretation of law enacted or adopted after the execution and delivery of the Bonds; or

(f) To evidence the appointment of a new Paying Agent hereunder.

Section 7.02. Supplemental Terms Requiring Consent of Owners of Bonds. Except as permitted by Section 7.01 hereof or Section 8.09 hereof and subject to the terms and provisions contained in this Section 7.02, the Issuer shall not execute terms supplemental hereto without the written consent of the Holders of not less than two-thirds (2/3) in aggregate principal amount of the Outstanding Bonds affected thereby, which Holders shall have the right to consent to and approve the execution by the Issuer of such other terms supplemental hereto as shall be deemed necessary or desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained herein; provided, however, that nothing contained in this

Section 7.02 shall permit, or be construed as permitting, without the written consent of the owners of all Outstanding Bonds affected thereby, (a) an extension of the maturity of the principal of, or interest on, any Bond or any modification of the provisions regarding the purchase of Bonds which modification would result in a delay or suspension of the obligation to purchase Bonds as provided hereunder, or (b) a reduction in the principal amount or redemption premium on, any Bond or the rate of interest thereon, or (c) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (d) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental terms or any modification or waiver hereof.

If at any time the Issuer shall specify any such supplemental terms for any of the purposes of this Section 7.02, the Issuer shall cause notice of the proposed execution of such supplemental terms to be given to the owners of the Bonds as provided in Section 8.01 hereof. Such notice shall briefly set forth the nature of the proposed supplemental terms and shall state that copies thereof are on file at the Principal Office of the Issuer for inspection by any owner of Bonds and that a copy of such proposed supplemental terms will be mailed by the Issuer to any party requesting the same. If, within sixty (60) days or such longer period as shall be prescribed by the Issuer following such notice, the owners of not less than two-thirds (2/3) (or 100%, as may be applicable) in aggregate principal amount of the Bonds Outstanding at the time of the execution of any such supplemental terms shall have consented to and approved the execution thereof as herein provided, no owner of any Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Issuer from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental terms as provided in this Section 7.02, these terms shall be and be deemed to be modified and amended in accordance therewith.

ARTICLE VIII

MISCELLANEOUS

Section 8.01. Notices to and Consents of Owners of Bonds. (a) Any notice, request, complaint, demand, communication or other paper required hereby to be given to any owner of a Bond or Bonds shall be sufficiently given and shall be conclusively deemed given when sent by first-class mail, postage prepaid, to the address of the owner as shown on the registration books kept by the Paying Agent on the applicable Record Date.

(b) Any consent, request, direction, approval, objection or other instrument required hereby to be signed and executed by the owners of Bonds may be in any number of concurrent documents and may be executed by such owners of Bonds in person or by agent appointed in writing. Proof of the execution of any such consent, request, direction, approval, objection or other instrument or of the written appointment of any such agent or of the ownership of Bonds, if made in the following manner, shall be sufficient for any of the purposes hereof, and shall be conclusive in favor of the Issuer with regard to any action taken by it under such request or other instrument. The fact and date of the execution by any person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by an officer authorized by law to take acknowledgments of deeds certifying that the person signing such instrument or writing acknowledged to him the execution thereof. The fact of ownership of Bonds and the amount or amounts, numbers and other identification of such Bonds, and the date of owning the same shall be proved by the registration books or other records of the Issuer maintained by the Paying Agent pursuant hereto.

Section 8.02. Limitation of Rights. With the exception of any rights herein expressly conferred, nothing expressed or mentioned in or to be implied from these terms or the Bonds is intended or shall be construed to give to any person or company other than the parties hereto, the owners of the Bonds, any legal or equitable right, remedy or claim under or with respect hereto or any covenants, conditions and provisions herein or therein contained, these terms and all of the covenants, conditions and provisions hereof and thereof being intended to be and being for the sole and exclusive benefit of the parties hereto and thereto and the owners of the Bonds as herein provided.

Section 8.03. Severability. If any provision hereof shall be held or deemed to be or shall, in fact, be illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render these terms invalid, inoperative or unenforceable to any extent whatever.

Section 8.04. Applicable Provisions of Law. These Terms shall be governed by and construed in accordance with the laws of the State.

Section 8.05. Rules of Interpretation. Unless expressly indicated otherwise, references to Sections or Articles are to be construed as references to Sections or Articles of these Terms as originally executed. Use of the words "herein," "hereby," "hereunder," "hereof," "hereinbefore," "hereinafter" and other equivalent words refer to these Terms and not solely to the particular portion in which such word is used.

Section 8.06. Captions. The captions and headings in these Terms are for convenience only and in no way define, limit or describe the scope or intent of any provisions or Sections of these Terms.

Section 8.07. No Personal Liability. In accordance with 20-A MRSA §10964, and notwithstanding anything to the contrary contained herein or in any of the Bonds or in any other instrument or document executed by or on behalf of the Issuer in connection herewith, no stipulation, covenant, agreement or obligation contained herein or therein shall be deemed or construed to be a stipulation, covenant, agreement or obligation of any present or future trustee, officer, employee or agent of the Issuer, in any such person's individual capacity, and no such person, in his individual capacity, shall be liable personally for any breach or non-observance of or for any failure to perform, fulfill or comply with any such stipulations, covenants, agreements or obligations, nor shall any recourse be had for the payment of the principal of, premium, if any, or interest on any of the Bonds or for any claim based thereon or on any such stipulation, covenant, agreement or obligation, against any such person, in his individual capacity, either directly or through the Issuer or any successor to the Issuer, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such person in his individual capacity, is hereby expressly waived and released as a condition of and in consideration for the execution of the Terms and the issuance of the Bonds.

Section 8.08. Holidays. If the date for making any payment or the last date for performance of any act or the exercising of any right or the giving of any notice, as provided herein, shall not be a Business Day, such payment may, unless otherwise provided herein, be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the nominal date provided herein, and no interest shall accrue for the period after such nominal date.

Section 8.09. Bond Insurer Deemed to be Sole Bondholder. By acceptance of the Bonds, each holder of the Bonds grants to any insurer of the Bonds, its successors and assigns (the "Bond Insurer"), the right to exercise, on behalf of and in the place of the holders of the Bonds, any option, vote, right, power or the like available to holders of the Bonds. Each holder of the Bonds by virtue of its purchase of any of the Bonds is deemed to have granted the following rights and privileges to the Bond Insurer as a condition to, and in consideration for, the Bond Insurer's issuance and delivery of the financial guaranty insurance policy with respect to the Bonds (the "Policy"); provided, however, that such grant to the Bond Insurer shall be in effect only while the Policy is in effect and the Bond Insurer is not in default under the Policy: the Bond Insurer shall be deemed to be the sole owner of the Bonds for the purpose of any approval, consent, waiver, institution of any action, exercise of any voting right, the right to direct the exercise of, or consent to, rights and remedies to be taken by the holders of the Bonds in circumstances that give holders of the Bonds rights to exercise rights and remedies or any other action which a holder of any of the Bonds is, or would be, permitted to take. The foregoing rights of the Bond Insurer may be exercised singly or in any combination which the Bond Insurer determines. Any exercise by the Bond Insurer of such rights is merely an exercise of the Bond Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit of the holders of the Bonds.

ARTICLE IX

THE PAYING AGENT

Section 9.01 The Paying Agent. (a) The Paying Agent shall be protected in acting and relying upon any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document believed by it to be genuine and to have been signed or sent by the proper person or with respect to any action taken by the Paying Agent pursuant hereto upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the owner of any Bond, and such action shall be conclusive and binding upon all future owners of the same Bond and upon Bonds issued in exchange therefor or in place thereof.

(b) Notwithstanding any other provision hereof, the Paying Agent shall have no liability for any act or omission to act hereunder or under any other instrument or document executed pursuant hereto except for the gross negligence or willful misconduct of the Paying Agent. The duties and obligations of the Paying Agent shall be determined solely by the express provisions hereof and no implied covenants or obligations against the Paying Agent shall be read into these Terms.

(c) The Paying Agent shall be under no obligation to act at the request or direction of any of the owners of the Bonds pursuant hereto or otherwise take any action upon the occurrence or during the continuance of an Event of Default, unless such owners of Bonds shall have indemnified the Paying Agent to its satisfaction, against any and all reasonable costs, expenses, outlays, counsel, expert and other fees, other disbursements including its own reasonable fees and against all liability and damages (other than damages relating to the gross negligence or willful misconduct of the Paying Agent) which might be incurred by it in compliance with such requests or direction, and the Paying Agent shall not be required to advance, expend or risk its own funds or otherwise incur individual liability in the performance of any of its duties or in the exercise of any of its rights or powers delegated to it by the Issuer or the Bondholders as Paying Agent hereunder.

(d) All moneys received by the Paying Agent shall, until used or applied as herein provided, be held uninvested and without liability for interest thereon, in trust for the purposes for which they were received but need not be segregated from other funds except to the extent otherwise required herein or required by law.

(e) The Paying Agent shall maintain a record of the names of the registered owners of the Bonds and of the addresses of such owners from time to time provided by such owners.

(f) The Paying Agent shall not be liable for any action taken pursuant to any direction or instruction by which it is governed hereunder, or omitted to be taken by it by reason of the lack of direction or instruction required hereby for such action; and the Paying Agent shall not be liable for any action taken in good faith and reasonably believed by it to be within the powers conferred upon it, or for any error of judgment made in good faith, unless it shall be proven to have been grossly negligent in ascertaining the relevant facts. The Paying Agent may consult with and obtain the advice of counsel, and shall be protected in any action it may take, or refrain from taking, in good faith in reliance upon the advice of such counsel or any opinion of counsel.

Section 9.02 Fees, Charges and Expenses of the Paying Agent. The Paying Agent shall be entitled to payment of reasonable fees for their services rendered hereunder, reimbursement of all advances, counsel fees and other expenses reasonably made or incurred by them in connection with the services rendered by them in such capacities. Upon the occurrence of an Event of Default, but only upon the occurrence of an Event of Default, the Paying Agent shall be entitled to payment prior to payment on account of principal of, premium, if any, and interest on any Bond for the foregoing fees, charges and expenses of the Paying Agent. When the Paying Agent incurs expenses or renders services after the occurrence of an Act of Bankruptcy with respect to the Issuer, the expenses and the compensation for the services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

The Paying Agent and any successor thereto shall signify its acceptance of the duties and obligations imposed upon it hereunder by written instrument of acceptance delivered to the Issuer.

If the Paying Agent shall resign or be removed, as permitted or provided below, the Issuer shall designate a successor.

The Paying Agent may at any time resign and be discharged of the duties and obligations created hereby by giving at least sixty (60) days notice to Issuer. The Paying Agent may be removed at any time by an instrument signed by an Issuer Officer and filed with the Paying Agent.

In the event of the resignation or removal of the Paying Agent, the Paying Agent shall pay over, assign and deliver any moneys and records held by it in such capacity to its successor or, if there be no successor, to the Issuer.

In the event that the Paying Agent shall resign or be removed, or be dissolved, or if the property or affairs of the Paying Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reasons, the Issuer shall appoint a successor.

Any corporation into which the Paying Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, consolidation or conversion to which the Paying Agent shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Paying Agent, shall be the successor of the Paying Agent, if such successor corporation is otherwise eligible under this Section 9.02, without the execution or filing of any further act on the part of the Paying Agent or such successor corporation.

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX B

FORM OF BOND COUNSEL OPINION

Upon issuance and delivery of the Series 2007 Bonds Preti, Flaherty, Beliveau & Pachios, LLP, Augusta, Maine, Bond Counsel for the University System, will deliver an opinion in substantially the following form:

[Closing Date]

University of Maine System
16 Central Street
Bangor, Maine 04401

Ladies and Gentlemen:

We have examined a record of proceedings submitted to us by the University of Maine System, an agency and instrumentality of the State of Maine (the "University"), relating to the issuance of $46,740,000 University of Maine System Revenue Bonds, Series 2007, including the Terms of Issuance thereof (the "Series 2007 Bonds"), pursuant to Chapter 412 of Title 20-A of the Maine Revised Statutes, as amended (the "Act"), including, among other documents, a certified copy of the authorizing resolution of the Board of Trustees of the University adopted May 21, 2007 (the "Resolution").

The Series 2007 Bonds are being issued under and pursuant to the Act and under and pursuant to the Resolution.

