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THE UNIVERSITY OF MAINE SYSTEM

2001 Annual Financial Report

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University of Maine

Photo courtesy of University of Maine Dept. of Marketing
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University of Southern Maine

Payson Smith Hall
Photographer - Peter Finger

Cover

University of Maine at Fort Kent

Photo courtesy of UMFK University Relations Office
Photographer - Joe Olesweski

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PRESIDENT, UNIVERSITY OF SOUTHERN MAINE

*Effective August 1, 2001, Terrence J. MacTaggart stepped down as Chancellor having completed a five-year commitment.

The University of Maine System, created by statute in 1968, is tax-exempt under Section 501(c)(3) of the 1986 Internal Revenue Code. The System is a nationally recognized leader in combining excellence with access in public higher education. Responsive to the special history and character of Maine, the System is made up of seven universities and ten centers stretching from Sanford in the south to Fort Kent at Maine's northernmost border with Canada. The diversity of the System makes it unique; a land grant/sea grant research university at Orono; an urban comprehensive university with campuses in Portland, Gorham, and Lewiston-Auburn; a selective liberal arts university in Farmington; and regional baccalaureate universities in Augusta, Fort Kent, Machias, and Presque Isle.

CHANCELLOR'S MESSAGE

THE MAINE IDEA: University of Maine System graduates will be among the best prepared for the educational, economic, and social challenges of the 21st century.




On August 1, 2001, Dr. Terry MacTaggart, after completing his five-year commitment, stepped down as Chancellor of the University of Maine System to assume the position of University of Maine System Research Professor. I am honored to serve as Interim Chancellor, and one of my tasks is to continue the University of Maine System's momentum to accomplish the vision of *The Maine Idea: University of Maine System graduates will be among the best prepared for the educational, economic, and social challenges of the 21st century.*

The Maine Idea is a strategy for helping to ensure Maine's future by preparing Maine's citizens to prosper and by ensuring that Maine's businesses have the high quality workforce necessary to compete effectively in a global economy. This strategy incorporates a multi-year approach that centers on the talents and aspirations of Maine people and addresses the educational, economic, and social challenges of the future.

Our strategy encompasses 5 major goals: 1) To prepare students for life, work, and citizenship in this new century by strengthening their cognitive skills and attitudes and developing the strong professional and technical competence essential to succeeding in an ever-changing global economy. 2) To increase the number of Maine college graduates, we must offer more financial aid, provide broad geographical and cost-effective access to education, and develop exemplary academic programs in areas that are important to Maine. 3) To maximize the use of technology to enrich human talent. The University of Maine System will adapt the best that technology offers to improve learning, information sharing, and research, and students will receive the necessary technical skills needed to succeed in the information economy. Since access to information is a prerequisite to knowledge, the System will also provide access to information for all Maine citizens through digital technology. 4) To form partnerships to strengthen working relationships with the K-12 education system and expand collaborations in research and development initiatives. 5) To sustain core operations by retaining highly qualified professionals, providing equitable and competitive compensation for all employees, and maintaining our capital assets with an emphasis on technology.

Favorable results of these directions will be more well-prepared graduates with the necessary knowledge and skills to succeed in the 21st century, a high-quality workforce that meets the demands for Maine's economy, support for an expanded technology-based Maine economy, and stronger Universities with greater capacities to serve the Maine people.

I am pleased to present to the citizens of Maine the Annual Financial Report of the University of Maine System for the year ending June 30, 2001. This report contains information on both the current status of the System as well as an accounting of its financial stewardship during the last fiscal year. These financial statements were prepared by the University of Maine System Treasurer's Office and audited by our external auditors, KPMG LLP. We will be pleased to respond to any questions or comments you may have.



Donald L. McDowell
Interim Chancellor

CFO & TREASURER'S MESSAGE

During FY2001, the University of Maine System continued to focus on providing the highest quality educational experience for its students at a reasonable cost while ensuring the financial stability and growth of the System. Total revenues and other additions were \$533.5 million, which represents an 8.4% increase or \$41.4 million over fiscal year ended June 30, 2000. Likewise, total expenditures and other deductions increased by 8.9%, resulting in a net increase in fund balances for the year of \$23.3 million, nearly flat as compared to the prior year.

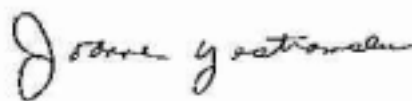
System-wide FTE enrollment increased by 2.2% over last year, with most of the increase coming from out-of-state students. In-state tuition and mandatory fees increased 4% on the average, with our land-grant university continuing to have the lowest tuition and mandatory fees when compared to other New England land-grant universities. The State appropriation for Educational and General expenses totaled \$169.3 million which reflected a 4% increase over the prior year. The combination of our enrollment, tuition, and State appropriation increases allowed us to make progress toward the goals encompassed within *The Maine Idea*, most notably, increased financial aid, expanded academic and public programming, and greater investments in research and development, technology, and capital assets. The pages which follow provide a progress report toward these goals.

The fair market value of the pooled endowments totaled \$87.4 million at June 30, 2001. Due to the extreme volatility in the equity markets, the fund returned a negative 7.9% during the past year. The five-year annual return was 10%, and the asset allocation at year end was 75% equity and 25% fixed income. Endowment gifts totaling \$3.2 million were received last year, including \$1 million from the State for a matching scholarship program.

The Balance Sheet reflects the significant amount of capital projects in progress at year end as well as the funding sources for these projects. As of June 30, 2001, the System had approximately \$111 million of construction projects in progress. Funding for these projects comes primarily from three sources: one-time State appropriations and bond issues totaling approximately \$25 million which were received during Fiscal 2000 and 2001, net bond proceeds of \$38.5 million from the University of Maine System Series A Revenue bonds issued in August, 2000, and capital gifts and grants totaling \$9 million over the past two years. As a result of capital funding being received in advance of construction spending, Plant funds-unexpended reflects a \$23.9 million increase.

Notes and bonds payable increased from \$51.3 million to \$88.9 million as a result of the 2000 Series A Revenue bonds mentioned above. Likewise, annual debt service increased by \$3.3 million of which the State is funding \$2.5 million for R&D related capital projects. Our debt service coverage ratio is approximately 2 times, and our annual debt service as a percentage of unrestricted current fund expenditures and mandatory transfers is 3.3% for the year ended June 30, 2001. Fitch and Standard & Poor's reconfirmed our bond ratings last summer as A+ and AA, respectively.

Contained in the latter half of this Annual Financial Report are the actual financial statements. Prior to these financial statements are highlights of the University of Maine System which provide background information and a perspective for reviewing the actual statements.

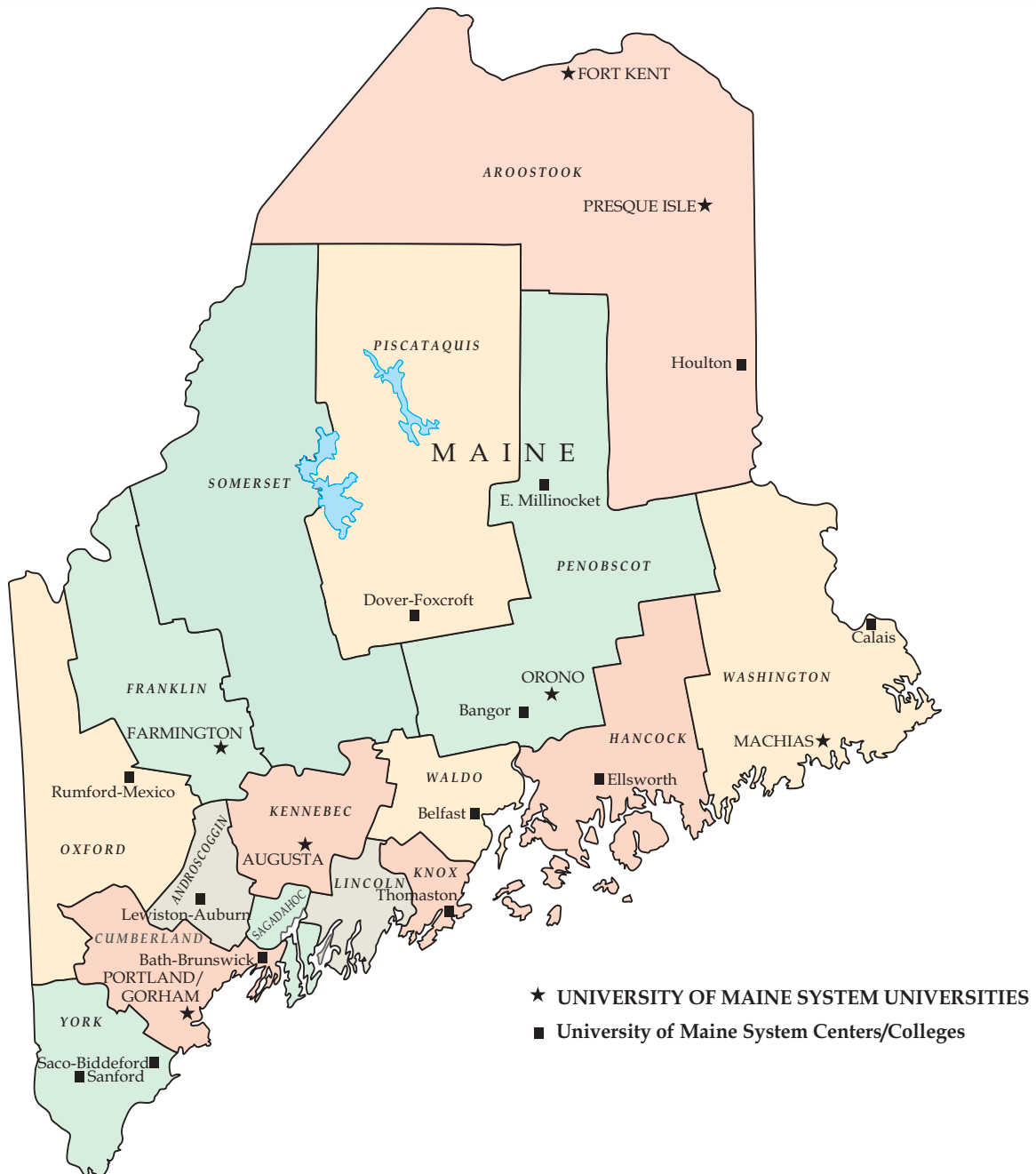


Joanne L. Yestramski
Chief Financial Officer & Treasurer

MISSION

The University of Maine System unites seven distinctive public universities in the common purpose of providing first-rate higher education at reasonable cost in order to improve the quality of life for the citizens of Maine. The System, through its Universities, carries out the traditional tripartite mission - teaching, research, and public service. As a System, it extends its mission as a major resource for the State, linking economic growth, the education of its people, and the application of research and scholarship.

