In the opinion of Preti, Flaherty, Beliveau & Pachios, LLP, Bond Counsel to the University of Maine System (the "University System"), assuming compliance by the University System with certain tax covenants described herein, under existing law, interest on the Series 2017 Bonds (as defined below) is excluded from the gross income of the owners of the Series 2017 Bonds for federal income tax purposes pursuant to section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Series 2017 Bonds is not an item of tax preference pursuant to section 57 of the Code for purposes of computing alternative minimum tax. In the case of certain corporate holders of the Series 2017 Bonds, interest on the Series 2017 Bonds will be included in the calculation of the alternative minimum tax as a result of the inclusion of interest on the Series 2017 Bonds in "adjusted current earnings" of certain corporations. Bond Counsel to the University System is also of the opinion that interest on the Series 2017 Bonds is exempt from taxation within the State of Maine pursuant to 20-A MRSA §10960. See "Tax Matters" herein.

Maine's Public Universities
UNIVERSITY OF MAINE SYSTEM

$30,340,000
UNIVERSITY OF MAINE SYSTEM
Revenue Bonds, Series 2017

Dated: Date of Delivery **Due:** March 1, as shown on the inside cover page

The University of Maine System Revenue Bonds, Series 2017 (the "Series 2017 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 2017 Bonds will not receive certificates representing their interests in the Series 2017 Bonds. The Series 2017 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 2017 Bonds is payable on each March 1 and September 1, commencing September 1, 2017. The Series 2017 Bonds of each maturity will bear interest from their dated date to their date of maturity at the applicable rates set forth on the inside cover page. Principal of and interest on the Series 2017 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 2017 Bonds are not subject to redemption prior to maturity.

The Series 2017 Bonds are payable solely from available revenues of the University System. The University System has no taxing power.

The Series 2017 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 2017 Bonds or to make any appropriation for their payment.

The Series 2017 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 2017 Bonds. Certain legal matters will be passed upon for the University System by its general counsel, James Thelen, Esq., Augusta, Maine. PFM Financial Advisors LLC, Boston, Massachusetts, has served as financial advisor to the University System in connection with the issuance of the Series 2017 Bonds. It is expected that the Series 2017 Bonds will be delivered in book-entry form on or about May 17, 2017 through the facilities of DTC.

RAYMOND JAMES®

May 3, 2017

MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS
$30,340,000
University of Maine System
Revenue Bonds, Series 2017

Maturity (March 1)	Principal Amount	Interest Rate	Yield	CUSIP[†] No. 914399
2018	$4,460,000	5.00%	0.91%	QX1
2019	3,180,000	5.00	1.01	QY9
2020	3,280,000	5.00	1.14	QZ6
2021	3,445,000	4.00	1.29	RA0
2022	3,580,000	5.00	1.46	RB8
2023	3,760,000	5.00	1.61	RC6
2024	3,950,000	5.00	1.76	RD4
2025	2,285,000	5.00	1.98	RE2
2026	2,400,000	4.00	2.13	RF9

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 2017 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 2017 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 2017 Bonds or as indicated above. The CUSIP number for a specific maturity is subject to change after the issuance of the Series 2017 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 2017 Bonds.

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OFFICIAL STATEMENT

$30,340,000
UNIVERSITY OF MAINE SYSTEM
Revenue Bonds, Series 2017

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 $30,340,000 aggregate principal amount of the University of Maine System Revenue Bonds, Series 2017, including the Terms of Issuance thereof (the "Series 2017 Bonds"). Certain capitalized terms used in this Official Statement are defined and have the meanings set forth in Appendix A hereto.

The Series 2017 Bonds will be issued pursuant to the Maine Revised Statutes, Title 20-A, chapters 411 and 412, as amended from time to time (the "Act"), and a resolution adopted on March 14, 2016 (the "Bond Resolution") by the Board of Trustees (the "Board") of the University System. The Series 2017 Bonds will be payable solely from available revenues of the University System and will not be 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 will not constitute a pledge of the faith and credit of the State. The University System has heretofore issued $490,885,000 in aggregate principal amount of its revenue bonds (the "Prior Bonds"). The Prior Bonds are Outstanding in the aggregate principal amount of $139,415,000 as of the date hereof.

Proceeds from the sale of the Series 2017 Bonds, together with certain other funds of the University System, will be used (i) to finance improvements to the University Plant and of a capital nature for the benefit of the University System (the "Projects"), (ii) to refund, as more fully described under "PLAN OF REFUNDING" herein, all of the Outstanding Revenue Bonds, Series 2007, issued by the University System on June 28, 2007 (the "Bonds to be Refunded") and (iii) to pay certain expenses incurred in connection with the issuance of the Series 2017 Bonds. See "APPLICATION OF SERIES 2017 BOND PROCEEDS."

The University System covenants in the Series 2017 Bonds that it will, so long as any Series 2017 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 2017 Bonds, including the prompt payment of principal of and interest on the Series 2017 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 2017 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 2017 BONDS

General

The Series 2017 Bonds will be payable solely from available revenues of the University System. The University System has no taxing power.

Rate Covenant

The University System covenants in the Series 2017 Bonds that it will, so long as any Series 2017 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 2017 Bonds, including the prompt payment of principal of and interest on the Series 2017 Bonds as and when due, the prompt payment of principal of and interest on the Prior Bonds as and when due 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.

State of Maine Not Liable

The Series 2017 Bonds will not constitute a debt or liability of 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 will 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 2017 Bonds or to make any appropriation for their payment.

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 improvements to wireless, audiovisual and information management cabling, equipment, software and related components at University System locations throughout the State and demolition of Kimball Hall at the University of Maine at Machias.

PLAN OF REFUNDING

Proceeds of the Series 2017 Bonds will be applied, on June 16, 2017, to refund, at the redemption price of 100%, the following amounts of the Bonds to be Refunded:

Maturity Date (March 1)	Amount to be Refunded
2018	$2,555,000
2019	1,565,000
2020	1,635,000
2021	1,720,000
2022	1,800,000
2023	1,880,000
2024	1,970,000
2025	10,000
2026	10,000
2027	10,000
2028	10,000
2029	10,000
2030	15,000
2031	15,000
2032	15,000
2033	5,000
2034	5,000
2035	5,000
2036	5,000
2037	5,000
TOTAL	$13,245,000

The Bonds to be Refunded are currently outstanding in the aggregate principal amount of $13,245,000. The refunding will achieve debt service savings for the University System. In order to accomplish the refunding of the Bonds to be Refunded, a portion of the proceeds of the sale of the Series 2017 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, whether or not used to acquire direct obligations of the United States of America (the "Investment Securities"), will be sufficient for the payment of the redemption price of the Bonds to be Refunded and the interest due on the Bonds to be Refunded.

In the opinion of Bond Counsel, and in reliance upon certain computations included in schedules provided by PFM Financial Advisors LLC ("PFMFA") on behalf of the University System relating to computation of forecasted receipts of principal and interest on the Investment Securities, if any, and forecasted payments of principal and interest to redeem the Refunded Bonds, 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.

APPLICATION OF SERIES 2017 BOND PROCEEDS

Proceeds of the Series 2017 Bonds are expected to be applied as follows:

Refunding of Bonds to be Refunded (1)	$13,431,375.00
Project Fund (2)	20,627,046.48
Costs of Issuance	203,893.72
Underwriter's Discount	90,413.20
Total	$34,352,728.40

(1) A portion of the proceeds of the Series 2017 Bonds will be deposited with the Escrow Agent pursuant to the Escrow Agreement for payment of the principal of and interest on certain of the Prior Bonds. See "PLAN OF REFUNDING" above.

(2) The Project Fund will be established by or on behalf of the University System and proceeds of the Series 2017 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.

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DEBT SERVICE REQUIREMENTS

The following table sets forth estimated debt service requirements on the Prior Bonds and the Series 2017 Bonds. There may be discrepancies in the following table between entries and sum totals due to rounding.

Fiscal Year Ending June 30[1]	Annual Debt Service on Prior Bonds[2]	Annual Debt Service on Series 2017 Bonds*	Total Annual Debt Service*
2017	$11,512,506		$11,512,506
2018	12,136,956	$5,610,634	17,747,590
2019	12,432,356	4,415,550	16,847,906
2020	12,788,606	4,356,550	17,145,156
2021	11,220,706	4,357,550	15,578,256
2022	11,225,406	4,354,750	15,580,156
2023	10,184,156	4,355,750	14,539,906
2024	10,168,806	4,357,750	14,526,556
2025	10,198,788	2,495,250	12,694,038
2026	10,205,975	2,496,000	12,701,975
2027	10,213,025		10,213,025
2028	10,178,325		10,178,325
2029	10,024,738		10,024,738
2030	10,123,788		10,123,788
2031	7,855,338		7,855,338
2032	7,849,388		7,849,388
2033	5,793,588		5,793,588
2034	4,498,844		4,498,844
2035	3,078,350		3,078,350
2036	455,275		455,275
2037	455,400		455,400
Total	$182,600,320	$36,799,784	$219,400,104

[1] All debt service on the Prior Bonds due in the Fiscal Year ending June 30, 2017 was paid by the University System prior to the date hereof.
[2] Excludes debt service on the Bonds to be Refunded.
* The amounts set forth under the heading "Annual Debt Service on Series 2017 Bonds" were prepared by using the principal maturities and the interest rates of the Series 2017 Bonds set forth on the inside cover page hereof.

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DESCRIPTION OF THE SERIES 2017 BONDS

General

The Series 2017 Bonds will bear interest from their date of delivery, payable on March 1 and September 1 of each year, commencing September 1, 2017, until payment of the principal of the Series 2017 Bonds. Principal of and interest on the Series 2017 Bonds will be payable to The Depository Trust Company, New York, New York ("DTC") by U.S. Bank National Association, Boston, Massachusetts, acting as paying agent (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 2017 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 2017 Bonds will be dated, will bear interest at the rates and will mature on the dates and in the amounts set forth on the inside cover page hereof. Interest on the Series 2017 Bonds will be computed on the basis of a 30-day month and 360-day year.

The Series 2017 Bonds will be issued in fully registered form, without coupons. Purchase of beneficial interests in the Series 2017 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 2017 Bonds.

THE UNIVERSITY OF MAINE SYSTEM

History

The University System 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 teachers 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 community college system. Following the merger of the University of Maine with the five state colleges, the University 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 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").

*Effective July 1, 2017, UMM will become a regional campus of UM, but will retain its name, location, mission, and degree-granting authority.

In addition, the University of Maine School of Law is an institution within the University System. Lewiston-Auburn College is a campus of USM. The University of Maine at Augusta-Bangor is a campus of UMA. The Hutchinson Center in Belfast is a campus of UM. The University System also includes University College ("University College") which is the University System's distant education organization and offers access to courses and programs from the Institutions at more than 40 locations and online.

The University System owns in excess of 13,500 acres of land, of which 2,300 acres are developed, and its facilities provide approximately 9.6 million square feet of space for education, research, and associated uses. The University System has more than 40 residence halls with an estimated capacity of more than 7,000 students. The University System estimates that the replacement value of its facilities is approximately $2.2 billion, excluding contents.

Board of Trustees

The University System is governed by a 16-member Board of Trustees. Fifteen 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. 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.

Current and Future Considerations

The University System and the Institutions continue to face demographic, economic and fiscal challenges. In particular, the University System faces the combined challenges of a declining population of college-bound high school students in Maine, enhanced competition for students, little ability or desire to increase the tuition burden on Maine families and conservative increases, if any, in State appropriation in recent years. The University System is fully committed to wholesale, structural change to meet these challenges and to ensure that the Institutions continue to serve their students and Maine businesses and communities. For additional information about the University System's response to such challenges, see Appendix D, "Certain Financial Information Pertaining to the University of Maine System for the Fiscal Years Ended June 30, 2016 and June 30, 2015," Management's Discussion and Analysis (unaudited) – Current and Future Considerations beginning on page D-24 hereof.

Financial Analysis

The University System annually conducts a multiyear financial analysis. The University System pursues the goal of financial sustainability while maintaining academic quality and integrity, providing access to more students, offering new programs that support economic development in the State, delivering more efficient and cost effective operations and enhancing productivity by utilizing technology more broadly. In the course of its annual budgeting process and multi-year financial analysis, the University System evaluates the fiscal impact of significant budget elements, including student enrollment, faculty and staff compensation, investments in physical plant, State appropriations for the University System, staff functions, tuition and fee revenue and financial aid funded by the University System.

Each year, the five year analysis process begins in March when finance personnel of the University System and the Institutions meet to review assumptions and develop that year's analysis framework. The University System-wide assumptions include tuition rates, changes in faculty and staff compensation, benefit rates, State appropriations, inflation rates, and capital funding goals. Working within the analysis framework, finance personnel of the Institutions refine their own respective variables and cost factors during March. Such variables and cost factors include enrollment and workforce projections and non-personnel expenses such as fuel and electricity, supplies and services, maintenance and alterations and library acquisitions. In April each Institution's analyses and other information are compiled and the results are reviewed with finance personnel and the Presidents of the Institutions. The final analysis is presented at the May meeting of the Board.

Members of the Board

As of April 1, 2017, the members of the Board were as follows:

Member	Principal Occupation	Term Expires*	Residence
Samuel W. Collins, Chair	President	2019	Caribou
Jason E. Coombs	College Student	2018	Brunswick
James O. Donnelly	Executive Vice President	2019	Brewer
Lisa Marchese Eames	Deputy Attorney General	2020	Cumberland
James R. Erwin	Partner	2017	Yarmouth
Norman L. Fournier	Executive Director	2017	Wallagrass
Mark R. Gardner	President and CEO	2017	Kittery
Robert G. Hasson, Jr.	Commissioner	Ex Officio**	South Portland
M. Michelle Hood	President and CEO	2018	Bar Harbor
Gregory G. Johnson, Vice Chair	Retired Admiral – US Navy	2020	Harpswell
Kelly A. Martin	Financial Advisor	2019	Fort Kent
Shawn H. Moody	President	2018	Gorham
Theresa A. Sutton	Vice President	2020	Cumberland
Karl W. Turner	Consultant	2016	Cumberland

*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.
**The Commissioner of the Maine Department of Education serves as a voting member ex officio.

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 April 1, 2017, the persons listed below were serving as the principal administrative personnel of the University System.

Dr. James H. Page was appointed Chancellor by the Board in March 2012. Prior to becoming Chancellor, Dr. Page was principal and Chief Executive Officer of the James W. Sewall Company, a national consulting organization founded in 1880 and headquartered in Old Town, Maine, specializing in forestry, natural resources and civil and spatial engineering. Dr. Page is the first Chancellor to be born in Maine or to have been educated at one of the Institutions. He was born and raised in Caribou and obtained his B.A. in History from UMFK. Subsequently he completed Master's work in the philosophy of physics at St. Andrews University, Scotland and obtained his Ph.D. in the philosophical foundations of mathematics from the Massachusetts Institute of Technology. He taught at several universities before joining the private sector and has served on a number of boards in the public, private and non-governmental organization sectors.

Ms. Rosa Redonnett is the Chief Student Affairs Officer for the University System. The Chief Student Affairs Officer is responsible for advising the Chancellor, Chancellor's staff and the Board on all matters affecting student life at the Institutions and most specifically on those matters impacting the persistence, graduation and success of all students within the University System. The Chief Student Affairs Officer provides University System-wide leadership to enhance and promote student success through collaborative efforts within the University System, with other higher education institutions, and within the preK-20 education community. Prior to her appointment as Chief Student Affairs Officer, Ms. Redonnett served in several positions at USM from 1987-2008. Prior to working at USM, Ms. Redonnett worked at Bunker Hill Community College in Charlestown, MA and at Northeastern University in Boston. She received her M.B.A. from Northeastern University and her B.A. in International Business from Simmons College.

Mr. James Thelen was appointed General Counsel to the University System effective June 15, 2015. In addition, he became Chief of Staff to the Chancellor in July 2016. In these roles he is responsible for managing all legal and related compliance matters for the University System and the Institutions, while he manages the Chancellor's Office and staff and special projects and advises the Chancellor on University System strategic priorities. Before coming to Maine in 2015, he served as Associate Dean for Legal Affairs and General Counsel at Western Michigan University Cooley Law School for 4 years, and for 14 years as an attorney in private practice, all in Michigan. Mr. Thelen has a B.A., magna cum laude, from Western Michigan University (1992) and a J.D., cum laude, from Tulane University School of Law (1995).

Ms. Rebecca Wyke has served as the University System's Vice Chancellor for Finance and Administration since 2008. Her major focus of work has been University System-wide initiatives to ensure the long-term financial sustainability of the University System. Prior to joining the University System, Ms. Wyke worked for the State of Maine. She served five years as the Commissioner of the Department of Administrative and Financial Services. She also served in the administration of three Maine Secretaries of State, most recently as the Chief Deputy Secretary of State for eight years. Ms. Wyke received her Ed.D. from the University of Pennsylvania and is a graduate of the University of Maine with a Bachelor of Arts degree in Political Science and a Masters in Public Administration.

Mr. Ryan Low has been employed by the University System since 2010. He currently serves as its Chief Financial Officer and Treasurer and oversees all fiscal operations of the University System. Mr. Low works with University System officials on strategic budgeting, fiscal planning and financial management and is responsible for identifying and implementing best practices in financial management and ensuring that financial resources serve to fully support the mission of the University System. He also directs system-wide functions of accounting, budgeting, investment management, treasury, cash management, financial analysis and planning, financial systems, and student financial services. Mr. Low also served as the University System's Executive Director of Governmental and External Affairs, where he was responsible for the development and implementation of a comprehensive governmental and external relations and communications program, and as Vice President of Administration and Chief Financial Officer at UMF. Prior to joining the University System, Mr. Low spent 13 years in State government serving, for different periods, in the State Legislature as Chief of Staff for the House Majority Leader and then for the Speaker of the House and, in the Executive Branch as the Commissioner of the Department of Administrative and Financial Services ("DAFS"), the

Governor's Deputy Chief of Staff, the State Budget Officer, the Associate Commissioner of DAFS and State Coordinator for managing federal stimulus funding.

Mr. Robert Neely is the Vice Chancellor for Academic Affairs ("VCAA") for the University System. The VCAA works with the Council of Chief Academic Officers to oversee all academic matters with respect to the Institutions. In particular, the VCAA is charged with leading the University System Academic Transformation initiative, including projects related to Program Integration, Unified Online, Mission Differentiation, Portfolio Review, Student Success, Institutional Research, and an array of other academic directions. Prior to joining the University System, Dr. Neely most recently served for more than 5 years as Provost and Vice President for Academic Affairs at Texas Woman's University ("TWU"), a public, co-educational university serving more than 15,000 students on three campuses. Previously, Dr. Neely served at Eastern Michigan University ("EMU"), a large, public university, as a full-time faculty member from 1984 – 1998, prior to successive administrative responsibilities including Department Head (Biology), Associate Dean (Arts & Sciences), Senior Associate Vice President, Associate Provost, Associate Vice President for Research, and interim Provost. His combined experience at EMU and TWU has included oversight of liberal arts and professional programs for traditional and nontraditional students. Dr. Neely received his Ph.D. from Iowa State University in Botany with an emphasis in aquatic plant ecology in 1982, a Master's degree from Baylor University in biology with an emphasis in limnology in 1978, and a Bachelor of Science degree from Southwest Baptist College in Biology in 1976.

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 April 1, 2017, the persons listed below were serving as the presidents of the Institutions:

Dr. Susan J. Hunter was named President of the University of Maine, effective July 7, 2014. She began her full-time career at UM in September 1991. Prior to starting her appointment as UM's first woman president, President Hunter served as Vice Chancellor for Academic Affairs for the University System, a position she assumed in September 2013. At UM, President Hunter also served five years as the Executive Vice President for Academic Affairs and Provost and has also served as Associate Provost and Dean for Undergraduate Education; Assistant Director in the College of Natural Sciences, Forestry, and Agriculture; Chair of the Department of Biological Sciences and as a faculty member teaching basic biology, cell biology and anatomy and physiology. During her time as a faculty member, Dr. Hunter received grant support from the National Institutes of Health and the National Science Foundation. President Hunter served on the board of directors of the Maine School of Science and Mathematics and the Maine Mathematics and Science Alliance. Currently, she serves on the boards of Maine & Company and the Maine Development Foundation. She received a bachelor's degree in biology from James Madison University and a Ph.D. in physiology from

Pennsylvania State University, and did postdoctoral work at Case Western Reserve University and Pennsylvania State University.

Dr. James F. Conneely became president at the University of Maine at Augusta on January 19, 2016. Dr. Conneely has spent 34 years in higher education serving a full complement of institutional types and has been a President, Associate Provost, Vice President, and Professor of Education. Prior to coming to UMA, he served at Notre Dame of Maryland University, Eastern Kentucky University, the University of Arkansas, Emory University, Villanova University, and the University of Northern Iowa. He has been active in the Southern Association for College and Schools and the National Association for Student Personnel Administrators (NASPA), and has consulted with nonprofits including United Way and Lexington Catholic High School. He currently serves on the Augusta Board of Trade, the Kennebec Valley Chamber of Commerce, and the Mayor's Committee on Community and Economic Development. Dr. Conneely received his B.A. degree from Saint Bonaventure University, his M.S. in Education from Alfred University, and his Ph.D. from Georgia State University. Additionally, he received certificates from Harvard University's Management Development Program, Institutional Educational Management, and New President's programs; and a certificate from the Council for the Advancement of Standards in Education summer institute at Dartmouth College.