The Series 2007 Bonds are dated, mature on the dates and in the principal amounts, bear interest and are payable, all as provided in the Series 2007 Bonds. The Series 2007 Bonds maturing on or after March 1, 2017 are subject to redemption prior to maturity as provided in the Series 2007 Bonds.

Each Series 2007 Bond should be signed by the Treasurer of the University. The Series 2007 Bonds are issuable in fully registered form without coupons in the denomination of $5,000 each or any integral whole multiple thereof. The Series 2007 Bonds will be available in book entry form only and are not available for distribution to the public. The Series 2007 Bonds will be registered initially in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Transfers of beneficial ownership of the Series 2007 Bonds will be effected through the facilities of DTC in accordance with rules and procedures of DTC and its participants.

The University reserves the right from time to time to incur other indebtedness and to issue other bonds or evidences of indebtedness.

The Series 2007 Bonds are not a debt or liability of the State of Maine (the "State"), nor do they constitute a pledge of the full faith and credit of the State, nor shall the Series 2007 Bonds be payable out of any revenues or funds other than those of the University. The University has no taxing power.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met subsequent to the issuance and delivery of the Series 2007 Bonds in order that interest on the Series 2007 Bonds be and remain excluded from gross income for Federal income tax purposes pursuant to section 103 of the Code. Noncompliance with such requirements may cause interest on the Series 2007 Bonds to be included in the gross income of the owners thereof retroactive to the date of issuance of the Series 2007 Bonds, regardless of when such noncompliance occurs.

The Arbitrage and Use of Proceeds Certificate and the General Certificate of the Treasurer of the University delivered concurrently herewith contain provisions and procedures regarding compliance with the requirements of the Code. The University, in executing its Arbitrage and Use of Proceeds Certificate, has covenanted to comply with the provisions and procedures set forth therein and to do and perform all acts and things necessary or desirable in order to assure that interest paid on the Series 2007 Bonds shall, for purposes of Federal income taxation, be excluded from gross income.

In rendering the opinion in paragraphs 3 and 4 hereof, we have relied upon the representations of the University set forth in its Arbitrage and Use of Proceeds Certificate and the General Certificate of the Treasurer of the University and we have assumed that the University will comply with the covenants set forth in its Arbitrage and Use of Proceeds Certificate.

We are of the opinion that:

1. Under the Constitution and laws of the State, the University has been duly created and validly exists as an agency and instrumentality of the State with lawful power and authority to adopt the Resolution and to perform its obligations pursuant to, and to issue, the Series 2007 Bonds.

2. The Series 2007 Bonds, executed as described above, have been duly authorized and are valid and binding obligations of the University.

3. Based on existing statutes and court decisions, interest on the Series 2007 Bonds will not be included in the gross income of the owners thereof for Federal income tax purposes pursuant to section 103 of the Code. In addition, such interest will not be treated as a preference item in calculating the alternative minimum tax that may be imposed under the Code with respect to individuals and corporations, but such interest is includable in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax that may be imposed with respect thereto.

4. Under existing statutes, regulations and court decisions, interest on the Series 2007 Bonds is exempt from taxation within the State.

Except as set forth in paragraphs 3 and 4 above, we express no opinion as to any tax consequences of holding the Series 2007 Bonds.

The foregoing opinions are qualified to the extent that the enforceability of the Series 2007 Bonds may be limited by bankruptcy, moratorium, reorganization, insolvency or other laws affecting creditors' rights generally and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and to the exercise of judicial discretion.

We express no opinion with respect to the accuracy, adequacy, fairness or completeness of the Official Statement relating to the Series 2007 Bonds.

The opinions rendered in this letter are given as of the date hereof and we assume no obligation to update, revise or supplement this letter to reflect any facts, circumstances or changes in law which may hereafter come to our attention.

Very truly yours,

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

THE DEPOSITORY TRUST COMPANY AND THE BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company, New York, New York ("DTC") will act as securities depository for the Series 2007 Bonds. The Series 2007 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2007 Bond will be issued for each maturity of the Series 2007 Bonds, in the aggregate principal amount of each such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at **www.dtcc.com**.

Purchases of Series 2007 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2007 Bonds on DTC's records. The ownership interest of each actual purchaser of Series 2007 Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2007 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2007 Bonds, except in the event that use of the book-entry system for the Series 2007 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2007 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2007 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2007 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2007 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2007 Bonds is being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Series 2007 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2007 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an omnibus proxy to the University System as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2007 Bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

Payments of principal of and interest and redemption premium, if any, on the Series 2007 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the University System, on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the University System, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the University System and the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2007 Bonds at any time by giving reasonable notice to the University System or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, certificates for the Series 2007 Bonds are required to be printed and delivered.

The University System may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates for the Series 2007 Bonds will be printed and delivered.

The information in this appendix has been extracted from a schedule prepared by DTC as sample disclosure language provided to the University System. No representation is made by the University System as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date thereof.

NEITHER THE UNIVERSITY SYSTEM NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS OF THE SERIES 2007 BONDS. NO ASSURANCES CAN BE PROVIDED THAT IN THE EVENT OF BANKRUPTCY OR INSOLVENCY OF DTC OR A DIRECT PARTICIPANT OR INDIRECT PARTICIPANT THROUGH WHICH A BENEFICIAL OWNER HOLDS INTERESTS IN THE SERIES 2007 BONDS, PAYMENT WILL BE MADE BY DTC, THE DIRECT PARTICIPANT OR THE INDIRECT PARTICIPANT ON A TIMELY BASIS.

SO LONG AS CEDE & CO., AS NOMINEE OF DTC, IS THE HOLDER OF ALL OF THE SERIES 2007 BONDS, REFERENCES IN THIS OFFICIAL STATEMENT TO THE OWNERS OR HOLDERS OF THE SERIES 2007 BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS. THEREFORE, THE STATEMENTS IN THE OFFICIAL STATEMENT SUMMARIZING THE TERMS OF PAYMENT AND REDEMPTION OF THE SERIES 2007 BONDS, THE REQUIREMENTS OF NOTICE TO HOLDERS OF THE SERIES 2007 BONDS AND THE RIGHTS OF CONSENT OF THE HOLDERS OF THE SERIES 2007 BONDS SHALL APPLY TO CEDE & CO., AS HOLDER OF THE SERIES 2007 BONDS, AND NO REPRESENTATIONS ARE MADE IN RESPECT OF THE FOREGOING TO THE BENEFICIAL OWNERS OF THE SERIES 2007 BONDS.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

CERTAIN FINANCIAL INFORMATION PERTAINING TO THE
UNIVERSITY OF MAINE SYSTEM
FOR THE FISCAL YEARS ENDED JUNE 30, 2005
AND JUNE 30, 2006

Independent Auditors' Report D-3

Management's Discussion and Analysis June 30, 2006 and 2005 ..... D-5

Audited Financial Statements of the University of Maine System
for the Fiscal Years Ended June 30, 2006 and June 30, 2005 ..... D-15

[THIS PAGE INTENTIONALLY LEFT BLANK]

KPMG LLP
99 High Street
Boston, MA 02110-2371

Telephone 617 988 1000
Fax 617 507 8321
Internet www.us.kpmg.com

Independent Auditors' Report

The Board of Trustees
University of Maine System:

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units 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, 2006 and 2005, which collectively comprise the System's basic financial statements as shown on pages 21 through 52. These financial statements are the responsibility of the System's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the aggregate discretely presented component units, are based on the reports of 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the System as of June 30, 2006 and 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2006 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing,

KPMG LLP, a U.S. limited liability partnership, is the U.S.
member firm of KPMG International, a Swiss cooperative.

and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 11 through 20 and the supplementary schedules of funding progress and employers' contributions on page 53 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The accompanying schedules of activities (Schedules 1 and 2) for the years ended June 30, 2006 and 2005 are presented for purposes of additional analysis as required by the State of Maine and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

October 20, 2006

UNIVERSITY OF MAINE SYSTEM
Management's Discussion and Analysis (unaudited)
June 30, 2006 and 2005
($ in thousands)

The following unaudited Management's Discussion and Analysis (MD&A) has been prepared by the management of the University of Maine System ("the System") to provide users with a narrative and analysis of the System's financial position based on currently known facts, decisions, and conditions. This discussion includes an analysis of the financial condition and results of activities of the System for the fiscal years ended June 30, 2006 and 2005. As this presentation includes highly summarized information, it should be read in conjunction with the accompanying basic financial statements and related notes.

Overview of the Financial Statements

The University of Maine System's financial statements include three primary components: 1) the Statements of Net Assets, 2) the Statements of Revenues, Expenses, and Changes in Net Assets, and 3) the Statements of Cash Flows. Also included are the Statements of Financial Position and Statements of Activities for Aggregate Discretely Presented Component Units. These have been included as required by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The MD&A includes information only for the System and not its component units. These financial statements are prepared in accordance with U. S. generally accepted accounting principles.

Revenues and expenses are categorized as either operating or non-operating. Certain significant recurring revenues and expenses including state appropriations, gifts, investment income or loss, and interest expense are considered non-operating. Scholarships and fellowships applied to student accounts are shown as a reduction of student tuition & fees and residence & dining fees revenues while stipends and other payments made directly to students are presented as student aid expenses.

Net Assets

The Statements of Net Assets present the financial position of the System at the end of the fiscal year and include all assets and liabilities of the System. Net assets is one indicator of the current financial condition of the System and represents the difference between total assets and total liabilities. The change in net assets is an indicator of whether the overall financial condition has improved or deteriorated during the year. A summarized comparison of the System's assets, liabilities, and net assets at June 30, 2006, 2005, and 2004 is as follows:

Condensed Net Assets Information	2006	2005	2004
Current assets	$ 186,267	$ 171,280	$ 168,927
Noncurrent assets:			
Endowment	107,976	100,837	92,833
Capital assets	519,273	483,487	440,319
Other noncurrent assets	110,681	69,422	84,068
Total assets	924,197	825,026	786,147
Current liabilities	70,654	60,999	59,891
Noncurrent liabilities:			
Long-term debt	189,832	135,959	141,936
Other noncurrent liabilities	75,173	73,405	71,142
Total liabilities	335,659	270,363	272,969
Net Assets:			
Invested in capital assets, net of related debt	379,235	358,418	326,859
Restricted - nonexpendable	48,153	47,405	47,047
Restricted - expendable	99,414	88,849	81,985
Unrestricted	61,736	59,991	57,287
Total net assets	$ 588,538	$ 554,663	$ 513,178

Invested in capital assets, net of related debt, represent the System's capital assets less the accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. The 2006 increase of $20,817 and the 2005 increase of $31,559 in this category of net assets reflect the System's renewal and expansion of its capital assets to provide increased residential capacity, modernized dining facilities, and technologically advanced research and teaching facilities for its faculty and students.

Restricted-nonexpendable net assets represent the System's permanent endowment funds. The $748 increase in 2006 and the $358 increase in 2005 includes new gifts (offset by the transfer of $776 in endowment funds to UMS Foundations in 2006) and an overall increase in fair value when valuing the initial gifts at the lower of the original gift amount or year end fair value. Restricted-expendable net assets include such items as endowment appreciation, student financial aid, research, and public

service and are subject to externally imposed conditions on spending. The increase of $10,565 in 2006 and $6,864 in 2005 is primarily the result of improved market conditions impacting the endowment fund.

Although unrestricted net assets are not subject to externally imposed stipulations, these assets have been committed to specific projects, operational and capital needs, or endowment funds for committed scholarships. Given both the physical and financial size of the University of Maine System, funds must be readily available to meet emergency needs, fund accounting pronouncement requirements, cover occasional annual operating losses and over-expenditures on capital projects, pay severance arrangements during periods of restructuring and address an excessive maintenance backlog.

Endowment Investments (Noncurrent Assets)

The System manages its endowment to generate a predictable stream of annual support for current needs, while at the same time preserving the endowment as a whole to ensure funds for future years. For 2006, the annual spending amount is computed using a formula that primarily weights the prior year's spending amount (increased by inflation), while also giving some weight to the fund's most recent calendar year-end market value. The formula uses a spending rate of 5.0%. For 2005, the distribution rate was 5.25% based on the average net fair value of the endowment for the prior 12 quarters.

The System's endowment investments had a fair value of $107,976 at June 30, 2006, reflecting an increase of $7,139 above the fair value of $100,837 at June 30, 2005 which is primarily attributable to market value appreciation and income. Gifts and charitable gift annuities decreased but investment income (net of investment fees) increased. Spending for scholarships, operations, and various transfers also increased during 2006. The System's endowment investments had a fair value of $100,837 at June 30, 2005, reflecting an increase of $8,004 above the fair value of $92,833 at June 30, 2004 which is primarily attributable to fair value appreciation and income. Gifts and charitable gift annuities remained relatively unchanged, investment income (net of investment fees) increased, while spending for scholarships, operations, and various transfers also increased during 2005.