UNIVERSITY OF MAINE SYSTEM UNIVERSITIES AND CENTERS/COLLEGES



UNIVERSITY OF MAINE SYSTEM PROFILE

FY97 FY98 FY99 FY00 **FY01**

STUDENTS

Fall FTE Enrollment	20,294	20,010	20,510	21,472	21,938
State Appropriation per FTE Student in Constant FY86 Dollars	\$4,570	\$4,659	\$4,723	\$4,860	\$4,796
% of Students from Maine	89.2%	89.4%	89.4%	88.7%	88.2%
Total Financial Aid	\$121.9M	\$126.3M	\$138.7M	\$144.4M	\$161.8M

FINANCES

Total Current Fund Revenues	\$383.8M	\$395.2M	\$426.6M	\$464.8M	\$493.1M
Federal Funds	\$46.8M	\$46.3M	\$52.0M	\$57.1M	\$59.6M
Gross Endowment Earnings	\$3.0M	\$3.7M	\$4.1M	\$4.9M	\$5.2M
Total Return on Pooled Endowment Investment	20.7%	19.8%	12.6%	7.3%	-7.9%
Pooled Endowment Investments (Market Value)	\$70.4M	\$82.1M	\$92.4M	\$96.9M	\$87.4M
Tuition & Fees as a % of Unrestricted Revenue	29.7%	29.9%	29.7%	29.2%	29.0%
State Appropriation as a % of Unrestricted Revenue	45.6%	45.6%	45.1%	45.8%	45.3%
Gifts Accepted by Trustees	\$13.3M	\$14.3M	\$13.9M	\$16.7M	\$12.8M
Building Replacement Value	\$818.1M	\$841.1M	\$851.1M	\$965.8M	\$984.5M

HIGHLIGHTS: THE DECADE IN REVIEW

Year Ended June 30 (Current Fund)

SOURCES OF OPERATING FUNDS	1991		1996		2001	
	\$	%	\$	%	\$	%
Tuition & Fees	61,172,592	18.4	82,012,160	22.4	108,187,550	21.9
State Appropriation	146,034,313	44.0	132,642,841	36.3	169,319,356	34.3
Federal Grants & Contracts	30,250,416	9.1	40,108,857	11.0	54,443,535	11.0
Federal Appropriation	3,151,067	0.9	6,066,002	1.7	5,108,795	1.0
State Grants & Contracts	11,029,383	3.3	16,624,563	4.5	30,034,470	6.1
Private Gifts, Grants & Contracts	11,454,557	3.5	14,509,092	4.0	24,565,966	5.0
Indirect Cost Recovery	3,423,012	1.0	5,073,984	1.4	9,243,218	1.9
Endowment Income	1,481,991	0.4	2,456,381	0.7	4,888,926	1.0
Investment Income	4,233,931	1.3	4,528,853	1.2	6,660,624	1.4
Educational Sales & Services	14,665,071	4.4	17,029,012	4.7	24,432,619	5.0
Auxiliary Enterprises	44,975,494	13.6	44,827,603	12.3	56,257,443	11.4
Total	331,871,827	100.0	365,879,348	100.0	493,142,502	100.0

OPERATING EXPENDITURES*	\$		\$		\$	
	\$	%	\$	%	\$	%
Instruction	92,043,010	29.2	102,286,464	28.4	129,312,785	27.2
Academic Support	31,097,153	9.9	38,624,288	10.7	48,214,292	10.2
Research	23,541,992	7.5	32,334,282	9.0	55,583,997	11.7
Public Service	30,621,826	9.7	31,526,368	8.8	39,406,495	8.3
Student Services	21,003,315	6.7	25,989,762	7.2	34,546,701	7.3
Student Aid	27,576,812	8.8	36,286,621	10.1	50,677,425	10.7
Institutional Support	26,664,185	8.5	29,405,900	8.2	33,791,824	7.1
Operation & Maintenance of Plant	21,284,088	6.8	22,796,865	6.3	29,436,845	6.2
Auxiliary Enterprises	41,111,853	13.1	41,043,400	11.4	53,797,371	11.3
Total	314,944,234	100.0	360,293,950	100.0	474,767,735	100.0

*Excludes transfers between fund groups.

NOTE: Percents may not add to 100.0 due to rounding.

FUNDING

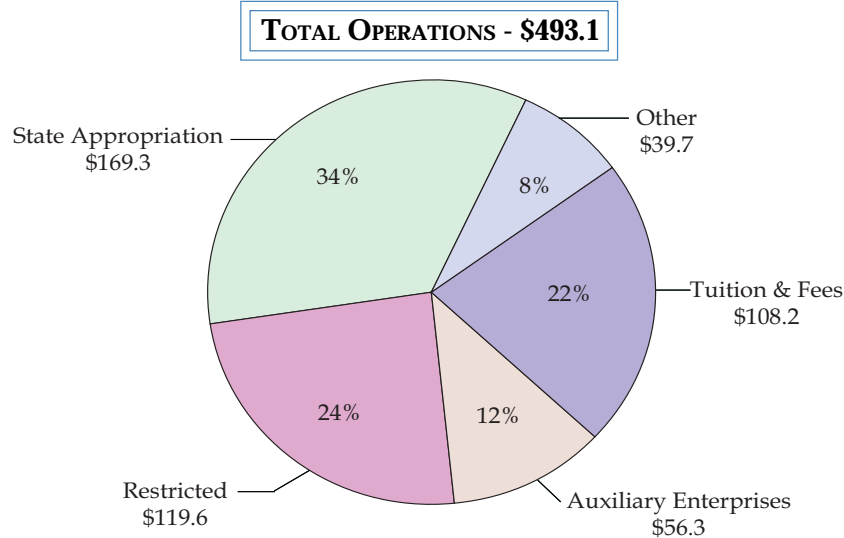
Year Ended June 30 (Current Fund)

The financial activities of the System are reported in several funds. The Current Fund consists of Unrestricted and Restricted Funds. Restricted funds primarily include gifts, grants, and contracts. Unrestricted Funds consist primarily of Educational and General Programs (instruction, research, public service, and support services) and self-supporting Auxiliary Enterprise

activities (residence halls, dining halls, bookstores, and student unions).

Total revenue from Current Fund Operations increased by \$28.3 million in FY2001 and totaled \$493.1 million. The unrestricted portion of the State of Maine appropriation was \$169.3 million which reflected an increase of \$6.9 million or 4%.

FY2001 CURRENT FUND OPERATIONS (ACTUAL REVENUE IN MILLIONS)



CURRENT FUND STATE APPROPRIATION (FY1992 - FY2001)



POOLED ENDOWMENT INVESTMENTS

Fiscal Year Ended June 30, 2001

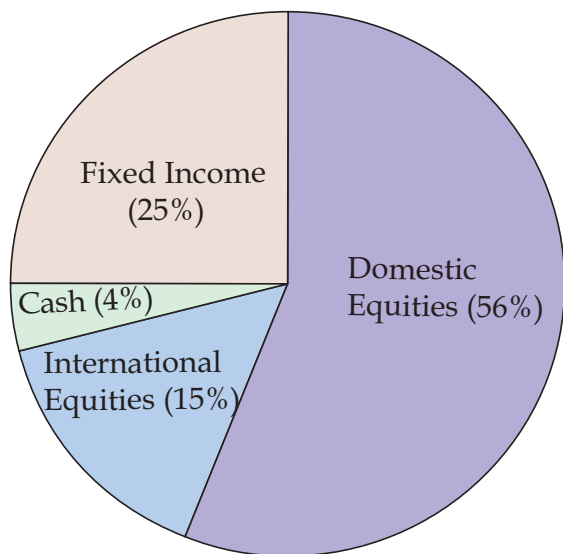
In general, endowments are gifts from donors who stipulate that the original amount of the gift (principal) cannot be expended. Only the income and related appreciation that is earned from the initial investment can be expended either for purposes established by the donor (restricted) or at the System's discretion (unrestricted). The donor may also specify that gifts be invested separately; otherwise, gifts are placed in the System's pooled endowment fund.

Pooled endowment funds are invested with several different investment managers with the assets distributed across a variety of asset classes.

The FY2001 year-end fair market value of the pooled endowment investments was \$87.4 million as compared to \$96.9 million at the end of FY2000, reflecting a decrease of \$9.5 million and a total return of -7.9%. The entire endowment fund totaled \$87.9 million of which \$.5 million was invested separately and, therefore, not included in the pooled investments. The annualized 5-year return on the pooled endowment investments was 10.0% whereas the annualized 3-year return was 3.6%.

MARKET VALUE OF POOLED ENDOWMENT INVESTMENTS
(DOLLARS IN MILLIONS)

ASSET ALLOCATION BY TYPE



The Trustee Investment Committee established a policy whereby the endowment funds spending guideline is 5.5% of the 3-year average market value.

Non-endowed gifts for operations that are normally expended upon receipt or within one year are excluded from the above review of the Endowment Fund.

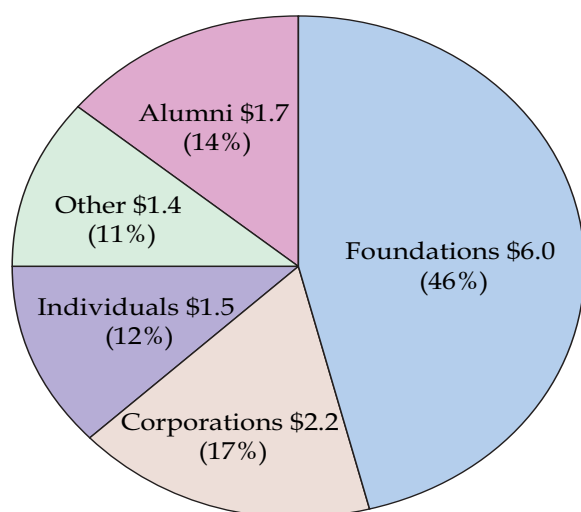
GIFTS

Fiscal Year Ended June 30, 2001

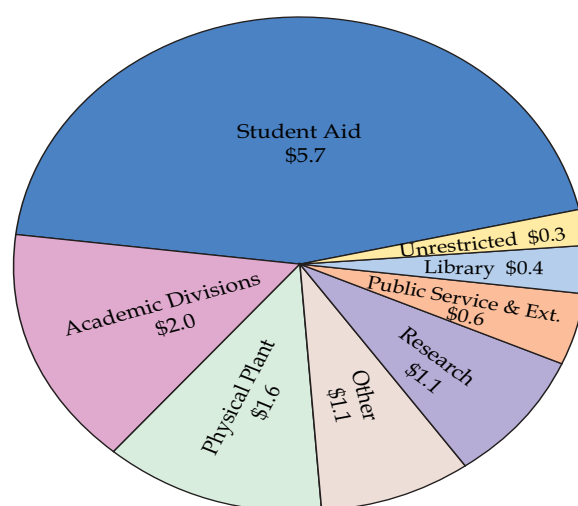
The System accepted \$12.8 million in cash gifts during FY2001. In addition to cash gifts, the System also received gifts of tangible items such as computer software, machinery, artworks, and various laboratory equipment.

Gifts may be given to the System for a specific purpose (restricted) or to be used at the discretion of the System (unrestricted). \$12.5 million of the \$12.8 million in gifts accepted by the System were restricted gifts and of these, the largest portion was earmarked for student financial aid.

CASH GIFTS BY DONOR TYPE
\$12.8 million



CASH GIFTS BY DONOR PURPOSE
\$12.8 million



5 Year History of Cash Gifts Accepted:

	FY97	FY98	FY99	FY00	FY01
Alumni	\$3,537,808	\$2,714,222	\$3,395,047	\$1,982,760	\$1,730,394
Individuals	1,757,530	1,959,581	1,527,669	1,766,372	1,525,182
Corporations	1,877,926	2,228,450	2,275,231	2,470,530	2,222,460
Foundations	5,642,362	7,079,153	6,390,394	10,010,587	5,927,621
Other	465,395	322,718	327,396	435,115	1,374,006
Total	\$13,281,021	\$14,304,124	\$13,915,737	\$16,665,364	\$12,779,663

SPONSORED PROGRAMS

Expand collaboration in R&D initiatives with private labs, business, and government *The Maine Idea*

The System is involved in three types of sponsored programs:

- Grants - Grantor voluntarily provides the System with financial assistance in the pursuit of a common objective based on a formal agreement between the parties.
- Contracts - A legal written agreement, often negotiated, between the System and the organization providing the funds. These contracts generally involve the generation of a tangible product or service often for the exclusive or proprietary use of the contracting agency.
- Cooperative Agreements - Substantial involvement is anticipated between the sponsor and the institution during the performance of the activity. It may include directed performance, exchange of employees, materials, and test results.

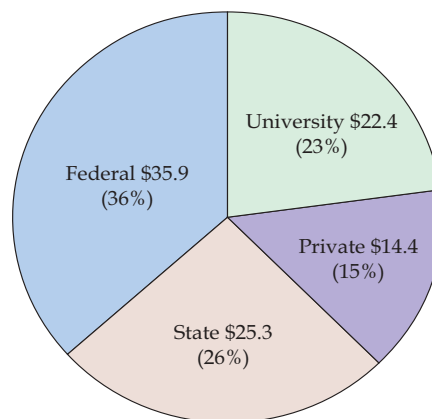
During FY2001, the total funding of sponsored programs (excluding financial aid) received from federal and state agencies, private industries and organizations, and the System totaled \$98.0 million which represents a 12.3% increase from FY2000's revenue of \$87.2 million. This funding is used for projects ranging from engineering to healthcare and educational concerns to marine science.

REVENUE

Federal agencies provided \$35.9 million (36%) of the total funding with the Departments of Agriculture, Education, Defense, and the National Science Foundation being the largest contributors. State agencies provided \$25.3 million (26%) with the Department of Human Services providing more than half of the total State funding. Private sources provided \$14.4 million or (15%) with the majority

of this funding coming from non-profit organizations. Through direct and indirect cost sharing, the System contributed \$22.4 million (23%).