In mid-April 2017, Dr. Conneely tendered his resignation as president of UMA effective June 30, 2017. University System management anticipates naming an Interim President by the end of May 2017.

Dr. Kathryn Foster became the fourteenth president of the University of Maine at Farmington in 2012. She is a native of New Jersey and a scholar-educator with thirty years of experience in public higher education and regional policy and practice. At the time of her appointment, President Foster was a Visiting Fellow at the Brookings Institution in Washington D.C., where she was on research leave from the State University of New York at Buffalo, her academic home since 1993. Foster earned her B.A. in Geography from the Johns Hopkins University, her M.C.P. (Master of City Planning) from the University of California, Berkeley, and her Ph.D. in Public and International Affairs from Princeton University. A frequent public speaker on regional decision making and governance, Ms. Foster is the author of *Regionalism on Purpose* (2001), *The Political Economy of Special-Purpose Government* (1997) and numerous book chapters, articles and policy reports.

Dr. John Short began his service as President of the University of Maine at Fort Kent on April 1, 2016. Dr. Short's career in public higher education spans nearly forty years with experience as both a faculty member and an administrator. Prior to his service as UMFK President, he was the CEO and Dean of the University of Wisconsin-Fond du Lac where he oversaw operations and academics at the freshman-sophomore level liberal arts transfer institution. Dr. Short has also had leadership positions on the boards of directors of the Fond du Lac Area Convention and Visitors Bureau and the Northeast Wisconsin Education Resource Alliance. He also served on the Creative Industries Committee of the Wisconsin Arts Board. In addition, Dr. Short helped to establish a high school concurrent enrollment program that recently included over 190 Fond du Lac students taking college credit classes while still in high school. Dr. Short received his bachelor's degree at Penn State University, his master's degree at SUNY at Albany and his doctorate at Lehigh University. All were in political science.

Dr. Sue Huseman was appointed Interim President of the University of Maine at Machias in May, 2016. Dr. Huseman has spent most of her academic and administrative career serving small liberal arts colleges, both public and private, including UMF and UMM. She has also served the UM and the University System. She has also served on the Academic Affairs Roundtable at the New England Resource Center for Higher Education at the University of Massachusetts, Boston and the Executive Board of the Melmac Education Foundation and was named a Fellow of the Society for Values in Higher Education. Dr. Huseman's public service contributions to the State of Maine include membership on the Maine State Board of Education Task Force on Foreign Language Education, the Governor's Task Force on K-16 Education, the Maine Technology Task Force, the Executive Board of the Foreign Language Round Table of Maine, the Maine Women's Studies Consortium and the Maine Campus Compact for Service Learning and leadership of the Committee on Retention and Completion for the Maine Compact for Higher Education. She has also worked as a strategic planning consultant for several nonprofit organizations. Dr. Huseman received a B.A. in French with minors in German and Linguistics from the University of Missouri; a dual Master's degree in French Literature and French Linguistics from Indiana University in Bloomington, Indiana; and a Ph.D. in Comparative Literature from the University of Illinois in Champaign-Urbana.

Dr. Raymond Rice became Interim President of the University of Maine at Presque Isle in July, 2016 and, preceding his appointment, he served as UMPI's Provost and Vice President for Academic and Student Affairs and as Chair of the College of Arts and Sciences. A professor of English, he has been a member of the UMPI faculty for 19 years. As UMPI's academic leader, Dr. Rice has directed the campus pedagogical, curricular, and assessment transition in UMPI's effort to become a leader in personalized learning. The New England Board of Higher Education recognized UMPI's achievements in personalized learning with its 2016 Maine State Merit Award. Dr. Rice has also overseen the expansion of early college offerings at the Maine School of Science and Mathematics in Limestone and area secondary schools. Dr. Rice graduated from Dickinson College in 1989 with a B.A. in English and Latin with a secondary school certification. He went on to earn his M.A. in English in 1992 and his Ph.D. in English in 1998, both from the University of Connecticut.

Dr. Glenn Cummings became the thirteenth president of the University of Southern Maine on July 1, 2015. Dr. Cummings has a long career in education and public service. Beginning as a high school history and economics teacher, he later taught at both Southern Maine Community College and at USM. In 2000, Dr. Cummings was elected to the Maine State House of Representatives, serving as Chair of the Education Committee for one term and then was elected House Majority Leader. Two years later, he was elected Speaker of the House. After serving in the State Legislature, Dr. Cummings was appointed Deputy Assistant Secretary of the U.S. Department of Education. In 2010, Dr. Cummings became the President of Good Will-Hinckley, a high school in central Maine. In 2014, Dr. Cummings was named as Interim President of UMA, a position he held until becoming President of USM. Dr. Cummings earned his Doctorate in Higher Education Management from the University of Pennsylvania. He previously earned a Masters of Public Administration from the Kennedy School of Government at Harvard University, a Masters of Arts in Teaching from Brown University, and a Bachelor of Arts from Ohio Wesleyan University.

Academic Programs

The **University of Maine**, located in Orono, is the State's land grant institution and sea grant college. UM offers 30 doctoral degrees, 80 master's degrees and more than 90 undergraduate majors and academic programs. In addition to the Graduate School, it has six other colleges: the Maine Business School; Education and Human Development; Engineering; Honors; Liberal Arts and Sciences and Natural Sciences, Forestry and Agriculture.

The **University of Maine at Augusta** offers 13 associate degrees and 20 baccalaureate degree programs which are provided at two campuses in Augusta and Bangor and eight outreach centers and through broadcast or web delivery. Ten associate degrees and 14 baccalaureate degrees are offered statewide, including 20 degrees offered fully online. UMA serves a diverse commuter population of traditional and non-traditional students in its region, many of whom are already in the workforce. The average credit load is eight to nine credits per semester and the average student age is 32 years.

University College is a resource of the University System and provides access to academic programs from all of the Institutions. Students can earn course credits through a variety of delivery methods that apply to nearly all of the degree and certificate programs. University College manages eight outreach centers and contracts with 31 additional adult education sites in the State. In Fiscal Year 2016, University College students enrolled in 29,988 credit hours at University College centers and sites delivered onsite and by interactive television and video conference. In addition, University College facilitated enrollment of students in 15,560 credit hours online, or approximately 12 percent of all University System online enrollments.

Established in 1864 as Maine's first public institution of higher education, the **University of Maine at Farmington** is a small, primarily residential, public liberal arts college in western Maine. UMF emphasizes experiential learning and offers a wide range of undergraduate programs in the arts and sciences, teacher education, selected professional fields, and interdisciplinary concentrations. UMF offers a growing number of graduate certificates and Masters degrees in 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. UMFK's offerings have expanded to include degrees in nursing, environmental studies, forestry, business, public safety administration, and liberal arts. UMFK also provides early college and dual enrollment programs for the State's high school students.

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, associate degrees in three fields, and ten certificate or certification programs. Through its Environmental Liberal Arts curriculum, UMM provides an undergraduate education that is grounded in the natural, social, cultural and economic environments of coastal Maine.

The **University of Maine at Presque Isle** provides its students with opportunities for learning and professional career preparation in a caring, small-campus environment. UMPI combines a liberal arts and sciences core with professional programs, offering degrees in such areas as Athletic Training, Environmental Studies and Sustainability, Social Work, Medical

Laboratory Technology, Business, Criminal Justice, Psychology, and Education. Major themes in the UMPI curriculum are preparation of students for the professional workforce and hands-on learning projects that benefit the community.

At its campuses in Portland, Gorham and Lewiston-Auburn, the **University of Southern Maine** offers its students more than 60 academic programs in many areas, including the sciences, engineering, business, education, social work, nursing, public policy, liberal arts, music and theatre. USM also offers internships, service learning, and other opportunities with businesses, local governments, hospitals, human service agencies, the tourist industry, theater, music and sports venues and other nonprofits.

URSUS is the online catalog of library materials held at the libraries of the seven Institutions, the Maine State Library, the Maine State Law and Legislative Library and the Bangor Public Library. There are more than 2.1 million bibliographic records and 3.5 million shared items in the catalog.

Student Enrollment

For fall 2016, the University System enrolled 29,465 students on a headcount basis. Full time equivalent (FTE) enrollment was 21,867.

The following table sets forth total headcount and full-time equivalent enrollments at each Institution for fall 2016.

Institution	Total Headcount Enrollment			FTE Enrollment
	Undergraduate	Graduate	Total	
UM	9,323	1,896	11,219	9,594
UMA	4,416	----	4,416	2,422
UMF	1,782	218	2,000	1,709
UMFK	1,904	----	1,904	1,052
UMM	745	----	745	492
UMPI	1,326	----	1,326	885
USM	6,189	1,666	7,855	5,713
Total	25,685	3,780	29,465	21,867

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The following table sets forth the fall FTE enrollment from 2012 to 2016 by Institution.

Institution	2012	2013	2014	2015	2016
UM	9,040	9,356	9,512	9,371	9,594
UMA	2,862	2,713	2,615	2,626	2,422
UMF	1,896	1,807	1,695	1,724	1,709
UMFK	779	805	838	911	1,052
UMM	571	542	516	493	492
UMPI	974	843	779	823	885
USM	6,871	6,460	6,082	5,681	5,713
TOTAL	22,993	22,526	22,037	21,629	21,867

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The tables below set forth enrollments by residence, and then by full and part-time status, on a headcount basis for the University System for a five year period ending fall 2016. Enrollments are based on registration for each fall semester as of October 15. From fall 2012 to fall 2016, headcount enrollment decreased by 1,547 students or 5.0%. For additional information about student enrollment, see Appendix D, "Certain Financial Information Pertaining to the University of Maine System for the Fiscal Years Ended June 30, 2016 and June 30, 2015," Management's Discussion and Analysis (unaudited) – Student Enrollment on page D-7 hereof and – Current and Future Considerations beginning on page D-24 hereof.

The following table sets forth the fall headcount enrollment by residence from 2012 to 2016.

Fall Headcount Enrollment by Residence

							% Change	
	2012	**2013**	**2014**	**2015**	**2016**	**% of Total**	**1-Year**	**5-Year**
In-State	27,046	26,153	25,118	24,198	24,293	82.4%	0.4%	-10.2%
Out-of-State	3,966	4,212	4,495	4,796	5,172	17.6%	7.8%	30.4%
Total	31,012	30,365	29,613	28,994	29,465	100.0%	1.6%	-5.0%

The following table sets forth the full- and part-time fall headcount enrollment from 2012 to 2016.

Full-Time and Part-Time Fall Headcount Enrollment

							% Change	
	2012	**2013**	**2014**	**2015**	**2016**	**% of Total**	**1-Year**	**5-Year**
Full-time	20,153	19,728	19,273	18,898	18,856	64.0%	-0.2%	-6.4%
Part-time	10,859	10,637	10,340	10,096	10,609	36.0%	5.1%	-2.3%
Total	31,012	30,365	29,613	28,994	29,465	100.0%	1.6%	-5.0%

The following table sets forth the number of applicants, accepted applicants and enrolled students from fall 2012 to fall 2016.

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

	Applicants	Accepted Applicants	Enrolled Students
Fall 2012			
Number	16,618	13,089	4,152
Percent[1]	-	78.8%	31.7%
Fall 2013			
Number	17,855	14,375	4,263
Percent[1]	-	80.5%	29.7%
Fall 2014			
Number	19,701	15,871	4,049
Percent[1]		80.6%	25.5%
Fall 2015			
Number	21,478	16,924	4,105
Percent[1]		78.8%	24.3%
Fall 2016			
Number	24,911	19,514	4,351
Percent[1]		78.3%	22.3%

[1] Each amount is the percent of the previous category, i.e., accepted applicants is a percent of applicants and enrolled students is a percent of accepted applicants.

The University System awarded 5,583 degrees during academic year 2015/2016.

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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, for the five academic years 2012/2013 through 2016/2017, annual tuition by Institution charged to full-time students on the basis of in-state and out-of-state residence and room and board fees by Institution.

Annual Tuition by Institution

	FY13	FY14	FY15	FY16	FY17
UNDERGRADUATE					
In-State					
UM	$8,370	$8,370	$8,370	$8,370	$8,370
UMA	6,510	6,510	6,510	6,510	6,510
UMF	8,352	8,352	8,352	8,352	8,352
UMFK	6,600	6,600	6,600	6,600	6,600
UMM	6,660	6,600	6,600	6,660	6,660
UMPI	6,600	6,600	6,600	6,600	6,600
USM	7,590	7,590	7,590	7,590	7,590
Weighted Average	**$7,619**	**$7,604**	**$7,622**	**$7,616**	**$7,609**
Out-of-State					
UM	$25,230	$25,740	$26,250	$26,640	$27,240
UMA	15,750	15,750	15,750	15,750	16,110
UMF	17,440	17,440	17,440	17,440	17,440
UMFK	16,560	16,560	9,900	9,900	10,230
UMM	18,480	18,480	18,480	18,480	18,480
UMPI	16,560	16,560	9,900	9,900	10,230
USM	19,950	19,950	19,950	19,950	19,950
Weighted Average	**$22,067**	**$22,591**	**$22,924**	**$23,218**	**$23,604**
GRADUATE					
In-State	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**
UM	$7,524	$7,524	$7,524	$7,524	$7,524
UMF	6,822	6,822	6,822	6,822	6,822
USM	6,840	6,840	6,840	6,840	6,840
Weighted Average	**$7,145**	**$7,128**	**$7,128**	**$7,128**	**$7,110**
Out-of-State					
UM	$22,662	$23,112	$23,580	$23,940	$24,498
UMF	9,900	9,900	9,900	9,900	9,900
USM	18,468	18,468	18,468	18,468	18,468
Weighted Average	**$21,181**	**$21,708**	**$22,104**	**$22,644**	**$23,238**
LAW					
In-State	$22,290	$22,290	$22,290	$22,290	$22,290
Out-of-State	$33,360	$33,360	$33,360	$33,360	$33,360

Annual Room and Board Charges by Institution

	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
UM	$9,148	$9,412	$9,296	$9,575	$9,864
UMF	8,454	8,674	8,970	8,970	9,112
UMFK	7,550	7,720	7,720	7,910	7,910
UMM	7,900	8,178	8,178	8,486	8,486
UMPI	7,422	7,576	7,856	7,844	7,844
USM	8,759	8,950	9,150	9,400	9,200
Weighted Average	**$8,780**	**$9,015**	**$9,060**	**$9,593**	**$9,618**

The following table sets forth University System weighted average 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 five academic years ended June 30, 2017.

University System Weighted Average Undergraduate Annual Total Student Charges [(1)]

	Annual Tuition	Mandatory Fees	Room & Board	Total
In-State				
2012/2013	$7,619	$1,403	$8,780	$17,802
2013/2014	7,604	1,416	9,015	18,035
2014/2015	7,622	1,469	9,051	18,142
2015/2016	7,616	1,485	9,295	18,396
2016/2017	7,609	1,499	9,618	18,726
Out-of-State				
2012/2013	$22,067	$1,403	$8,780	$32,250
2013/2014	22,591	1,416	9,015	33,022
2014/2015	22,924	1,469	9,060	33,453
2015/2016	23,218	1,485	9,593	33,296
2016/2017	23,604	1,499	9,618	34,721

(1) Annual tuition and mandatory fees are based on 15 credit hours per semester for 2 semesters for undergraduate and law students (16 credit hours at UMF and 'block' rate for 12-18 credit hours per semester at UMFK) and on 9 credit hours per semester for 2 semesters for graduate students. 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 2016 are: UM - $279, UMA - $217, UMF - $261, UMFK - $220, UMM - $222, UMPI - $220 and USM - $253.

As of October 31, 2016, approximately 21.4% of University System students enrolled in fall 2016 lived in residence halls owned by the University System.

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Financial Aid to Students

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

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.

	FY2012	FY2013	FY2014	FY2015	FY2016
Grants and Scholarships:					
Federal	$54.2	$53.5	$52.9	$51.5	$50.2
State	8.2	8.1	6.4	7.6	9.8
University	53.9	55.2	60.3	66.0	73.5
Total	$116.3	$116.8	$119.6	$125.1	$133.5
Loans:					
Federal	$160.9	$154.9	$150.5	$142.3	$134.1
University	1.4	1.3	1.5	1.3	1.5
Total	$162.3	$156.2	$152.0	$143.6	$135.6
Total Aid	$278.6	$273.0	$271.6	$268.7	$269.1

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

Faculty and Employees

As of October 31, 2016, the University System employed 5,221 employees on a headcount basis of whom 4,171 were full-time and 1,050 were part-time. The 5,221 employees included 95 administrators, 1,996 faculty, 1,705 professionals and 1,425 hourly. For the 2015-2016 academic year, 60.7% (694) of faculty within the University System had tenure. On a full-time equivalent basis, there were 4,586 employees. Employees on a headcount basis by location were as follows:

Location	Number of Employees - Headcount
UM	2,350
UMA	450
UMF	326
UMFK	145
UMM	94
UMPI	185
USM	1,286
System-wide Services	372
University Governance	13
Total	5,221

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. Five units are covered by two-year contracts which expire on June 30, 2017 and one unit's contract expires on August 31, 2017. Collective bargaining for a successor contract for these six units has begun. Two additional units, the law school faculty and hourly supervisors, have never elected bargaining agents 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, 2016 and June 30, 2015," Notes to the Financial Statements – Note 13, Pension Plans, beginning on page D-53 hereof.

Accreditation and Affiliations

All Institutions 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, 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. The Institutions also have articulation agreements with the State's community college system which govern the transfer of credits between the Institutions and the community colleges.

CERTAIN INFORMATION REGARDING THE FINANCIAL OPERATION OF THE UNIVERSITY SYSTEM

Revenues of the University System

University System operating revenues are derived from appropriations made to the University System by the State; sales and services of auxiliary operations; tuition, fees and 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. In Fiscal Year 2016, total operating and net nonoperating revenue sources consisted of net student fees (approximately 36%), State appropriations (approximately 31%), grants and contracts (approximately 21%) and certain other revenues (approximately 12%). See "THE UNIVERSITY OF MAINE SYSTEM – Tuition and Fees" and Appendix D, "Certain Financial Information Pertaining to the University of Maine System for the Fiscal Years Ended June 30, 2016 and June 30, 2015," Management's Discussion and Analysis (unaudited) – Operating and Nonoperating Revenue beginning on page D-18 hereof.

Financial Support by the State – Appropriations

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 in odd-numbered years and supplemental requests or reductions for the second year of the biennium are considered during the second annual session. 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 and Financial Affairs Committee recommends an appropriations act to the full Legislature. Upon passage and the Governor's signature, the budget becomes final, usually in June of the first annual session of the biennium. Generally, appropriations are disbursed in monthly installments to the University System.

The following table sets forth State general fund appropriations made and expected to be made to the University System for its operations during the ten Fiscal Years listed.

Fiscal Year Ending June 30	E&G* Amount	Total Amount**
2008	$183,236,418	$199,471,418
2009	175,157,071	192,392,071
2010	170,460,323	188,445,323
2011	176,460,388	193,695,388
2012	178,530,506	195,765,506
2013	173,659,570	191,662,520
2014	176,194,798	194,197,748
2015	176,194,798	195,539,723
2016	179,159,600	200,677,025
2017	189,670,534	208,687,959

* Unrestricted educational and general.
** Noncapital State appropriations in addition to the E&G appropriations have been provided primarily to support University System research in several sectors outlined in State statute.

Appropriations for the University System are subject to increase or decrease by legislation which may be subsequently enacted and to reduction by action of the Governor. Economic factors within the State, including the State's fiscal performance, significantly impact the University System.

As a result of curtailments and deappropriations, the University System's unrestricted educational and general (E&G) appropriation remains below the Fiscal Year 2008 level. Beginning with the world financial crisis which was particularly acute during Fiscal Year 2009, the State has made significant adjustments to the University System's E&G appropriation because of losses in State revenue:

- After various adjustments, the Fiscal Year 2009 E&G appropriation was reduced by approximately $8 million.
- During Fiscal Year 2010, there was an E&G appropriation reduction of approximately $7 million and an additional curtailment of approximately $6.0 million.
- Although the Fiscal Year 2010 curtailment of approximately $6 million was restored, there was no additional E&G appropriation for Fiscal Year 2011.

- In Fiscal Year 2012, the University System's E&G appropriation increased approximately $2 million.
- In Fiscal Year 2013, the E&G appropriation was initially reduced by approximately $2.3 million and later curtailed by approximately $2.5 million.
- In Fiscal Year 2014, approximately $2.5 million was restored.
- The Fiscal Year 2015 E&G appropriation remained unchanged from the prior year.
- In Fiscal Year 2016, the E&G appropriation increased approximately $3 million.
- When adopted in June, 2015, the State's 2016-2017 biennial budget provided for an E&G appropriation increase of approximately $3.4 million for Fiscal Year 2017.
- On March 15, 2017, there was enacted legislation which increased the Fiscal Year 2017 E&G appropriation by $4.65 million (the "2017 Supplemental Appropriation"). The University System requested the 2017 Supplemental Appropriation in order to facilitate keeping in-state tuition and unified fee rates unchanged for Fiscal Year 2017.