Capital Assets and Debt Activities

The System's facilities are critical to accomplishing the mission of the System as they provide the physical framework and environment necessary to house educational, research, and cultural programs and residential life. The System is continually implementing its long-term capital plan to upgrade older facilities and construct new facilities when necessary.

Capital additions of $56,802 in 2006 and $63,032 in 2005 primarily consist of replacement, renovation, and new construction of academic, housing, and research facilities as well as investments in equipment, including information technology. Capital asset additions in 2006 and 2005 were funded primarily with State of Maine capital appropriations and University of Maine System revenue bonds.

Of the total capital additions for 2006, $48,682 represented capital construction. Construction or renovation projects included Lord Hall at UM, the Health Physical Complex at UMPI, Black Hall at UMF, and the Biosciences Building and the John Mitchell Center at USM. Sprinkler systems were installed in various residential halls at UM. Two modules of the Project Enterprise PeopleSoft/Oracle implementation were put in-service while additional modules are in-progress. This software will integrate information and business processes to enable the efficient and effective sharing of information

throughout the organization and, thus, maximize productivity. Of the total capital additions for 2005, $54,979 represented capital construction. Construction or renovation projects included the Advanced Engineering Wood Composite Expansion, Franklin Aquaculture R&D Facility, and the Walsh Hockey Center at UM and the Bioscience Building, John Mitchell Center, and the Community Education Facility at USM. Sprinkler systems were installed in various residential halls across the System.

The System strives to manage all its financial resources effectively including the prudent use of debt to finance capital projects that support the System's mission, thereby placing the System in a better position to achieve its strategic goals. Total debt as of June 30, 2006 and 2005 was $196,384 and $142,527, respectively. Of the total debt as of June 30, 2006, $195,797 was in the form of bonds and notes payable as compared to $141,871 as of June 30, 2005. In November 2005, $69,125 in revenue bonds were issued to fund residential halls at USM, a recreational center at UM, and other miscellaneous renovations and to partially refinance $8,800 from the 1998 Series A, 2000 Series A, 2002 Series A, and 2003 Series A Revenue Bonds which resulted in reduced debt service payments. In 2005, the Maine Legislature increased the tax exempt borrowing authority of the System to $220,000.

Condensed Revenues, Expenses, and Changes in Net Assets

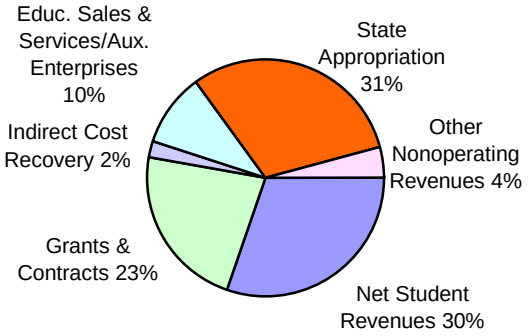
	2006	2005	2004
Operating Revenues:			
Net student revenues	$ 181,858	$ 169,306	$ 159,809
Grants and contracts	134,145	135,411	134,046
Indirect cost recovery	13,963	13,468	12,873
Educational sales and services & other revenue	31,405	26,537	38,538
Other auxiliary enterprises	29,053	30,513	22,929
Total operating revenues	390,424	375,235	368,195
Operating Expenses	(586,371)	(563,112)	(552,624)
Net operating loss	(195,947)	(187,877)	(184,429)
Non-operating Revenues (expenses):			
State appropriation - general	184,688	179,904	172,121
Gifts	12,121	10,752	9,564
Endowment return used for operations	4,632	4,196	4,765
Investment income	7,909	5,827	2,625
Interest expense	(5,161)	(4,280)	(3,370)
Other nonoperating expenses	-	-	(1,328)
Net Nonoperating Revenue	204,189	196,399	184,377
Income before other changes in net assets	8,242	8,522	(52)
Other Changes in Net Assets			
Capital appropriations	12,500	18,360	20,725
Capital grants and gifts	4,746	7,904	5,033
Endowment return, net of amt. used for operations	5,155	4,613	9,667
Endowment gifts	411	1,778	1,784
Gain on disposal of capital assets	2,821	308	-
	25,633	32,963	37,209
Increase in Net Assets	33,875	41,485	37,157
Net Assets			
Net Assets - beginning of year	554,663	513,178	476,021
Net Assets - end of year	$ 588,538	$ 554,663	$ 513,178

In addition to receiving tuition and fees, the System receives revenue from several other diverse sources such as governmental and privately funded sponsored programs, gifts from individuals, foundations, and corporations, state appropriations, and investment income. The System will continue to seek funding from all sources that will supplement student tuition and thereby allow for the enhancement of its educational offerings and research capabilities.

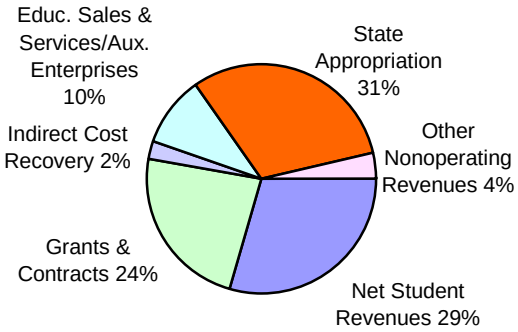
The following graph illustrates both the operating and non-operating revenue sources used to fund the System's activities for the years ended June 30, 2006 and 2005.

TOTAL OPERATING & NONOPERATING REVENUE

2006 - $599,774



2005 - $575,914



Operating Revenues

Tuition and fees and residence and dining fees are the primary sources of operating revenue and in 2006 totaled $181,858 after adjusting for scholarship allowances, reflecting an increase of $12,552 or 7.4% over 2005 revenue of $169,306. This change is the result of an 8.1% weighted average increase in tuition, a 5.0% increase in mandatory fees, and a 5.5% weighted average increase in room and board rates. Tuition and fees and residence and dining fees in 2005 totaled $169,306 after adjusting for scholarship allowances, reflecting an increase of $9,497 or 5.9% over 2004 revenue of $159,447. This change is the result of a 7.7% weighted average increase in tuition, a 5.2% increase in mandatory fees, a 4.0% weighted average increase in room and board rates, and an increase in student full-time equivalent enrollment.

Financial aid awards are based on a student's financial need compared with their total cost of education which includes tuition and fees, housing and meals (both on and off campus), books, and other personal living expenses. Financial aid is composed of two components on the Statements of Revenues, Expenses, and Changes in Net Assets:

1. Scholarship Allowances – financial aid retained by the System to cover students' tuition, fees, and on-campus housing and meals.
2. Student Aid Expense – financial aid refunded to students to cover off-campus living costs, books, and other personal living expenses.

The total financial aid provided for 2006 was $73,625 and increased $2,287 over $71,338 in 2005. Total financial aid provided in 2005 reflected an increase of $810 when compared to total aid of $70,528 in 2004.

Although state research and development funding is used to leverage federal dollars, grants and contracts revenues decreased $1,266 to $134,145 in 2006 from $135,411 in 2005 due to a reduction in federal grants. Sponsored program revenues increased in 2005 by $1,365. The System receives funding from federal, state, and private sources with the majority of the funding being provided by the federal government for research activities. Funding received from these sources also provides for recovery of indirect costs associated with sponsored programs.

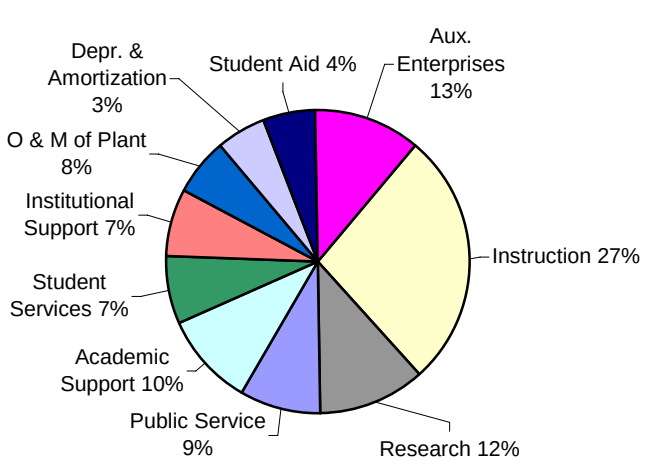
Although not considered an operating revenue, the state appropriation for operations was the largest funding source for educational and general operations. When compared to fiscal year 2005, the state appropriation increased by $4,784 or 2.7% for 2006. The state appropriation for 2005 reflected an increase of $7,783 or 4.5% over 2004 funding levels. For fiscal years 2006 and 2005, the general state appropriation covered 94% and 96% respectively of the net operating losses.

Operating Expenses

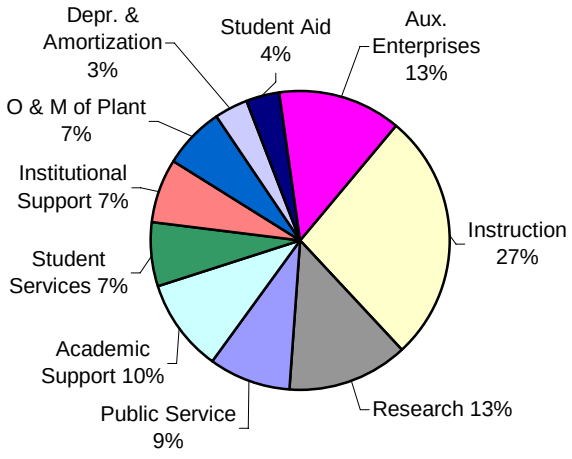
Operating expenses, classified by function, were as follows:

	2006	2005	2004
Instruction	$158,670	$152,001	$147,374
Research	71,750	73,191	72,216
Public service	51,716	49,405	47,849
Academic support	59,674	56,667	55,057
Student services	41,656	40,170	38,661
Institutional support	42,991	37,870	38,873
Operation and maintenance of plant	44,847	38,655	35,562
Depreciation and amortization	20,325	19,928	20,724
Student aid	21,376	20,721	26,319
Auxiliary enterprises	73,366	74,504	69,989
Total	$586,371	$563,112	$552,624

2006 - $586,371



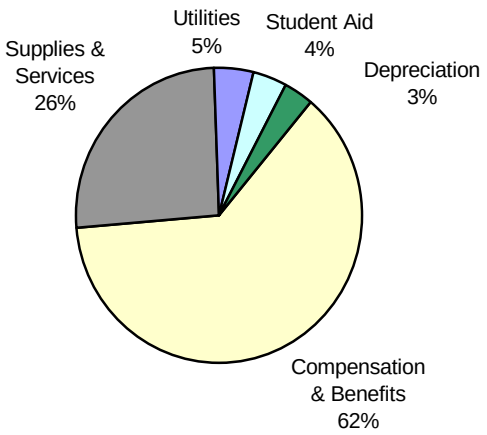
2005 - $563,112



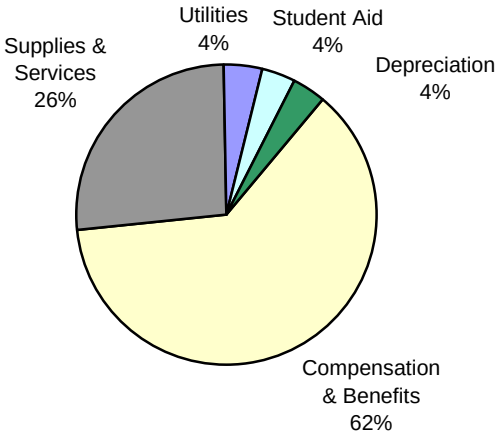
Although the System reports expenses on a functional basis, a comparative summary of the System's expenses based on a natural classification is as follows:

	2006	2005	2004
Operating:			
Compensation and benefits	$ 366,747	$ 349,970	$ 337,702
Utilities	27,323	24,230	22,060
Supplies and services	150,600	148,263	145,819
Depreciation	20,325	19,928	20,724
Student aid	21,376	20,721	26,319
	586,371	563,112	552,624
Nonoperating:			
Interest and other	5,161	4,280	4,698
Total Expenses	$ 591,532	$ 567,392	$ 557,322

Operating Expenses
2006 - $586,371



Operating Expenses
2005 - $563,112



The amount expended for compensation and benefits increased by $16,777 or 4.8% for 2006 as compared to the increase of $12,268 or 3.6% for 2005. This increase in 2006 and 2005 is the result of increased health care costs, employee compensation increases, and employment growth. The System continues to work with the State of Maine and other employers to minimize health care costs while also providing quality health-care coverage to employees and retirees.