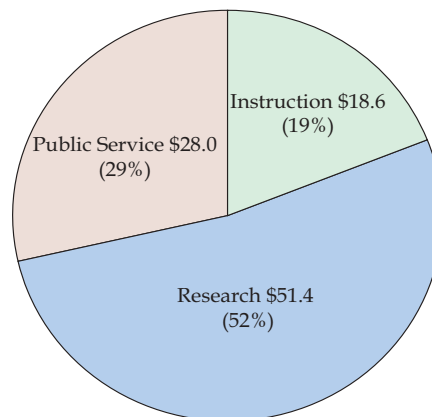
FY2001 - REVENUE BY SOURCE
\$98.0 MILLION



EXPENDITURES

Based on the type of activity, expenditures are categorized as either Research, Public Service, or Instruction.

FY2001 - EXPENDITURES BY ACTIVITY
\$98.0 MILLION



SPONSORED PROGRAMS

Examples of sponsored programs that the University of Maine System was engaged in during FY2001 are listed below:

The Gulf of Maine Ocean Observation System is an information collection system, designed by the University of Maine School of Marine Sciences, that includes 12 oceanographic buoys deployed throughout the Gulf of Maine. The system collects real time data on ocean conditions such as temperature, salinity, wave and current action, wind, and biological activity. The data is sent back to Orono by cellular phone and made available to researchers, commercial companies, and the public via a website.

As part of a national and international collaboration coordinated by the Mount Sinai School of Medicine, the School of Applied Science, Engineering & Technology at the University of Southern Maine is studying the interaction between genetic predisposition and environmental exposures in relation to radiation-induced human breast cancer.

The U. S. Department of Education awarded a grant to the University of Maine's new interdisciplinary Center for Science and Mathematics Education Research to develop a model program to enhance mathematics and science education. Faculty, students, and public school teachers affiliated with the Center will investigate the teaching and learning of science and mathematics and develop new courses for teacher training.

With funding from the Federal Administration for Children and Families, the Muskie School of Public Service at the University of Southern Maine is working with state, local, and tribal agencies nationwide to examine state welfare practices and agency infrastructure in order to enhance the delivery of services that protect the safety and well-being of children.

A grant was received by the University of Maine at Fort Kent from Parks Canada to inventory the epiphytic lichens in mature boreal forest stands in northern Cape Breton Island and analyze their implications for the biological continuity, or successional age, in Cape Breton Highlands National Park and other protected areas in north Cape Breton.

The Rural Microenterprise Assistance Project is in partnership with the Maine State Small Business Development Centers and the Women's Agricultural Network. The purpose of this partnership, which involves the University of Maine at Augusta, is to provide a seamless web of services to women who are trying to start or expand farm-based businesses.

The Department of Mechanical Engineering at the University of Maine received funding from the Navy for the Modular Advanced Composites Hullform project to support the development of panelized composite hullforms for naval and civilian applications.



University of Maine at Presque Isle
Campus Center
Photographer - Bill Duncan

STUDENT COSTS

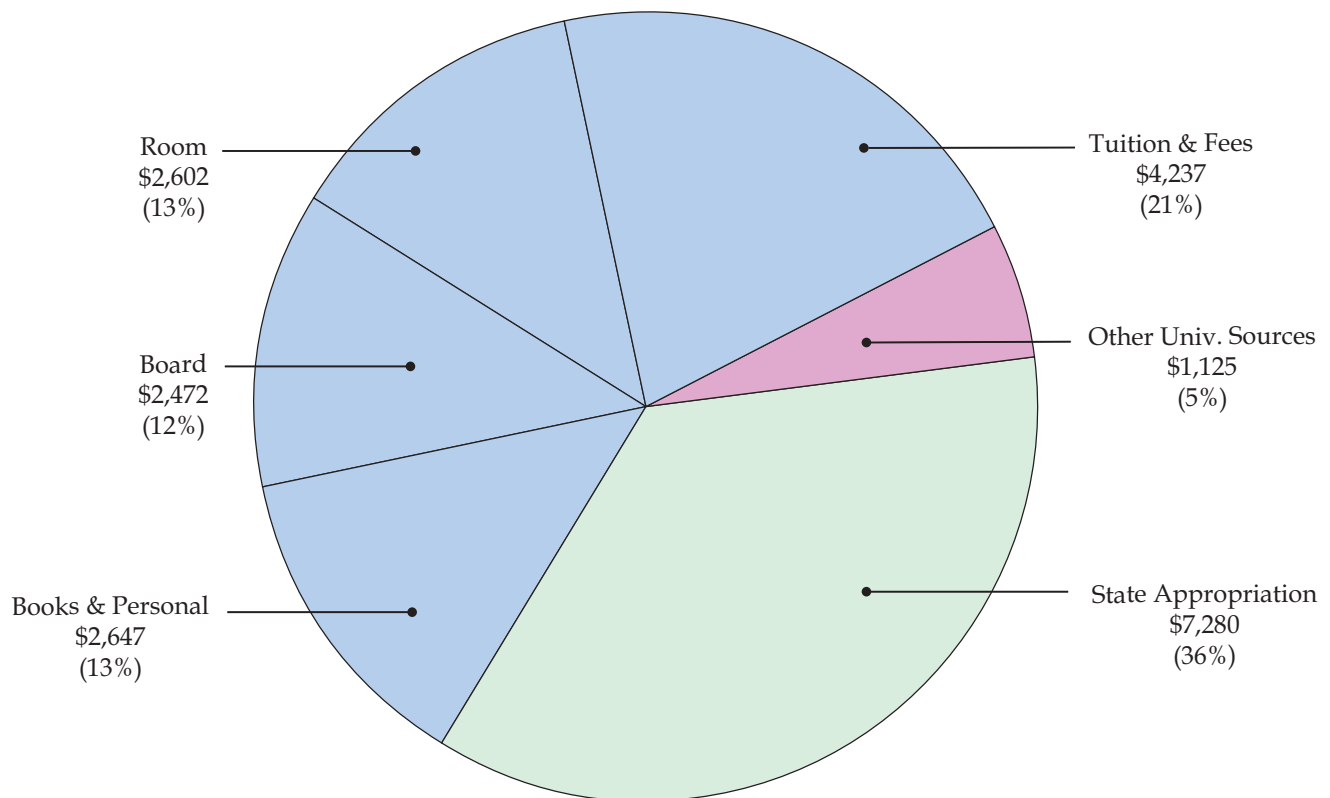
For FY2001, the annual total cost to educate an undergraduate, in-state, on-campus student was \$20,363, reflecting a 4.9% increase over the FY2000 cost. Tuition for undergraduate, in-state students residing on campus continued to equal 21% of the total educational costs.

Various sources paid the total costs to educate a student. For undergraduate, in-state students residing on campus, the student, family, and/or financial aid paid \$11,958 or 59% of the annual

estimated total costs. The remainder (\$8,405) was funded primarily by the State of Maine Appropriation to the University System.

The rates for tuition, mandatory fees, room, and board are established by the Board of Trustees. Undergraduate tuition rates are established to reflect university missions, and graduate tuition rates are at least 150% of the undergraduate rates at UM and USM.

FY2001 COST TO EDUCATE AN UNDERGRADUATE, IN-STATE, ON-CAMPUS STUDENT
TOTAL COST = \$20,363*



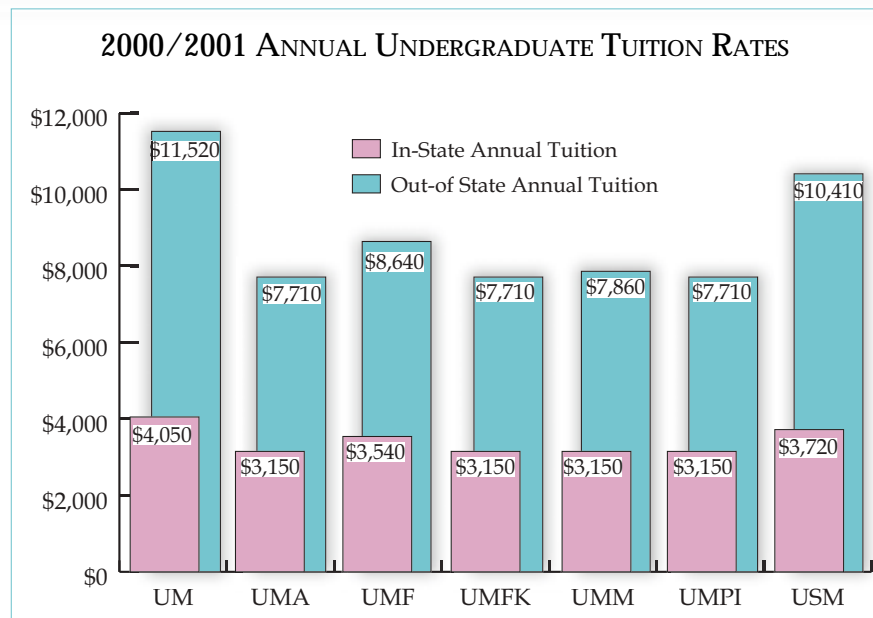
- \$11,958 Paid by Student/Family/Financial Aid
- \$ 7,280 Paid by State
- \$ 1,125 Other University Sources

*UNIVERSITY AVERAGE

STUDENT COSTS

The University of Maine continued to have the lowest tuition and mandatory fees for both in-state and out-of-state undergraduate students when compared with other land-grant universities in New England.

When comparing the remaining universities within the System to their peer institutions in New England, four universities within the System charged less than the New England average for in-state students and also had the lowest rates for out-of-state tuition and mandatory fees.



University of Maine at Farmington

Varsity Field Hockey

Photographer - Tom Donaghue, Public Information Office, UMF

STUDENT FINANCIAL AID

To increase the number of Maine college graduates, we must offer more financial aid*The Maine Idea*

Students receive financial aid from three general sources:

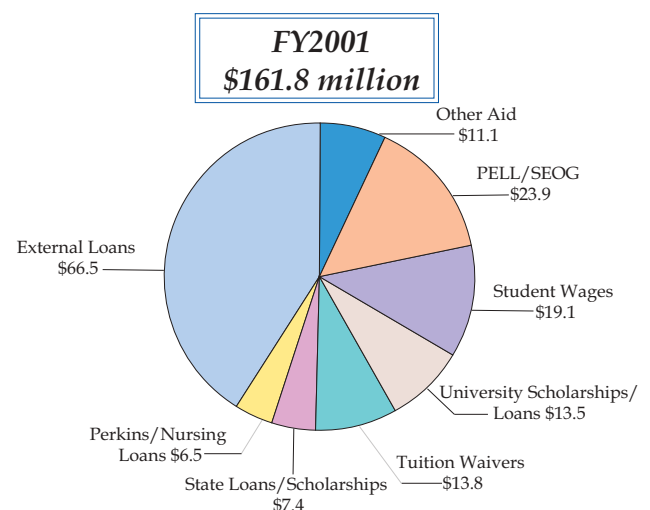
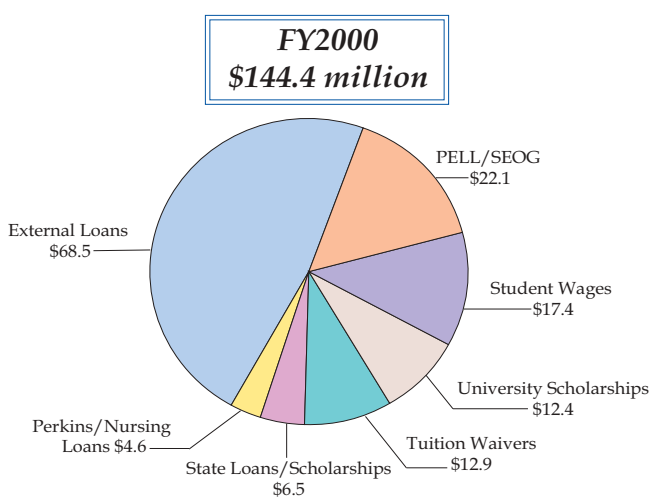
1. External loans from banks and other such institutions.
2. System-administered aid. The actual source of the funds may be from the federal or state governments, but the System actually administers and awards the funds to eligible students. Types of financial aid provided by System E&G funds are scholarships, work programs, matching funds, and tuition waivers.
3. Scholarships and other forms of financial assistance from organizations outside the System.

For FY2001, the total financial aid received by University of Maine System students increased to \$161.8 million. Of the \$17.4 million increase in reported financial aid over FY2000, \$11.1 represents aid from other/outside federal or private sources

such as Veterans and National Guard benefits, private scholarships, and employee tuition reimbursements by employers. These sources of aid, which are not administered by the System, had not previously been reported by the System. The remaining \$6.3 million of the increase was primarily in the areas of grants, scholarships, waivers, and student wages.