Financial Support by the State – Debt Service

The University System covenants in the Series 2017 Bonds that it will, so long as any Series 2017 Bonds are Outstanding, request that the State include in each of its biennial budgets an annual appropriation of $2.5 million for payment of a portion of the principal of and interest on the Series 2017 Bonds. The University System expects to spend the proceeds of such portion of the principal of the Series 2017 Bonds to pay the costs of the Projects. See "THE PROJECTS" above. There can be no assurance that the State will make any such appropriation in whole or in part. If the State fails to make any such appropriation, the University System remains obligated to pay the principal of and interest on the Series 2017 Bonds from other sources.

Financial Support by the State – General Obligation Bond Proceeds

In addition to noncapital appropriations for operations, the State Legislature from time to time authorizes borrowing, subject to ratification by the voters of the State, to pay costs of construction, renovation and improvement of facilities and costs of 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 since 2007 and amounts received by the University System as of April 1, 2017.

Voter Authorization Date	Amount Authorized	Amount Received
November, 2007	$23,000,000	$22,961,511
June, 2010	20,500,000	20,401,525
November, 2013	15,500,000	14,063,679
November, 2014	8,000,000	2,138,108

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.

For additional information about current projects, see Appendix D, "Certain Financial Information Pertaining to the University of Maine System for the Fiscal Years Ended June 30, 2016 and June 30, 2015," Management's Discussion and Analysis (unaudited) – Table 7, Major Capital Construction Projects Completed During FY16 or In Progress at June 30, 2016 on page D-15 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 centers, bookstores, student health centers, recreation facilities and organized student activities. Revenue from such enterprises includes dormitory and other facility fees, food and book sale receipts, student fees and other miscellaneous revenues.

Other Sources of Funds

Other sources of revenue include interest income, earnings on investments of the University System, fees from sales and services by 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 imposed by its restricted funding sources. See Appendix D, "Certain Financial Information Pertaining to the University of Maine System for the Fiscal Years Ended June 30, 2016 and June 30, 2015" for additional information.

Endowment

The market value of the University System's total endowment investments as of the end of Fiscal Years 2012 through 2016 is set forth below.

Fiscal Year	Market Value
2012	$121,077,004
2013	132,689,948
2014	150,403,762
2015	142,547,232
2016	135,821,347

Post-Employment Health Care Benefits

Under Governmental Accounting Standards Board ("GASB") statement 45 ("GASB 45") the University System is required to account for other postemployment benefits ("OPEB"), primarily healthcare, on an accrual basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Revenues, Expenses and Changes in Net Position when future retirees earn their OPEB, rather than when they use their OPEB. To the extent that an entity does not fund its actuarially required contribution, an OPEB liability is recognized on the Statement of Net Position over time.

OPEB continues to result in significant, increasing costs for the University System. Over the past several years, to reduce its liability and the annual required contribution ("ARC"), the University System has made changes in retiree health plan eligibility rules and premium contributions, replaced the Medicare supplement plan with a Medicare Advantage Plan and funded an irrevocable OPEB trust which was established in Fiscal Year 2009.

As of July 1, 2015, the date of the most recent actuarial study, the University System's actuarial accrued liability for OPEB was $196,680,706. Since implementation of GASB 45 on July 1, 2007, the University System has fully funded the ARC which has ranged from approximately $12,000,000 to approximately $20,000,000 per year. The fair market value of the OPEB trust at June 30, 2016 was $97,536,401.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB No. 75) will be adopted in Fiscal Year 2018 with retroactive application to Fiscal Year 2017 including restatement of the beginning of year net position for Fiscal Year 2017. The primary objective of this Statement is to improve accounting and financial reporting with the purpose of providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The new Standard will affect how the System measures, reports, and discloses information about its other postemployment benefits other than pensions. The effects of implementation on the financial statements have not yet been determined, but the adjustment to unrestricted net position is expected to be significant.

For additional information about the University System's post-employment health care benefits, see Appendix D, "Certain Financial Information Pertaining to the University of Maine System for the Fiscal Years Ended June 30, 2016 and June 30, 2015," Notes to the Financial Statements – Note 14, Postemployment Health Plan, beginning on page D-64 hereof and Note 18, Significant New Accounting Pronouncement, on page D-77 hereof.

Summary of Historical Financial Performance

The University System's financial performance for the years ended June 30, 2014 through 2016 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, 2016 and June 30, 2015."

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

	2016	2015	Restated 2014 *
Assets			
Current Assets			
Cash and cash equivalents	$ 1,298	$ 6,174	$ 817
Operating investments	230,592	231,354	240,431
Accounts, grants, and pledges receivable, net	55,565	44,161	53,240
Inventories and prepaid expenses	5,352	5,953	5,338
Notes and lease receivable, net	63	63	63
Total Current Assets	292,870	287,705	299,889
Noncurrent Assets			
Deposits with bond trustees	1,411	12,744	400
Accounts, grants, and pledges receivable, net	2,696	7,862	4,140
Notes and leases receivable, net	40,802	40,877	41,072
Endowment investments	135,821	142,547	150,404
Capital assets, net	706,662	702,812	698,128
Total Noncurrent Assets	887,392	906,842	894,144
Total Assets	**1,180,262**	**1,194,547**	**1,194,033**
Deferred Outflows of Resources (Note 15)	**9,370**	**7,728**	**3,957**
Total Assets and Deferred Outflows	**$ 1,189,632**	**$ 1,202,275**	**$ 1,197,990**
Liabilities			
Current Liabilities			
Accounts payable	$ 14,742	$ 18,158	$ 13,062
Unearned revenue and deposits	10,692	11,069	11,049
Accrued liabilities	24,896	31,680	27,741
Funds held for others	1,831	1,828	2,599
Current portion of long-term debt	11,411	11,312	9,563
Total Current Liabilities	63,572	74,047	64,014
Noncurrent Liabilities			
Accrued liabilities	55,123	52,748	53,876
Funds held for others	18,202	18,189	21,628
Long-term debt	154,874	164,782	158,260
Government advances refundable	29,768	30,269	30,509
Total Noncurrent Liabilities	257,967	265,988	264,273
Total Liabilities	**321,539**	**340,035**	**328,287**
Deferred Inflows of Resources	**1,388**	**1,609**	**-**
Net Position			
Net investment in capital assets	544,597	540,544	531,654
Restricted			
Nonexpendable	57,920	58,121	56,945
Expendable	107,586	106,254	109,576
Unrestricted	156,602	155,712	171,528
Commitments and contingencies	-	-	-
Total Net Position	**866,705**	**860,631**	**869,703**
Total Liabilities, Deferred Inflows and Net Position	**$ 1,189,632**	**$ 1,202,275**	**$ 1,197,990**

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

	2016	2015	Restated 2014 *
Operating Revenues			
Tuition and fees	$ 270,193	$ 267,683	$ 267,418
Residence and dining fees	60,936	58,406	60,042
Less: scholarship allowances	(94,529)	(88,432)	(84,065)
Net student fees	236,600	237,657	243,395
Federal, state, and private grants and contracts	136,103	133,703	142,108
Recovery of indirect costs	11,524	12,129	13,810
Educational sales and services and other revenues	34,977	32,344	32,334
Other auxiliary enterprises	17,693	20,294	21,564
Total Operating Revenues	436,897	436,127	453,211
Operating Expenses			
Instruction	168,415	179,728	180,598
Research	66,278	65,393	72,508
Public service	59,603	60,701	60,322
Academic support	66,291	70,357	76,253
Student services	53,907	52,105	48,933
Institutional support	63,657	57,580	48,165
Operation and maintenance of plant	49,039	50,100	51,289
Depreciation and amortization	37,051	35,304	33,793
Student aid	33,069	30,925	29,658
Auxiliary enterprises	63,372	66,872	69,752
Total Operating Expenses	660,682	669,065	671,271
Operating Loss	(223,785)	(232,938)	(218,060)
Nonoperating Revenues (Expenses)			
Noncapital State of Maine appropriations	201,404	198,757	198,263
Gifts currently expendable	17,072	14,539	13,796
Endowment return used for operations	6,165	5,660	5,136
Investment income (loss)	2,561	(499)	13,081
Interest expense, net	(4,749)	(5,146)	(5,786)
Net Nonoperating Revenues	222,453	213,311	224,490
Loss Before Other Changes in Net Position	**(1,332)**	**(19,627)**	**6,430**
Other Changes in Net Position			
State of Maine capital appropriations	13,104	11,267	1,918
Capital grants and gifts	2,881	4,555	7,403
Endowment return (loss), net of amount used for operations	(7,946)	(6,151)	13,836
True and quasi endowment gifts	1,180	1,725	880
Loss on disposal of capital assets	(1,813)	(841)	-
Total Other Changes in Net Position	7,406	10,555	24,037
Change in Net Position	**6,074**	**(9,072)**	**30,467**
Net Position - Beginning of Year	860,631	869,703	839,236
Net Position - End of Year	$ 866,705	$ 860,631	$ 869,703

* The 2014 financial statements were restated for the Fiscal Year 2015 adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 76 and 68.*

Internal Audits

The University System outsources internal audit work, utilizing a prequalified pool of professional service firms. Internal audit reports are provided to the Vice Chancellor for Finance and Administration and to the Audit Committee of the Board.

Budget Stabilization

The University System has established certain reserves which could be used to fund a shortfall in investment performance or a reduction in State appropriation. A portion of these reserves, termed "budget stabilization," is an accumulation of unspent returns from operating investments. This reserve was established to enable the University System to weather difficult financial markets and economic conditions and to address other financial challenges. The balance was $10.7 million and $15.2 million, at June 30, 2016 and 2015, respectively.

See Appendix D, "Certain Financial Information Pertaining to the University of Maine System for the Fiscal Years Ended June 30, 2016 and June 30, 2015," Notes to the Financial Statements – Note 10, Net Position, on page D-51 hereof.

Unrestricted Operations

The Board annually reviews and approves the University System's operating budget for each Fiscal Year and receives periodic updates on actual and forecasted results during the Fiscal Year. The Fiscal Year 2016 actual results versus budget are presented on the next page along with Fiscal Year 2015 actual results.

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FY2016 ACTUAL vs. BUDGET

	FY2015 ACTUALS	FY2016 BASE BUDGET	FY2016 ACTUALS	FY2016 BUDGET VARIANCE $	%
Revenues					
Tuition & Fee Revenue	$ 268,703,372	$ 272,974,601	$ 271,257,982	$ (1,716,619)	-0.6%
Dining & Residence Revenue	58,405,527	62,022,800	60,935,598	(1,087,202)	-1.8%
Less: Tuition Waivers/Scholarships	(58,980,565)	(66,600,225)	(65,615,060)	985,165	-1.5%
Net Student Tuition & Fees	268,128,334	268,397,176	266,578,521	(1,818,655)	-0.7%
State Appropriation	178,694,798	179,159,600	179,159,600	-	0.0%
Indirect Cost Recovery	12,142,542	12,080,973	11,544,913	(536,060)	-4.4%
Investment Income/Gifts	893,179	4,400,402	4,241,428	(158,974)	-3.6%
Sales/Services/Auxiliary	46,852,490	40,752,470	48,076,724	7,324,254	18.0%
Total Revenues	506,711,342	504,790,621	509,601,186	4,810,565	1.0%
Expenses					
Compensation & Benefits	349,738,651	340,804,222	329,479,352	(11,324,870)	-3.3%
Fuel & Electricity	21,044,681	21,494,350	19,226,743	(2,267,607)	-10.5%
Supplies & Services	54,808,767	50,157,678	53,838,345	3,680,667	7.3%
Shared Services	(361,610)	(252,299)	(262,761)	(10,462)	4.1%
Interdepartmental Charges & Credits	(15,782,382)	(10,747,776)	(15,906,278)	(5,158,502)	48.0%
Travel	6,692,638	6,271,803	6,662,778	390,975	6.2%
Memberships, Contributions & Sponsorships	1,412,006	1,724,138	1,551,322	(172,816)	-10.0%
Maintenance & Alterations	15,443,159	14,750,488	17,807,127	3,056,639	20.7%
Library Acquisitions	8,150,030	8,124,424	8,144,076	19,652	0.2%
Interest Expense	6,387,540	6,633,176	6,296,860	(336,316)	-5.1%
Depreciation	31,623,029	31,193,183	33,510,903	2,317,720	7.4%
Other Expenses	24,431,688	25,106,331	25,520,617	414,286	1.7%
Pooled Costs - Benefits	6,409,968	-	30,114	30,114	-%
Pooled Costs - Insurance	(568,544)	-	(179,036)	(179,036)	-%
Net Transfers	15,123,051	20,935,338	21,818,931	883,593	4.2%
Total Expenses	524,552,672	516,195,056	507,539,094	(8,655,962)	-1.7%
Operating Increase (Decrease)	$ (17,841,330)	$ (11,404,435)	$ 2,062,091	$ 13,466,526	-118.1%
Modified Cash Flow					
Operating Increase (Decrease)	$ (17,841,330)	$ (11,404,435)	$ 2,062,091	13,466,526	-118.1%
Plus Depreciation	31,623,029	31,193,183	33,510,903	2,317,720	7.4%
Subtotal from Operations	13,781,699	19,788,748	35,572,994	15,784,246	
Less Capital Expenditures	(12,232,483)	(11,706,027)	(16,341,096)	(4,635,069)	39.6%
Less Capital Reserve Funding	(1,795,925)	(1,969,962)	(5,199,379)	(3,229,417)	163.9%
Less Debt Service Principal	(9,960,549)	(9,034,537)	(9,027,861)	6,676	-0.1%
Net Change Before Transfers (from)/to Reserves	(10,207,257)	(2,921,778)	5,004,658	7,926,436	
Transfer from Budget Stabilization	(5,836,103)	(5,014,238)	(4,002,903)	1,011,335	-20.2%
Net Change After Budget Stabilization	(4,371,154)	2,092,460	9,007,561	6,915,101	
Other Net Transfers (from)/to Reserves	(20,089,647)	2,055,777	(1,317,323)	(3,373,100)	-164.1%
Net Change in Cash & Reserve Transfers	$ 15,718,492	$ 36,683	$ 10,324,884	$ 10,288,201	

Unrestricted Operations – Fiscal Year 2017 Budget

As described above under the subheading "Financial Support by the State – Appropriations," the University System Fiscal Year 2017 budget is based on receipt of the 1.9% (approximately $3.4 million) increase in the State E&G appropriation and the 2017 Supplemental Appropriation.

Fiscal Year 2017 budgeted credit hours are up 0.3% over Fiscal Year 2016 actual credit hours. Fiscal Year 2017 budgeted out-of-state credit hours are up nearly 5% over Fiscal Year 2016 actuals and up 30% since Fiscal Year 2013.

In keeping with the Board's priority of providing affordable education for Maine's citizens, there has been no in-state undergraduate or graduate tuition increase for 5 consecutive years.

At March 31, 2017, the balance of the budget stabilization reserve remains at $10.7 million as management does not transfer monies out of such reserve until the actual amount needed is determined at the end of the fiscal year. The University System's Fiscal Year 2017 budget was, however, built with the expectation that $1.3 million from such reserve will be needed.

The Fiscal Year 2017 budget is presented on the following page in comparison with a recent financial forecast for Fiscal Year 2017.

Fiscal Year 2017 University System Financial Forecast

The University System uses current financial data to project year end performance at several key intervals during the Fiscal Year. The Fiscal Year 2017 forecast as of February 28, 2017 is presented on the next page in comparison with the original Fiscal Year 2017 budget. Achievement of the forecasted $4.8 million surplus (i.e., "Net Change in Cash & Reserve Transfers") is heavily dependent on containing costs for the remainder of the Fiscal Year and stability of investment markets.

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COMPARISON OF FISCAL YEAR 2017 BUDGET WITH FINANCIAL FORECAST
As of February 28, 2017

	BASE BUDGET	FORECAST	VARIANCE $	VARIANCE %
Revenues				
Tuition & Fee Revenue	$ 276,558,450	$ 277,979,710	$ 1,421,260	0.5%
Dining & Residence Revenue	61,954,683	61,449,405	(505,278)	-0.8%
Less: Tuition Waivers/Scholarships	(71,264,208)	(72,372,808)	(1,108,600)	1.6%
Net Student Tuition & Fees	267,248,925	267,056,307	(192,618)	-0.1%
State Appropriation	187,270,534	187,270,534	-	0.0%
Indirect Cost Recovery	11,885,006	11,839,753	(45,253)	-0.4%
Investment Income/Gifts	4,269,666	7,074,177	2,804,511	65.7%
Sales/Services/Auxiliary	37,813,061	38,232,350	419,289	1.1%
Total Revenues	508,487,192	511,473,121	2,985,929	0.6%
Expenses				
Compensation & Benefits	343,702,005	335,084,521	(8,617,484)	-2.5%
Fuel & Electricity	21,329,832	19,848,342	(1,481,490)	-6.9%
Supplies & Services	39,700,812	40,266,730	565,918	1.4%
Travel	5,898,347	6,046,683	148,336	2.5%
Memberships, Contributions & Sponsorships	1,649,645	1,642,353	(7,292)	-0.4%
Interest Expense	6,226,590	6,226,987	397	0.0%
Depreciation	33,374,191	33,374,191	-	0.0%
Maintenance & Alterations	14,965,810	16,654,478	1,688,668	11.3%
Library Acquisitions	7,965,866	8,112,835	146,969	1.8%
Other Expenses	22,003,252	23,235,191	1,231,939	5.6%
Net Transfers	22,395,785	25,418,326	3,022,541	13.5%
Pooled Costs - Benefits	-	-	-	-%
Total Expenses	519,212,135	515,910,636	(3,301,499)	-0.6%
Operating Increase (Decrease)	$ (10,724,943)	$ (4,437,515)	$ 6,287,428	-58.6%
Modified Cash Flow				
Operating Increase (Decrease)	$ (10,724,943)	$ (4,437,515)	$ 6,287,428	-58.6%
Plus Depreciation	33,374,191	33,374,191	-	0.0%
Less Capital Expenditures	(12,445,619)	(14,535,991)	(2,090,372)	16.8%
Less Capital Reserve Funding	(1,891,669)	(1,331,178)	560,491	-29.6%
Less Debt Service Principal	(9,865,118)	(9,890,470)	(25,352)	0.3%
Net Change in Cash-Budgeted Annual Operations	$ (1,553,158)	$ 3,179,037	$ 4,732,195	-304.7%
Transfer from/(to) Budget Stabilization	1,300,000	610,930	(689,070)	-53.0%
Net Change After Budget Stabilization	(253,158)	3,789,967	4,043,125	-1597.1%
Other Net Transfers from/(to) Reserves	993,033	1,011,332	18,299	1.8%
Net Change in Cash & Reserve Transfers	$ 739,875	$ 4,801,299	$ 4,061,424	548.9%

Unrestricted Operations – Fiscal Year 2018 Budget

The University is in the process of building its Fiscal Year 2018 budget which is expected to be presented to the Board for approval in May 2017. As of March 31, 2017, assumptions and factors for the draft Fiscal Year 2018 budget include the following notable items:

- Overall credit hour generation is projected to increase by 12,700 credit hours.
- An in-state, undergraduate tuition and unified fee increase tied to the consumer price index would be the first increase in in-state rates since Fiscal Year 2012.
- A total of $5.1 million of campus reserves is to be used to balance budgets at 3 of the Institutions.
- $275 thousand of budget stabilization funds is to be utilized to balance the budget.

DEBT OF THE UNIVERSITY SYSTEM

Existing Indebtedness

The Prior Bonds are Outstanding in the aggregate principal amount of $139,415,000 as of the date hereof. 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, 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 and for the refunding of the Prior Bonds, 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 (i) the financing of the Projects and (ii) the refunding of the Prior Bonds with the proceeds of the Series 2017 Bonds was submitted to the Office of Fiscal and Program Review on January 30, 2017. As of the date of delivery of the Series 2017 Bonds, it is expected that approximately $154,366,831 of debt (exclusive of (i) borrowing to refund debt, (ii) debt issued to refund general obligation debt of the State and (iii) debt issued to finance issuance costs and necessary reserves) will be outstanding pursuant to the Debt Ceiling.

INVESTMENT CONSIDERATIONS

The following are certain investment considerations and risk factors that have been identified by the University System and should be carefully considered by prospective purchasers of the Series 2017 Bonds. The following should not be considered to be exhaustive. Investors should read this Official Statement in its entirety. Inclusion of certain factors below is not intended to signify that there are not other investment considerations or risks with respect to the Series 2017 Bonds.

The Series 2017 Bonds constitute an unsecured general obligation of the University System. There can be no assurance that income and receipts will be realized by the University System in the amounts sufficient to pay the principal of or interest on the Series 2017 Bonds.