Impact of Future Economic Factors

In order to maintain high-quality academic programs and services and to continue meeting the needs of Maine citizens in the future while confronting the challenges of rising costs, evolving educational methodologies, and a changing economy, the University of Maine System adopted a Strategic Plan in September 2004. Currently, campuses are in the process of implementing various aspects of the Plan.

Total enrollments at the System have been steadily increasing since 1997 with a record FTE enrollment for the Fall 2005 semester. Projections indicate that the number of Maine high school graduates will decline over the next few years; therefore the System is proactively pursuing increased student enrollment and retention efforts at each institution while assisting prospective students with the transition to university life.

Recruitment efforts include expansions and/or enhancements in the following areas:

- Strategic use of financial aid
- On-line application capabilities
- Out of state recruitment activity, including a system-wide marketing campaign
- Web tools and institutional web sites
- Specialty areas recruitments (music, sports, etc.)
- Advising efforts on all campuses including system-wide advising conferences
- Recruitment and advising of students intending to transfer from community colleges
- Exposing high school students to UMS institutions through early-study and early-college opportunities

Retention efforts include:

- Development and implementation of student success programs funded by MELMAC Educational Foundation Student Success Grants
- Participation in the National Survey of Student Engagement (students surveyed as freshmen and then again as seniors)
- Alignment and expansion of curricular and co-curricular experiences to further engage students and enhance course work

From a fiscal perspective, the most significant economic factor is the State of Maine's fiscal performance and its impact on the System. Although the System experienced declining state appropriation during 2003 and 2004, the appropriation received during 2005 increased by 4.73% and reflected the restoration of previously deappropriated funds. For 2006, the state appropriation increased by 2.7% above 2005 levels. The 2007 appropriation is scheduled to increase by approximately $6,850 over the FY2006 level. Although state funding has been increasing, the funding has not been adequate to offset rising educational costs resulting in the System implementing a weighted average tuition and fee increase of 8.7% for 2007. The System is continuing to seek additional state support and supplemental revenue sources to alleviate the costs paid by students and to reduce expenses through cost cutting efforts.

The System currently provides medical benefits to disabled and retired employees and their spouses and dependents and accounts for the benefits on a cash basis. Effective for FY 2007 and 2008 respectively, GASB Statement Nos. 43 and 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and *Financial Reporting for Postemployment Benefits Other Than Pension Plans* will mandate the use of accrual accounting and actuarial valuations. To prepare for the future implementation of this Statement, the System has selected an independent

actuary to analyze the GASB requirements, collect data, analyze the data, and provide the actuarial determined unrecorded liability. The System is also reviewing strategies to reduce the cost of postemployment medical benefits.

Currently campus budgets do not fully fund depreciation with facilities' capital maintenance needs being funded primarily with operating surpluses, which has resulted in a depreciation "gap" that is increasing annually. During 2005 the Maine Legislature did increase the System's tax exempt borrowing authority to $220,000 from $170,000, but the System continues to seek State Capital Appropriations and State Bond financing to address this situation.

UNIVERSITY OF MAINE SYSTEM
Statements of Net Assets
June 30, 2006 and 2005
($ in thousands)

ASSETS	2006	2005
Current Assets:		
Cash and cash equivalents (Note 2)	$ 8,378	$ 1,299
Short-term investments (Note 3)	127,466	131,261
Accounts, grants, and pledges receivable, net (Note 4)	44,177	32,887
Inventories and prepaid expenses	5,757	5,631
Notes receivable, net (Note 5)	489	202
Total Current Assets	186,267	171,280
Noncurrent Assets:		
Deposits with bond trustees (Notes 3 and 6)	61,128	20,907
Accounts, grants, and pledges receivable, net (Note 4)	6,241	5,422
Notes receivable, net (Note 5)	41,114	41,205
Endowment investments (Note 3)	107,976	100,837
Bond issuance costs, net (Note 7)	2,198	1,888
Capital assets, net (Note 6)	519,273	483,487
Total Noncurrent Assets	737,930	653,746
Total Assets	$ 924,197	$ 825,026
LIABILITIES		
Current Liabilities:		
Accounts payable	$ 18,290	$ 11,048
Deferred revenue and deposits (Notes 8 and 12)	17,964	18,960
Accrued liabilities (Notes 7 and 11)	27,242	22,101
Funds held for others	606	2,322
Current portion of capital lease obligations (Note 7)	223	221
Current portion of bonds and note payable (Note 7)	6,329	6,347
Total Current Liabilities	70,654	60,999
Noncurrent Liabilities:		
Accrued liabilities (Notes 7 and 11)	35,527	34,357
Funds held for others (Note 3)	8,132	7,137
Capital lease obligations (Note 7)	364	435
Bonds and note payable, net (Note 7)	189,468	135,524
Government advances refundable (Note 9)	31,514	31,911
Total Noncurrent Liabilities	265,005	209,364
Total Liabilities	335,659	270,363
NET ASSETS		
Invested in capital assets, net of related debt	379,235	358,418
Restricted:		
Nonexpendable (Note 10)	48,153	47,405
Expendable (Notes 3 and 10)	99,414	88,849
Unrestricted	61,736	59,991
Commitments and contingencies (Note 11)		
Total Net Assets	588,538	554,663
Total Liabilities and Net Assets	$ 924,197	$ 825,026

See accompanying notes to basic financial statements.

UNIVERSITY OF MAINE SYSTEM
Statements of Financial Position – Aggregate Discretely Presented Component Units
June 30, 2006 and 2005
($ in thousands)

ASSETS	2006	2005
Cash and cash equivalents	$ 53	$ 67
Accounts receivable and promises to give	1,868	2,316
Investments	148,998	134,961
Other assets	17,019	21,299
Total Assets	$ 167,938	$ 158,643
LIABILITIES		
Accounts payable and other liabilities	$ 2,460	$ 2,099
Notes payable	775	5,597
Custodial accounts payable	1,483	1,386
Total Liabilities	4,718	9,082
NET ASSETS		
Unrestricted net assets	12,810	12,678
Temporarily restricted net assets	40,874	36,681
Permanently restricted net assets	109,536	100,202
Total Net Assets	163,220	149,561
Total Liabilities and Net Assets	$ 167,938	$ 158,643

See accompanying notes to basic financial statements.

UNIVERSITY OF MAINE SYSTEM
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2006 and 2005
($ in thousands)

	2006	2005
OPERATING REVENUES		
Tuition and fees	$ 182,616	$ 170,603
Residence and dining fees	51,491	49,320
Less: scholarship allowances	(52,249)	(50,617)
Net student fees	181,858	169,306
Federal, state, and private grants and contracts	134,145	135,411
Recovery of indirect costs	13,963	13,468
Educational sales and services and other revenues	31,405	26,537
Other auxiliary enterprises	29,053	30,513
Total Operating Revenues	390,424	375,235
OPERATING EXPENSES		
Instruction	158,670	152,001
Research	71,750	73,191
Public service	51,716	49,405
Academic support	59,674	56,667
Student services	41,656	40,170
Institutional support	42,991	37,870
Operation and maintenance of plant	44,847	38,655
Depreciation and amortization	20,325	19,928
Student aid	21,376	20,721
Auxiliary enterprises	73,366	74,504
Total Operating Expenses	586,371	563,112
Operating Loss	(195,947)	(187,877)
NONOPERATING REVENUES (EXPENSES)		
Noncapital State of Maine appropriations	184,688	179,904
Gifts currently expendable	12,121	10,752
Endowment return used for operations (Note 3)	4,632	4,196
Investment income (Note 3)	7,909	5,827
Interest expense, net (Notes 7 and 8)	(5,161)	(4,280)
Net Nonoperating Revenue	204,189	196,399
Income Before Other Changes in Net Assets	8,242	8,522
OTHER CHANGES IN NET ASSETS		
State of Maine capital appropriations	12,500	18,360
Capital grants and gifts	4,746	7,904
Endowment return, net of amount used for operations (Note 3)	5,155	4,613
True and quasi endowment gifts	411	1,778
Gain on disposal of capital assets	2,821	308
Total Other Changes in Net Assets	25,633	32,963
Increase in Net Assets	33,875	41,485
NET ASSETS		
Net Assets - beginning of year	554,663	513,178
Net Assets - end of year	$ 588,538	$ 554,663

See accompanying notes to basic financial statements.

UNIVERSITY OF MAINE SYSTEM
Statements of Activities – Aggregate Discretely Presented Component Units
Years Ended June 30, 2006 and 2005
($ in thousands)

	2006	2005
CHANGES IN UNRESTRICTED NET ASSETS		
Public Support, Revenues, and Reclassification		
Contributions and Memberships	$ 1,468	$ 1,082
Investment and other income	1,288	1,433
Net assets released from restrictions	5,856	3,975
Total Support, Revenues, and Reclassification	8,612	6,490
Expenses		
Program	6,967	6,492
Management and general	841	1,041
Fundraising	672	628
Total Expenses and Losses	8,480	8,161
Increase (Decrease) in Unrestricted Net Assets	132	(1,671)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	448	2,888
Investment and other income	9,754	7,733
Net assets released from restrictions	(6,009)	(4,273)
Increase in Temporarily Restricted Net Assets	4,193	6,348
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	8,447	7,076
Investment and other income	734	258
Net assets released from restrictions	153	298
Increase in Permanently Restricted Net Assets	9,334	7,632
Increase in Total Net Assets	13,659	12,309
NET ASSETS		
Net Assets, beginning of year	149,561	137,252
Net Assets, end of year	$ 163,220	$ 149,561

See accompanying notes to basic financial statements.

UNIVERSITY OF MAINE SYSTEM
Statements of Cash Flows
Years Ended June 30, 2006 and 2005
($ in thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition, residence, dining, and other student fees	$ 179,625	$ 167,491
Grants and contracts	135,272	147,771
Educational sales and services and other auxiliary enterprise revenues	59,955	56,173
Payments to and on behalf of employees	(360,637)	(354,440)
Financial aid paid to students	(21,376)	(20,184)
Payments to suppliers	(171,494)	(165,264)
Loans issued to students	(9,036)	(8,837)
Collection of loans to students	8,398	7,117
Interest collected on loans to students	551	575
Other operating receipts	-	366
Net Cash Used For Operating Activities	(178,742)	(169,232)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	184,688	179,904
Noncapital grants and gifts	12,400	11,874
Agency transactions	2,024	(38)
Net Cash Provided By Noncapital Financing Activities	199,112	191,740
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from capital debt issuances and escrow restructurings	69,136	370
Capital appropriations	12,072	19,748
Capital grants and gifts	3,039	7,662
Proceeds from sale of capital assets	-	360
Acquisition and construction of capital assets	(49,172)	(59,364)
Issuance costs on capital debt	(552)	-
Principal paid on capital debt and leases	(15,282)	(6,004)
Interest paid on capital debt and leases	(4,402)	(6,332)
Net Cash Provided by (Used For) Capital and Related Financing Activities	14,839	(43,560)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	390,200	375,707
Purchases of investments	(426,642)	(360,795)
Earnings from investments	8,312	7,439
Net Cash (Used For) Provided By Investing Activities	(28,130)	22,351
Net increase in cash and cash equivalents	7,079	1,299
Cash and cash equivalents - beginning of year	1,299	-
Cash and cash equivalents - end of year	$ 8,378	$ 1,299

See accompanying notes to basic financial statements.