Of the \$161.8 million in total financial aid assistance, students received \$87.7 million in assistance that does not need to be repaid by the student (scholarships, grants, student wages, tuition waivers, and outside aid). The amount awarded for SEOG and PELL Grants increased by \$1.8 million while university and state-funded scholarships increased by \$1.9 million. In FY2001, university and college work-study wages paid to students increased by \$1.7 million.

The total amount of educational loans obtained by students through Federal, State, or University sources decreased slightly.



STUDENT ENROLLMENT

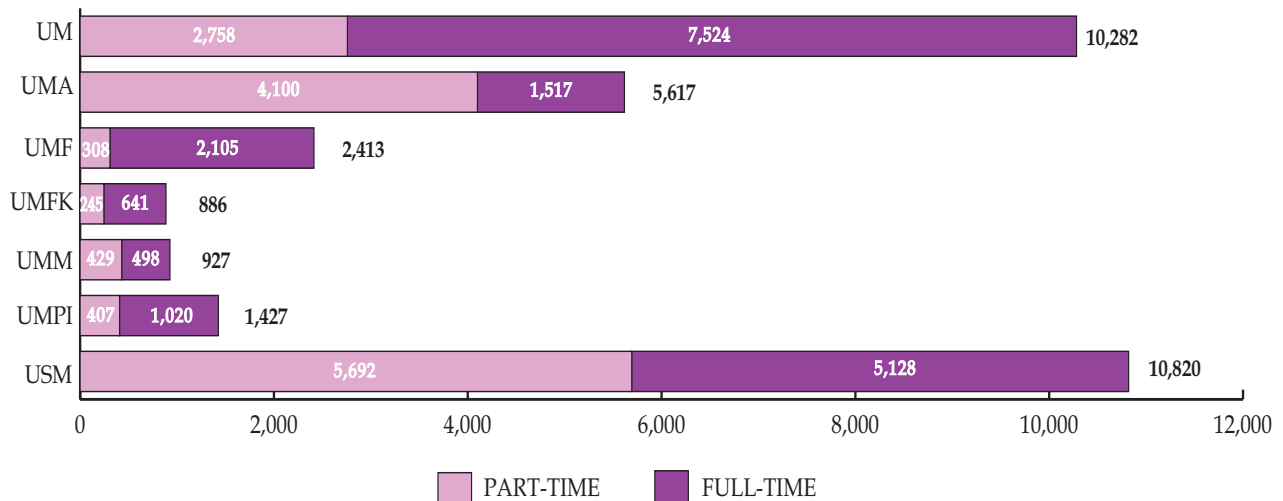
We need to increase the number of our citizens with a college degree if we want our people - no matter what their income level or background - to prosper in the 21st century. . . *The Maine Idea*

A total of 32,372 students attended the University of Maine System during the Fall 2000 semester. This represented an increase of 1.5% over the Fall 1999 total of 31,893. Of the total student population, 28,550 or 88.2% of the students are Maine residents. Of the 32,372

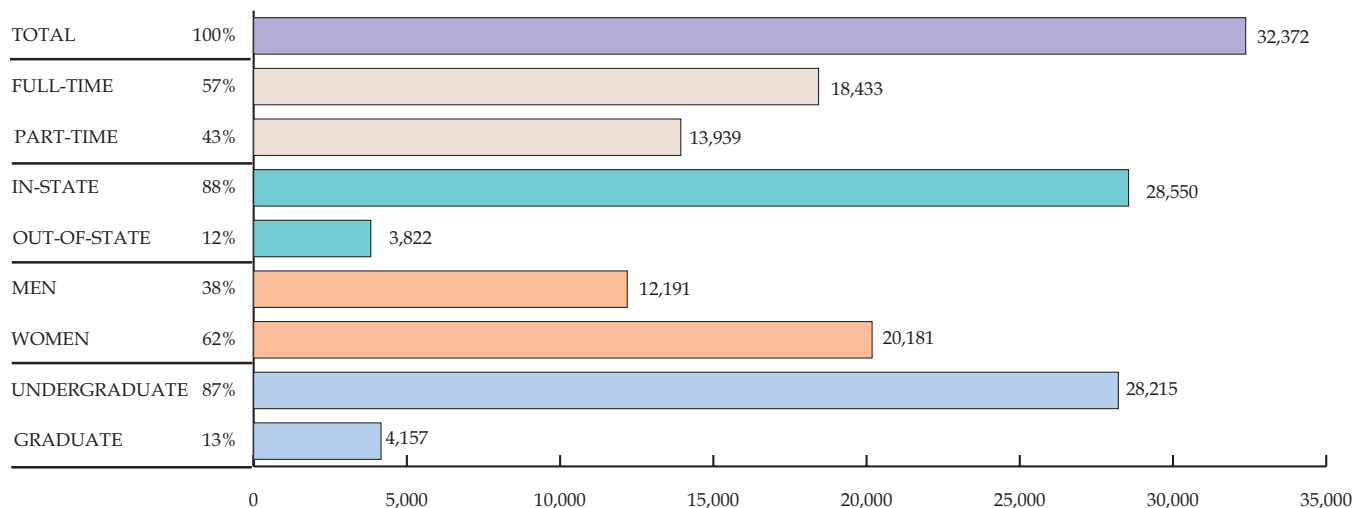
students enrolled during the Fall 2000 semester, 18,433 were full-time students and 13,939 were part-time students.

The Fall 2000 semester full-time-equivalent enrollment totaled 21,938 and is the highest since 1992.

FALL 2000 FULL AND PART-TIME ENROLLMENT BY UNIVERSITY

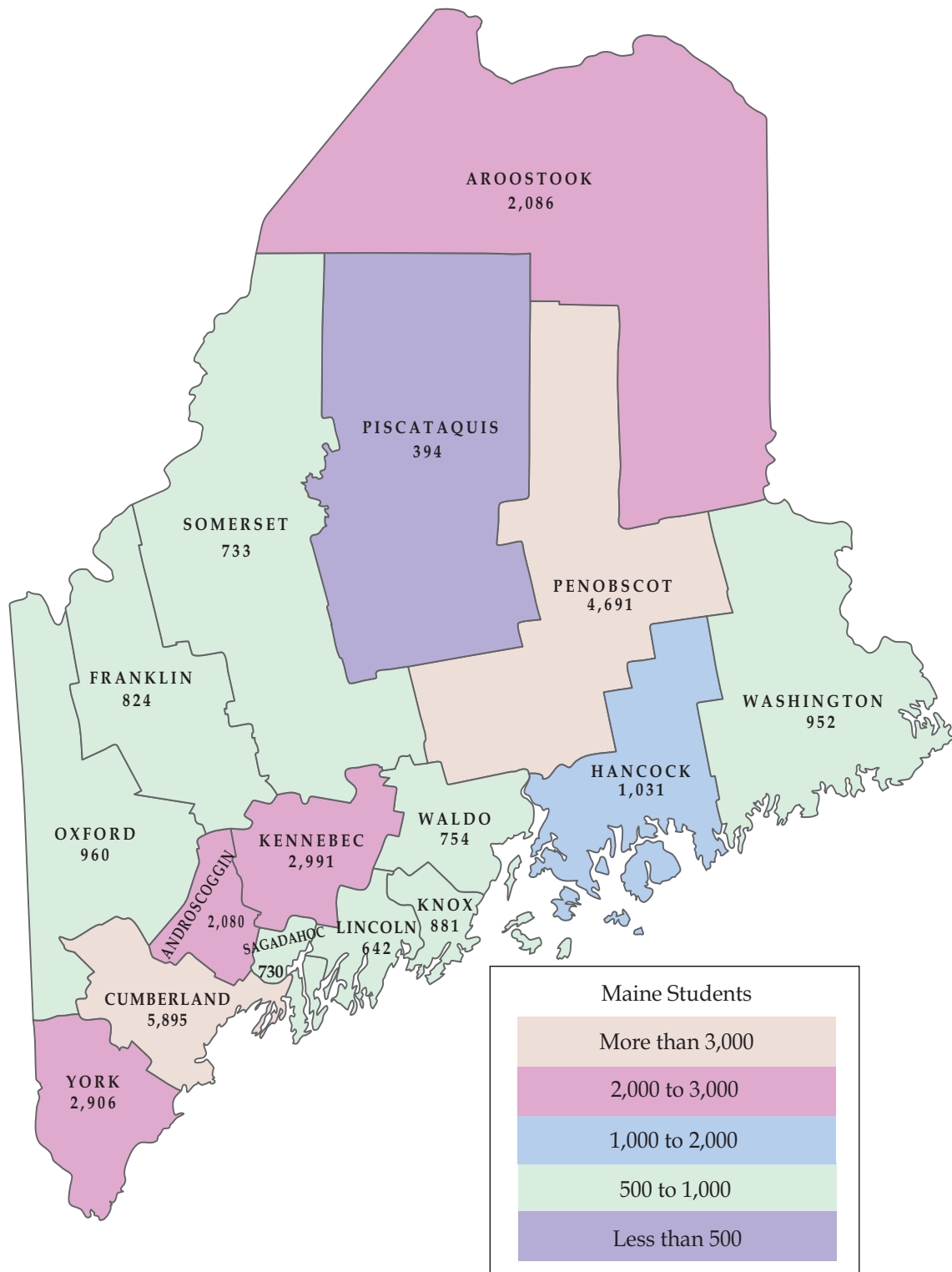


FALL 2000 HEADCOUNT ENROLLMENT



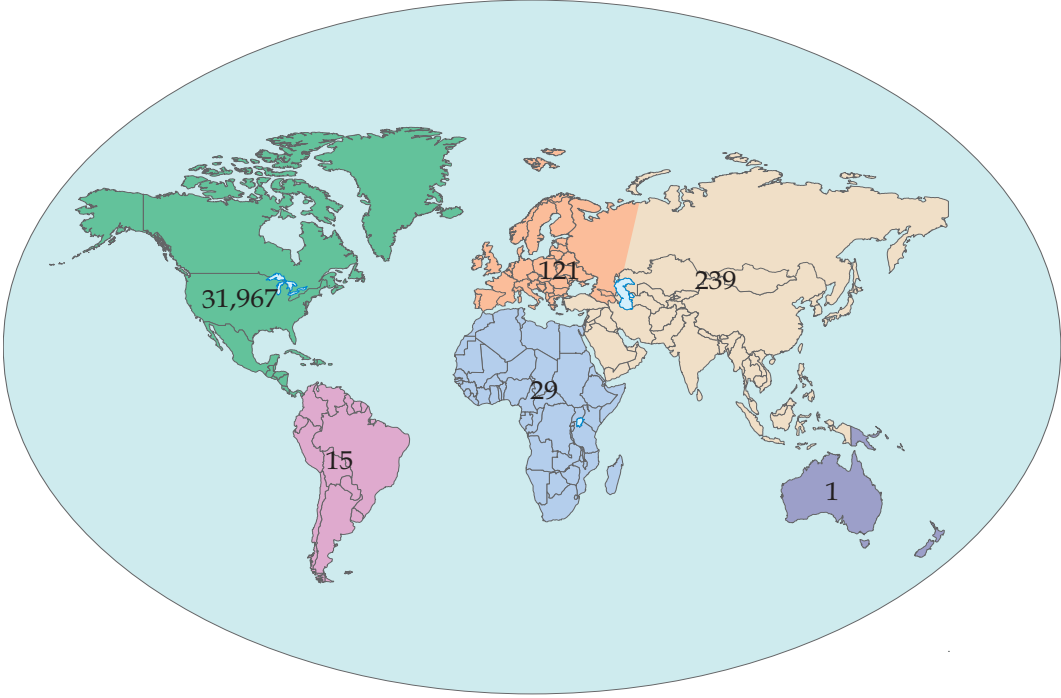
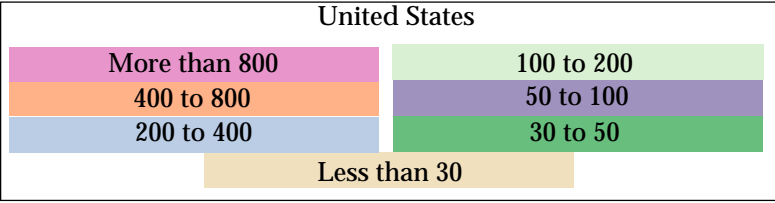
STUDENT ENROLLMENT

By County, Fall 2000



STUDENT ENROLLMENT

By State & Continent, Fall 2000



EMPLOYEES

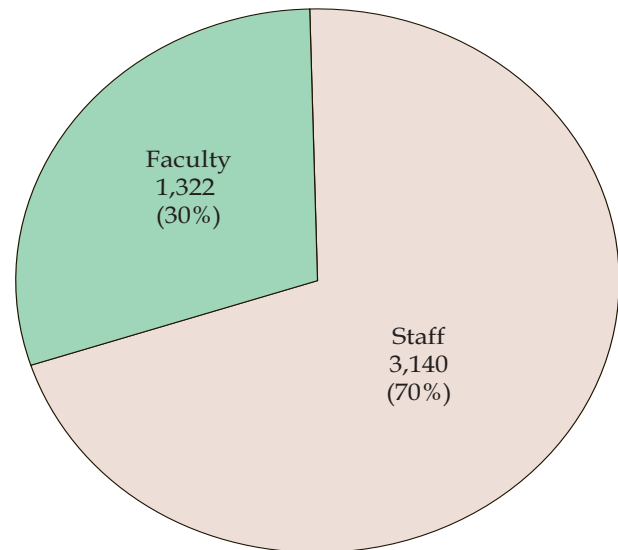
A University can only be as good as its faculty and staff. *The Maine Idea*

The System was supported by the efforts of 4,462 full-time regular employees including those who work in auxiliary enterprises and externally funded grant and contract programs.