Future economic and other conditions, including, without limitation, the loss by the University System of one or more of its accreditations, destruction or loss of a substantial portion of the University System's facilities, litigation, competition, reduction in the amounts received by the University System through fundraising efforts, reduction of the value of the endowment funds, changes in the demand for post-high school education and changes in the tuition rates, may adversely affect income and receipts of the University System. There can be no assurance that University System income and receipts will not decrease.

Both the University System's stature in the educational community and its consolidated revenues, expenses, assets and liabilities may be affected by events, developments and conditions relating generally to, among other things, the ability of the University System (a) to conduct educational and research activities of the types and quality required to maintain its stature, (b) to generate sufficient revenues, while controlling expenses, so that these services can be provided at a cost acceptable to the University System's consumers, (c) to attract faculty, staff and management necessary to provide these services and a student body of commensurate quality, (d) to build and maintain the facilities necessary to provide these services and (e) to maintain sufficient student retention and graduation rates.

Success in the endeavors described in the preceding paragraph depends upon the ability of the University System and its management to respond to substantial challenges in a rapidly changing environment including, among others:

(i) competition in the provision of educational services particularly through new educational media and distance learning and an increasing number of international programs and collaborative projects,

(ii) developments in the regional, national and international economies, including the high regional cost of living, the limited availability of affordable housing within reasonable commuting distance and increases in regional energy costs,

(iii) volatility in the financial markets, variations in economic growth, changes in monetary policy and taxation, and the adequacy of the University System's investment management policies and the performance of its investments in the face of such challenges, all of which may negatively impact funds available from the University System's endowment, other investments and its donors to support University System operations and capital needs,

(iv) legislation, regulation by governmental authorities, changes in levels of governmental research funding and reimbursement for administrative overhead and infrastructure and regulation of tuition levels and

(v) discontinuation of favorable governmental policies and programs with respect to post-secondary education (including financial aid available to students).

The preservation and growth of the University System's endowment are affected not only by the factors noted above but by discretionary increases in the annual payout for operation from endowment earnings, transfers of expendable funds and other distributions, all of which are subject to changes in policy and practices made by the Board and University System management.

In addition to the challenges referred to above, a variety of risks, uncertainties and other factors may affect the financial strength and stature of the University System. By its nature, the University System is an open environment, potentially vulnerable to disruption of operations, injury and damage notwithstanding its security and public safety programs. It is subject to governmental investigations and enforcement action and private suits, and may incur substantial costs of defense, sanctions, penalties and reputational harm for violation of laws applicable to the University System in its routine operations. The University System is a large landowner. It routinely stores, uses and produces hazardous substances in its operations and it houses several thousand students, faculty and others. The University System purchases all risk third-party insurance for losses resulting from fire and related natural hazards to the extent such losses exceed a deductible of $250,000 per occurrence, with a viable $500,000 aggregate retention, excluding losses less than $25,000. While the University System's property insurance coverage is believed by University System management to be adequate and commensurate with an acceptable standard for comparable universities, the limits of $500,000,000 purchased are for expected losses and would fall short of covering the damage caused by a catastrophic event involving the University System's most valuable property. The University System carries limited third-party insurance for damage to facilities sustained from flooding.

The Trump administration has issued several proposed travel bans which, when and if effective, will prohibit travelers from several countries from entering the United States and may temporarily shut down the United States refugee program. Several lawsuits have already been filed challenging the proposed travel bans. At this time it is not possible to predict whether any proposed travel ban will be upheld or whether the new federal administration will propose additional travel bans. International students comprise approximately 1.9% of the University System's enrollment headcount. It is impossible to predict at this time the effect of any such travel ban on the University System. Loss of tuition and fee revenue from international students affected by any travel ban, or some material portion thereof, may arise as a result of any such travel ban. The University System is unable to predict what impact, if any, any such travel ban may have on its financial condition.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, issuance, sale and delivery of the Series 2017 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 to the University System 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 general counsel, James Thelen, Esq., Augusta, Maine.

TAX MATTERS

Exclusion of Interest on Series 2017 Bonds from Gross Income for Federal Tax Purposes

The Internal Revenue Code of 1986, as amended (the "Code") imposes certain requirements that must be met on a continuing basis subsequent to the issuance of the Series 2017 Bonds in order to assure that interest on the Series 2017 Bonds will be excluded from gross income for federal income tax purposes pursuant to section 103 of the Code. Failure of the University System to comply with such requirements may cause interest on the Series 2017 Bonds to be included in gross income for federal income tax purposes, retroactive to the date of issuance of the Series 2017 Bonds. The University System will covenant to comply with the provisions of the Code applicable to the Series 2017 Bonds and will covenant not to take any action or permit any action that would cause the interest on the Series 2017 Bonds to be included in gross income pursuant to section 103 of the Code or that would cause interest on the Series 2017 Bonds to be an item of tax preference pursuant to section 57 of the Code.

Assuming that the University System observes its covenants with respect to compliance with the Code, Preti, Flaherty, Beliveau & Pachios, LLP, Bond Counsel to the University System, is of the opinion that, under existing law, interest on the Series 2017 Bonds is excluded from the gross income of the owners of the Series 2017 Bonds for federal income tax purposes pursuant to section 103 of the Code and interest on the Series 2017 Bonds is not an item of tax preference pursuant to section 57 of the Code for purposes of computing alternative minimum tax.

Exemption of Interest on Series 2017 Bonds From Taxation Within the State of Maine

In the opinion of Bond Counsel to the University System, interest on the Series 2017 Bonds is exempt from taxation within the State pursuant to 20-A MRSA §10960.

Original Issue Discount

Certain maturities of the Series 2017 Bonds (the "Discount Bonds") may be sold at an initial offering price less than the principal amount payable on the Discount Bonds at maturity. The difference between the initial public offering price at which a substantial amount of each of the Discount Bonds is sold and the principal amount payable at maturity of each of the Discount Bonds constitutes original issue discount. Bond Counsel to the University System is of the opinion that the appropriate portion of the original issue discount allocable to the original and each subsequent owner of the Discount Bonds will be treated for federal income tax purposes as interest not includable in gross income pursuant to section 103 of the Code to the same extent as stated interest on the Discount Bonds. Pursuant to section 1288 of the Code, original issue discount on the Discount Bonds accrues on the basis of economic accrual. The basis of an initial purchaser of a Discount Bond acquired at the initial public offering price of the Discount Bond will be increased by the amount of such accrued discount. Prospective purchasers of the Discount Bonds should consult their tax advisors with respect to the determination for federal income tax purposes of the original issue discount properly accruable with respect to the Discount Bonds and the tax accounting treatment of accrued interest.

Original Issue Premium

Certain maturities of the Series 2017 Bonds (the "Premium Bonds") may be sold at an initial offering price in excess of the amount payable at the maturity date. The excess, if any, of the tax basis of the Premium Bonds to a purchaser (other than a purchaser who holds such Premium Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is amortizable bond premium, which is not deductible from gross income for federal income tax purposes. Amortizable bond premium, as it amortizes, will reduce the owner's tax cost of the Premium Bonds used to determine, for federal income tax purposes, the amount of gain or loss upon the sale, redemption at maturity or other disposition of the Premium Bonds. Accordingly, an owner of a Premium Bond may have taxable gain from the disposition of the Premium Bond, even though the Premium Bond is sold, or disposed of, for a price equal to the owner's original cost of acquiring the Premium Bond. Bond premium amortizes over the term of the Premium Bonds under the "constant yield method" described in regulations interpreting section 1272 of the Code. Prospective purchasers of the Premium Bonds should consult their tax advisors with respect to the calculation of the amount of bond premium which will be treated for federal income tax purposes as having amortized for any taxable year (or portion thereof) of the owner and with respect to other federal, state and local tax consequences of owning and disposing of the Premium Bonds.

Additional Federal Income Tax Consequences

In the case of certain corporate Holders of the Series 2017 Bonds, interest on the Series 2017 Bonds will be included in the calculation of the alternative minimum tax as a result of the inclusion of interest on the Series 2017 Bonds in "adjusted current earnings" of certain corporations.

Prospective purchasers of the Series 2017 Bonds should be aware that ownership of, accrual or receipt of interest on or disposition of tax-exempt obligations, such as the Series 2017 Bonds, may have additional federal income tax consequences for certain taxpayers, including, without limitation, taxpayers eligible for the earned income credit, recipients of certain Social Security and certain Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, financial institutions, property and casualty insurance companies, foreign corporations and certain S corporations. Prospective purchasers of the Series 2017 Bonds should consult their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

The Internal Revenue Service (the "Service") has an ongoing program of auditing state and local government obligations, which may include randomly selecting bond issues for audit, to determine whether interest paid to the Holders is properly excludable from gross income for federal income tax purposes. It cannot be predicted whether the Series 2017 Bonds will be audited. If an audit is commenced, under current Service procedures Holders of the Series 2017 Bonds may not be permitted to participate in the audit process and the value and liquidity of the Series 2017 Bonds may be adversely affected.

Changes in Tax Law

Federal, state or local legislation, administrative pronouncements or court decisions may affect the tax-exempt status of interest on the Series 2017 Bonds, gain from the sale or other disposition of the Series 2017 Bonds, the market value of the Series 2017 Bonds or the marketability of the Series 2017 Bonds or otherwise prevent the owners of the Series 2017 Bonds from realizing the full current benefit of the exclusion from gross income of the interest thereon. For example, federal legislative proposals have been made in recent years that would, among other things, limit the exclusion from gross income of interest on obligations such as the Series 2017 Bonds for higher-income taxpayers. If enacted into law, such proposals could affect the tax exemption of interest on the Series 2017 Bonds or the market price for, or marketability of, the Series 2017 Bonds. Prospective purchasers of the Series 2017 Bonds should consult their tax and financial advisors regarding such matters.

Extent of Opinion

Bond Counsel to the University System expresses no opinion regarding any tax consequences of holding the Series 2017 Bonds other than its opinion with regard to (a) the exclusion of interest on the Series 2017 Bonds from gross income pursuant to section 103 of the Code, (b) interest on the Series 2017 Bonds not constituting an item of tax preference pursuant to section 57 of the Code and (c) the exemption of interest on the Series 2017 Bonds from taxation within the State pursuant to 20-A MRSA §10960. Prospective purchasers of the Series 2017 Bonds should consult their tax advisors with respect to all other tax consequences (including but not limited to those described above) of holding the Series 2017 Bonds.

FINANCIAL STATEMENTS

Included in Appendix D hereto are the financial statements of the University System as of, and for the years ended, June 30, 2016 and June 30, 2015, together with the report (the "Auditor's Report") dated November 14, 2016 of Berry Dunn McNeil & Parker, LLC, independent auditors of the financial statements for the year ended June 30, 2016. The financial statements for the years ended June 30, 2016 and June 30, 2015 have been included herein in reliance upon the Auditor's Report.

Berry Dunn McNeil & Parker, LLC, independent auditors of the financial statements for the year ended June 30, 2016, has not been engaged to perform and has not performed, since the date of the Auditor's Report, any procedures on the financial statements addressed in the

Auditor’s Report. Berry Dunn McNeil & Parker, LLC 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 2017 Bonds or the effectiveness of the Bond Resolution, or contesting, questioning or affecting the proceedings and authority under which the Series 2017 Bonds have been authorized and are to be issued, sold, executed and delivered, or the validity of the Series 2017 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 2017 Bonds or the proceedings relating to the issuance of the Series 2017 Bonds. The ultimate disposition of such proceedings is not presently determinable, but will not, in the opinion of counsel to the University System, have a material adverse effect on the Series 2017 Bonds or the financial condition of the University System.

FINANCIAL ADVISOR

PFMFA has served as financial advisor to the University System in connection with the issuance of the Series 2017 Bonds. PFMFA 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. PFMFA is an independent financial advisory firm and is not engaged in the business of underwriting, trading, or distributing municipal securities, including the Series 2017 Bonds, or other public securities.

RATING

Standard & Poor's Global has assigned its municipal bond rating of “AA-” to the Series 2017 Bonds based solely on its evaluation of the Series 2017 Bonds. Such rating expresses only the view of such rating agency. Certain information and materials were furnished to such rating agency to be considered in evaluating the Series 2017 Bonds and some of such information and materials have not been included in this Official Statement. 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 prices of the Series 2017 Bonds. Such rating is not a recommendation to buy, sell or hold the Series 2017 Bonds.

CONTINUING DISCLOSURE

In order to assist any purchaser of the Series 2017 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") on the date of delivery of the Series 2017 Bonds. The Continuing Disclosure Certificate will be for the benefit of the Holders of the Series 2017 Bonds and beneficial owners will be third-party beneficiaries thereof. In the Continuing Disclosure Certificate, the form of which is attached hereto as Appendix E, the University System will undertake for the benefit of the Holders of the Series 2017 Bonds to provide, among other information, certain financial information pertaining to the University System in an annual report (the "Annual Report"), by not later than 180 days after the end of each Fiscal Year, commencing with the Fiscal Year ending June 30, 2017, and to provide notices of certain enumerated events. The University System will cause the Annual Report and such notices to be provided to, and in the manner prescribed by, the Municipal Securities Rulemaking Board. The information to be contained in the Annual Report and the events requiring notice are set forth in Appendix E, "Form of Continuing Disclosure Certificate," attached hereto.

In the previous five years the University System has not failed to comply in all material respects with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of Rule 15c2-12.

SALE OF SERIES 2017 BONDS

The Series 2017 Bonds were offered for sale at competitive bidding on May 3, 2017 in accordance with the Official Notice of Sale dated April 26, 2017 and included herein as Appendix F. Raymond James & Associates, Inc. (the "Underwriter") was the successful bidder for the Series 2017 Bonds. Information provided by the Underwriter regarding the interest rates and reoffering yields of the Series 2017 Bonds is set forth on the inside cover page of this Official Statement. The Series 2017 Bonds are being purchased from the University System by the Underwriter at an aggregate price of $34,262,315.20 which is the principal amount of $30,340,000.00 plus an original issue premium of $4,012,728.40 less the Underwriter's discount of $90,413.20. The initial public offering prices may be changed, from time to time, by the Underwriter. The Underwriter may offer and sell the Series 2017 Bonds to certain dealers (including dealers depositing Series 2017 Bonds into unit investment trusts, certain of which may be sponsored or managed by the Underwriter) and others at prices lower than the public offering prices set forth on the inside cover page hereof.

MISCELLANEOUS

Any provision of the laws of the State, the Series 2017 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 2017 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, Controller's Office, 5703 Alumni Hall, Orono, Maine 04469-5703.

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, receipt of federal grants, litigation, arbitration, force majeure events and various other factors that are beyond the control of the University System. 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.

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.

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. 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.

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 2017 Bonds. The execution and distribution of this Official Statement has been duly authorized by the Board.

UNIVERSITY OF MAINE SYSTEM

By: /s/ Ryan W. Low
Ryan W. Low
Treasurer

May 3, 2017

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APPENDIX A

TERMS OF ISSUANCE OF THE SERIES 2017 BONDS

Following are the substantially final Terms of Issuance of the Series 2017 Bonds which will be incorporated by reference in the Series 2017 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, Chapters 411 and 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 2017 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 instrumentality and agency 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.

"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 pursuant to 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.

"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 2017, 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
2018	$4,460,000	5.00%
2019	3,180,000	5.00
2020	3,280,000	5.00
2021	3,445,000	4.00
2022	3,580,000	5.00
2023	3,760,000	5.00
2024	3,950,000	5.00
2025	2,285,000	5.00
2026	2,400,000	4.00

(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.

Section 4.10. Appropriation for Debt Service. The Issuer shall, so long as any Series 2017 Bonds are Outstanding, request that the State include in each of its biennial budgets an annual appropriation of $2,500,000 for payment of a portion of the principal of and interest on the Series 2017 Bonds.

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 pursuant to section 6.01(c); Opportunity to Cure Such Event of Default. Anything herein to the contrary notwithstanding, no Event of Default pursuant to 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.

APPENDIX B

FORM OF BOND COUNSEL OPINION

Upon issuance and delivery of the Series 2017 Bonds Preti, Flaherty, Beliveau & Pachios, LLP, Augusta, Maine, Bond Counsel to the University System, will deliver an opinion in substantially the following form:

[Closing Date]

University of Maine System
Controller's Office
5703 Alumni Hall
Orono, Maine 04469-5703

Ladies and Gentlemen:

We have examined a record of proceedings submitted to us by the University of Maine System, an instrumentality and agency of the State of Maine (the "University"), relating to the issuance of $30,340,000 University of Maine System Revenue Bonds, Series 2017, including the Terms of Issuance thereof (the "Series 2017 Bonds"), pursuant to Chapters 411 and 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 March 14, 2016 (the "Resolution").

The Series 2017 Bonds are being issued under and pursuant to the Act and under and pursuant to the Resolution.

The Series 2017 Bonds are dated, mature on the dates and in the principal amounts, bear interest and are payable, all as provided in the Series 2017 Bonds. The Series 2017 Bonds are not subject to redemption prior to maturity.

The Series 2017 Bonds are issuable in fully registered form without coupons in the denomination of $5,000 each or any integral whole multiple thereof. The Series 2017 Bonds will be available in book entry form only and are not available for distribution to the public. The Series 2017 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 2017 Bonds will be effected through the facilities of DTC in accordance with rules and procedures of DTC and its participants.

The Series 2017 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 2017 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 2017 Bonds in order that interest on the Series 2017 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 2017 Bonds to be included in the gross income of the owners thereof retroactive to the date of issuance of the Series 2017 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 2017 Bonds shall, for purposes of federal income taxation, be excluded from gross income of the owners of the Series 2017 Bonds.

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 instrumentality and agency of the State with lawful power and authority to adopt the Resolution and to perform its obligations pursuant to, and to issue, the Series 2017 Bonds.

2. The Series 2017 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 2017 Bonds will be excluded from 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 an item of tax preference pursuant to section 57 of the Code for purposes of computing alternative minimum tax.

4. Interest on the Series 2017 Bonds is exempt from taxation within the State pursuant to 20-A MRSA §10960.

Except as set forth in paragraphs 3 and 4 above, we express no opinion as to any tax consequences of holding the Series 2017 Bonds.

The foregoing opinions are qualified to the extent that the enforceability of the Series 2017 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 2017 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.

This opinion letter is being furnished solely to the University and may not be relied upon by any other person or quoted in whole or in part or otherwise referred to without our prior written consent. This is only an opinion letter and not a warranty or guaranty of the matters discussed herein.

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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 2017 Bonds. The Series 2017 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 2017 Bond will be issued for each maturity of the Series 2017 Bonds, in the aggregate principal amount of each such maturity, and will be deposited with DTC.

DTC 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 3.5 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 and 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 a Standard & Poor's rating of AA+. 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 2017 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2017 Bonds on DTC's records. The ownership interest of each actual purchaser of Series 2017 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 2017 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 2017 Bonds, except in the event that use of the book-entry system for the Series 2017 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2017 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 2017 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 2017 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2017 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 2017 Bonds is being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Series 2017 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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 2017 BONDS, REFERENCES IN THIS OFFICIAL STATEMENT TO THE OWNERS OR HOLDERS OF THE SERIES 2017 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, IF ANY, OF THE SERIES 2017 BONDS, THE REQUIREMENTS OF NOTICE TO HOLDERS OF THE SERIES 2017 BONDS AND THE RIGHTS OF CONSENT OF THE HOLDERS OF THE SERIES 2017 BONDS SHALL APPLY TO CEDE & CO., AS HOLDER OF THE SERIES 2017 BONDS, AND NO REPRESENTATIONS ARE MADE IN RESPECT OF THE FOREGOING TO THE BENEFICIAL OWNERS OF THE SERIES 2017 BONDS.

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APPENDIX D

CERTAIN FINANCIAL INFORMATION PERTAINING TO THE UNIVERSITY OF MAINE SYSTEM FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
University of Maine System

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the University of Maine System (the System), a component unit of the State of Maine, which consist of the System's statements of net position and financial position as of June 30, 2016 and 2015, the related statements of revenues, expenses and changes in net position and cash flows for the years then ended the related statement of activities for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit. Those statements were audited by another auditor, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component unit, are based solely on the reports of the other auditor. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audits and the reports of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of the System as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 8 through 27, Schedules of Funding Progress on page 80 and the supplementary information related to the System's retirement plans on pages 81 through 86, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements as a whole. The supplementary information presented in the Schedules of Activities on page 87 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the System's June 30, 2015 financial statements, and we expressed unmodified opinions on those audited financial statements in our report dated November 16, 2015. In our opinion, the summarized comparative information presented herein for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated November 14, 2016 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Berry Dunn McNeil & Parker, LLC

Bangor, Maine
November 14, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016 and 2015 (Unaudited)

University of Maine System ("the System" or UMS) management has prepared the following unaudited Management's Discussion and Analysis (MD&A) to provide users with a narrative and analysis of the financial position and activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the financial condition and results of activities of the System for the fiscal years ended June 30, 2016 and prior years. This presentation includes highly summarized information and should be read in conjunction with the accompanying basic financial statements and related notes.