UNIVERSITY OF MAINE SYSTEM
Statements of Cash Flows
Years Ended June 30, 2006 and 2005
($ in thousands)

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

	2006	2005
Operating loss	$ (195,947)	$ (187,877)
Adjustments to reconcile net operating loss to net cash used by operating activities:		
Depreciation and amortization	20,325	19,928
Changes in assets and liabilities:		
Accounts and grants receivable, net	(13,564)	667
Inventories and prepaid expenses	(126)	26
Notes receivable, net	(26)	(1,073)
Accounts payable	5,452	(2,219)
Deferred revenue and deposits	(863)	(696)
Accrued liabilities	6,404	2,205
Grants refundable	(397)	(193)
Net cash used for operating activities	$ (178,742)	$ (169,232)

Noncash investing, capital, and financing activities:

Capital asset additions included in accounts payable as of June 30	$ 6,638	$ 4,849
Capital asset additions acquired through capital leases	$ 178	$ 297

See accompanying notes to basic financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The University of Maine System ("the System"), a component unit of the State of Maine, consists of seven Universities, eleven 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 units (see Note 16). Those organizations are not-for-profit entities controlled by separate governing boards whose goals are to support the System. They receive funds primarily through donations and contribute funds to the System for student scholarships and institutional support.

b. Basis of Presentation

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

The System's policy for defining operating activities in the Statements of Revenues, Expenses, and Changes in Net Assets are those that generally result from exchange transactions such as payments received for services and payments made for the purchase of goods and services. Certain other transactions are reported as nonoperating activities in accordance with GASB Statement No. 35. These nonoperating activities include the System's operating and capital appropriations from the State of Maine, net investment income, gifts, and interest expense.

The System applies all pronouncements issued by the Financial Accounting Standards Board (FASB) on or before November 30, 1989, to the extent they do not conflict with GASB pronouncements.

c. Net Assets

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

Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair or improvement of those assets. It also includes the unamortized issuance costs and premiums/discounts related to the outstanding debt. This category excludes the portion of debt attributable to unspent bond proceeds.

Restricted – nonexpendable: Net assets subject to externally imposed conditions that the System maintain them in perpetuity.

Restricted – expendable: Net assets whose use is subject to externally imposed conditions that can be fulfilled by the actions of the System or by the passage of time.

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

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

d. Cash and Cash Equivalents

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

e. Investments

The System's investment in the State of Maine external investment pool is valued at amortized cost, which approximates fair value. All other investments are reported at fair value. University management is responsible for the fair measurement of investments reported in the financial statements. The System has implemented policies and procedures to assess the reasonableness of the fair values provided and believes that reported fair values at the balance sheet date are reasonable.

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. Net assets categories are:

- **Restricted nonexpendable** : Net assets subject to externally imposed stipulations that they be maintained permanently. Such net assets include the historical gift value of restricted true endowment funds.
- **Restricted expendable** : Net assets whose use is subject to externally imposed stipulations. Such net assets include the accumulated net gains on true endowment funds, restricted gifts and income, and other similarly restricted funds.
- **Unrestricted :** Net assets are not subject to externally imposed stipulations.

As determined by policy, the expendable income objective was 5.00% and 5.25% for FY2006 and FY2005, respectively. The income produced by the fund, including realized gains, can be used to meet this spending objective.

Authorized Investment Vehicles:

Short-term Investments: The System has a three-tiered approach regarding its short-term investments:

- Cash Pool – This tier is invested in a portfolio of highest quality short-term fixed-income securities (treasury obligations, agency securities, bankers acceptances, money market funds, CD's, commercial paper, short-term bond funds) with daily to 3-day liquidity. The average quality of the pool is at least "AA".

$ Intermediate Pool – This tier is invested in a diversified portfolio, in accordance with investment manager guidelines, consisting primarily of fixed income securities with a normal average duration of 1 to 3 years. The average quality of the portfolio is at least "A-".

- Long-term Pool – This tier consists of funds that will not be required for at least 36 months. No minimum quality rating is specified for this pool, since it can invest in non-fixed income securities.

Endowment Investments: The fund will be diversified both by asset class and within asset classes. In order to have a reasonable probability of consistently achieving the Fund's return objectives, the following asset allocation policy has been adopted:

• Equity securities	60-80%
• Fixed income securities	20-40%
• Cash	0-10%

Deposits with bond trustees: These monies are invested in accordance with the governing bond covenants and arbitrage certificates.

f. Inventories

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

g. Gifts and Pledges

Gifts are recorded at their fair value at the date of gift. Promises to donate to the System are recorded as receivables and revenues when the System has met all applicable eligibility and time requirements. Gifts and bequests to be used for endowment purposes are categorized as endowment gifts. Other gifts are categorized as currently expendable. Since the System cannot fulfill the time requirement for gifts to endowments until the gift is received, pledges to endowments are not reported. Pledges receivable are reported net of amounts deemed uncollectible, and after discounting to the present value of the expected future cash flows. Because of uncertainties with regard to their realizability and valuation, bequests and intentions to give and other conditional promises are not recognized as assets until the specified conditions are met.

h. Grants and Contracts and Capital Appropriations

The System records a receivable and corresponding revenue for these funding sources at the point all eligibility requirements (e.g., allowable costs are incurred) are met.

i. Capital Assets

Capital assets are recorded at cost when purchased or constructed and at fair value at date of donation. In accordance with the System's capitalization policy, only equipment (including equipment acquired under capital leases) with a unit cost of $5 or more is capitalized. Beginning in FY2006 only capital projects with a projected cost of $50 or more are capitalized. In FY2005 and prior years, the capitalization threshold for capital projects was $10.

Interest costs on debt related to capital assets, net of investment income on unspent bond proceeds, are generally capitalized during the construction period. Software costs are capitalized and depreciated and include amounts paid to third parties and certain internal labor costs incurred to acquire and implement the software.

Depreciation and amortization of assets acquired under capital leases are recorded on a straight-line basis over the estimated useful lives of the related assets, principally as follows:

	Years
Buildings	30 - 60
Improvements	20 - 40
Equipment	5 - 15

Costs for maintenance, repairs and minor renewals and replacements are expensed as incurred; major renewals and replacements are capitalized. Equipment is removed from the financial statements during the fiscal year following the year they become fully depreciated. When land, buildings, and improvements are retired or otherwise disposed of, the asset and accumulated depreciation accounts are adjusted and any resulting gain or loss is reflected in the Statement of Revenues, Expenses, and Changes in Net Assets.

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 elected this change to enhance reporting comparability with other state systems. The System will retain the undepreciated library materials balance as a core non-depreciating asset.

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

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

j. Deferred Revenue and Deposits

Deferred revenue in the Statements of Net Assets consists primarily of grant and contract advances and deposits and advance payments received for tuition and fees related to certain summer programs and tuition received for the following academic year. Deferred revenue for summer programs is presented net of related expenses (e.g., student aid).

k. Compensated Absences

Employees earn the right to be compensated during absences for annual vacation leave. The accompanying Statements of Net Assets reflect an accrual for the amounts earned, including related benefits ultimately payable for such benefit. The System accounts for the vacation leave hours on a last-in, first-out basis. A portion of this liability is classified as current and represents the System's estimate of vacation time that will be paid during the next fiscal year to employees leaving the System.

l. Deferred Amounts on Refunding

Deferred amounts on refunding represent the difference between the reacquisition price and the carrying value of refunded revenue bonds. These amounts are amortized and charged to operations as additional interest expense over the shorter of the remaining life of the refunded bonds or the life of the new bonds. The unamortized portion is reported in the Statements of Net Assets as a reduction of bonds payable.

m. Net Student Fees

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

n. Tax Status

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

o. Use of Estimates

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

p. Reclassifications

Certain fiscal year 2005 items in the accompanying financial statements have been reclassified, without effect on total net assets, to conform to the fiscal year 2006 presentation.

2. CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of bank failure, the System's deposits may not be returned. The System carries deposits that are fully insured by FDIC insurance or collateralized with securities held by the System or the System's agent in the System's name. The System policy is that with the exception of daily operating cash, it will carry no deposits that are uncollateralized or uninsured. As of June 30, 2006 and 2005, the bank balances of uninsured and uncollateralized deposits totaled $3,178 and $2,726, respectively.

3. INVESTMENTS

Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures* requires that entities disclose essential risk information about their fixed income investments and external investment pools.

a. Composition and Purpose of Investments

The System's investments and investment policies regarding the credit rating of its investments at June 30, 2006 are disclosed below.

	Fair Value	Credit Rating	Interest Rate Risk	
Short-term Investments:				
Money funds, savings, CDs	$ 22,918			
Equities:				
Mutual funds - multi strategy	11,619			
Fixed Income:				
Mutual funds - bank loans	5,438	Not rated	55 days	Weighted ave days
Mutual funds - bonds	37,154	Not rated	.16 - 7.03 years	Duration
State pool	50,337	Not rated	.18 years	Duration
Total	$ 127,466			
Deposits With Bond Trustees:				
Guaranteed investment contracts	$ 58,567	Not rated		
Money funds, savings, CDs	169			
Fixed Income:				
Mutual funds - bonds	140	Aaa-Moody's	1 day	Ave maturity
State pool	2,252	Not rated	.18 years	Duration
Total	$ 61,128			
Endowment Investments:				
Money funds, savings, CDs	$ 393			
Equities:				
Equities	32,501			
Mutual funds - equities	41,065			
Mutual funds - multi-strategy	8,626			
Fixed Income:				
Mutual funds - money market	4,054	Not rated	37 days	Ave maturity
Mutual funds - bonds	21,337	Not rated	4.41 - 4.24 years	Duration
Total	$ 107,976			

The System's investments are composed of the following at June 30, 2005:

	Fair Value	Credit Rating	Interest Rate Risk	
Short-term Investments:				
Money funds, savings, CDs	$ 5,001			
Equities:				
Mutual funds - multi strategy	10,489			
Fixed Income:				
Mutual funds - bank loans	7,586	Not rated	56 days	Weighted ave days
Mutual funds - bonds	102,681	Not rated	.49 - 5.37 years	Duration
State pool	5,504	Not rated	.28 years	Duration
Total	$ 131,261			
Deposits With Bond Trustees:				
Guaranteed investment contracts	$ 15,222	Not rated		
Money funds, savings, CDs	259			
Fixed Income:				
Mutual funds - bonds	1,157	Aaa-Moody's	3 days	Ave maturity
State pool	4,269	Not rated	.28 years	Duration
Total	$ 20,907			
Endowment Investments:				
Money funds, savings, CDs	$ 248			
Equities:				
Equities	31,202			
Mutual funds - equities	38,221			
Mutual funds - multi-strategy	7,721			
Fixed Income:				
Mutual funds - bonds	23,445	Not rated	3.5 - 3.84 years	Duration
Total	$ 100,837			

Short-term Investments The System's short-term investments are available to fund operations or other purposes as determined by System management.

Endowment Investments: Except for certain gifts invested separately at the request of the donors ($157 and $148 at June 30, 2006 and 2005, respectively), the System's endowment is managed as a pooled investment fund by external investment advisors.

The University of Maine at Farmington Alumni Foundation, the University of Maine at Fort Kent Foundation, the University of Southern Maine Foundation, and the John L. Martin Scholarship Fund, Inc. have elected to participate in the System's endowment pool through a management agreement. The fair values of these investments at June 30, 2006 and 2005, respectively are $8,132 and $7,137, and are reported as funds held for others in the accompanying Statements of Net Assets.

Under State of Maine law, the System may spend realized and unrealized appreciation on endowments in addition to earnings on the funds. It is the System's policy to spend a portion of the endowment earnings on operations and reinvest the balance. The reinvested earnings are presented as other changes in net assets. Total Endowment accumulated income and gains available to the System for spending is as follows at June 30:

	2006	2005
Restricted - expendable	$44,357	$39,065
Unrestricted	7,053	7,068
Total available for spending	$51,410	$46,133

Deposits With Bond Trustees: Deposits with bond trustees are composed of debt service reserves required by bond covenants and unexpended revenue bond proceeds.

b. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

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

Endowment Investments: To limit interest rate exposure, the Endowment investment policy restricts the average effective duration of the fixed income portfolio to no more than 1 year greater than the duration of the Lehman Brothers Aggregate Bond Index which is 4.8 years and 4.16 years at June 30, 2006 and 2005, respectively.

Deposits with Bond Trustees*:* These monies are invested in accordance with governing bond covenants and arbitrage certificates.

c. Foreign Currency Risk

Several of the mutual funds in which the System invests include holdings in various foreign currencies, with some funds hedging against forein currency risk. Foreign currency holdings represent less than 2% of the total dollar value of short-term investments. In addition, foreign currency holdings represent less than 5% of the dollar value of endowment investments.

University policy is that up to 10% of the endowment portfolio may be invested in international bonds and currency exposure may be hedged or unhedged. Additionally, 15% of the total portfolio may be invested in a diversified portfolio of international equities, which may be hedged or unhedged at the investment manager's discretion.