As a result of the University of Maine System Labor Relations Act (UMLRA) of July 1, 1976, eight system-wide bargaining units now exist. The six units that have opted for union representation are:

Clerical, Office, Laboratory & Technical
Faculty
Part-time Faculty
Police
Professional & Administrative
Service & Maintenance

The two remaining units, University Supervisors and Law School Faculty, are not currently represented by unions.



EMPLOYEES BY UNIVERSITY (as of October 31, 2000)

	FACULTY	STAFF	TOTAL
University of Maine	616	1,528	2,144
University of Maine at Augusta	97	158	255
University of Maine at Farmington	111	199	310
University of Maine at Fort Kent	35	66	101
University of Maine at Machias	34	69	103
University of Maine at Presque Isle	58	100	158
University of Southern Maine	371	844	1,215
Chancellor's Office & System Services	-	176	176
TOTAL	1,322	3,140	4,462

PLANT FACILITIES

We need to support the physical facilities which underpin the good work of the students and the faculty. *The Maine Idea-2001 Report to Maine Legislature*

As of June 30, 2001, the total construction projects in progress greater than \$250,000 (excluding maintenance projects) totaled approximately \$111.0 million. Of this total, \$17.0 million was funded by the FY2001 State appropriation which has been designated for the following projects:

Aubert Hall Renovations (UM)

The State appropriated \$9.0 million for this project with the System funding an additional \$1.56 million. The renovations include upgrading laboratories, safety modifications, and modernization of heating and ventilating systems. Aubert Hall is the primary chemistry facility at UM.

Nadeau Hall (UMFK)

This new facility, which houses the division of nursing, contains the Rural Health Sciences Center and the Northern Aroostook Center for Technology and also includes a computer classroom and offices for faculty and support staff. Initial funding (\$1.2 million) came from the FY2000 State appropriation and another \$1.0 million appropriation was added in FY2001.

Houlton Center (UMPI)

As part of the Community College Initiative, this facility permits Houlton area residents to take greater advantage of University courses and foster potential economic development opportunities for the region. Parts of this facility are also used by the Northern Maine Technical College and the local school department. The State appropriation provided \$2.0 million for this project.

University College of Bangor (UMA)

This project, supported by a \$1.5 million State appropriation, includes the renovation of classrooms, laboratories, and offices in Bangor and Camden Halls as well as a new access drive.

Lewiston-Auburn College Completion (USM)

This facility renovation includes additional labs, offices, computer areas, classrooms, and library space. The State appropriation provided \$3.5 million for this project.

Examples of other major construction projects in progress or in the planning phase include:

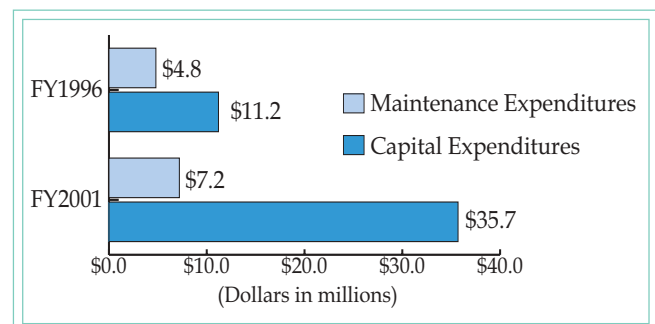
UM - Engineering & Science Research Facility
Memorial Union
Hitchner Hall/Food Science
Doris Twitchell Allen Village

UMF - Scott Hall

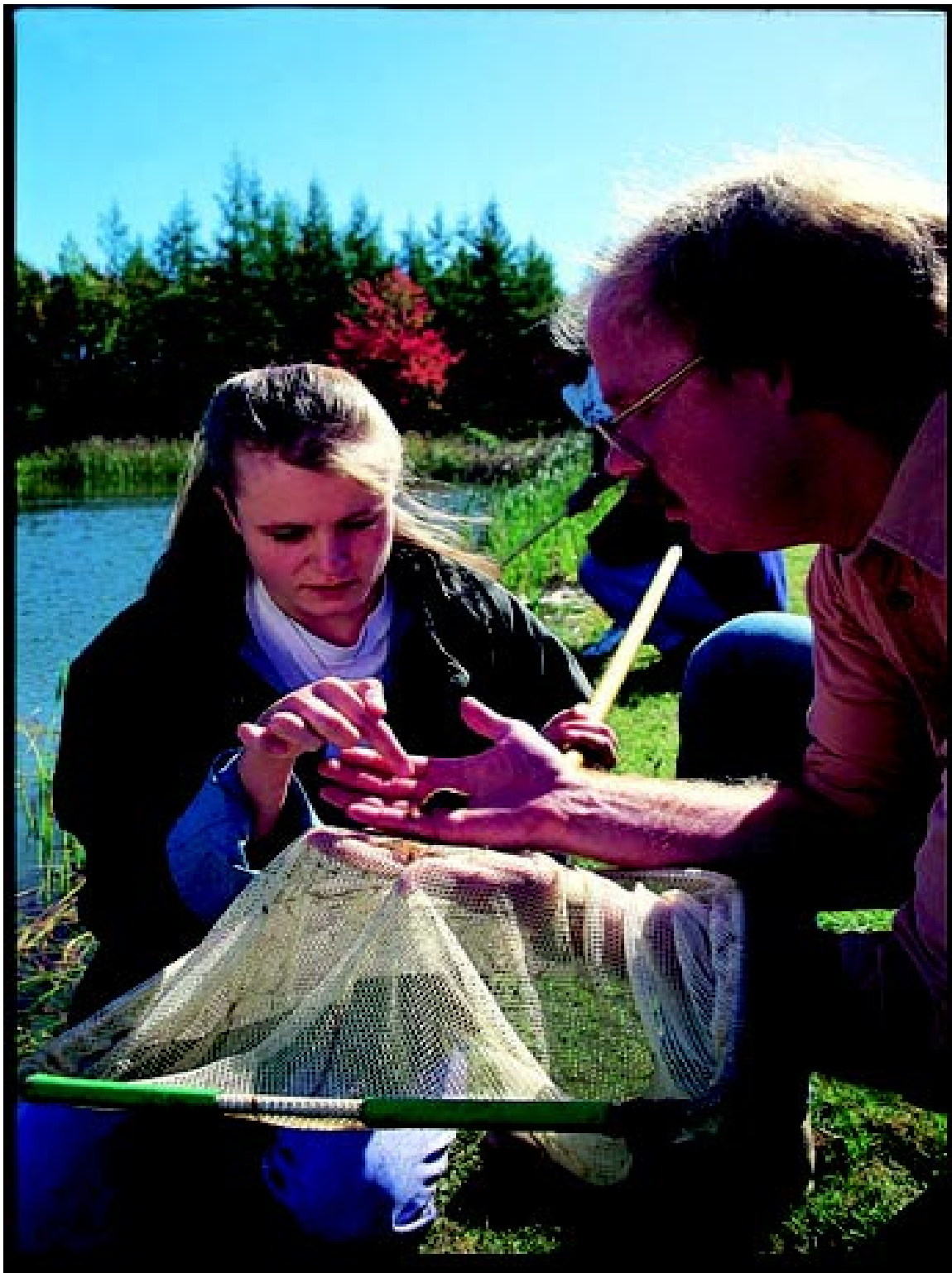
USM - Harlan A. Philippi Hall
Bio-Science Research Institute
Muskie Institute

All of the above projects are part of the System-wide 5-Year Capital Plan. The Capital Plan serves as the road map for facilities planning and budgeting. The Plan, revised every two years, is coordinated with and is part of the System Biennium Plan.

Plant Facilities expenditures for maintenance and capital renewal for FY2001 as compared with FY1996 were as follows:



FY 2001 FINANCIAL STATEMENTS



UNIVERSITY OF MAINE AT MACHIAS

Brian F. Beal, Associate Professor of Marine Ecology, and Svana Hauksdottir, a student from Iceland, examining aquatic insect larvae. Photo by John McKeith.



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Independent Auditors' Report

The Board of Trustees
University of Maine System:

We have audited the accompanying balance sheet of the University of Maine System (a component unit of the State of Maine for financial reporting purposes) as of June 30, 2001, and the related statement of revenues, expenditures and changes in fund balances for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Maine System as of June 30, 2001, and the revenues, expenditures and changes in fund balances for the year then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

August 29, 2001



KPMG LLP/KPMG LLC, a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

BALANCE SHEET

	CURRENT FUNDS	LOAN FUNDS	ENDOWMENT FUNDS
ASSETS:			
Cash equivalents and short-term investments (Note 3)	\$ 72,006,126	\$ 3,650,190	-
Deposits with bond trustees (Note 9)	-	-	-
Investments at fair market value (Note 5)	-	-	\$ 87,919,472
Accounts receivable, net of allowances (Note 6)	9,381,974	-	-
Notes receivable, net of allowances (Note 6)	-	33,071,884	-
Grants receivable	22,634,428	-	-
Pledges receivable, net of allowances (Note 6)	546,521	-	-
Inventories	4,154,850	-	-
Bond costs, net of amortization (Note 9)	-	-	-
Property, plant, and equipment, net (Note 7)	-	-	-
TOTAL ASSETS	\$ 108,723,899	\$ 36,722,074	\$ 87,919,472
LIABILITIES:			
Accounts payable	\$ 5,503,342	-	-
Deposits and advance payments	9,508,494	-	-
Funds held for others (Note 5)	-	-	\$ 2,060,681
Accrued liabilities (Note 13)	42,685,902	-	-
Interfund borrowings (Note 8)	(16,397,113)	-	-
Notes and bonds payable (Note 9)	-	-	-
TOTAL LIABILITIES	41,300,625	-	2,060,681
FUND BALANCES:			
Current funds - unrestricted	40,837,733	-	-
Current funds - restricted	26,585,541	-	-
Loan funds - Perkins	-	\$ 32,734,091	-
Loan funds - University	-	3,987,983	-
Endowment funds - endowment	-	-	78,697,120
Endowment funds - quasi-endowment	-	-	7,161,671
Plant funds - unexpended (Note 10)	-	-	-
Plant funds - retirement of indebtedness	-	-	-
Plant funds - net investment	-	-	-
TOTAL FUND BALANCES	67,423,274	36,722,074	85,858,791
TOTAL LIABILITIES AND FUND BALANCES	\$ 108,723,899	\$ 36,722,074	\$ 87,919,472

The accompanying notes are an integral part of these financial statements.