MISSION

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

UNIVERSITY OF MAINE SYSTEM UNIVERSITIES, CAMPUSES & CENTERS

The System is a comprehensive public institution of higher education with approximately 30,000 enrolled students, supported by the efforts of 1,133 regular full-time faculty, 61 regular part-time faculty, 2,936 regular full-time staff, and 285 regular part-time staff members.

From Maine's largest city to its rural northern borders, our universities are known for excellence in teaching and research. Our universities are:

University of Maine (UM):	Maine's land and sea-grant institution
University of Maine at Augusta (UMA):	Central Maine's baccalaureate and associate degree institution
University of Maine at Farmington (UMF):	Maine's selective liberal arts college
University of Maine at Fort Kent (UMFK):	Baccalaureate university in the St. John Valley
University of Maine at Machias (UMM):	Eastern Maine's baccalaureate institution
University of Maine at Presque Isle (UMPI):	Baccalaureate education for the Northeastern region
University of Southern Maine (USM):	A comprehensive public university

The University of Maine School of Law, a freestanding institution within the System, is located in Portland and is Maine's only law school. Lewiston-Auburn College is a campus of USM. The University of Maine at Augusta-Bangor is a campus of UMA. The Hutchinson Center in Belfast is a campus of UM. University College is the UMS' distant education organization and offers access to courses and programs from the 7 universities at more than 40 locations and online.

The System has also expanded its Professional Graduate Center (PGC) initiative which will serve as a combined graduate center for the UM and USM graduate business programs, the Juris Doctor program at the University of Maine School of Law, and now the graduate programs in public health and in public policy and management that operate at the Muskie School of Public Service at USM. In addition, the PGC will now include the Cutler Institute for Health and Policy, which is the research arm of USM and part of the Muskie School.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016 and 2015 (Unaudited)

STUDENT ENROLLMENT

Throughout the System, 28,994 students were enrolled on a headcount basis for the Fall 2015 semester, down 2.1% from Fall 2014 and 6.8% since Fall 2011.

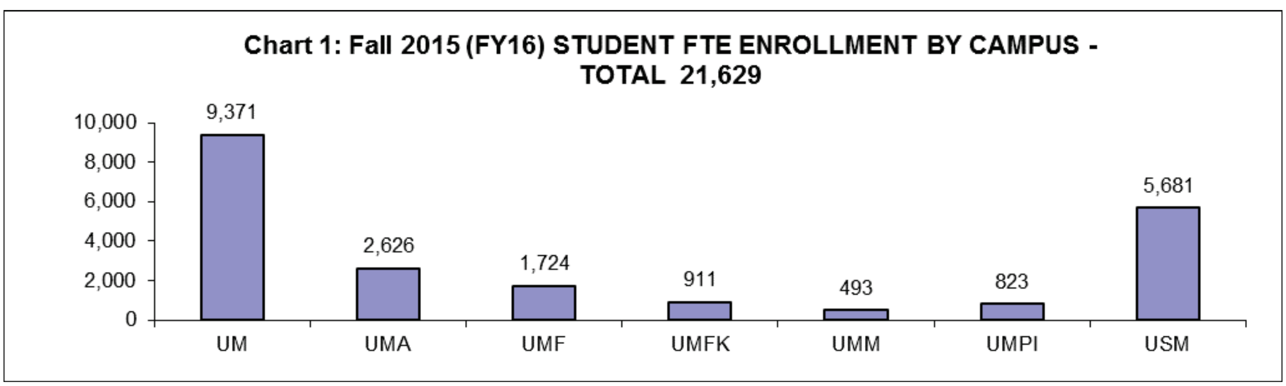
Table 1: Fall Student Enrollments by Headcount

	Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011	
Full-Time	**18,898**	**65%**	**19,273**	**65%**	19,728	65%	20,153	65%	20,057	64%
Part-Time	**10,096**	**35%**	**10,340**	**35%**	10,637	35%	10,859	35%	11,051	36%
Headcount	**28,994**	**100%**	**29,613**	**100%**	30,365	100%	31,012	100%	31,108	100%

Table 2 below shows student enrollment on a full-time equivalent (FTE) basis with 21,629 students enrolled for the Fall 2015 semester, down 1.9% from Fall 2014. FTE enrollments were down 2.2% from Fall 2013 to Fall 2014. Since Fall 2011, enrollments have declined by 1,297 students or 5.7%. For Fall 2015, 65% of the student population was enrolled full-time and 80% on an FTE basis were Maine residents.

Table 2: Fall Student FTE Enrollments

	% Change Fall 2011 to 2015	Fall 2015	% Change	Fall 2014	% Change	Fall 2013	% Change	Fall 2012	% Change	Fall 2011	% Change
UM	**2.8%**	**9,371**	**-1.5%**	**9,512**	**1.7%**	9,356	3.5%	9,040	-0.9%	9,120	-2.5%
UMA	**-7.0%**	**2,626**	**0.4%**	**2,615**	**-3.6%**	2,713	-5.2%	2,862	1.4%	2,823	0.6%
UMF	**-13.1%**	**1,724**	**1.7%**	**1,695**	**-6.2%**	1,807	-4.7%	1,896	-4.4%	1,983	-1.0%
UMFK	**29.8%**	**911**	**8.7%**	**838**	**4.1%**	805	3.3%	779	11.0%	702	-0.4%
UMM	**-8.2%**	**493**	**-4.5%**	**516**	**-4.8%**	542	-5.1%	571	6.3%	537	-5.6%
UMPI	**-17.5%**	**823**	**5.6%**	**779**	**-7.6%**	843	-13.4%	974	-2.3%	997	-4.5%
USM	**-16.0%**	**5,681**	**-6.6%**	**6,082**	**-5.9%**	6,460	-6.0%	6,871	1.6%	6,764	-4.1%
Total	**-5.7%**	**21,629**	**-1.9%**	**22,037**	**-2.2%**	22,526	-2.0%	22,993	0.3%	22,926	-2.6%



MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016 and 2015 (Unaudited)

STUDENT COMPREHENSIVE COST OF EDUCATION

Net student fee revenue, totaling $237 million in FY16 and $238 million in FY15, is the System's greatest source of revenue, contributing 36% of Total Operating and Net Nonoperating Revenues for the past four years. Net student fees are impacted by enrollment levels; tuition, room and board, and fees; and the amount of scholarship allowances provided to students.

The weighted average comprehensive cost of education for UMS undergraduate, graduate and Law School students is shown in Table 3 below. The modest increases in the student cost of education reflect the System's continued commitment to providing affordable higher education. Containing increases in tuition and fees rates continues to be challenging given cost pressures and limited increases in Noncapital State of Maine Appropriations. Noncapital Appropriations were the System's second largest source of revenues contributing $201 million (or 31%) in FY16 and $199 million (or 31%) in FY15.

As shown below, FY16 saw weighted average comprehensive cost of education increases that were significantly lower than in FY12. Percentage changes in FY16 range from an increase of 2.6% for Undergraduate Canadian students to an increase of 0.5% for Graduate Canadian students. Percentage changes in FY15 range from an increase of 2.0% for Undergraduate Canadian students to a decrease of 1.4% for Graduate New England Board of Higher Education (NEBHE) students.

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

	2016		2015		2014		2013		2012	
	Cost	% Change	Cost	% Change	Cost	% Change	Cost	% Change	Cost	% Change
Undergraduate										
In-State	**$18,396**	1.3%	**$18,151**	0.6%	$18,035	1.3%	$17,802	0.4%	$17,731	3.3%
Out-of-State	**33,998**	1.6%	**33,453**	1.3%	33,022	2.4%	32,250	2.6%	31,418	3.0%
NEBHE	**23,067**	1.6%	**22,707**	0.5%	22,584	1.7%	22,213	-0.1%	22,239	3.8%
Canadian	**22,119**	2.6%	**21,548**	2.0%	21,116	1.9%	20,725	0.7%	20,572	4.0%
Graduate										
In-State	**$17,217**	1.4%	**$16,982**	0.3%	$16,937	1.3%	$16,721	0.5%	$16,634	3.2%
Out-of-State	**32,733**	2.4%	**31,958**	1.4%	31,517	2.5%	30,757	2.2%	30,099	3.5%
NEBHE	**20,655**	1.1%	**20,438**	-1.4%	20,735	0.9%	20,552	0.8%	20,389	5.3%
Canadian	**21,123**	0.5%	**21,014**	-0.4%	21,095	2.5%	20,572	0.4%	20,492	3.3%
Law School										
In-State	**$32,630**	0.8%	**$32,380**	0.6%	$32,180	0.6%	$31,989	0.4%	$31,857	4.1%
Out-of-State	**43,700**	0.6%	**43,450**	0.5%	43,250	0.4%	43,059	0.7%	42,777	3.2%
NEBHE/Canadian	**40,760**	0.6%	**40,510**	0.5%	40,310	0.5%	40,119	0.6%	39,897	3.5%

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016 and 2015 (Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS

The University of Maine System's financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles and include three primary components, the:

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

The University of Maine Foundation is a legally separate tax-exempt component unit of the University of Maine System. This entity's financial position and activities are discretely presented in the University's financial statements as required by Governmental Accounting Standards Board (GASB) statements. The MD&A includes information only for the System, not its component unit.

STATEMENTS OF NET POSITION

The Statements of Net Position present the financial position of the System at one point in time – June 30 – and include all assets, deferred outflows, liabilities, deferred inflows, and net position of the System. This statement is the primary statement used to report financial condition. Net position represents the residual interest in the System's assets and deferred outflows after liabilities and deferred inflows are deducted. The change in net position is an indicator of whether the overall financial condition has improved or deteriorated during the year. Table 4 on page 13 shows Condensed Statements of Net Position for the past five years.

Restatement of Prior Years

As noted in the FY15 financial statements, the FY14 financial statements were restated to reflect:

- adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* as described in the FY15 financial statements' Notes 1b and 17 and
- early adoption of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* as described in the FY15 financial statements' Notes 1b and 17.

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

Additionally, as noted in the FY14 financial statements, the FY13 financial statements were restated to reflect adoption of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The overall impact to the Condensed Statements of Net Position was that the beginning of year net position as previously reported declined $2 million while the FY13 effect on the Change in Net Position was a decline of $1 million, resulting in a total $3 million decline from the previously stated FY13 net position category of net investment in capital assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016 and 2015 (Unaudited)

Table 4 shows total assets and deferred outflows of $1.19 billion at June 30, 2016 decreased $12 million, or -1%, from the prior year, and increased $10 million, or less than 1%, since June 30, 2012. Total assets are categorized as either current or noncurrent. Current assets are available to satisfy current liabilities, which in turn are those amounts expected to be payable within the next year. The major component of current assets is operating investments which totaled $231 million at June 30, 2016 and 2015.

Noncurrent assets consist mainly of endowment investments and capital assets, net of depreciation. Endowment investments totaled $136 million at June 30, 2016, a decrease of $7 million or 5% from the FY15 year-end balance of $143 million and a $15 million or 12% increase since June 30, 2012. Capital assets totaled $707 million and $703 million at June 30, 2016 and 2015, respectively.

Current liabilities of $64 million and $74 million at June 30, 2016 and 2015, respectively, consist primarily of accounts payable and various accrued liabilities including those for the System's workers compensation, health, and retirement plans. Impacts to accounts payable and accrued liabilities include the timing of the last check cycle for the fiscal year, the level of construction activity in progress, timing of the funding of the Other Postemployment Benefits (OPEB) Trust and budget constraints.

At $258 million, total noncurrent liabilities decreased $7 million or 3% from June 30, 2015 to 2016. This decrease is primarily the result of an increase of $3 million in accrued liabilities offset by a net decrease of $10 million in bonds and notes payable as the System made debt payments. Total noncurrent liabilities increased $1 million or less than 1% from June 30, 2014 to 2015 primarily the result of a decrease of $3 million in endowment funds held for others offset by a net increase of $5 million in bonds and notes payable. In FY15, the System issued $48 million of revenue bonds to provide $13 million for energy efficiency projects at UMF and UMM and to achieve interest savings by refunding $38 million of previously issued bonds.

Total net position at June 30, 2016 of $867 million increased $6 million or less than 1% from the June 30, 2015 balance. Additional information about net position is presented on page 18.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016 and 2015 (Unaudited)

Table 4: Condensed Statements of Net Position as of June 30
($ in millions)

	2016	% Change	2015	% Change	2014	2013	2012
Current Assets	**$293**	**2%**	**$288**	**-4%**	$300	$307	$315
Noncurrent Assets							
Endowment investments	**136**	**-5%**	**143**	**-5%**	150	133	121
Capital assets, net	**707**	**1%**	**703**	**1%**	698	688	684
Other	**45**	**-25%**	**60**	**30%**	46	57	60
Total Assets	**1,181**	**-1%**	**1,194**	**0%**	1,194	1,185	1,180
Deferred Outflows of Resources	**9**	**13%**	**8**	**100%**	4	4	
Total Assets & Deferred Outflows	**$1,190**	**-1%**	**$1,202**	**0%**	$1,198	$1,189	$1,180
Current Liabilities	**$64**	**-14%**	**$74**	**16%**	$64	$71	$79
Noncurrent Liabilities:							
Long-term debt	**155**	**-6%**	**165**	**4%**	158	173	183
Other	**103**	**3%**	**100**	**-6%**	106	95	93
Total Liabilities	**322**	**-5%**	**339**	**3%**	328	339	355
Deferred Inflows of Resources	**1**	**-50%**	**2**	**0%**	0		
Total Liabilities & Deferred Inflows	**323**	**-5%**	**341**	**4%**	328	339	355
Net investment in capital assets	**544**	**1%**	**541**	**2%**	532	511	500
Restricted:							
Nonexpendable	**58**	**0%**	**58**	**2%**	57	56	55
Expendable	**108**	**2%**	**106**	**-3%**	109	100	93
Unrestricted	**157**	**1%**	**156**	**-9%**	172	183	177
Total Net Position	**867**	**1%**	**861**	**-1%**	870	850	825
Total Liabilities & Net Position	**$1,190**	**-1%**	**$1,202**	**0%**	$1,198	$1,189	$1,180

Managed Investment Pool (MIP)

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

Table 5 on the next page shows the June 30, 2016, 2015, and 2014 market values of the pooled investments, including the amounts held on behalf of each entity. These amounts exclude other separately held UMS endowment assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016 and 2015 (Unaudited)

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

	2016	2015	2014
University of Maine System & Affiliates Endowments	$135	$140	$150
Other Post Employment Benefits Trust (OPEB)	98	94	95
Maine Maritime Academy	29	30	29
University of Maine School of Law Foundation	4	4	4
Total	**$266**	**$268**	**$278**

The accompanying Statements of Net Position report endowment investments that include the System's and affiliates' share of the MIP, along with separately invested UMS endowments. The liability for the affiliates' share of those investments is also recognized on those Statements as funds held for others. The OPEB Trust, Maine Maritime Academy, and the University of Maine School of Law Foundation investments are not included in those Statements.

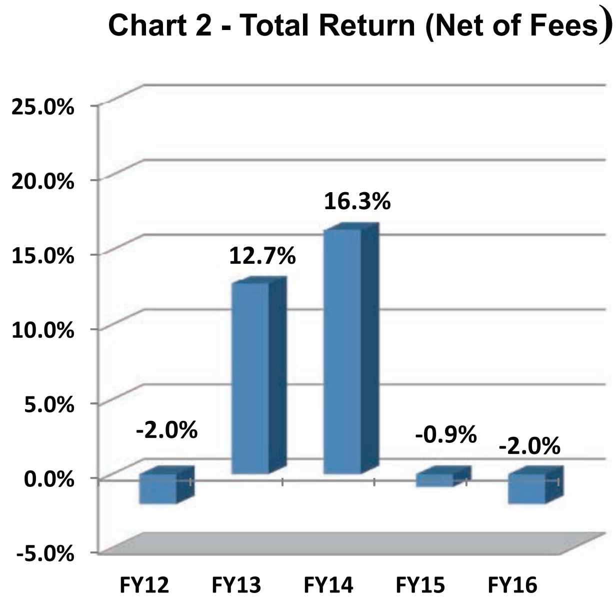
The MIP investments are diversified among the following asset classes to minimize risk while optimizing return.

Table 6: Asset Allocation Percentages for Managed Investment Pool at June 30

	2016	2015	2014
Domestic Equities	**24%**	**22%**	**22%**
International Equities	**24%**	**23%**	**23%**
Fixed Income	**18%**	**15%**	**15%**
Global Asset Allocation	**18%**	**25%**	**26%**
Hedge Funds	**12%**	**13%**	**12%**
Timber	**2%**	**2%**	**2%**
Cash	**2%**	**0%**	**0%**
Total	**100%**	**100%**	**100%**

Financial markets were a challenge again in FY16 with the pool realizing a net of fees return of -2.0%, down from -0.9% in FY15, and 16.3% in FY14. The pooled investments have a 5-year annualized net of fees return of 4.5%.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016 and 2015 (Unaudited)



Endowments (Including Affiliates)

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

As mentioned above, the System continues to use a pooled investment approach for its endowments, unless otherwise specified by the donor, and the endowments of three affiliates. Affiliates investing in the endowment pool include: the University of Maine at Fort Kent Foundation, the University of Southern Maine Foundation, and the John L. Martin Scholarship Fund, Inc.

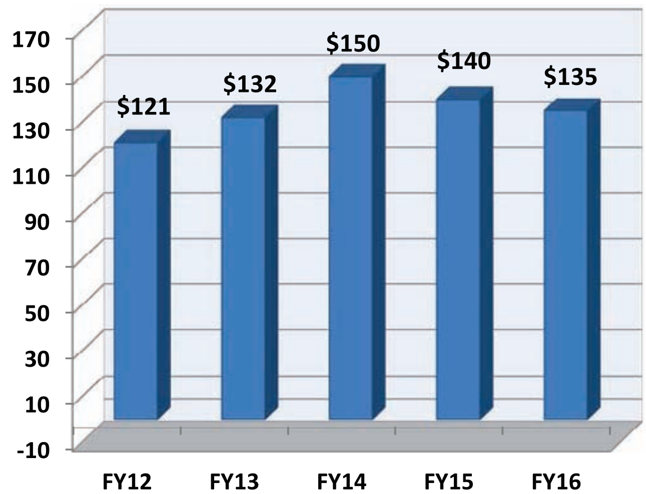
As shown in Chart 3, these pooled investments had a market value of $135 million at June 30, 2016, decreasing $5 million from the prior year end market value of $140 million. This decline included endowment contributions of $4 million less $3 million in net negative performance and $6 million distributed for scholarships and other operating activities.

These pooled investments had a market value of $140 million at June 30, 2015, decreasing $10 million from the prior year end market value of $150 million. This decline included endowment contributions of $1 million less $2 million in net negative performance, $6 million distributed for scholarships and other operating activities, and $3 million withdrawn by one of the affiliates.

The System manages its endowment with the goal of generating a fairly consistent stream of annual support for current needs, while at the same time preserving the endowment as a whole to ensure funds for future years.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016 and 2015 (Unaudited)

Chart 3: Market Values of UMS & Affiliates Endowments Invested in Pool ($ in millions)



The UMS endowment distribution formula is designed to smooth market volatility. The method uses a 3-year market value average with a percentage spending rate applied. The spending rate applied in FY13 thru FY16 was 4.5%, down from 4.75% in FY12.

Capital Assets and Debt Activities

Table 7 on page 17 shows the status of major capital construction projects as of June 30, 2016, and the related budget approved by the Board of Trustees (BOT).

The System's facilities are critical to each University's mission as they provide the physical framework and environment for education, research, cultural programs and residential life. The System continually evaluates its long-term capital and strategic needs as it considers which facilities to upgrade, retire, or build. Capital needs are funded with State bonds, gifts, grants, educational and general funds, and System revenue bonds.

During FY16, the System had capital asset additions of $43 million which included $38 million of construction in progress and $5 million of equipment. In FY15, the System had capital asset additions of $41 million which included $33 million of construction in progress and $8 million of equipment and software. In FY14, the System had capital asset additions of $44 million which included $39 million of construction in progress and $5 million in equipment and software.