Deposits with Bond Trustees may be invested in accordance with the governing bond covenants and arbitrage certificates.

d. Investment Income

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

	2006				
	Net Gains	Interest and Dividends	Investment Fees	Capitalized Earnings	Net Earnings
Endowment investments	$ 6,403	$ 4,187	$ (803)	$ -	$ 9,787
Short-term investments	$ 1,209	$ 6,564	$ (512)	$ -	$ 7,261
Deposits with bond trustees	-	2,225	-	(1,577)	648
Total other investment income	$ 1,209	$ 8,789	$ (512)	$ (1,577)	$ 7,909

	2005				
	Net Gains	Interest and Dividends	Investment Fees	Capitalized Earnings	Net Earnings
Endowment investments	$ 6,348	$ 3,234	$ (773)	$ -	$ 8,809
Short-term investments	$ 2,137	$ 4,267	$ (912)	$ -	$ 5,492
Deposits with bond trustees	-	632	-	(297)	335
Total other investment income	$ 2,137	$ 4,899	$ (912)	$ (297)	$ 5,827

4. ACCOUNTS, GRANTS, AND PLEDGES RECEIVABLE

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

	2006			2005		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Student and other accounts receivable	$ 13,951	$ 13,000	$ 951	$ 14,815	$ 13,551	$ 1,264
Grants receivable	35,041	32,564	2,477	22,348	20,363	1,985
Pledges receivable	4,293	834	3,459	3,348	618	2,730
Total gross receivables	53,285	46,398	6,887	40,511	34,532	5,979
Less allowance for doubtful accounts	(2,484)	(2,221)	(263)	(1,979)	(1,645)	(334)
Less discount on pledges receivable	(383)	-	(383)	(223)	-	(223)
Total receivables, net	$ 50,418	$ 44,177	$ 6,241	$ 38,309	$ 32,887	$ 5,422

In accordance with GASB 35, grants receivable related to the acquisition of capital assets are reported as a noncurrent receivable even though collection is expected within the next twelve months.

5. NOTES RECEIVABLE

Notes receivable include the following at June 30:

	2006			2005		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Perkins Loans	$ 33,600	$ -	$ 33,600	$ 34,196	$ -	$ 34,196
Nursing Loans	1,355	-	1,355	1,274	-	1,274
Institutional Loans	5,136	-	5,136	4,601	-	4,601
Loans to Foundation **(a)**	2,129	489	1,640	1,959	202	1,757
Total notes receivable	42,220	489	41,731	42,030	202	41,828
Less allowance for doubtful accounts	(617)	-	(617)	(623)	-	(623)
Total notes receivable, net	$ 41,603	$ 489	$ 41,114	$ 41,407	$ 202	$ 41,205

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 Assets as noncurrent assets.

(a) Loans to Foundation consists of the following:

	2006	2005
Quarterly payments at a variable rate. Payable in full by March 2010. Secured by a mortgage on property adjacent to the University of Southern Maine campus.	$ 1,716	$ 1,959
Quarterly payments at 4% per annum. Payable in full by July 2010. Secured by pledges receivable.	413	-
Total	$ 2,129	$ 1,959

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 is as follows:

	Beginning Balance	Additions	Reclasses	Retirements	Ending Balance
Land	$ 12,366	$ -	$ 48	$ -	$ 12,414
Library Materials	25,686	-	-	-	25,686
Construction in Progress	48,446	48,682	(57,345)	-	39,783
Total Nondepreciable Assets	86,498	48,682	(57,297)	-	77,883
Land Improvements	32,311	-	1,842	(132)	34,021
Buildings & Improvements	497,713	911	45,538	(1,437)	542,725
Equipment	68,414	7,209	9,917	(13,871)	71,669
Total Depreciable Assets	598,438	8,120	57,297	(15,440)	648,415
Less Accumulated Depreciation:					
Land Improvements	18,573	1,409	-	(82)	19,900
Buildings & Improvements	144,995	11,547	-	(795)	155,747
Equipment	37,881	7,243	-	(13,746)	31,378
Total Accumulated Depreciation	201,449	20,199	-	(14,623)	207,025
Net Depreciable Assets	396,989	(12,079)	57,297	(817)	441,390
Total Capital Assets	$ 483,487	$ 36,603	$ -	$ (817)	$ 519,273

Capital asset activity for the year ended June 30, 2005 is as follows:

	Beginning Balance	Additions	Reclasses	Retirements	Ending Balance
Land	$ 11,904	$ -	$ 462	$ -	$ 12,366
Library Materials	25,686	-	-	-	25,686
Construction in Progress	54,549	54,979	(61,082)	-	48,446
Total Nondepreciable Assets	92,139	54,979	(60,620)	-	86,498
Land Improvements	31,139	-	1,172	-	32,311
Buildings & Improvements	439,929	136	57,707	(59)	497,713
Equipment	86,046	7,917	1,037	(26,586)	68,414
Total Depreciable Assets	557,114	8,053	59,916	(26,645)	598,438
Less Accumulated Depreciation:					
Land Improvements	17,206	1,367	-	-	18,573
Buildings & Improvements	135,136	10,588	(704)	(25)	144,995
Equipment	56,592	7,857	-	(26,568)	37,881
Total Accumulated Depreciation	208,934	19,812	(704)	(26,593)	201,449
Net Depreciable Assets	348,180	(11,759)	60,620	(52)	396,989
Total Capital Assets	$ 440,319	$ 43,220	$ -	$ (52)	$ 483,487

Additions to capital assets in 2006 and 2005 include $2,657 and $2,051 of capitalized interest costs less $1,577 and $297, respectively, of interest earnings on unexpended revenue bond proceeds. Additions to equipment in 2006 and 2005 include $178 and $297, respectively, of equipment acquired through capital leases.

As of June 30, 2006 and 2005, $58,081 and $16,843, respectively, in proceeds from revenue bond issuances remain unspent. These amounts are included in the accompanying Statements of Net Assets as part of deposits with bond trustees.

Also remaining unspent as of June 30, 2006 are $9,855 in capital appropriations awarded by the State of Maine. These amounts are not included in the accompanying financial statements because the System has not met all eligibility requirements, e.g., incurred costs.

Both the revenue bond and capital appropriation monies are earmarked for specific projects, most of which are capital construction projects. As monies are spent on these projects the costs are included in capital assets in the accompanying Statements of Net Assets.

Outstanding commitments on uncompleted construction contracts total $41,967 at June 30, 2006.

7. LONG-TERM LIABILITIES

Changes in long-term liabilities during the year ended June 30, 2006 consist of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases and bonds payable:					
Capital lease obligations **(a)**	$ 656	$ 178	$ (247)	$ 587	$ 223
Bonds and note payable **(b)**	141,871	69,136	(15,210)	195,797	6,329
Total leases and bonds payable	142,527	69,314	(15,457)	196,384	6,552
Accrued liabilities:					
Workers' compensation - Note 11	5,624	2,004	(1,978)	5,650	1,377
Health insurance - Note 11	4,195	53,194	(52,988)	4,401	4,401
Other employee benefit programs - Note 13	32,853	40,001	(38,497)	34,357	3,496
Other	13,786	17,969	(13,394)	18,361	17,968
Total accrued liabilities	56,458	113,168	(106,857)	62,769	27,242
Total long-term liabilities	$ 198,985	$ 182,482	$ (122,314)	$ 259,153	$ 33,794

Changes in long-term liabilities during the year ended June 30, 2005 consist of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases and bonds payable:					
Capital lease obligations **(a)**	$ 706	$ 297	$ (347)	$ 656	$ 221
Bonds and note payable **(b)**	147,245	370	(5,744)	141,871	6,347
Total leases and bonds payable	147,951	667	(6,091)	142,527	6,568
Accrued liabilities:					
Workers' compensation - Note 11	4,882	2,149	(1,407)	5,624	1,251
Health insurance - Note 11	4,600	50,185	(50,590)	4,195	4,195
Other employee benefit programs - Note 13	31,495	47,626	(46,268)	32,853	3,142
Other	13,231	12,499	(11,944)	13,786	13,513
Total accrued liabilities	54,208	112,459	(110,209)	56,458	22,101
Total long-term liabilities	$ 202,159	$ 113,126	$ (116,300)	$ 198,985	$ 28,669

(a) Lease Obligations

The System leases certain equipment and real estate under leases with terms exceeding one year. The rent expense related to these operating leases amounted to $4,400 for the year ended June 30, 2006 and $4,600 for the year ended June 30, 2005.

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, 2006 are as follows:

	Capital Leases		Operating	
Year Ending June 30,	Principal	Interest	Leases	Total
2007	$ 223	$ 29	$ 1,682	$ 1,934
2008	186	18	696	900
2009	123	9	506	638
2010	44	3	270	317
2011	11	-	89	100
2012-2016	-	-	69	69
2017-2021	-	-	30	30
2022-2026	-	-	11	11
Total minimum lease payments	$ 587	$ 59	$ 3,353	$ 3,999

(b) Bonds and Note Payable

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

	2006	2005
2005 Series A Revenue Bonds (original principal of $69,125)		
Serial bonds, maturing from 2006 to 2035, with annual principal payments from $75 to $3,455 and coupon interest rates from 3.5% to 5.0%. Issued to partially refund the 1998A, 2000A, 2002A, and 2003A Series Revenue Bonds and to provide funding for capital projects.	$ 69,050	$ -
Add: unamortized premium	451	-
Less: unamortized deferred amount on refunding of 1998A, 2000A, 2002A, and 2003A bonds	(526)	-
Total 2005 Series A Bonds	68,975	-
2004 Series A Revenue Bonds (original principal of $43,270)		
Serial bonds, maturing from 2005 to 2029, with annual principal payments from $335 to $5,080 and coupon interest rates from 2.0% to 5.0%. Issued to partially refund the 1998A and 2000A Series Revenue Bonds and to provide funding for capital projects.	36,070	36,525
4.25% Term Bonds, due March 1, 2034	6,410	6,410
Add: unamortized premium	2,233	2,502
Less: unamortized deferred amount on refunding of 1998A and 2000A bonds	(1,412)	(1,798)
Total 2004 Series A Bonds	43,301	43,639
2003 Series A Revenue Bonds (original principal of $19,970)		
Serial bonds, maturing from 2004 to 2032, with annual principal payments from $145 to $1,610 and coupon interest rates from 3.0% to 4.75%. Issued to refund the 1993A and 1993B Series Revenue Bonds.	15,205	16,885
Add: unamortized premium	152	168
Less: unamortized deferred redemption fee on 1993 bonds	(244)	(281)
Total 2003 Series A Bonds	15,113	16,772
2002 Series A Revenue Bonds (original principal of $43,020)		
Serial Bonds, maturing from 2002 to 2012, with annual principal payments from $310 to $1,525 and coupon interest rates from 2.0% to 5.375%. A balloon payment of $31,915 is due in 2012.	38,785	40,255
Add: unamortized premium	1,660	1,932
Total 2002 Series A Bonds	40,445	42,187
2000 Series A Revenue Bonds (original principal of $41,725)		
Serial Bonds, maturing from 2001 to 2015, with annual principal payments from $1,490 to $4,465 and coupon interest rates from 4.5% to 5.75%.	8,075	9,860
5.60% Term Bonds, due March 1, 2020	-	2,385
5.50% Term Bonds, due March 1, 2030	1,985	5,435
Add: unamortized premium	34	63
Total 2000 Series A Bonds	10,094	17,743
1998 Series A Revenue Bonds (original principal of $29,540)		
Serial Bonds, maturing from 2000 to 2011, with annual principal payments from $660 to $1,050 and coupon interest rates from 3.95% to 4.75%.	4,810	5,650
5.00% Term Bonds, due March 1, 2018	2,880	5,495
5.00% Term Bonds, due March 1, 2024	10,540	10,540
Less: unamortized discount	(361)	(435)
Total 1998 Series A Bonds	17,869	21,250
Total bonds payable, net	$ 195,797	$ 141,591

	2006	2005
US Department of Agriculture Note		
Part of a $326 combination grant and loan award. Payable over ten years at a variable interest rate. Paid in full in FY2006.	$ -	$ 280
Total bonds and note payable	$195,797	$141,871

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

Principal and interest payments on bonds and note payable for the next five years and in subsequent five-year periods are as follows at June 30, 2006:

Year Ending June 30:	Principal	Interest	Total
2007	$ 6,265	$ 8,968	$ 15,233
2008	6,970	8,731	15,701
2009	6,875	8,456	15,331
2010	7,255	8,173	15,428
2011	7,545	7,877	15,422
2012-2016	65,840	27,722	93,562
2017-2021	28,855	18,758	47,613
2022-2026	25,520	12,226	37,746
2027-2031	24,095	6,625	30,720
2032-2035	14,590	1,579	16,169
	$ 193,810	$ 109,115	$ 302,925

Interest costs related to the Revenue Bonds for fiscal year 2006 and fiscal year 2005 were $7,785 and $6,289, respectively. These amounts are net of savings of $290 and $290, respectively, from an interest swap on the 2002 Series A Revenue Bonds – see Note 8. Of the total interest costs, $2,657 and $2,051 was capitalized as part of capital assets for the respective years ended June 30, 2006 and 2005 – see Note 6.