AS OF JUNE 30, 2001 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2000)

PLANT FUNDS	AGENCY FUNDS	TOTAL		
		FY01	FY00	
				ASSETS:
\$ 30,665,660	\$ 417,252	\$ 106,739,228	\$ 82,737,147	Cash equivalents and short-term investments (Note 3)
36,128,030	-	36,128,030	11,532,210	Deposits with bond trustees (Note 9)
-	-	87,919,472	97,402,277	Investments at fair market value (Note 5)
6,978,595	-	16,360,569	14,988,048	Accounts receivable, net of allowances (Note 6)
-	-	33,071,884	32,145,009	Notes receivable, net of allowances (Note 6)
-	-	22,634,428	21,138,674	Grants receivable
2,295,133	-	2,841,654	-	Pledges receivable, net of allowances (Note 6)
-	-	4,154,850	4,011,882	Inventories
821,085	-	821,085	411,004	Bond costs, net of amortization (Note 9)
302,937,800	-	302,937,800	277,804,266	Property, plant, and equipment, net (Note 7)
\$ 379,826,303	\$ 417,252	\$ 613,609,000	\$ 542,170,517	TOTAL ASSETS
				LIABILITIES:
\$ 2,859,757	-	\$ 8,363,099	\$ 6,253,561	Accounts payable
-	-	9,508,494	8,399,166	Deposits and advance payments
-	\$ 417,252	2,477,933	1,641,018	Funds held for others (Note 5)
-	-	42,685,902	36,183,361	Accrued liabilities (Note 13)
16,397,113	-	-	-	Interfund borrowings (Note 8)
88,876,732	-	88,876,732	51,294,028	Notes and bonds payable (Note 9)
108,133,602	417,252	151,912,160	103,771,134	TOTAL LIABILITIES
				FUND BALANCES:
-	-	40,837,733	39,716,583	Current funds - unrestricted
-	-	26,585,541	24,874,973	Current funds - restricted
-	-	32,734,091	32,495,652	Loan funds - Perkins
-	-	3,987,983	3,923,311	Loan funds - University
-	-	78,697,120	87,982,513	Endowment funds - endowment
-	-	7,161,671	8,191,284	Endowment funds - quasi-endowment
41,434,617	-	41,434,617	17,509,608	Plant funds - unexpended (Note 10)
1,157,846	-	1,157,846	500,193	Plant funds - retirement of indebtedness
229,100,238	-	229,100,238	223,205,266	Plant funds - net investment
271,692,701	-	461,696,840	438,399,383	TOTAL FUND BALANCES
\$ 379,826,303	\$ 417,252	\$ 613,609,000	\$ 542,170,517	TOTAL LIABILITIES AND FUND BALANCES

The accompanying notes are an integral part of these financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

	CURRENT FUNDS			LOAN FUNDS
	UNRESTRICTED	RESTRICTED	TOTAL	
REVENUES AND OTHER ADDITIONS:				
Tuition and fees	\$ 108,187,550	-	\$ 108,187,550	-
Governmental appropriations - state	169,319,356	-	169,319,356	-
Governmental appropriations - federal	-	\$ 5,108,795	5,108,795	-
Governmental grants and contracts - state	-	30,034,470	30,034,470	-
Governmental grants and contracts - federal	-	54,443,535	54,443,535	\$ 569,070
Private gifts, grants and contracts	141,643	24,424,323	24,565,966	265,516
Endowment income (Note 5)	452,268	4,436,658	4,888,926	16,190
Investment income	5,603,301	1,057,323	6,660,624	1,241,766
Change in fair market value of investments (Note 5)	-	-	-	-
Recovery of indirect costs	9,243,218	-	9,243,218	-
Educational sales and services	24,343,703	88,916	24,432,619	-
Auxiliary enterprises	56,257,443	-	56,257,443	-
Expended for plant facilities	-	-	-	-
Retirement of indebtedness	-	-	-	-
TOTAL REVENUES AND OTHER ADDITIONS	373,548,482	119,594,020	493,142,502	2,092,542
EXPENDITURES AND OTHER DEDUCTIONS:				
Instruction	115,956,783	13,356,002	129,312,785	-
Research	20,728,629	34,855,368	55,583,997	-
Public service	17,824,522	21,581,973	39,406,495	-
Academic support	44,802,003	3,412,289	48,214,292	-
Student services	33,643,139	903,562	34,546,701	-
Institutional support	33,632,298	159,526	33,791,824	1,728,926
Operation and maintenance of plant	29,286,696	150,149	29,436,845	-
Depreciation	-	-	-	-
Student aid	9,315,914	41,361,511	50,677,425	-
Auxiliary enterprises	53,673,782	123,589	53,797,371	-
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	358,863,766	115,903,969	474,767,735	1,728,926
NET INCREASE (DECREASE) BEFORE TRANSFERS	14,684,716	3,690,051	18,374,767	363,616
MANDATORY TRANSFERS:				
Loan fund	(61,340)	-	(61,340)	61,340
Plant fund - debt service	(7,179,190)	(91,389)	(7,270,579)	-
NON-MANDATORY TRANSFERS:				
Loan fund	121,401	444	121,845	(121,845)
Endowment fund	(50,000)	(95,705)	(145,705)	-
Plant fund	(6,394,437)	(1,792,833)	(8,187,270)	-
NET TRANSFERS	(13,563,566)	(1,979,483)	(15,543,049)	(60,505)
NET INCREASE (DECREASE)	1,121,150	1,710,568	2,831,718	303,111
FUND BALANCE - BEGINNING OF THE YEAR	39,716,583	24,874,973	64,591,556	36,418,963
FUND BALANCE - END OF THE YEAR	\$ 40,837,733	\$ 26,585,541	\$ 67,423,274	\$ 36,722,074

The accompanying notes are an integral part of these financial statements

FOR THE YEAR ENDED JUNE 30, 2001
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2000)

ENDOWMENT FUNDS	PLANT FUNDS	TOTAL		
		FY 2001	FY 2000	
				REVENUES AND OTHER ADDITIONS:
-	-	\$ 108,187,550	\$ 103,668,780	Tuition and fees
\$ 1,000,000	\$ 19,250,000	189,569,356	168,390,955	Governmental appropriations - state
-	-	5,108,795	6,100,343	Governmental appropriations - federal
-	182,205	30,216,675	25,225,537	Governmental grants and contracts - state
-	-	55,012,605	51,589,056	Governmental grants and contracts - federal
917,320	9,418,340	35,167,142	28,463,853	Private gifts, grants and contracts
298,658	-	5,203,774	4,916,523	Endowment income (Note 5)
-	3,160,774	11,063,164	6,928,324	Investment income
(9,257,485)	-	(9,257,485)	4,632,648	Change in fair market value of investments (Note 5)
-	-	9,243,218	7,846,058	Recovery of indirect costs
-	-	24,432,619	23,038,619	Educational sales and services
-	-	56,257,443	52,091,709	Auxiliary enterprises
-	8,979,901	8,979,901	7,015,615	Expended for plant facilities
-	4,300,000	4,300,000	2,185,000	Retirement of indebtedness
(7,041,507)	45,291,220	533,484,757	492,093,020	TOTAL REVENUES AND OTHER ADDITIONS
				EXPENDITURES AND OTHER DEDUCTIONS:
-	-	129,312,785	120,601,787	Instruction
-	-	55,583,997	46,970,371	Research
-	-	39,406,495	36,400,301	Public service
-	-	48,214,292	44,824,279	Academic support
-	-	34,546,701	31,436,965	Student services
3,419,204	-	38,939,954	37,444,055	Institutional support
-	8,186,283	37,623,128	31,266,753	Operation and maintenance of plant
-	22,085,152	22,085,152	22,219,370	Depreciation
-	-	50,677,425	47,974,496	Student aid
-	-	53,797,371	49,038,161	Auxiliary enterprises
3,419,204	30,271,435	510,187,300	468,176,538	TOTAL EXPENDITURES AND OTHER DEDUCTIONS
(10,460,711)	15,019,785	23,297,457	23,916,482	NET INCREASE (DECREASE) BEFORE TRANSFERS
				MANDATORY TRANSFERS:
-	-	-	-	Loan fund
-	7,270,579	-	-	Plant fund - debt service
				NON-MANDATORY TRANSFERS:
-	-	-	-	Loan fund
145,705	-	-	-	Endowment fund
-	8,187,270	-	-	Plant fund
145,705	15,457,849	-	-	NET TRANSFERS
(10,315,006)	30,477,634	23,297,457	23,916,482	NET INCREASE (DECREASE)
96,173,797	241,215,067	438,399,383	414,482,901	FUND BALANCE - BEGINNING OF THE YEAR
\$ 85,858,791	\$ 271,692,701	\$ 461,696,840	\$ 438,399,383	FUND BALANCE - END OF THE YEAR

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

1. ORGANIZATION DESCRIPTION

The University of Maine System ("the System") consists of seven Universities and a central administrative office. All activities of the System are included in the accompanying financial statements. The University of Maine System has been recognized by the Internal Revenue Service as an organization described in Internal Revenue Code section 501(c)(3) and is exempt from Income Tax on related income under Internal Revenue Code section 501(a). Not included in the accompanying financial statements are several independent organizations which operate for the benefit of the System, including the University of Maine Foundation (Note 12) and several other foundations and alumni associations. These organizations are non-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.

2. SIGNIFICANT ACCOUNTING POLICIES

New Accounting Standards

In December 1998, the Governmental Accounting Standards Board (GASB) issued its Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement is first effective for the System's fiscal year ended June 30, 2001. In accordance with this new standard, the System has, for the first time, included outstanding pledges receivable as an asset and as gift income in the accompanying financial statements (previously, gift income was recognized as revenue when collected). The impact of this new standard is a \$2.8 million net increase in assets and gift income (see Note 6 for a breakdown of pledges receivable by fund).

In June 1999, GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments* was issued. This statement establishes new financial reporting requirements. It establishes that the basic financial statements and required supplementary information (RSI) for general purpose governments should consist of: management's discussion and analysis, basic financial statements, and required supplementary information.

In November 1999, GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities* was issued. As with Statement No. 34, it becomes effective with periods beginning after June 15, 2001. This statement establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of Statement No. 34. The objective of this statement is to enhance the understandability and usefulness of the general purpose external financial reports issued by public colleges and universities.

In April 2000, GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues, an amendment of GASB Statement No. 33*, was issued. This statement provides accounting treatment for certain shared revenues by superseding paragraph 28 of Statement No. 33.

In June 2001, GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* was issued. This statement will be implemented simultaneously with Statement No. 34.

In June 2001, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, was issued. This statement will be implemented simultaneously with Statement No. 34.

The System will adopt GASB Statements 34, 35, 36, 37, and 38 as of July 1, 2001. The effect of these Statements upon the System's financial statements has not yet been determined.

Basis of Presentation

The financial statements of the System are prepared on the accrual basis of accounting, except for interest on student loans and certain employee benefits which are recorded when received or paid. These departures from the accrual basis of accounting do not have a material effect on the accompanying financial statements. The statement of revenues, expenditures, and changes in fund balances is a statement of financial activities related to the current reporting period.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

To the extent that current funds are used to finance other fund groups, the amounts so provided are accounted for as (1) transfers of a non-mandatory nature; or (2) interfund borrowings, according to the terms of the various arrangements. The accompanying financial statements reflect various interfund transfers which are substantially comprised of items which are not mandated by external sources, but rather by System policy.

Fund Accounting

The System follows fund accounting procedures by which resources for various purposes are classified for accounting and reporting purposes in accordance with activities or objectives specified. This is done in accordance with regulations, restrictions, or limitations imposed by donors or sponsoring agencies outside the System, or in accordance with directives issued by the Board of Trustees.

A fund is a self-balancing set of accounts for recording assets, liabilities, a fund balance, and changes in the fund balance. Separate accounts are maintained for each fund group to ensure compliance with limitations and restrictions placed on the use of resources.

The uses of the following funds are restricted and accordingly are not available for unrestricted purposes: Current Restricted Funds, Loan Funds, Endowment Funds, and Retirement of Indebtedness Funds.

Current Funds

Current Unrestricted Funds, comprised of educational and general operations of the System and of appropriations, gifts, and grants, may be used at the discretion of the Board of Trustees or their designees to meet current expenditures for any purpose.

Current Restricted Funds, comprised of appropriations, gifts, or grants may be used only to meet current expenditures for the purposes specifically identified by the donors or by sponsoring agencies.

Loan Funds

Loan Funds, comprised of Federal appropriations of \$31,800,000 as of June 30, 2001, matching funds provided by the System, gifts and other grants, may

be used only for providing loans to students and others specified by the donors or by sponsoring agencies.

Endowment Funds

Endowment Funds are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity but the related investment income and appreciation may be used to meet current expenditures. Quasi-endowment Funds, established from time to time by the Board of Trustees, serve the same purposes as Endowment Funds, but both principal and income of Quasi-endowment Funds may be expended.

Plant Funds

Plant Funds, comprised of appropriations, gifts, grants, and System funds so designated by the Board of Trustees, may be used to meet expenditures for construction of additional facilities, major renovations, major equipment, and retirement of indebtedness arising therefrom.