The System strives to manage all of its financial resources effectively including the prudent use of debt to finance construction projects that support the System's mission; thereby, placing the System in a better position to achieve its strategic goals. Total debt as of June 30, 2016 and 2015, was $166 million and $176 million, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016 and 2015 (Unaudited)

Table 7: Major Capital Projects Completed During FY16 or In Progress at June 30, 2016
($ in millions)

	Project	Funding Source	Status	BOT Approved Budget
UMA				
	UMA Lewiston Hall Renovation	Educational & General	In Progress	$ 2.00
UMF				
	Science Labs Renovations (Preble & Ricker)	Educational & General, State Bond	Completed	1.38
	Central Heating Plant	2015 Revenue Bond	Completed	11.00
UMFK				
	Forestry Geographic Info Sys Tech Labs/Nursing Lab Renovation/Teleconference Center Upgrades	State Bond	In Progress	1.20
UMM				
	Powers Hall Exterior and Masonry	Educational & General, State Bond	Completed	1.56
	Compressed Natural Gas Heating Conversion	2015 Revenue Bond	In Design	1.80
	Kimball Hall Demolition	Educational & General, Anticipated 2017 Revenue Bond	In Progress	0.95
UM				
	Advanced Structures & Composites Ctr Expansion	Grant, Gift, State Bond	In Progress	8.90
	Cooperative Extension Diagnostic & Research Lab	Educational & General, State Bond	In Design	9.00
	Aubert Hall STEM Classroom Renovation	State Bond	Completed	2.70
	Wells Commons Dish Room Renovation	Educational & General	Completed	1.30
	Boardman Hall STEM Lab Renovation	State Bond	Completed	0.61
	Little Hall STEM Classroom Renovation	State Bond	Completed	1.74
	Estabrooke 3rd & 4th Floor Renovation	Educational & General	Completed	5.00
USM				
	Central Heat Plant Renovation Portland	Educational & General	Completed	3.00
	Bailey Hall Lab Renovation	State Bond	Completed	1.25
	Lewiston Auburn College Nursing Lab Renovation	State Bond	Completed	0.60
	Science Building Lab Upgrade	State Bond	In Progress	0.77
	Improvements to existing space for relocation of personnel from perimeter and lower density facilities	Educational & General	In Progress	1.54
	Bio-Science Chemistry Lab	State Bond	Completed	1.25
	Gorham Softball Field Improvements	Educational & General	In Progress	2.20
	Wireless Infrastructure Upgrade	Educational & General	In Progress	1.90
	Brooks Kitchen Exhaust Upgrade	Educational & General	In Progress	0.82
UMPI				
	Folsom/Pullen Science Classroom & Lab Upgrades	State Bond	Completed	1.20
UMS				
	IT Infrastructure - Wireless and Classroom Technology Upgrades	Anticipated 2017 Revenue Bond	In Design	19.00
	MaineStreet Upgrade	Anticipated 2017 Revenue Bond	In Design	2.00
	Improvements to existing space for relocation of personnel from 16 Central Street	Educational & General	In Progress	1.00
			TOTAL	$ 85.67

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016 and 2015 (Unaudited)

Net Position

Net investment in capital assets represents the historical cost of the System's capital assets reduced by total accumulated depreciation and outstanding principal balances on debt attributable to the acquisition, construction, or improvement of those assets. As seen in Table 4 on page 13, the System's net investment in capital assets was $544 million at June 30, 2016. The FY16 increase of $3 million was primarily the result of $4 million in net additions to capital assets after annual depreciation and a $1 million decline in related debt.

For FY15, the $9 million increase was primarily the result of $5 million in net additions to capital assets after annual depreciation and a $4 million decline in related debt.

The restricted-nonexpendable net position at June 30, 2016 remained at $58 million and represents the System's permanent endowment funds. Items that impact this category of net position include new endowment gifts and fair market value fluctuations for those endowments whose fair value has fallen below the endowment corpus. From FY12 to FY15, the balance increased $1 million each year.

The restricted-expendable net position of $108 million at June 30, 2016 consists of a variety of funds including unexpended gifts, quasi endowments and appreciation on true endowments, subject to externally imposed conditions on spending. This category of net position is restricted for various purposes including student financial aid, capital asset acquisitions, research, and public service. The FY16 net increase of $1 million included a nearly $5 million increase in gift balances; an increase of approximately $1 million each in quasi endowment gifts, appropriation balances, and University student loan fund balances; and a decline of nearly $7 million in endowment values due to negative investment performance and distributions for endowed spending.

For FY15, the $3 million net decrease in restricted-expendable net position was primarily the result of a nearly $500 thousand loss from negative investment performance, nearly $6 million distributed for endowed spending, a $1 million increase in restricted gift monies for scholarships for adults, a $1 million increase in unspent State of Maine appropriations for the Maine Economic Improvement Fund, and a $1 million increase in a restricted institutional loan fund.

The unrestricted net position of $157 million at June 30, 2016 increased by $1 million after having decreased by $16 million in FY15. This net position category is not subject to externally imposed stipulations; however, these resources are critical for the financial stability of the UMS and have been designated by management for specific areas, including operational and capital needs, operating investment and other budget fluctuations, and benefits costs including covering the risks associated with self-insured plans. Given both the physical and financial size of the University of Maine System, funds must be readily available to cover various situations including emergency expenditures, strategic priorities, operating losses, over-expenditures on capital or other projects, and benefits costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016 and 2015 (Unaudited)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

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

Restatement of Prior Years

As mentioned earlier on page 11, and as further described in the FY15 financial statements' Notes 1b and 17, FY14 was restated to reflect application of the change in accounting principle related to pensions resulting in a decrease to the FY14 beginning of year net position of over $11 million while the effect on FY14 operating expense was a decrease of almost $4 million. The change in net position for FY14 (as restated) therefore increased almost $4 million and the impact on net position at June 30, 2014, was a decline of nearly $8 million, from the amount previously reported.

As noted in the System's FY14 financial statements' Notes 1b and 16, FY13 was restated to reflect retroactive applications of the change in accounting principle, related to assets previously reported as assets and liabilities. This resulted in a change to the 2013 beginning of year net position of -$2 million while the effect on 2013 operating expenses was an increase of $1 million. The change in net position for FY13 (as restated) therefore declined $1 million and the impact to net position at June 30, 2013, was a decline of $3 million from the amount previously reported.

The System's total net position increased by $6 million in FY16, decreased $9 million in FY15 and increased $20 million in FY14.

Table 8 shows Condensed Statements of Revenues, Expenses, and Changes in Net Position for the past five fiscal years ended June 30.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016 and 2015 (Unaudited)

Table 8: Condensed Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30
($ in millions)

	2016	2015	2014	2013	2012
Net Student Fees	**$237**	**$238**	$243	$246	$241
Grants, Contracts and Indirect Cost Recovery	**148**	**146**	156	161	178
Other Operating Revenues	**52**	**52**	54	56	57
Operating Revenues	**437**	**436**	453	463	476
Operating Expenses	**(660)**	**(669)**	(671)	(673)	(672)
Operating Loss	**(223)**	**(233)**	(218)	(210)	(196)
Nonoperating Revenues (Expenses)					
Noncapital State of Maine Appropriations	**201**	**199**	198	194	198
Gifts Currently Expendable	**17**	**15**	14	11	12
Endowment Return Used for Operations	**6**	**6**	5	5	5
Investment Income (Loss)	**3**	**(1)**	13	10	5
Interest Expense, Net	**(5)**	**(5)**	(6)	(7)	(8)
Net Nonoperating Revenues	**222**	**214**	224	213	212
Income (Loss) Before Other Changes in Net Position	**(1)**	**(19)**	6	3	16
Other Changes in Net Position					
State of Maine Capital Appropriation	**13**	**11**	2	6	5
Capital Grants and Gifts	**3**	**4**	7	8	20
Endow. Return, Net of Amt. Used for Operations	**(8)**	**(6)**	14	8	(6)
Other	**(1)**	**1**	1	2	3
Total Other Changes in Net Position	**7**	**10**	24	24	22
Change in Net Position	**$6**	**($9)**	$30	$27	$38

Operating and Nonoperating Revenue

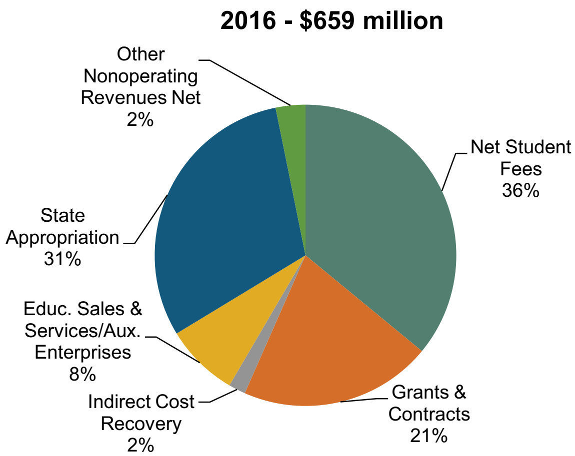
In addition to receiving tuition and fees, the System receives revenue from other sources such as governmental and privately funded grants and contracts; gifts from individuals, foundations, and corporations; state appropriations; and investment income.

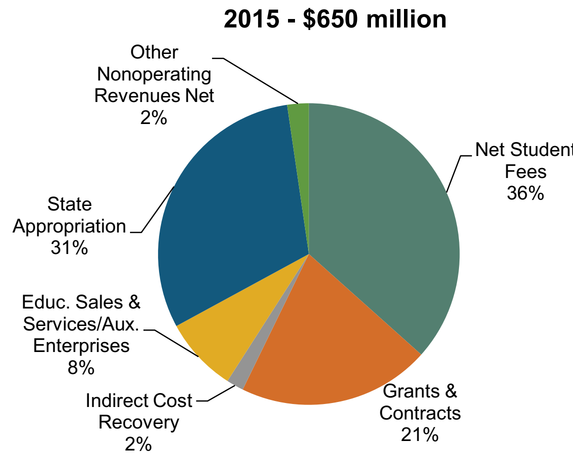
UMS revenues and expenses are categorized as either operating or nonoperating. Certain significant recurring revenues and expenses are considered nonoperating including state appropriations, gifts, investment income or loss, and interest expense.

The following pie charts illustrate the total operating and net nonoperating revenue sources used to fund the System's activities for FY16 and FY15.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016 and 2015 (Unaudited)

CHART 4: TOTAL OPERATING & NET NONOPERATING REVENUE





Net student fees of $237 million for FY16 are the primary source of operating revenues. The portion of total operating and net nonoperating revenues funded by net student revenues has remained constant at 36% from FY13 through FY16.

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

- Tuition and fees totaled $270 million in FY16, increasing $2 million (or almost 1%) from the prior year. FY15 increased $1 million (or almost 1%) and FY14 saw a decrease of $1 million (or almost 1%) compared to FY13.
- Residence and dining fees of $61 million in FY16 were up $3 million (or 4%) compared with FY15 which was down $2 million (or 3%) from FY14, while such revenues were up $2 million in FY14 (or 4%) from FY13.
- Scholarship allowances of $95 million increased $6 million (or 7%) in FY16, increased $4 million (or 5%) in FY15, and increased $4 million (or 6%) in FY14.

Student Financial Aid:

Student financial aid awards are made from a variety of sources including federal, state, private, and university funds. Aid received from third parties is recognized as grants and contracts revenue on the Statements of Revenues, Expenses, and Changes in Net Position while the distribution of aid from all sources is shown as one of two components:

1. Scholarship Allowances – financial aid retained by the System to cover students' tuition, fees, and on-campus housing and meals. These amounts are reported as a direct offset to operating revenues.
2. Student Aid Expense – financial aid refunded to students to cover off-campus living costs, books, and other personal living expenses. These amounts are reported as operating expense.

MANAGEMENT'S DISCUSSION AND ANALYSIS
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Federal financial aid awards are based on a student's financial need compared with their total cost of education which includes tuition and fees, housing and meals (both on and off campus), books, and other personal living expenses.

During FY16, total financial aid provided to students was $127 million, increasing $8 million or 7% over FY15 aid of $119 million. The increase includes an increase of $7 million in institutional unrestricted aid, an increase of $2 million in State of Maine aid, and a decrease of $1 million in aid from the Federal Pell Grant Program.

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

In FY14, total financial aid provided to students was $114 million, increasing $3 million or 2% over FY13 aid of $111 million. The increase includes nearly $2 million in increased institutional restricted aid, an increase of $2 million in institutional unrestricted aid, and a decrease of nearly $2 million in aid from the State of Maine.

Grants, Contracts, and Indirect Cost Recovery:

Grants and contracts revenues are recognized to the extent of related expenses. Consequently, reported revenues will fluctuate based on the timing of expenses across fiscal years. The System receives funding from federal, state, and private sources with the majority of funding being provided by the federal government for research activities. State research and development funding is often used to leverage federal dollars.

Grants and contracts revenues totaled $136 million in FY16, increasing $2 million or 2% from FY15. This net increase is primarily due to a new multiple year grant that provided $2 million in funding from the US Department of Education at UMF. Additionally, Federal student financial aid decreased $1 million and State of Maine financial aid increased by $2 million for FY16.

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

In addition to providing for direct costs, grants and contracts sponsors also provide for recovery of Facilities and Administrative (F&A) costs which are also known as indirect costs. The amount of allowable F&A costs is calculated for each grant and contract using the applicable negotiated rate subject to specific sponsor limitations and other proposal and award conditions. Recovery of indirect costs totaled $11 million in FY16 declining from $12 million in FY15, and down from $14 million in FY14.

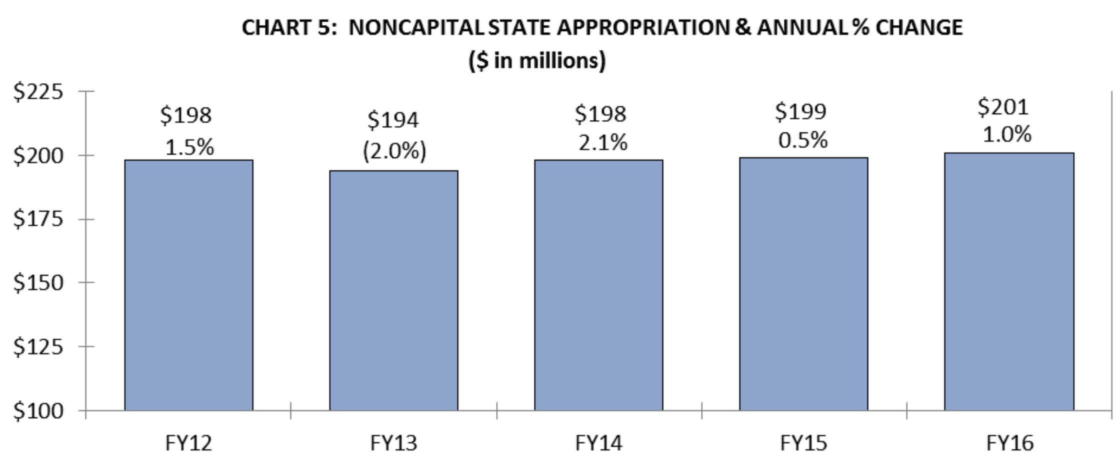
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016 and 2015 (Unaudited)

Noncapital State of Maine Appropriations:

State noncapital appropriation revenue includes amounts for general operations as well as amounts legislatively earmarked for research and development, financial aid, and various other areas. Although not considered operating revenue under GASB reporting requirements, the noncapital State appropriation was the second largest funding source for educational and general operations behind Net Student Fees.

As shown in Chart 5 below, the System received $201 million in noncapital State appropriation revenue during FY16, up $2 million or 1.0% from FY15. The System received $199 million in noncapital State appropriation revenue during FY15, up $1 million or 0.5% from FY14.

At $201 million, noncapital state appropriation covered 90% of the $223 million net operating loss in FY16, up from net operating loss coverage levels of 85% in FY15 but down from 91% in FY14.

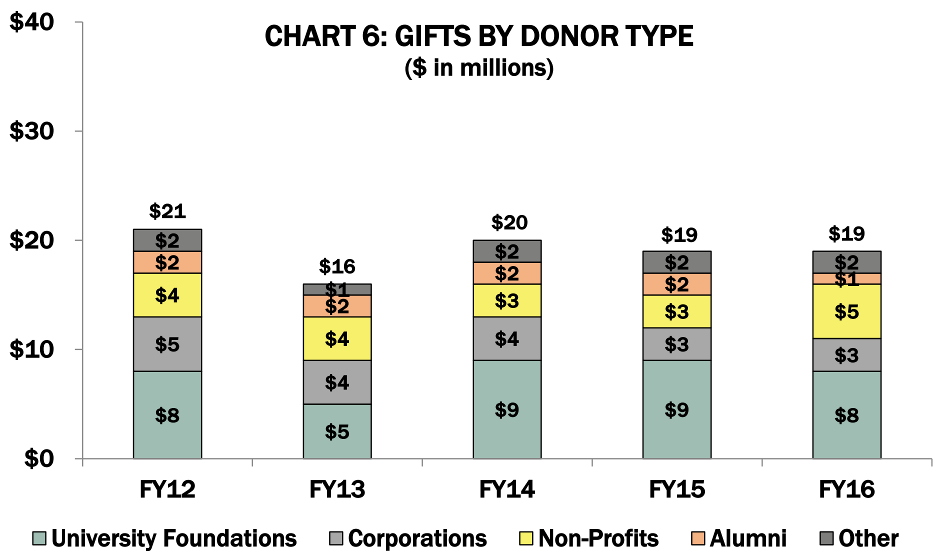


MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016 and 2015 (Unaudited)

Cash Gifts:

As shown in Chart 6 below, gifts received in FY16 of $19 million were equivalent to the prior year. In FY15, gifts received were down by $1 million from the prior year compared to being up by $4 million in FY14.

89% of the $19 million in gifts received in FY16 were restricted, 6% were endowed and 5% were unrestricted. Of the $19 million in gifts received in FY15, 89% were restricted, 8% were endowed, and 3% were unrestricted. The donor type consistently contributing the most gift dollars is University Foundations.



Operating Expenses

Table 9 shows expenses on a functional basis while Table 10 shows expenses based on natural classification.

Table 9: Operating Expenses, Classified by Function For the Years Ended June 30

($ in millions)

	2016		2015		2014		2013		2012	
Instruction	**$168**	**25%**	**$180**	**27%**	$181	27%	$180	27%	$179	27%
Research	**66**	**10%**	**65**	**10%**	72	11%	69	10%	73	11%
Public service	**60**	**9%**	**61**	**9%**	60	9%	60	9%	64	10%
Academic support	**66**	**10%**	**70**	**10%**	76	11%	77	12%	77	12%
Student services	**54**	**8%**	**52**	**8%**	49	7%	50	7%	48	7%
Institutional support	**64**	**10%**	**58**	**9%**	48	7%	54	8%	56	8%
Operation and maintenance of plant	**49**	**7%**	**50**	**7%**	51	8%	50	7%	47	7%
Depreciation and amortization	**37**	**6%**	**35**	**5%**	34	5%	32	5%	30	4%
Student aid	**33**	**5%**	**31**	**5%**	30	5%	32	5%	28	4%
Auxiliary enterprises	**63**	**10%**	**67**	**10%**	70	10%	69	10%	70	10%
Total Operating Expenses	**$660**	**100%**	**$669**	**100%**	$671	100%	$673	100%	$672	100%

Table 10: Total Expenses by Natural Classification For the Years Ended June 30

($ in millions)

	2016		2015		2014		2013		2012	
Operating:										
Compensation	**$296**	**45%**	**$306**	**46%**	$310	46%	$308	45%	$308	45%
Benefits	**124**	**19%**	**130**	**19%**	126	19%	125	18%	126	19%
Utilities	**27**	**4%**	**30**	**4%**	35	5%	34	5%	32	5%
Supplies and Services	**143**	**21%**	**137**	**20%**	136	20%	142	21%	148	22%
Depreciation and Amortization	**37**	**5%**	**35**	**5%**	34	5%	32	5%	30	4%
Student Aid	**33**	**5%**	**31**	**5%**	30	4%	32	5%	28	4%
Total Operating Expenses	**660**	**99%**	**669**	**99%**	671	99%	673	99%	672	99%
Nonoperating:										
Interest	**5**	**1%**	**5**	**1%**	6	1%	7	1%	8	1%
Total Expenses	**$665**	**100%**	**$674**	**100%**	$677	100%	$680	100%	$680	100%

Compensation and benefits expense totaled $420 million in FY16, decreasing $16 million (4%) compared with FY15 after having stayed flat with FY14.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016 and 2015 (Unaudited)

STATEMENTS OF CASH FLOWS

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

CURRENT AND FUTURE CONSIDERATIONS

The vision of One University for all of Maine was announced in January 2015 with the objective of seven mission-differentiated, mutually dependent campuses operating as one fully integrated university singularly focused on student success and responsive service to the State of Maine. As we make progress toward this vision, our universities and our people are in a much better position today to define and achieve our collective success. Hard work and tough choices over the past few years have aligned our universities in size and in structure with the times. We have also achieved pioneering collaboration and integration across our campuses that is better positioning our universities to compete regionally and globally for the talent and resources we need to move Maine forward.

Establishing a truly integrated, comprehensive, and sustainable public university system for Maine goes hand in hand with certain aspirations which will be focused on over the next five years. Such priority outcomes include increased enrollment, improved student success and completion, enhanced fiscal positioning of our System and greater support of Maine through expanded research and economic development. Priorities will also include relevant academic programming and workforce engagement. At the forefront of this work remains the Trustees' priority to ensure the System continues to provide a quality education that is affordable to Maine families.

We are becoming stronger through a strategic focus on our strengths and better alignment with the times. While there is still a great deal of work to do, our commitment to serve Maine as One University includes some notable achievements:

- Maine is the only state in the country to reduce the real cost of public higher education over the last five years;
- A landmark credit transfer agreement between Maine's higher education systems was established, transfer among Maine's public universities has improved significantly, and we have worked closely with our secondary school partners to increase early college participation by 74% over the last two academic years;
- A commitment to affordability and fiscal responsibility has strengthened our foothold along a path to financial stability; and,
- As of early October 2016, full time equivalent enrollment activity for fall shows out-of-state enrollment up 9% while in-state enrollment is down 2% compared to the same time last year. Throughout the System, our campuses are having successes in attracting national attention, outside resources, and youthful talent to Maine.