Refunding of Debt – FY2006

On November 3, 2005, the System issued 2005 Series A Revenue Bonds to advance refund a total of $8,800 of 2003, 2002, 2000 and 1998 Series A Revenue Bonds and to fund new capital projects. The System completed the refunding to reduce its total debt service payments over the following twenty-six years by $555 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $444. The principal amount of debt refunded through in-substance defeasance and still outstanding at June 30, 2006 was $8,720.

Refunding bond proceeds of $9,249 were placed in an escrow account to pay the interest due on the refunded bonds and to retire the bonds on their respective maturity dates which range from FY2006 thru FY2010. The escrow account is invested to yield enough earnings to pay required future payments which are $10,547 as of June 30, 2006.

The FY2006 refunding resulted in a deferred amount on refunding of $576 which represents the difference between the reacquisition price and the carrying value of the refunded bonds. Amortization of this deferred amount on refunding will be charged to operations as additional interest expense through the year 2028. The unamortized portion of the deferred amount on refunding, which is $526 as of June 30, 2006 is reported in the accompanying Statements of Net Assets as a reduction of the 2005 Series A Revenue Bonds.

Refunding of Debt – Prior Years

In prior years, the System defeased certain revenue bonds by placing the proceeds of new bonds in an escrow account to provide for all future debt service payments on the old bonds. This transaction met the requirements of an "in-substance defeasance" as defined by U.S. generally accepted accounting principles, and as a result, neither the escrow account nor the liability for the refunded bonds is included in the accompanying Statements of Net Assets. On June 30, 2006 and 2005, $18,975 of bonds outstanding are considered defeased.

In order to achieve higher earnings, during FY2005 the System restructured how the escrow account is invested. The restructuring resulted in net proceeds of $221 being returned to the System.

8. INTEREST RATE SWAP

As a means to lower its borrowing costs, the System entered into an interest rate swap in connection with the issuance of its $43,020 Series A Revenue Bonds (see note 7) in June 2002. The purpose of the agreement was to swap the fixed rate on the underlying debt for a variable rate for the term of the debt, and not for any speculative purposes.

In an effort to maximize total savings, the System terminated the swap on April 1, 2004 for a net gain of $2,291, which is being amortized over the remaining life of the related 2002 Series A Revenue Bonds. The unamortized amount as of June 30, 2006 and 2005 was $1,639 and $1,929, respectively and is included in deferred revenue and deposits in the accompanying Statements of Net Assets.

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, 2006 and 2005 has been included in the accompanying Statements of Net Assets as a noncurrent liability.

10. RESTRICTED NET ASSETS

The System is the recipient of funds that are subject to various external constraints upon their use, either as to purpose or time. These funds are composed of the following as of June 30:

	2006	2005
Restricted - Nonexpendable:		
Endowment funds	$ 48,153	$ 47,405
Restricted - Expendable:		
Student financial aid	$ 33,100	$ 28,811
Capital assets and retirement of debt	18,021	14,541
Loans	11,078	10,513
Academic support	7,894	8,489
Research and public service	8,876	7,762
Library	2,849	2,454
Other	17,596	16,279
Total restricted - expendable	$ 99,414	$ 88,849

11. COMMITMENTS AND CONTINGENCIES

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.

The System is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries; and natural disasters. The System manages these risks through a combination of participation in a public entity risk pool, commercial insurance policies purchased in the name of the System, and through self-insurance programs for workers' compensation claims and physical damage to automobiles.

The System's annual retention obligation for general liability is capped at $300, plus a $5 per claim deductible once the retention obligation is met. Educator's legal liability risks are subject to a $100 per loss retention with no annual cap. The System's estimate of the amount payable under these retention levels has been included in the accompanying Statements of Net Assets as part of current accrued liabilities. As of June 30, 2006 and 2005 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.

The System participates in a public entity risk pool with the State of Maine. The System pays an annual premium to the State of Maine for its property and boiler insurance coverage. The risk pool is self- sustaining through member premiums and reinsures through commercial companies for claims in excess of coverage provided by the fund. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

It is the policy of the System not to purchase primary commercial insurance for the risk of loss related to workers' compensation. Instead, the System's management believes it is more economical to anage its risk internally and to set aside assets for claims settlement. The liability for unpaid claims is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The System's estimated liability for workers' compensation claims is included in accrued liabilities in the accompanying Statements of Net Assets (see note 7). The System purchases commercial specific and aggregate excess workers' compensation insurance which limits the exposure for any one incident to $1,000 and provides coverage in the event that total claims exceed expectations.

The System's health insurance plan is financed through a minimum premium contract with a commercial carrier. The contract in effect at June 30, 2006 ends December 31, 2006. The plan allows the System to benefit from favorable claims experience, should paid claims be less than the maximum claim liability under the contract. As of June 30, 2006 and 2005, the System's paid claims for the six months then ended had not reached the maximum claim liability amount for the same six month period. Under a traditional premium arrangement, a component of the premium paid to the insurance carrier each month covers the terminal liability, or claims incurred during the period of coverage but not paid until after the period of coverage. However, under this minimum premium contract, the System retains the terminal liability component until the contract is terminated. As of June 30, 2006 and 2005, the estimated liability for claims incurred but not paid was $4,401 and $4,195, respectively, and is included in accrued liabilities in the accompanying Statements of Net Assets (see note 7).

The System continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

12. UNEXPENDED GRANTS

Generally, grants and contracts awarded to the System, but for which it has not fulfilled the eligibility requirements (e.g., incur allowable costs) are not included in the System's financial statements. The total of such awards as of June 30, 2006 and 2005 was $48,447 and $50,528, respectively.

In certain circumstances, however, the System receives cash in advance of fulfilling its obligations. In such situations the System reports the cash as an asset and reports an offsetting deferred revenue liability in the Statements of Net Assets. Outstanding advances as of June 30, 2006 and 2005 System's totaled $9,528 and $9,991, respectively.

13. PENSION PLANS

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

	2006	2005
Faculty and Professional Employees:		
Contributory Retirement Plan	$ 16,988	$ 16,920
Incentive Plan	2,024	2,232
Classified Employees:		
Basic Retirement Plan	3,024	2,922
Defined Benefit Plan	(258)	(161)
Total net pension expense	$ 21,778	$ 21,913

Faculty and Professional Employee Plans

Contributory Retirement Plan

Eligible salaried employees participate in the University of Maine System Retirement Plan for Faculty and Professional Employees (Contributory Plan), a defined contribution retirement plan administered by the Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF). The Board of Trustees and collective bargaining agreements establish mandatory employee and employer contribution rates.

All full-time employees are eligible once employment begins. Part-time employees are eligible upon achieving the equivalent of five years of continuous, full-time, regular service. All eligible employees are required to participate when they reach thirty years of age. The System contributes an amount equal to 10% of each participant's base salary, and each participant contributes 4% of base salary. Participant and System contributions are fully and immediately vested. Participants may direct up to 100% of existing accumulations and/or future contributions to selected investment vehicles outside of TIAA/CREF. Upon separation from the System, participants may withdraw up to 100% of their 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 $6,800 in FY2006 and $6,700 in FY2005.

Incentive Retirement Plan

Employees enrolled in the Contributory Plan may elect to retire at any age after 55. Such employees, except for represented faculty who became employed on or after July 1, 1996 and other professional employees who became employed on or after July 1, 2006, also 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. The Incentive Plan provides that eligible retiring employees with at least 10 years of continuous regular service immediately prior to retirement will receive a benefit equivalent to 1½% times their completed years of service times their final annual base salary (up to a maximum of 27 years). This amount is to be paid as a lump-sum contribution to the participant's TIAA or CREF account. Employees do not make contributions under the Incentive Plan.

The Incentive Plan, which is funded on a termination basis (i.e., when costs become due and payable), holds no assets. Actuarial valuations, utilizing the projected unit credit actuarial cost method and 30-year declining-period, dollar amortization, were performed as of June 30, 2006 and 2005. Interest was assumed to compound at an annual rate of 6.25% and salaries were assumed to increase at an annual rate of 3.5%.

Summarized below are the actuarial liability and actuarial value of assets at June 30:

	2006	2005
Actuarial accrued liability	$ 21,034	$ 20,271
Actuarial value of assets	-	-
Unfunded actuarial accrued liability	$ 21,034	$ 20,271

The net pension obligation (NPO) represents the cumulative difference between annual pension cost and employer contributions to the plan. The NPO is included in the accompanying Statements of Net Assets in noncurrent accrued liabilities (see other employee benefit programs in Note 7). Three-year trend information through June 30, 2006, which provides an indication of the progress made in accumulating sufficient assets to pay benefits when they become due, is as follows:

Fiscal Year Ended June 30	(a) Annual Required Contribution (ARC)	(b) Interest on NPO	(c) ARC Adjustment	(d) (a)+(b)-(c) Annual Pension Cost (APC)	(e) Employer Contributions Made	(f) (e)/(d) Percentage of APC Contributed	(g) (d)-(e) Change in NPO	Ending NPO Balance
2006	$ 2,356	$ 926	$ 1,258	$ 2,024	$ 1,106	55%	$ 918	$15,738
2005	$ 2,521	$ 876	$ 1,165	$ 2,232	$ 1,434	65%	$798	$14,820
2004	$ 2,330	$ 789	$ 1,029	$ 2,090	$ 689	33%	$1,401	$14,022

Classified Employees

Basic Retirement Plan

The Defined Contribution Program of the Basic Retirement Plan for Classified Employees (Basic Plan) was created on July 1, 1998 in accordance with Section 403(b) of the Internal Revenue Code. Classified employees hired July 1, 1998 or later participate in the Basic Plan. Most eligible employees who were hired before July 1, 1998 and who were younger than age 50 as of June 30, 1998 rolled over to the Basic Plan the value of their accrued benefit in the Defined Benefit Retirement Plan for Classified Staff (Defined Benefit Plan, as described further below), which until that time was the primary pension plan for classified employees. Eligible employees who were hired before July 1, 1998 and aged 50 or older on June 30, 1998 could elect to roll over to the Basic Plan the value of their accrued benefit in the Defined Benefit Plan or remain in the Defined Benefit Plan.

Full-time employees are eligible to participate in the Basic Plan once employment begins. Part-time employees are eligible once they have achieved the equivalent of five years of continuous, full-time regular service. Upon separation from the System, participants may withdraw up to 100% of their account balances, or transfer funds to other investment alternatives subject to Internal Revenue Service limitations and the contractual provisions of the Basic Plan.

Employees hired July 1, 1998 or later are required to contribute at least 1% and may contribute up to 4% of base pay to the Basic Plan. Their contributions are matched 100% by the System. Employees hired prior to July 1, 1998 and who have less than five years of completed service may voluntarily contribute up to 4% of base pay and receive a 100% match from the System.

Employees who (1) have five or more years of completed service and (2) do not participate in the Defined Benefit Plan automatically receive System contributions equal to 6% of their base pay. These employees may also voluntarily contribute 1% to 4% of their base pay and receive a 100% match from the System.

Employee contributions made to the Basic Plan were $1,440 in FY2006 and $1,430 in FY2005.

Defined Benefit Plan

The Defined Benefit Plan is maintained for eligible employees who chose not to join the Basic Plan. Normal retirement benefits are paid to participants who attain age 65 and retire. The monthly retirement benefit is based on a formula specified by policy in collective bargaining agreements.

Early retirement benefits are paid to participants who retire upon the attainment of age 55 and who have completed five years of continuous service. The benefit is computed in accordance with the normal retirement benefit, but is reduced by an actuarial factor because benefits will be paid over a longer period of time. No reduction is made if an employee retires after attaining 62 years of age with 25 or more years of service. Deferred vested benefits are paid to participants who have attained five or more years of continuous service. Participants are also eligible for disability and death benefits.