Restricted Gifts and Grants

The System records restricted revenues from gifts when they are received and grants at the time the services have been performed.

Endowment Fund Investments

Endowment Fund investments and investment activity are recorded at market value as determined by the System's investment managers. Fluctuations in market value are reflected in the financial statements as "change in fair market value of investments".

The System follows the pooled investment concept for its endowed funds whereby all invested funds are included in one investment pool, except for investments of certain endowed funds that are otherwise restricted and are separately invested. Investment income is allocated to each endowed fund participating in the pool based on its pro-rata share of the pool.

Investment in Plant

Plant assets are recorded at cost when purchased or constructed or at fair market value when acquired by gift. Plant Fund assets are depreciated in a manner

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

which does not require the funding of the depreciation but allows for the depreciation to accumulate in the Investment in Plant subsection of the Plant Fund. Depreciation is recorded on a straight-line basis over the estimated useful lives of the related assets principally as follows:

	<u>YEARS</u>
Buildings	30 - 60
Improvements	20 - 40
Equipment	5 - 15

Expenditures 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 when it becomes 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 changes in fund balances.

Other Significant Accounting Policies

The preparation of financial statements in conformity with 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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain prior year items in the accompanying financial statements have been reclassified, without effect on total fund balances, to conform to the current year's format. Other significant accounting policies are set forth in the accompanying notes to the financial statements.

3. CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Statement No. 3 of the Governmental Accounting Standards Board requires government entities to categorize cash equivalents and investments to give an indication of the level of credit risk assumed by the System at year-end.

Category 1 includes (a) cash and cash equivalents that are insured or collateralized with securities held by the

System or by its agent in the System's name and (b) investments that are registered or insured, or securities held by the System or its agent in the System's name.

Category 2 includes (a) cash and cash equivalents collateralized with securities held by the pledging financial institution's trust department or agent in the System's name and (b) uninsured and unregistered investments for which securities are held by the broker's or dealer's trust department or agent in the System's name.

Category 3 includes (a) cash and cash equivalents that are uninsured and uncollateralized (including bank balances collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the System's name) and (b) uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the System's name.

As of June 30, 2001, the carrying value of the System's cash equivalents and short-term investments was \$106,739,228 and the bank balance was \$113,170,722. Credit risks associated with the **bank** balance were as follows:

Category			Unclassified
1	2	3	
\$ 3,122,866	\$ 15,631,050	\$ 40,156,757	\$ 54,260,049

4. GRANTS AWARDED, NOT EXPENDED

The System defers recognition of grants awarded, not expended, until such time as the services required to fulfill the terms of the grant are performed. Accordingly, the financial statements do not reflect the balance of such grants awarded to the System, which amount to \$29.7 million and \$23.7 million at June 30, 2001 and 2000, respectively. Under the terms of certain of these grants, the System is required to provide matching funds.

5. ENDOWMENT FUND INVESTMENTS

The System's Endowment investments are categorized to give an indication of the level of risk assumed at year-end.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

Category 1 includes investments that are insured or registered, or securities held by the System or its agent in the System's name.

Category 2 includes investments that are uninsured and unregistered for which the securities are held by the bank's trust department or agent in the System's name.

Category 3 includes investments that are uninsured and unregistered for which the securities are held by the bank, or its trust department or agent but not in the System's name.

The Endowment Fund Investments were all Category 3 as of June 30, 2001 and 2000 and the fair market values were as follows:

	2001	2000
Equities	\$ 61,681,850	\$ 75,171,786
Bonds	22,080,439	21,798,548
Certificates of Deposit	89,257	89,257
Other Investments	4,067,926	342,686
Total	<u>\$ 87,919,472</u>	<u>\$ 97,402,277</u>

The University of Maine at Augusta Foundation, 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 value of these investments at June 30, 2001 was \$2,060,681.

Pooled Endowments

Except for certain gifts invested separately at the request of the donors (\$499,066 at June 30, 2001), the System's endowment is managed as a pooled investment fund by external investment advisors. The performance of the managed portion of the endowment is shown as follows:

	2001	2000
Pooled Investment at Fair Market Value	\$ 87,420,406	\$ 96,928,498
Net Additions (primarily gifts)	\$ 3,190,391	\$ 2,455,309
Number of Pooled Shares	29,670,182	28,695,674
Fair Market Value per Pooled Share	\$ 2.946	\$ 3.378
Interest and Dividend Earnings	\$ 2,219,154	\$ 2,448,108
Management Fees	\$ 496,719	\$ 518,939
Weighted Earnings Rate	2.41%	2.59%
Earnings per Pooled Share	\$ 0.0748	\$ 0.0853
Rate of Distribution to Operations	5.31%	4.62%
Change in Gain on Investments:		
Realized Net Gain	\$ 16,070,740	\$ 2,462,487
Change in Unrealized Appreciation	<u>\$(25,486,980)</u>	<u>\$ 2,247,777</u>
Total	<u>\$ (9,416,240)</u>	<u>\$ 4,710,264</u>

6. ACCOUNTS, NOTES, AND PLEDGES RECEIVABLE

At June 30, gross receivables and related allowances were as follows:

	2001	2000
<u>Current Funds</u>		
Gross accounts receivable	\$ 10,722,240	\$ 9,470,316
Allowance for uncollectibles	(1,340,266)	(1,253,700)
Net accounts receivable	<u>\$ 9,381,974</u>	<u>\$ 8,216,616</u>
 Gross pledges receivable	 \$ 680,000	 \$ -
Discount	(118,479)	-
Allowance for uncollectibles	(15,000)	-
Net pledges receivable	<u>\$ 546,521</u>	<u>\$ -</u>
 <u>Loan Fund</u>		
Gross notes receivable	\$ 37,390,380	\$ 36,032,312
Allowance for uncollectibles	(4,318,496)	(3,887,303)
Net loans receivable	<u>\$ 33,071,884</u>	<u>\$ 32,145,009</u>
 <u>Plant Fund</u>		
Gross accounts receivable	\$ 6,978,595	\$ 6,771,432
Allowance for uncollectibles	-	-
Net accounts receivable	<u>\$ 6,978,595</u>	<u>\$ 6,771,432</u>
 Gross pledges receivable	 \$ 2,717,943	 \$ -
Discount	(236,810)	-
Allowance for uncollectibles	(186,000)	-
Net pledges receivable	<u>\$ 2,295,133</u>	<u>\$ -</u>

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

7. PROPERTY, PLANT, AND EQUIPMENT

Capital asset activity for the years ended June 30, 2001 and 2000 was as follows:

	Year Ended June 30, 2001				
	Beginning Balance	Additions	Reclassifications	Retirements	Ending Balance
Land	\$ 11,099,699	\$ 5,700	\$ 265,490	\$ -	\$ 11,370,889
Construction in Progress	12,182,160	37,952,408	(14,115,340)	-	36,019,228
Total Nondepreciable Assets	<u>23,281,859</u>	<u>37,958,108</u>	<u>(13,849,850)</u>	<u>-</u>	<u>47,390,117</u>
Land Improvements	24,775,267	18,000	1,540,551	-	26,333,818
Buildings & Improvements	303,533,225	65,300	12,289,798	-	315,888,323
Equipment	100,572,894	9,177,278	19,501	10,345,871	99,423,802
Total Depreciable Assets	<u>428,881,386</u>	<u>9,260,578</u>	<u>13,849,850</u>	<u>10,345,871</u>	<u>441,645,943</u>
Less Accumulated Depreciation:					
Land Improvements	11,915,836	1,199,545	-	-	13,115,381
Buildings & Improvements	101,862,386	7,062,091	-	-	108,924,477
Equipment	60,580,757	13,823,516	-	10,345,871	64,058,402
Total Accumulated Depreciation	<u>174,358,979</u>	<u>22,085,152</u>	<u>-</u>	<u>10,345,871</u>	<u>186,098,260</u>
Net Depreciable Assets	<u>254,522,407</u>	<u>(12,824,574)</u>	<u>13,849,850</u>	<u>-</u>	<u>255,547,683</u>
Total Property, Plant, and Equipment (Net)	<u>\$ 277,804,266</u>	<u>\$ 25,133,534</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 302,937,800</u>
	Year Ended June 30, 2000				
	Beginning Balance	Additions	Reclassifications	Retirements	Ending Balance
Land	\$ 10,583,899	\$ 515,800	\$ -	\$ -	\$ 11,099,699
Construction in Progress	15,407,152	17,671,836	(20,896,828)	-	12,182,160
Total Nondepreciable Assets	<u>25,991,051</u>	<u>18,187,636</u>	<u>(20,896,828)</u>	<u>-</u>	<u>23,281,859</u>
Land Improvements	22,649,660	-	2,125,607	-	24,775,267
Buildings & Improvements	285,006,959	410,000	18,116,266	-	303,533,225
Equipment	101,404,399	7,640,562	654,955	9,127,022	100,572,894
Total Depreciable Assets	<u>409,061,018</u>	<u>8,050,562</u>	<u>20,896,828</u>	<u>9,127,022</u>	<u>428,881,386</u>
Less Accumulated Depreciation:					
Land Improvements	10,744,955	1,170,881	-	-	11,915,836
Buildings & Improvements	95,042,020	6,820,366	-	-	101,862,386
Equipment	55,479,656	14,228,123	-	9,127,022	60,580,757
Total Accumulated Depreciation	<u>161,266,631</u>	<u>22,219,370</u>	<u>-</u>	<u>9,127,022</u>	<u>174,358,979</u>
Net Depreciable Assets	<u>247,794,387</u>	<u>(14,168,808)</u>	<u>20,896,828</u>	<u>-</u>	<u>254,522,407</u>
Total Property, Plant, and Equipment (Net)	<u>\$ 273,785,438</u>	<u>\$ 4,018,828</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 277,804,266</u>

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

8. INTERFUND BORROWINGS

Interfund borrowings represent loans made from the Current Unrestricted Fund to the Plant Fund for various construction or major maintenance projects. The weighted average interest rate on these loans is 6.54% and maturity dates range from fiscal year 2002 to 2023. As of June 30, 2001 and 2000, the total outstanding balance of these loans was \$16,397,113 and \$13,868,372, respectively.

Interest earnings (Current Fund) and debt service costs (Plant Fund) related to these loans are not included in the accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances.

9. BONDS PAYABLE

Bonds payable consisted of the following on June 30, 2001 and 2000:

	2001	2000
1993 Series A Revenue Bonds (\$19,315,000), maturing from 1994 to 2008 with annual principal payments and interest rates from \$725,000 to \$2,750,000 and 2.3% to 5.2%, respectively. Proceeds used to finance improvements to facilities (\$6,000,000) and to prepay bonds payable to the State of Maine. The System was required to make a deposit of \$1,931,500, representing one year of debt service, which is invested by the Bond Trustee.	\$ 8,390,000	\$ 9,430,000
1993 Series B Refunding Bonds (\$15,600,000) Serial Bonds, maturing from 1995 through 2009, with annual principal payments and interest rates from \$260,000 to \$595,000 and 3.15% to 5.25%, respectively. The System was required to make a deposit of \$1,128,850, representing one year of debt service, which is invested by the Bond Trustee.	4,020,000	4,430,000
5.50% Term Bonds due March 1, 2015	4,295,000	4,295,000
5.50% Term Bonds due March 1, 2020	4,805,000	4,805,000
Total 1993 Series B Bonds	<u>13,120,000</u>	<u>13,530,000</u>
1998 Series A Revenue Bonds (\$29,540,000) Serial Bonds, maturing from 2000 through 2011, with annual principal payments and interest rates from \$660,000 to \$1,050,000 and 3.95% to 4.75%, respectively.	8,690,000	9,375,000
5.00% Term Bonds maturing March 1, 2018	8,965,000	8,965,000
5.00% Term Bonds maturing March 1, 2024	10,540,000	10,540,000
Less: discount on 1998 Bonds	(522,147)	(545,972)
Total 1998 Series A Bonds	<u>27,672,853</u>	<u>28,334,028</u>
2000 Series A Revenue Bonds (\$41,725,000) Serial Bonds, maturing from 2001 through 2015, with annual principal payments and interest rates from \$1,490,000 to \$4,465,000 and 4.5% to 5.75%, respectively. The System was required to make a deposit of \$2,870,597, representing one year of debt service, which is invested by the Bond Trustee.	30,565,000	-
5.60% Term Bonds maturing March 1, 2020	3,560,000	-
5.50% Term Bonds maturing March 1, 2030	5,435,000	-
Add: premium on 2000 Bonds	133,879	-
Total 2000 Series A Bonds	<u>39,693,879</u>	<u>-</u>
Total Bonds Payable	<u>\$ 88,876,732</u>	<u>\$ 51,294,028</u>

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

Costs associated with the issuance of the 1998 and 2000 Series A revenue bonds have been recorded in the accompanying balance sheet as an asset and are being amortized over the life of the related bond issuance. The discount on the 1998 Series A bonds and the premium on the 2000 Series A bonds are also being amortized over the life of the respective bond issuance.