Over the past several years, we have also been working hard to restructure University Services which is our statewide, single-entity approach to managing administrative functions and delivering support services to our seven mission differentiated universities. University Services largely replaces an expensive seven-campus administrative management model and includes functions such as facilities,

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016 and 2015 (Unaudited)

finance and budget, general counsel, human resources, information technology, organizational effectiveness, risk and general services, shared processing center, and strategic procurement.

Further, during FY16 and into FY17, the System's financial and business officers worked collaboratively along with various stakeholders to develop a comprehensive set of budget and other fiscal recommendations to increase collaborations and improve financial stability. The Board endorsed these *Unified Budget* recommendations in September 2016 and the System will now begin implementation.

Accounting Pronouncements with Potential Significant Impacts

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB No. 75) will be adopted in FY18 with retroactive application to FY17 including restatement of the beginning of year net position for FY17. The primary objective of this Statement is to improve accounting and financial reporting with the purpose of providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The new Standard will affect how the System measures, reports, and discloses information about its other postemployment benefits (OPEB) other than pensions. The effects of implementation on the financial statements have not yet been determined but the adjustment to unrestricted net position is expected to be significant.

Global Financial Considerations

Financial market conditions present continued risks and opportunities as the System considers its investment and financing needs. FY16 saw another difficult year in the markets with volatility persisting while the sustained low interest rate environment bodes favorably for the System's anticipated revenue bond issuance in FY17. Anticipated proceeds will primarily be used for wireless and classroom technology improvements as well as refunding a prior revenue bond issuance to achieve interest savings.

Net student fees represents 36% of Total Operating and Net Nonoperating Revenue and continues to be the largest source of revenue for the System. Affordable quality education remains among the System's highest priorities, as demonstrated by five years of frozen undergraduate in-state tuition and mandatory fees.

The second largest revenue source for the System is the State of Maine noncapital appropriation representing 31% of Total Operating and Net Nonoperating Revenue. In years past, the State has made significant adjustments to UMS' appropriation and other fiscal support as it balances its own budget. As shown previously in Chart 5, the Noncapital State Appropriation has shown some improvement having increased from $198 million in FY12 to $201 million in FY16. Making college more affordable for Maine students, the Governor has committed to submitting a FY17 supplemental budget request of $4.65 million to support the System's extension of its in-state tuition freeze during FY17. This is in addition to the State supported 1.9% (or $3.46 million) increase in the System's FY17 general fund allocation.

The Work Ahead

With the launching of the *One University for all of Maine* framework and the recently approval *Unified Budget* recommendations, the work ahead will continue to be transformational and highly anticipated, guided by the objective of seven mission-differentiated, mutually dependent campuses operating as one fully integrated university singularly focused on student success and responsive service to the State of Maine.

Statements of Net Position

June 30, 2016 and 2015

($ in thousands)

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	$ 1,298	$ 6,174
Operating investments (Notes 3 and 16)	230,592	231,354
Accounts, grants, and pledges receivable, net (Note 4)	55,565	44,161
Inventories and prepaid expenses	5,352	5,953
Notes and lease receivable, net (Note 5)	63	63
Total Current Assets	292,870	287,705
Noncurrent Assets		
Deposits with bond trustees (Notes 3, 6 and 16)	1,411	12,744
Accounts, grants, and pledges receivable, net (Note 4)	2,696	7,862
Notes and leases receivable, net (Note 5)	40,802	40,877
Endowment investments (Notes 3 and 16)	135,821	142,547
Capital assets, net (Note 6)	706,662	702,812
Total Noncurrent Assets	887,392	906,842
Total Assets	**1,180,262**	**1,194,547**
Deferred Outflows of Resources (Note 15)	**9,370**	**7,728**
Total Assets and Deferred Outflows	**$ 1,189,632**	**$ 1,202,275**
Liabilities		
Current Liabilities		
Accounts payable	$ 14,742	$ 18,158
Unearned revenue and deposits (Note 8)	10,692	11,069
Accrued liabilities (Notes 7, 11, 13 and 14)	24,896	31,680
Funds held for others	1,831	1,828
Current portion of long-term debt (Note 7)	11,411	11,312
Total Current Liabilities	63,572	74,047
Noncurrent Liabilities		
Accrued liabilities (Notes 7, 11 and 13)	55,123	52,748
Funds held for others (Note 3)	18,202	18,189
Long-term debt (Note 7)	154,874	164,782
Government advances refundable (Note 9)	29,768	30,269
Total Noncurrent Liabilities	257,967	265,988
Total Liabilities	**321,539**	**340,035**
Deferred Inflows of Resources (Note 15)	**1,388**	**1,609**
Net Position		
Net investment in capital assets (Note 10)	544,597	540,544
Restricted		
Nonexpendable (Note 10)	57,920	58,121
Expendable (Notes 3 and 10)	107,586	106,254
Unrestricted (Notes 3 and 10)	156,602	155,712
Commitments and contingencies (Notes 6, 7 and 11)	-	-
Total Net Position	**866,705**	**860,631**
Total Liabilities, Deferred Inflows and Net Position	**$ 1,189,632**	**$ 1,202,275**

See accompanying notes to the basic financial statements.

Statements of Financial Position – Discretely Presented Component Unit

June 30, 2016 and 2015
($ in thousands)

	2016	2015
Assets		
Cash and cash equivalents	$ 609	$ 175
Other receivables	101	123
Promises to give, less allowance for uncollectible pledges of $125	1,413	1,949
Short-term investments	3,168	2,223
Cash surrender value of life insurance	148	141
Long-term investments, endowment	179,887	185,613
Long-term investments, life income plans	4,455	4,809
Notes receivable	375	574
Equity in Buchanan Alumni House	2,626	2,657
Investment real estate	6,000	5,847
Property and equipment, net of accumulated depreciation of $187 and $147, respectively	171	124
Other assets	609	764
Irrevocable trusts	8,573	10,674
Assets managed for Buchanan Alumni House	281	348
Net funding to be provided from Buchanan Alumni House	24	13
Total Assets	**$ 208,440**	**$ 216,034**
Liabilities		
Accounts payable	$ 35	$ 27
Distributions due income beneficiaries	1,798	1,823
Accrued expenses	558	509
Notes payable	523	694
Custodial accounts payable	2,835	3,071
Total Liabilities	5,749	6,124
Net Assets		
Unrestricted net assets	8,218	8,033
Temporarily restricted net assets	41,372	54,325
Permanently restricted net assets	153,101	147,552
Total Net Assets	202,691	209,910
Total Liabilities and Net Assets	**$ 208,440**	**$ 216,034**

See accompanying notes to the basic financial statements.

Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2016 and 2015

($ in thousands)

	2016	2015
Operating Revenues		
Tuition and fees	$ 270,193	$ 267,683
Residence and dining fees	60,936	58,406
Less: scholarship allowances	(94,529)	(88,432)
Net student fees	236,600	237,657
Federal, state, and private grants and contracts	136,103	133,703
Recovery of indirect costs	11,524	12,129
Educational sales and services and other revenues	34,977	32,344
Other auxiliary enterprises	17,693	20,294
Total Operating Revenues	436,897	436,127
Operating Expenses		
Instruction	168,415	179,728
Research	66,278	65,393
Public service	59,603	60,701
Academic support	66,291	70,357
Student services	53,907	52,105
Institutional support	63,657	57,580
Operation and maintenance of plant	49,039	50,100
Depreciation and amortization (Note 6)	37,051	35,304
Student aid	33,069	30,925
Auxiliary enterprises	63,372	66,872
Total Operating Expenses	660,682	669,065
Operating Loss	(223,785)	(232,938)
Nonoperating Revenues (Expenses)		
Noncapital State of Maine appropriations	201,404	198,757
Gifts currently expendable	17,072	14,539
Endowment return used for operations (Note 3)	6,165	5,660
Investment income (loss) (Note 3)	2,561	(499)
Interest expense, net (Note 7)	(4,749)	(5,146)
Net Nonoperating Revenues	222,453	213,311
Loss Before Other Changes in Net Position	**(1,332)**	**(19,627)**
Other Changes in Net Position		
State of Maine capital appropriations	13,104	11,267
Capital grants and gifts	2,881	4,555
Endowment return (loss), net of amount used for operations (Note 3)	(7,946)	(6,151)
True and quasi endowment gifts	1,180	1,725
Loss on disposal of capital assets	(1,813)	(841)
Total Other Changes in Net Position	7,406	10,555
Change in Net Position	**6,074**	**(9,072)**
Net Position - Beginning of Year	860,631	869,703
Net Position - End of Year	$ 866,705	$ 860,631

See accompanying notes to the basic financial statements.

Statements of Activities – Discretely Presented Component Unit

Year Ended June 30, 2016 With Comparative Totals for 2015
($ in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Total 2015
Revenues, Gains, Losses, and Reclassification					
Contributions	$ 1,427	$ 4,561	$ 4,828	$ 10,816	$ 12,283
Investment loss and other revenue	(3,210)	(4,116)	1,555	(5,771)	(4,310)
Net assets released from restrictions	14,232	(13,398)	(834)	-	-
Total Revenues, Gains, Losses, and Reclassification	12,449	(12,953)	5,549	5,045	7,973
Expenses and Losses					
Program services	9,909	-	-	9,909	9,424
Management and general	819	-	-	819	763
Fundraising	1,536	-	-	1,536	940
Total Expenses	12,264	-	-	12,264	11,127
Uncollectible promises to give	-	-	-	-	9
Total Expenses and Losses	12,264	-	-	12,264	11,136
Change in Net Assets	**185**	**(12,953)**	**5,549**	**(7,219)**	**(3,163)**
Net Assets - Beginning of Year	8,033	54,325	147,552	209,910	213,073
Net Assets - End of Year	$ 8,218	$ 41,372	$ 153,101	$ 202,691	$ 209,910

See accompanying notes to the basic financial statements.

Statements of Cash Flows
Years Ended June 30, 2016 and 2015
($ in thousands)

	2016	2015
Cash Flows From Operating Activities		
Tuition, residence, dining, and other student fees	$ 235,207	$ 237,551
Grants and contracts	145,461	149,024
Educational sales and services and other auxiliary enterprise revenues	50,534	53,990
Payments to and on behalf of employees	(422,224)	(426,462)
Financial aid paid to students	(39,591)	(37,314)
Payments to suppliers	(167,535)	(166,167)
Loans issued to students	(6,324)	(6,306)
Collection of loans to students	5,929	5,945
Interest collected on loans to students	713	730
Net Cash Used for Operating Activities	(197,830)	(189,009)
Cash Flows From Noncapital Financing Activities		
State appropriations	201,404	198,757
Noncapital grants and gifts	17,519	16,602
Agency transactions	(10,402)	(1,771)
Net Cash Provided by Noncapital Financing Activities	208,521	213,588
Cash Flows From Capital and Related Financing Activities		
Proceeds from capital debt issuances	-	12,948
Capital appropriations	18,592	5,391
Capital grants and gifts	5,941	6,922
Proceeds from sale of capital assets	150	12
Acquisition and construction of capital assets	(46,029)	(32,350)
Principal paid on capital debt and leases	(9,737)	(8,412)
Interest paid on capital debt and leases	(6,627)	(6,814)
Net Cash Used for Capital and Related Financing Activities	(37,710)	(22,303)
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	417,266	514,987
Purchases of investments	(405,382)	(520,545)
Earnings from investments	10,259	8,639
Net Cash Provided by Investing Activities	22,143	3,081
Net Increase (Decrease) in Cash and Cash Equivalents	(4,876)	5,357
Cash and cash equivalents - Beginning of Year	6,174	817
Cash and cash equivalents - End of Year	$ 1,298	$ 6,174

See accompanying notes to basic financial statements.

Statements of Cash Flows

Years Ended June 30, 2016 and 2015

($ in thousands)

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

	2016	2015
Operating loss	$ (223,785)	$ (232,938)
Adjustments to reconcile net operating loss to net cash used for operating activities:		
Depreciation and amortization	37,051	35,304
Bond costs paid through bond financing	-	465
Changes in assets and liabilities:		
Accounts and grants receivable, net	(3,902)	5,870
Inventories and prepaid expenses	601	(615)
Notes receivable, net	13	132
Deferred outflows related to pensions	(1,942)	(2,496)
Accounts payable	1,413	715
Unearned revenue and deposits	(170)	40
Accrued liabilities	(6,387)	3,145
Grants refundable	(501)	(240)
Deferred inflows related to pensions	(221)	1,609
Net Cash Used for Operating Activities	$ (197,830)	$ (189,009)

Noncash investing, capital, and financing activities:

	2016	2015
Capital asset additions included in accounts payable and accrued liabilities as of June 30	$ 2,013	$ 7,819
Capital asset additions acquired through capital leases	$ -	$ 1,845
Capital asset additions acquired through long-term debt	$ 1,527	$ 1,097
Bond issuance costs financed with bond payable	$ -	$ 465
Refunding of debt through new bond issuance	$ -	$ 40,206

See accompanying notes to basic financial statements.

Notes to the Financial Statements

Years Ended June 30, 2016 and 2015
($ in thousands)

1. SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The University of Maine System ("the System"), a discretely presented component unit of the State of Maine, consists of seven Universities, eight centers, and a central administrative office. All activities of the System are included in the accompanying financial statements, including those of its discretely presented component unit which is a not-for-profit entity controlled by a separate governing board whose goal is to support the System (see Note 17). The component unit receives funds primarily through donations and contributes funds to the System for student scholarships and institutional support.

b. Basis of Presentation

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

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

In FY16, the System adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

In FY15, the System adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* and GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Statement No. 73 is effective for periods beginning after June 15, 2016. However, the System early adopted the standard and implemented Statement No. 73 for the fiscal year ended June 30, 2015. Statements No. 68 and No. 73 were implemented retroactive to July 1, 2013 pursuant to the transition provisions of those Statements.

Under Statements No. 68 and No. 73, the actuarially determined net pension liability is reported in full as a liability in the Statements of Net Position and certain items that were previously reported as assets and liabilities are to be reported as deferred outflows of resources or deferred

Notes to the Financial Statements
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inflows of resources in the year incurred or received. Conforming changes were made retroactively to all years presented including reclassification of certain balances and restatement of beginning net position.

The financial statements include certain prior-year summarized comparative information of a discretely presented component unit in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the System's June 30, 2015 financial statements, from which the summarized information was derived.

c. **Net Position**

The System's net position (assets plus deferred outflows minus liabilities and deferred inflows) is classified for accounting purposes in the following four categories:

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

Restricted – nonexpendable: Net position subject to externally imposed conditions that the System maintain them in perpetuity. In the event that market fluctuations have caused the fair value of an endowment to fall below corpus, the related net position is valued at the lower fair value amount. Such net position includes the historical gift value of restricted true endowment funds.

Restricted – expendable: Net position subject to externally imposed conditions that can be fulfilled by the actions of the System or by the passage of time. Such net position includes the accumulated net gains on true endowment funds, restricted gifts and income, and other similarly restricted funds.

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

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

d. **Cash and Cash Equivalents**

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

e. **Investments**

All investments are reported at fair value. System management is responsible for the fair measurement of investments reported in the financial statements. The System has implemented

Notes to the Financial Statements
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policies and procedures to assess the reasonableness of the fair values provided and believes that reported fair values at the statement of net position date are reasonable.

Third party investments: Three outside entities, the UMS Other Post Employment Benefit (OPEB) Trust, Maine Maritime Academy and the University of Maine School of Law Foundation, pool monies with the System's endowment pool. Investment performance results of these pooled monies are allocated on a pro rata basis based on the number of pool shares held by each entity. Contributions to and withdrawals from the pool are allowed only on the first business day of a calendar quarter. Investment of these monies follows guidelines approved by the Board of Trustees Investment Committee. These guidelines are further disclosed in the remainder of this Note and Note 3 to these financial statements as part of the discussion of endowments.

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

The income produced by the fund, including realized and unrealized gains, can be used to meet the spending objective. As determined by policy, the expendable income objective was 4.50% for FY16 and FY15. The percentage was applied to a 3-year market value average to determine expendable income.

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

Authorized Investment Vehicles:

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

- Liquidity Pool – The purpose of this pool is to meet the day-to-day obligations of the UMS. It consists of funds that are invested in a portfolio of highest quality short-term fixed-income securities (e.g., treasury obligations, agency securities, repurchase agreements, money market funds, commercial paper, and/or short-term bond mutual funds) with adequate liquidity. The average quality of the pool will be rated at least "A-1" by Standard and Poor's (or equivalent).

- Income Pool – The purpose of this pool is to provide sufficient income to meet budgetary goals and provide additional diversification to minimize downside risk. This pool invests in a diversified portfolio which may include items such as, but not limited to, fixed income securities, Federal Deposit Insurance Corporation insured or adequately collateralized certificates of deposit (CDs), or unconstrained, short or intermediate term bond funds with a normal average duration of -2 to 7 years. The pool may invest in funds rated from BB to

Notes to the Financial Statements

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AAA quality. The overall average quality rating of this pool will be at least "A-" by Standard and Poor's (or equivalent).

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

Endowment Investments: The fund is diversified both by asset class and within asset classes. In order to have a reasonable probability of consistently achieving the Fund's return objectives, the following asset allocation policy ranges were applicable as of June 30:

	2016	2015
• Equity securities	35-55%	33-53%
• Fixed income securities	13-23%	10-20%
• Other	27-47%	30-50%
• Cash	0-10%	0-10%

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

f. Inventories

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

g. Gifts and Pledges

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

h. Grants and Contracts and Capital Appropriations

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

Notes to the Financial Statements
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i. Capital Assets

Capital assets which include property, plant, equipment, intangible assets and library holdings are recorded at cost when purchased or constructed and at fair value at date of donation. Costs for maintenance, repairs and minor renewals and replacements are expensed as incurred; major renewals and replacements are capitalized.

Prior to July 1, 2003, library materials were generally capitalized and depreciated over a ten-year period. Effective July 1, 2003, the System began to expense library materials as incurred. The System will retain the undepreciated library materials balance as a core non-depreciating asset.

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

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

A capitalization threshold of $50 is used for buildings, building additions and improvements, land improvements and internally generated intangibles. Equipment (including equipment acquired under capital leases) and purchased software are capitalized with a unit cost of $5 or more. These assets, with the exception of land, are depreciated and amortized using the straight-line basis over the estimated useful lives of the related assets, which range from 4 to 60 years.

Interest costs on debt related to capital assets, net of investment income on unspent bond proceeds, are generally capitalized during the construction period.

j. Unearned Revenue and Deposits

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

k. Compensated Absences

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

Notes to the Financial Statements
Years Ended June 30, 2016 and 2015
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l. Deferred Outflows and Deferred Inflows of Resources

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

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

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

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

m. Net Student Fees

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

n. Tax Status

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

o. 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. The current economic environment increases the uncertainty of those estimates.

p. Reclassifications

Certain FY15 items in the accompanying financial statements have been reclassified, without effect on total net position, to conform to the FY16 presentation.

Notes to the Financial Statements

Years Ended June 30, 2016 and 2015
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2. CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of bank failure, the System's deposits may not be returned. Deposits are considered uninsured and uncollateralized if they are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the System's name. The System's policy is that with the exception of daily operating cash, it will carry no deposits that are uncollateralized or uninsured. As of June 30, 2016 and 2015, bank balances with uninsured or uncollateralized operating cash deposits were $1,346 and $1,107, respectively.

3. INVESTMENTS

a. Composition and Purpose of Investments

The System uses a pooled investment approach for its endowments (including Affiliates' endowments invested with the System) unless otherwise required by the donor. Three outside entities, the UMS OPEB Trust, Maine Maritime Academy and the University of Maine School of Law Foundation, pool monies with the System's endowment. Investment policies and strategies are determined for this combined Managed Investment Pool (MIP). Fair values, credit ratings, and interest rate risk for the entire investment pool are presented below under 'endowment' investments. The amount held for these three outside entities is then deducted to show only the amount of the System's endowment investment.

Operating Investments: The System's operating 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 ($302 and $314 at June 30, 2016 and 2015, respectively), the System's endowment is managed as a pooled investment fund using external investment managers. The University of Maine at Fort Kent Foundation, the University of Southern Maine Foundation, and the John L. Martin Scholarship Fund, Inc. participate in the System's endowment pool through a management agreement. The fair values of the investments held for these affiliated organizations at June 30, 2016 and 2015, respectively are $18,202 and $18,189, and are reported as funds held for others in the accompanying Statements of Net Position.