The Defined Benefit Plan holds investment assets consisting principally of equities, bonds and cash equivalents to fund benefits. At June 30, 2006 and 2005, these assets exceeded the Defined Benefit Plan's actuarial accrued liability. Because the Defined Benefit Plan is a separate trust, its assets and liabilities are not included in the accompanying financial statements. The actuarial accrued liability is a standardized measure representing the actuarial present value of credited projected pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits estimated to be payable in the future, as a result of employee service rendered to date. An actuarial valuation, utilizing the projected unit credit actuarial cost method and 10-year level amortization, was performed as of June 30, 2006 and 2005. Interest was assumed to compound at an annual rate of 6.5%, and salaries were assumed to increase at annual rate of 3.5%.

Summarized below are the accrued actuarial liability and actuarial value of assets at June 30:

	2006	2005
Actuarial accrued liability	$ 52,974	$ 53,024
Actuarial value of assets	59,521	58,988
Overfunded actuarial accrued liability	$ (6,547)	$ (5,964)

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

Funding of Basic and Defined Benefit Plans

While the Basic Plan and Defined Benefit Plan are administratively separate, they are both part of the Retirement Plan for Classified Employees and 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 excess assets in the Defined Benefit Plan, subject to certain limitations. During fiscal years 2006 and 2005, the System funded $-0- of employer contributions to the Basic Plan through the transfer of excess assets from the Defined Benefit Plan.

The NPO balance of the Defined Benefit Plan at transition was zero, since all actuarially determined required contributions were made by the System prior to that date. Annual required contributions and other metrics shown below accordingly reflect the funded status of the Defined Benefit Plan, as well as expected benefits attributable to the Basic Plan and ORSP.

Three-year trend information through June 30, 2006, including changes in the NPO, was as follows:

Fiscal Year Ended June 30	(a) Annual Required Contribution (ARC)	(b) Interest on NPO	(c) ARC Adjustment	(d) (a)+(b)-(c) Annual Pension Cost (APC)	(e) Employer Contributions Made	(f) (e)/(d) Percentage of APC Contributed	(g) (d)-(e) Change in NPO	Ending NPO Balance
2006	$ (268)	$ (9)	$ (19)	$ (258)	$ -	-	$ (258)	$ (393)
2005	$ (153)	$ 2	$ 10	$ (161)	$ -	-	$ (161)	$ (135)
2004	$ (620)	$ 54	$ 244	$ (810)	$ -	-	$ (810)	$ 26

As of June 30, 2006 and 2005, the NPO is included in the accompanying Statement of Net Assets as part of accounts, grants, and pledges receivable.

14. POSTEMPLOYMENT HEALTH PLAN

The System provides postemployment health insurance to retirees meeting certain age and years-of-service requirements. As of June 30, 2006 and 2005 , there were approximately 1,800 persons (including widows/widowers) receiving postemployment health benefits.

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

- Retired from the System with at least 10 years of full-time regular service and has reached age 65 or
- A former employee approved for long-term disability benefits regardless of age or service

The subsidy for those meeting the above requirements is 100% of the cost for the retiree and 50% of the costs for eligible dependents. With certain restrictions, dependents are eligible to continue coverage at the 50% rate after the death of a retiree meeting the above criteria. As of both June 30, 2006 and 2005 there were approximately 1,600 persons receiving a subsidy from the System.

The following persons may also participate in the System's health insurance plan after retirement; however, they must pay 100% of the cost for themselves and their dependents:

- Retired from the System with at least 10 years of full-time regular service and has reached age 55 but is under age 65 **or**
- Retired from the System at age 65 or older but had not met the years of service requirement

As of June 30, 2006 and 2005, there were approximately 110 and 130 persons, respectively, participating in the plan but not receiving a subsidy from the System.

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

The System finances the postemployment health plan on a pay-as-you-go basis. Total gross costs for the year ended June 30, 2006 and 2005 were $11,200 and $11,200, respectively, with the participants contributing $2,500 and $2,600, respectively toward the costs.

15. PASS THROUGH GRANTS

During fiscal year 2006 and 2005, the System distributed $12,568 and $11,479, 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 nor as cash disbursements and cash receipts in the accompanying financial statements.

16. COMPONENT UNITS

Effective July 1, 2003, the System adopted the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* (GASB 39), which establishes criteria for determining whether certain related organizations should be reported as component units based on the nature and significance of their relationship with a primary government and clarifies reporting requirements for those organizations.

The System is supported in part by several foundations and alumni associations that raise funds on the System's behalf. The System determined that certain of those entities meet the criteria under GASB 39 for inclusion as discretely presented component units of the System and, accordingly, has presented them in the accompanying financial statements as of and for the years ended June 30, 2006 and 2005.

The discretely presented component units are private, not-for-profit organizations that report under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. Accordingly, certain presentation features and revenue recognition criteria used by the component units are different than those followed by the System under GASB. Under GASB, all changes in net assets are reported in a single statement of revenues, expenses, and changes in net assets, whereas under FASB such changes are reported in three net asset classes – unrestricted, temporarily restricted and permanently restricted – based solely on the existence or absence of donor-imposed restrictions. These FASB net asset classes are not necessarily equivalent from a financial reporting standpoint to the System's unrestricted, restricted expendable and restricted nonexpendable net asset classes, respectively, under GASB. In addition, under FASB principles, unconditional pledges of permanently restricted net assets are recognized at the date the promise becomes unconditional, whereas under GASB such amounts are recognized when received in cash. No modifications have been made to the component unit financial information in the System's financial reporting entity for these or other differences.

The System's major discretely presented component unit is the University of Maine Foundation ("the Foundation"), which is a legally separate, tax-exempt organization that 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 majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the System by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the System (specifically the University of Maine), the Foundation is considered a component unit of the System and is discretely presented in the System's financial statements.

During the years ended June 30, 2006 and June 30, 2005, the Foundation distributed $5,496 and $4,963, respectively, to the System for both restricted and unrestricted purposes. The Foundation has reported this amount as part of its total program expenses.

Condensed financial information of the Foundation is as follows as of and for the year ended June 30:

	2006	2005
Assets		
Investments at fair value	$ 128,687	$ 115,421
Other	18,847	23,573
Total Assets	$ 147,534	$ 138,994
Liabilities and Net Assets		
Notes payable and other liabilities	$ 4,718	$ 9,082
Net Assets:		
Unrestricted	5,119	4,927
Temporarily restricted	36,918	32,880
Permanently restricted	100,779	92,105
Total Net Assets	142,816	129,912
Total Liabilities and Net Assets	$ 147,534	$ 138,994

	2006	2005
Changes in Unrestricted Net Assets:		
Revenues and other support:		
Contributions and net assets released from restrictions	$ 7,109	$ 4,870
Investment income and other revenue	510	372
Total revenues and other support	7,619	5,242
Expenses:		
Program	6,322	5,829
Other	1,105	1,282
Total expenses	7,427	7,111
Decrease in unrestricted net assets	192	(1,869)
Changes in Temporarily Restricted Net Assets:		
Contributions and net assets released from restrictions	(5,562)	(1,385)
Investment income and other revenue	9,600	6,961
Increase in temporarily restricted net assets	4,038	5,576
Changes in Permanently Restricted Net Assets:		
Contributions and net assets released from restrictions	8,496	7,295
Investment income and other revenue	178	(35)
Increase in permanently restricted net assets	8,674	7,260
Increase in total net assets	12,904	10,967
Net assets, beginning of year	129,912	118,945
Net assets, end of year	$ 142,816	$ 129,912

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

UNIVERSITY OF MAINE SYSTEM
Required Supplemental Information – Retirement Plans
Schedules of Funding Progress, Employers' Contributions, and Related Note
Year ended June 30, 2006
(Unaudited)
($ in thousands)

Schedules of Funding Progress

Actuarial valuation (date as of June 30)	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll (b-a)/(c)
Incentive Retirement Plan for Faculty and Professionals						
2006	$ —	$ 21,034	$ 21,034	—	$ 134,672	15.6%
2005	$ —	$ 20,271	$ 20,271	—	$ 135,017	15.0%
2004	$ —	$ 21,219	$ 21,219	—	$ 130,216	16.3%
2003	$ —	$ 19,980	$ 19,980	—	$ 127,531	15.7%
2002	$ —	$ 17,824	$ 17,824	—	$ 100,463	17.7%
2001	$ —	$ 15,371	$ 15,371	—	$ 96,599	15.9%
Retirement Plan for Classified Staff - Classified Plan Only						
2006	$ 59,521	$ 52,974	$ (6,547)	112.4%	$ 4,203	(155.8%)
2005	$ 58,988	$ 53,024	$ (5,964)	111.2%	$ 6,235	(95.7%)
2004	$ 59,248	$ 56,804	$ (2,444)	104.3%	$ 7,279	(33.6%)
2003	$ 59,087	$ 53,831	$ (5,256)	109.8%	$ 8,770	(59.9%)
2002	$ 62,257	$ 51,618	$ (10,639)	120.6%	$ 9,276	(114.7%)
2001	$ 64,672	$ 50,475	$ (14,197)	128.1%	$ 9,730	(145.9%)

Schedules of Employers' Contributions

Year ended June 30	Annual required contribution	Percentage contributed	Annual required contribution	Percentage contributed
	Incentive Retirement Plan for Faculty and Professionals		Retirement Plan for Classified Staff	
2006	$ 2,356	47%	$ (268)	—
2005	$ 2,521	57%	$ (153)	—
2004	$ 2,330	30%	$ (620)	—
2003	$ 2,073	25%	$ 741	—
2002	$ 1,768	75%	$ 81	—
2001	$ 1,679	47%	$ (290)	—

Note to Schedules

The information presented in the required supplementary schedules as of June 30, 2006 was determined using the actuarial valuation as of June 30, 2006 with the following significant assumptions:

	Incentive Retirement Plan for Faculty and Professionals	Retirement Plan for Classified Staff
Actuarial cost method	Projected unit credit	Projected unit credit
Amortization method	30-year declining period, level dollar	10-year level dollar
Remaining amortization period	21 years	1 year
Asset valuation method	N/A	5-year smoothing of differences between actual and expected returns
Actuarial assumptions:		
Investment rate of return	6.25%	6.50%
Projected salary increases	3.50%	3.50%
Cost-of-living adjustments	N/A	N/A

UNIVERSITY OF MAINE SYSTEM
Supplemental Information Required by the State of Maine
Schedules of Activities
($ in thousands)

Year Ended June 30, 2006

Schedule 1

Functions/Programs	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue
University of Maine System	$ 591,532	$ 242,316	$ 170,016	$ 4,746	$ (174,454)
General Revenues:					
Unrestricted interest and investment earnings					7,909
Additions to endowments - gifts					411
State of Maine noncapital appropriation					184,688
State of Maine capital appropriation					12,500
Gain on disposal of capital assets					2,821
Total Revenues and Extraordinary Items					208,329
Change in Net Assets					33,875
Net Assets, Beginning of Year					554,663
Net Assets, End of Year					$ 588,538

Year Ended June 30, 2005

Schedule 2

Functions/Programs	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue
University of Maine System	$ 567,392	$ 226,356	$ 168,440	$ 7,904	$ (164,692)
General Revenues:					
Unrestricted interest and investment earnings					5,827
Additions to endowments - gifts					1,778
State of Maine noncapital appropriation					179,904
State of Maine capital appropriation					18,360
Gain on disposal of capital assets					308
Total Revenues and Extraordinary Items					206,177
Change in Net Assets					41,485
Net Assets, Beginning of Year					513,178
Net Assets, End of Year					$ 554,663

KPMG LLP
99 High Street
Boston, MA 02110-2371

Telephone 617 988 1000
Fax 617 507 8321
Internet www.us.kpmg.com

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
University of Maine System:

We have audited the financial statements of the business-type activities and aggregate discretely presented component units of the University of Maine System (the System), a component unit of the State of Maine, as of and for the year ended June 30, 2006, which collectively comprise the System's basic financial statements, and have issued our report thereon dated October 20, 2006, which included a reference to the reports of the other auditors. We conducted our audit 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.

Our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters did not include the entities audited by the other auditors referred to in the previous paragraph. The findings, if any, of the other auditors are not included herein.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we communicated to management of the System in a separate letter dated October 20, 2006.

This report is intended solely for the information and use of the Audit Committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 20, 2006

APPENDIX E

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects, in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].