Debt service requirements at June 30, 2001 were as follows:

	Principal	Interest
FY 2002	\$ 3,700,000	\$ 4,535,879
FY 2003	3,755,000	4,370,744
FY 2004	3,830,000	4,200,961
FY 2005	3,900,000	4,026,259
FY 2006	4,100,000	3,838,284
Thereafter	69,980,000	33,621,584
Total Debt Service Requirements	<u>\$ 89,265,000</u>	<u>\$ 54,593,711</u>

Deposits with bond trustees are recorded at market value and consisted of the following at June 30, 2001 and 2000:

	2001	2000
Unexpended bond proceeds	\$ 29,742,094	\$ 8,375,262
Debt service reserves	6,385,936	3,156,948
Total	<u>\$ 36,128,030</u>	<u>\$ 11,532,210</u>

10. UNEXPENDED PLANT FUNDS

Unexpended plant funds include funds restricted for additions and improvements to plant facilities. At June 30, 2001 and 2000, these funds included \$38.1 million and \$10.2 million, respectively, for continuing expenditures associated with authorized capital projects. The balance of the funds have been obligated or allocated for major maintenance projects. Outstanding commitments on uncompleted construction contracts total approximately \$17.8 million at June 30, 2001 and \$17.5 million at June 30, 2000.

During 1998-1999, the State of Maine approved a State bond issue to provide \$13.5 million for capital expenditures at the University of Maine System. As of June 30, 2001, \$9.8 million of bonds had been issued and the unspent portion of the bonds was included in unexpended plant funds. The remaining \$3.7 million of State bonds is expected to be issued during fiscal year 2002 for completion of capital projects.

11. RETIREMENT BENEFITS

The System has two primary pension plans. Eligible salaried employees participate in the University of Maine System Retirement Plan for Faculty and Professional Employees. Eligible hourly paid employees participate in the University of Maine System Basic Retirement Plan for Classified Employees.

Pension expense, excluding social security, amounted to \$14,242,000 in 2001 and \$13,017,000 in 2000. The System had total payrolls of \$205,000,000 in 2001 and \$191,000,000 in 2000, of which \$194,000,000 in 2001 and \$177,000,000 in 2000 were covered by one of the two System pension plans.

In addition to providing pension benefits, the System provides certain health care benefits for retired employees. The cost of retiree health care benefits is recognized as expense when paid and totaled \$4,534,000 in 2001 and \$4,179,000 in 2000.

Retirement Plan for Faculty and Professional Employees

The System's faculty and professional employees participate in 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 the mandatory rates of contributions for employees and the System. The System contribution to this Plan was \$13,700,000 in 2001 and \$12,400,000 in 2000. The total required contribution to this Plan by employees was \$5,500,000 in 2001 and \$5,000,000 in 2000. Covered payroll was \$137,300,000 in 2001 and \$125,000,000 in 2000.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

All full-time employees are eligible once employment begins. Part-time employees are eligible once they have achieved the equivalency of five years of continuous, full-time, regular service. All eligible employees are required to participate in this Plan when they reach thirty years of age.

The System contributes 10% of participants' base salary and participants contribute 4% of their base salary. Participant and System contributions are fully and immediately vested. Participants may direct up to 60% 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 60% of the funds from their accounts or transfer funds to other investment alternatives subject to Internal Revenue Service limitations and the contractual provisions of the Plan.

Incentive retirement benefits are paid to participants who retire upon the attainment of age 55 and have completed at least ten years of continuous service. The benefit is computed in accordance with the normal retirement benefit.

Basic Retirement Plan for Classified Employees

The Retirement Plan for Classified Employees consists of a defined contribution plan and a defined benefit plan. The Defined Contribution Plan was established on July 1, 1998. It covers new employees, most employees under age 50, and employees 50 years and older who elected to participate. The Defined Benefit Retirement Plan for Classified Staff is maintained for eligible employees who chose not to join the new plan.

Defined Contribution Plan

The Defined Contribution Program of the Basic Retirement Plan for Classified Employees was created on July 1, 1998. Classified employees hired July 1, 1998 or later participate in the Defined Contribution Program. Most eligible employees who were hired before July 1, 1998 and who were younger than age 50 as of June 30, 1998 rolled over the value of their accrued benefit from the Defined Benefit Retirement Plan for Classified Staff. Eligible employees who were hired before July 1, 1998 and

who were age 50 or older on June 30, 1998 could elect to roll over the value of their accrued benefit and join the defined contribution plan or to remain in the defined benefit plan.

Full-time employees are eligible to participate once employment begins. Part-time employees are eligible once they have achieved the equivalency of five years of continuous, full-time, regular service.

Upon separation from the System, participants may withdraw up to 40% of the funds from their accounts or transfer funds to other investment alternatives subject to Internal Revenue Service limitations and the contractual provisions of the Plan.

Employees hired July 1, 1998 or later are required to contribute 1% of base pay to the plan and may contribute up to 4%. Their contributions are matched by an equal contribution by the System (i.e., up to 4%). Employees hired prior to July 1, 1998 and who have less than five years of service may voluntarily contribute up to 4% of base pay and receive an equal matching contribution from the System.

Employees who have five or more years of completed service receive a System contribution of 4% of base pay. These employees may voluntarily contribute 1% to 4% of base pay and receive a 62.5% match (i.e., up to 2.5%) from the System. Effective July 1, 2001, the System contribution increased to 6% of base pay and the System match increased to 100% of the employees' voluntary contribution (maximum of 4%).

Defined Benefit Retirement Plan for Classified Staff

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.

Employees who participate in the Defined Benefit Retirement Plan may also participate in the Optional Retirement Savings Plan (ORSP). The ORSP is a voluntary defined contribution plan. The employee may contribute up to 4% of base pay and receive a 50% match (i.e., up to 2%) from the System. The ORSP is administered by TIAA-CREF.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

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 twenty-five (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 amount shown below as "Pension Benefit Obligation" is a standardized disclosure measurement of 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 to date.

The Pension Benefit Obligation was determined as part of an actuarial valuation of the Plan as of July 1, 2000, the most recent date available. Significant actuarial assumptions used in determining the pension benefit obligation include: an annual rate of investment return of 6.5%, a discount rate of 6.5%, and an annual rate of salary increase of 4%. The Plan's assets consist principally of equities, bonds, and cash equivalents. The table below shows the funding status of the Defined Benefit Retirement Plan. These assets and liabilities are not included in the System's financial statements since they are held in a separate benefit plan.

PENSION BENEFIT OBLIGATION

Retirees and beneficiaries currently receiving benefits, and terminated employees entitled to benefits but not yet receiving them. \$ 26,913,126

Current employees:

Optional Retirement Savings Accounts	471,483
Active pension participants	17,866,406
LTD participants	2,417,066
Basic retirement plan accounts	9,932,574
Total Pension Benefit Obligation	57,600,655
Valuation Assets (Market Value = \$77,819,133)	73,928,176
Net Assets in Excess of Pension Benefit Obligation	\$ 16,327,521

The System funding policy for the Plan is to ensure that the Plan is funded as actuarially determined by the Pension Benefit Obligation. The calculated contribution is based on the Plan's normal cost for the year reduced by a fifteen-year amortization of the excess of valuation assets over the Plan's actuarial accrued liability. The Projected Unit Credit Actuarial Cost Method has been used in this valuation. Under this method, the service cost is determined as the actuarial present value of that portion of each participant's projected benefit attributable to service expected to be earned in the current Plan year.

The Projected Benefit Obligation, which is re-determined for each employee as of each valuation date, represents the actuarial present value of the portion of each participant's projected benefit attributable to service earned prior to the valuation date. The significant actuarial assumptions used to compute the calculated contribution are the same as those used to compute the Pension Benefit Obligation. The calculated contribution for the current fiscal year is as follows:

	2001	2000
Actuarially determined normal cost	\$ 2,523,105	\$ 2,523,089
Amortization of excess valuation assets over actuarial accrued liability	(1,736,477)	(1,721,891)
Calculated Contribution	\$ 786,628	\$ 801,198

The normal actuarial cost represents 5.6% in 2001 and 6.1% in 2000 of the covered payroll for this Plan.

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Information for the past three fiscal years is presented below:

	(1)	(2)		(3)		Overfunded
	Net Assets	Pension	Percentage	Overfunded	Annual	Pension
	Available	Benefit	Funded	Pension	Covered	Benefit
				Obligation		Obligation
Date	for Benefits	Obligation	(1) / (2)	(1)-(2)	Payroll	as a % of Payroll (3) / (4)
1999	\$68,373,446	\$51,474,920	132.83%	\$16,898,526	\$40,600,000	41.6%
2000	\$71,782,501	\$55,592,134	129.12%	\$16,190,367	\$41,700,000	38.8%
2001	\$73,928,176	\$57,600,655	128.35%	\$16,327,521	\$45,000,000	36.3%

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

12. UNIVERSITY OF MAINE FOUNDATION

The University of Maine Foundation (the "Foundation") is an independent, non-profit organization and, accordingly, its financial statements are not consolidated with those of the System. Total gifts and income received by the System from the Foundation during fiscal years ending June 30, 2001 and 2000 were \$4,163,667 and \$4,185,132, respectively. The reported fair market value of the Foundation's assets as of June 30, 2001 and 2000 was \$114,709,434 and \$117,052,623, respectively.

13. COMMITMENTS AND CONTINGENCIES

The System participates in a number of federal programs subject to financial and compliance audits. The amount of expenditures which 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 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 commercial insurance for the risk of loss related to workers' compensation. Instead, the System's management believes it is more economical to manage its risk internally and to set aside assets for claims settlement. The liability for unpaid claims is based on the requirements of Governmental Accounting Standards

Board Statement No. 10 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.

Changes in the workers' compensation claims liability amount in fiscal 2001 and 2000 were as follows:

	Beginning of Fiscal Year Liability	Current Year Claims & Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2000	\$2,101,000	\$1,562,000	\$1,232,000	\$2,431,000
2001	\$2,431,000	\$1,616,000	\$1,349,000	\$2,698,000

The above noted liability for workers' compensation is included in the accompanying balance sheet as part of total accrued liabilities of \$42,685,902 and \$36,183,361 at June 30, 2001 and 2000, respectively.

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



University of Maine at Augusta

Susan Baker, Assistant Professor of Science, discusses a model in Biology class

Photographer - Pat Michaud

Annual Financial Report

A publication of the University of Maine System

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Office of Finance and Treasurer

107 Maine Avenue

Bangor, ME 04401-4380

In complying with the letter and spirit of applicable laws and in pursuing its own goals of diversity, the University of Maine System shall not discriminate on the grounds of race, color, religion, sex, sexual orientation, national origin or citizenship status, age, disability, or veterans status in employment, education, and all other areas of the University. The University provides reasonable accommodations to qualified individuals with disabilities upon request.

Questions and complaints about discrimination in any area of the University should be directed to Sally Dobres, Equal Opportunity Coordinator, University of Maine System, Office of Human Resources, 107 Maine Avenue, Bangor, Maine 04401 (207) 621-3199 (voice) or (207) 973-3300 (TTY/TDD). Inquiries or complaints about discrimination in employment or education may also be referred to the Maine Human Rights Commission. Inquiries or complaints about discrimination in employment may be referred to the U.S. Equal Employment Opportunity Commission.

Inquiries about the University's compliance with Title VI of the Civil Rights Act of 1964, which prohibits discrimination on the basis of race, color, and national origin; Section 504 of the Rehabilitation Act of 1973 and Title II of the Americans with Disabilities Act of 1990, which prohibit discrimination on the basis of disability; Title IX of the Education Amendments of 1972, which prohibits discrimination on the basis of sex; and the Age Discrimination Act of 1975, which prohibits discrimination on the basis of age, may also be referred to the U.S. Department of Education, Office for Civil Rights (OCR), Boston, MA 02109-4557, telephone (617) 223-9662 (voice) or (617) 223-9695 (TTY/TDD). Generally, an individual may also file a complaint with OCR within 180 days of alleged discrimination.