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

	2016	2015
Restricted - expendable	$45,678	$51,173
Unrestricted	13,858	14,859
Total available for spending	$59,536	$66,032

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

Notes to the Financial Statements
Years Ended June 30, 2016 and 2015
($ in thousands)

The System's investments are composed of the following at June 30, 2016:

	Fair Value	Credit Rating	Interest Rate Risk	
Operating Investments:				
Equities:				
Multi-strategy funds	$ 65,352			
Fixed income funds:				
Bank loans	12,829	Not rated	.10 years	Duration
Bonds	112,876	Not rated	.48 - 5.8 years	Duration
Money markets	21,596	Not rated	6-28 days	Ave maturity
State pool	17,939	Not rated	.58 years	Duration
Total operating investments	$ 230,592			
Deposits with Bond Trustees:				
Fixed income funds:				
Bonds	$ 22	Aaa-Moody's	35 days	Ave maturity
Money markets	1,389	Not rated	6 days	Ave maturity
Total deposits with bond trustees	$ 1,411			
Endowment Investments:				
MIP investments:				
Equities:				
Equities	$ 16,601			
Equity funds	122,851			
Multi-strategy funds	82,119			
Fixed income funds:				
Money markets	4,381	Not rated	4 days	Ave maturity
Bonds	34,108	Not rated	4-8.4 years	Duration
Real assets	5,634			
Total MIP investments	265,694			
Less portion held on behalf of outside entities	(131,017)			
Endowment portion of MIP investments	134,677			
Separately invested assets:				
Held in cash and cash equivalents pending investment	842			
Money funds, savings, CDs	68			
Equities	234			
Total endowment investments	$ 135,821			

Notes to the Financial Statements

Years Ended June 30, 2016 and 2015
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The System's investments are composed of the following at June 30, 2015:

	Fair Value	Credit Rating	Interest Rate Risk	
Operating Investments:				
Equities:				
Multi-strategy funds	$ 71,165			
Fixed income funds:				
Bank loans	18,941	Not rated	.10 years	Duration
Bonds	118,824	Not rated	-.06 - 5.7 years	Duration
Money markets	11,552	Not rated	35-36 days	Ave maturity
State pool	10,872	Not rated	.54 years	Duration
Total operating investments	$ 231,354			
Deposits with Bond Trustees:				
Fixed income funds:				
Bonds	$ 23	Aaa-Moody's	33 days	Ave maturity
Money markets	12,721	Not rated	35-36 days	Ave maturity
Total deposits with bond trustees	$ 12,744			
Endowment Investments:				
MIP investments:				
Equities:				
Equities	$ 13,407			
Equity funds	119,071			
Multi-strategy funds	102,637			
Fixed income funds:				
Money markets	147	Not rated	27 days	Ave maturity
Bonds	27,220	Not rated	4.5 years	Duration
Real assets	5,270			
Total MIP investments	267,752			
Less portion held on behalf of outside entities	(127,675)			
Endowment portion of MIP investments	140,077			
Separately invested assets:				
Held in cash and cash equivalents pending investment	2,156			
Money funds, savings, CDs	68			
Equities	246			
Total endowment investments	$ 142,547			

Notes to the Financial Statements
Years Ended June 30, 2016 and 2015
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b. **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System's policy for managing interest rate risk is as follows:

Operating Investments: To limit interest rate exposure, the System diversifies its investments as specified in Note 1.e.

Endowment Investments: To limit interest rate exposure, the endowment investment policy restricts:

- The average effective duration of the fixed income portfolio to no more than 1 year from the duration of the applicable benchmark (e.g., the Barclays Capital Aggregate Bond Index was 5.49 years and 5.65 years at June 30, 2016 and 2015, respectively).

c. **Foreign Currency Risk**

Operating Investments: The System's operating investments include various fixed income, equity, and hedge fund holdings which have foreign currency exposure, with some funds hedging against foreign currency risk. Portfolio foreign currency exposure was $18 million and $24 million at June 30, 2016 and 2015, respectively.

Endowment Investments: The System's endowments are invested in the System MIP. The MIP invests in various fixed income, equity, and hedge funds which have foreign currency exposure, with some funds hedging against foreign currency risk. The endowment investments share of the foreign currency exposure in the MIP was $40 million and $48 million at June 30, 2016 and 2015, respectively.

Notes to the Financial Statements
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d. Investment Income (Loss)

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

	2016			
	Net Gains (Losses)	Interest and Dividends	Investment Fees	Net Earnings (Loss)
Endowment investments	$ (4,351)	$ 2,692	$ (1,122)	$ (2,781)
Managed funds distributed				1,000
System endowment loss				$ (1,781)
Reported as endowment return used for operations				$ 6,165
Reported as endowment loss, net of amount used for operations				(7,946)
System endowment loss				$ (1,781)
Operating investments	$ (1,395)	$ 4,989	$ (1,039)	$ 2,555
Deposits with bond trustees	-	6	-	6
Total other investment income (loss)	$ (1,395)	$ 4,995	$ (1,039)	$ 2,561

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

Notes to the Financial Statements

Years Ended June 30, 2016 and 2015
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4. ACCOUNTS, GRANTS, AND PLEDGES RECEIVABLE

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

	2016			2015		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Student and other accounts receivable	$ 39,419	$ 39,086	$ 333	$ 26,265	$ 25,942	$ 323
Grants receivable	21,813	21,098	715	29,109	22,906	6,203
Pledges receivable	2,994	1,263	1,731	1,996	574	1,422
Total gross receivables	64,226	61,447	2,779	57,370	49,422	7,948
Less allowance for doubtful accounts	(5,915)	(5,882)	(33)	(5,287)	(5,261)	(26)
Less discount on pledges receivable	(50)	-	(50)	(60)	-	(60)
Total receivables, net	$ 58,261	$ 55,565	$ 2,696	$ 52,023	$ 44,161	$ 7,862

In accordance with GASB Statement No. 35, grants receivable related to the acquisition of capital assets are reported as a noncurrent receivable even though collection is expected within the next twelve months.

5. NOTES AND LEASES RECEIVABLE

Notes and leases receivable include the following at June 30:

	2016			2015		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Perkins loans	$ 30,059	$ -	$ 30,059	$ 30,489	$ -	$ 30,489
Nursing loans	2,024	-	2,024	1,961	-	1,961
Institutional loans	9,480	-	9,480	9,039	-	9,039
Lease receivable **(a)**	813	63	750	876	63	813
Total notes and leases receivable	42,376	63	42,313	42,365	63	42,302
Less allowance for doubtful accounts	(1,511)	-	(1,511)	(1,425)	-	(1,425)
Total notes and leases receivable, net	$ 40,865	$ 63	$ 40,802	$ 40,940	$ 63	$ 40,877

Collections of the notes receivable for Perkins, Nursing, and Institutional loans may not be used to pay current liabilities, as the proceeds are restricted for making new loans. Accordingly, these notes receivable are recorded in the accompanying Statements of Net Position as noncurrent assets.

Notes to the Financial Statements
Years Ended June 30, 2016 and 2015
($ in thousands)

(a) Lease receivable consists of the following:

	2016	2015
University of New Hampshire		
Secured by equipment; monthly payments of $5, including interest at 4.85% per annum; matures 2029	$ 813	$ 876

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 is as follows:

	Beginning Balance	Additions	Reclasses	Retirements	Ending Balance
Land	$ 17,895	$ -	$ -	$ -	$ 17,895
Library materials	25,686	-	-	-	25,686
Construction in progress	14,322	38,188	(41,013)	-	11,497
Total nondepreciable assets	57,903	38,188	(41,013)	-	55,078
Land improvements	53,291	-	1,839	-	55,130
Buildings & improvements	855,806	-	36,173	(7,598)	884,381
Equipment	128,356	4,676	2,636	(2,326)	133,342
Software	32,203	-	365	-	32,568
Total depreciable assets	1,069,656	4,676	41,013	(9,924)	1,105,421
Less accumulated depreciation:					
Land improvements	33,369	1,918	-	-	35,287
Buildings & improvements	300,737	22,231	-	(6,025)	316,943
Equipment	72,440	10,069	-	(1,936)	80,573
Software	18,201	2,833	-	-	21,034
Total accumulated depreciation	424,747	37,051	-	(7,961)	453,837
Net depreciable assets	644,909	(32,375)	41,013	(1,963)	651,584
Total capital assets	$ 702,812	$ 5,813	$ -	$ (1,963)	$ 706,662

Notes to the Financial Statements

Years Ended June 30, 2016 and 2015
($ in thousands)

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

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

Additions to capital assets for the years ended June 30, 2016 and 2015 include the following:

- Assets acquired through capital leases of $0 and $1,845, respectively.
- Capitalized interest costs of $125 and $56, less interest earnings on unexpended bond proceeds of $5 and $2, respectively.

As of June 30, 2016 and 2015, $1,389 and $12,721, respectively, in proceeds from revenue bond issuances remain unspent. These amounts are included in the accompanying Statements of Net Position as part of deposits with bond trustees.

Also remaining unspent as of June 30, 2016 is $8,073 in capital appropriations awarded by the State of Maine. These amounts are not included in the accompanying financial statements because the System has not met all eligibility requirements (e.g., incurred costs.)

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

Outstanding commitments on uncompleted construction contracts totaled $10,768 and $26,496 at June 30, 2016 and 2015, respectively.

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Years Ended June 30, 2016 and 2015
($ in thousands)

7. ACCRUED LIABILITIES AND LONG-TERM DEBT

Changes in accrued liabilities and long-term debt during the year ended June 30, 2016 include the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued liabilities:					
Workers' compensation - Note 11	$ 4,182	$ 1,644	$ (1,520)	$ 4,306	$ 1,206
Health insurance - Note 11	6,080	62,903	(62,859)	6,124	6,124
Postemployment health plan - Note 14	1,137	14,911	(15,366)	682	682
Other employee benefit programs - Note 13	55,415	58,027	(61,131)	52,311	4,417
Other	17,614	14,407	(15,425)	16,596	12,467
Total accrued liabilities	$ 84,428	$ 151,892	$ (156,301)	$ 80,019	$ 24,896
Long-term debt:					
Capital lease obligations **(a)**	$ 4,949	$ -	$ (743)	$ 4,206	$ 690
Bonds and notes payable **(b)**	171,145	1,527	(10,593)	162,079	10,721
Total long-term debt	$ 176,094	$ 1,527	$ (11,336)	$ 166,285	$ 11,411

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

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

Notes to the Financial Statements

Years Ended June 30, 2016 and 2015
($ in thousands)

(a) Lease Obligations

The System leases certain equipment and real estate under leases with terms exceeding one year. Future minimum lease payments under capital leases and under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2016 are as follows:

	Capital Leases		Operating	
Year Ending June 30:	Principal	Interest	Leases	Total
2017	$ 690	$ 119	$ 843	$ 1,652
2018	624	105	695	1,424
2019	623	91	623	1,337
2020	471	71	342	884
2021	329	71	233	633
2022-2026	885	245	1,198	2,328
2027-2031	584	42	1,246	1,872
2032-2036	-	-	659	659
2037-2041	-	-	132	132
Total minimum lease payments	$ 4,206	$ 744	$ 5,971	$ 10,921

The rent expense related to operating leases amounted to $1,109 for the year ended June 30, 2016 and $1,320 for the year ended June 30, 2015.

Notes to the Financial Statements
Years Ended June 30, 2016 and 2015
($ in thousands)

(b) Bonds and Notes Payable

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

	2016	2015
2015 Series A Revenue Bonds (original principal of $48,450)		
Serial bonds, maturing from 2016 to 2037, with annual principal payments from $405 to $3,760 and coupon interest rates from 3.0% to 5.0%. Issued to refund 2004A, 2005A, and 2007A Series Revenue bonds and to provide funding for capital projects.	$ 46,435	$ 48,450
Add: unamortized premium	4,284	5,000
Total 2015 Series A Bonds	50,719	53,450
2013 Series A Revenue Bonds (original principal of $65,255)		
Serial bonds, maturing from 2014 to 2033, with annual principal payments from $1,275 to $4,425 and coupon interest rates from 2.0% to 5.0%. Issued to refund 2000A, 2003A, 2004A, and 2005A Series Revenue bonds.	54,700	57,615
3.5% Term Bonds due March 1, 2034	2,455	2,455
3.5% Term Bonds due March 1, 2035	2,540	2,540
Add: unamortized premium	5,975	7,084
Total 2013 Series A Bonds	65,670	69,694
2012 Series A Revenue Bonds (original principal of $34,975)		
Serial bonds, maturing from 2013 to 2028, and 2031, with annual principal payments from $1,070 to $2,540 and coupon interest rates from 2.0% to 4.0%. Issued to refund balloon on the 2002A Series Revenue bonds and to provide funding for a capital project.	20,880	23,235
3.0% Term Bonds due March 1, 2030	2,540	2,540
3.0% Term Bonds due March 1, 2033	2,620	2,620
Add: unamortized premium	1,116	1,393
Total 2012 Series A Bonds	27,156	29,788
2007 Series A Revenue Bonds (original principal of $46,740)		
Serial bonds, maturing from 2008 to 2037, with annual principal payments from $195 to $3,380 and coupon interest rates from 4.5% to 5.0%. Issued to partially refund the 1998A and 2004A Series Revenue Bonds and to provide funding for capital projects.	15,675	16,665
Add: unamortized premium	142	193
Total 2007 Series A Bonds	15,817	16,858
University of Maine Foundation		
Note payable, drawn against $300 line of credit, unsecured, semi-annual payments of $5, including interest at 2.75%, matures 2018	15	30
Note payable, secured by equipment, matures 2019, with annual payments of $75, including interest at 3.94%.	172	258

Notes to the Financial Statements

Years Ended June 30, 2016 and 2015
($ in thousands)

	2016	2015
Efficiency Maine Trust		
$2,595 loan for biomass energy project, quarterly interest only payments at 1.5% during construction, quarterly principal payments of $65 plus interest at 1.5% beginning in June 2016 and continuing through March 2026.	$ 2,530	$ 1,067
Total bonds and notes payable, net	$ 162,079	$ 171,145
Total par value of outstanding bonds and notes payable	$ 150,562	$ 157,475
Total unamortized premiums and discounts	11,517	13,670
Total bonds and notes payable, net	$ 162,079	$ 171,145

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

Principal and interest payments on bonds and notes payable for the next five years and in subsequent five-year periods are as follows at June 30, 2016:

Year Ending June 30:	Principal	Interest	Total
2017	$ 8,793	$ 6,317	$ 15,110
2018	9,798	5,911	15,709
2019	9,339	5,457	14,796
2020	10,104	5,036	15,140
2021	8,975	4,598	13,573
2022-2026	42,688	16,814	59,502
2027-2031	40,360	8,114	48,474
2032-2036	20,060	1,656	21,716
2037	445	15	460
	$ 150,562	$ 53,918	$ 204,480

Interest costs related to the revenue bonds for FY16 and FY15 were $4,689 and $5,038, respectively.

Refunding of Debt

On April 8, 2015, the System issued $48,450 of 2015 Series A Revenue Bonds to currently refund $13,985 of 2005 and 2004 Series A Revenue Bonds, to advance refund $24,165 of 2007 Series A Revenue Bonds, and to provide $12,710 for new projects. The System completed the refunding to reduce its total debt service payments over the following twenty-two years by $4,459 and to obtain economic gain (difference between the present values of the old and new debt service payments) of

Notes to the Financial Statements
Years Ended June 30, 2016 and 2015
($ in thousands)

$3,422. The principal amount of debt refunded through in-substance defeasance was $38,150. The amount still outstanding at June 30, 2016 and 2015 was $24,165.

Refunding bond proceeds of $40,206 were placed in an escrow account to pay the interest due on the refunded bonds and to retire the bonds on their respective call dates which range from FY15 to FY17. The escrow is invested to yield enough earnings to pay required future payments, which are $25,296 and $26,427 as of June 30, 2016 and 2015, respectively.

The FY15 refunding resulted in a deferred amount on refunding of $1,750 which represents the difference between the reacquisition price and the carrying value of the refunded bonds. Amortization of this deferred amount on refunding will be charged to operations as additional interest expense through the year FY37. The unamortized portion of the deferred amount on refunding, which was $1,617 and $1,723 as of June 30, 2016 and 2015, respectively, is included in deferred outflows in the accompanying Statements of Net Position.

8. UNEARNED REVENUE AND DEPOSITS

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

	2016	2015
Unearned grant advances	$ 3,550	$ 3,613
Unearned summer session revenue	6,595	6,404
Other unearned revenue and deposits	547	1,052
Total unearned revenue and deposits	$ 10,692	$ 11,069

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, 2016 and 2015 was $21,098 and $42,002, 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 the offset as a current liability in unearned revenue and deposits in the Statements of Net Position.

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, 2016 and 2015 has been included in the accompanying Statements of Net Position as a noncurrent liability.

Notes to the Financial Statements

Years Ended June 30, 2016 and 2015
($ in thousands)

10. NET POSITION

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

	2016	2015
Net investment in capital assets	$ 544,597	$ 540,544
Restricted - Nonexpendable:		
Endowment funds	57,920	58,121
Restricted - Expendable:		
Student financial aid	40,925	44,092
Capital assets and retirement of debt	3,164	2,066
Loans	15,724	15,267
Academic support	12,902	12,851
Research and public service	12,664	9,663
Library	2,894	2,917
Other	19,313	19,398
Total restricted - expendable	107,586	106,254
Unrestricted:		
Educational and general reserves	55,690	59,707
Risk management	2,331	2,358
Budget stabilization	10,667	15,164
Auxiliary enterprises	10,424	11,738
Benefit pool carryover	10,589	10,619
Information technology initiatives	3,268	3,145
Internally designated projects	17,442	12,787
Facility projects	31,698	24,722
Endowment earnings	13,858	14,859
Cost sharing and other	635	613
Total unrestricted	156,602	155,712
Total net position	$ 866,705	$ 860,631

Notes to the Financial Statements
Years Ended June 30, 2016 and 2015
($ in thousands)

11. COMMITMENTS AND CONTINGENCIES

a. Grant Program Involvement

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

b. Risk Management – Insurance Programs

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

The System's retention obligation for the general liability and vehicle liability is capped at $410 per claim, with an aggregate limit of $15,000 per year. Educator's legal liability risks are subject to a $150 per loss retention with no annual cap. The System's estimate of the amount payable under these retention levels has been included in the accompanying Statements of Net Position as part of current accrued liabilities. As of June 30, 2016 and 2015 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 is self-funded for the risk of loss related to workers' compensation. The liability for unpaid claims is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The System's estimated liability at June 30, 2016 and 2015 of $4,306 and $4,182, respectively, for workers' compensation claims is included in accrued liabilities in the accompanying Statements of Net Position (see Note 7). The System purchases commercial specific and aggregate excess workers' compensation insurance which limits the exposure for any one incident to $1,000 and provides coverage in the event that total claims exceed expectations.

During FY16, the System's management determined that market pricing of workers' compensation commercial insurance is favorable for the short to medium-term. The System will therefore move from a self-funded model and purchase worker's compensation insurance in FY17.

The System's active employee and under age 65 retiree health plans are self-funded with an Administrative Services Only (ASO) agreement with a commercial carrier. The System's Medicare eligible retiree health plan is a fully insured Medicare Advantage Private Fee for Service program with a commercial carrier. Both contracts are in effect from January 1 through December 31, 2016. As of June 30, 2016 and 2015, the estimated liability for claims incurred but not reported is included in total health insurance accrued liabilities in the accompanying Statements of Net Position

Notes to the Financial Statements
Years Ended June 30, 2016 and 2015
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(see Note 7). The System purchases stop-loss insurance which limits the exposure to $1,000 per individual.

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

	2016	2015
Claims incurred but not reported	$ 5,200	$ 5,558
Reported claims	924	522
Total health insurance liability - Note 7	$ 6,124	$ 6,080

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

12. PASS THROUGH GRANTS

During FY16 and FY15, the System distributed $129,284 and $137,292, respectively, for student loans through the U.S. Department of Education Federal Direct Lending Program. These distributions and related funding sources are not included as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements.

13. PENSION PLANS

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

	2016	2015
Faculty and Professional Employees:		
Contributory retirement plan	$ 18,868	$ 19,908
Incentive retirement plan	1,546	1,829
Hourly Employees:		
Basic retirement plan	3,326	3,492
Defined benefit plan	2,825	864
Total net pension expense	$ 26,565	$ 26,093

Notes to the Financial Statements
Years Ended June 30, 2016 and 2015
($ in thousands)

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 of America (TIAA). The Board of Trustees and collective bargaining agreements establish benefit terms and mandatory employee and employer contribution rates.

All full-time employees are eligible once employment begins. Part-time employees are eligible upon achieving the equivalent of five years of continuous, full-time, regular service. All eligible employees are required to participate when they reach thirty years of age. The System contributes an amount equal to 10% of each participant's base salary and each participant contributes 4% of base salary. Participants may make additional voluntary contributions up to limits allowable by the Internal Revenue Service. The System implemented a five year vesting schedule for the employer matching contribution for certain salaried employees hired on or after January 1, 2010. All participant contributions are fully and immediately vested.

Prior to June 1, 2014, participants had the option to direct up to 100% of existing accumulations and/or current contributions to selected investment vehicles outside of TIAA. As of June 1, 2014, all future contributions are directed to TIAA as the sole record-keeper. Upon separation from the System, participants may withdraw up to 100% of their vested account balances or transfer funds to other investment alternatives subject to Internal Revenue Service limitations and the contractual provisions of the Contributory Plan.

Employee contributions made to the Contributory Plan were $7,545 in FY16 and $7,961 in FY15.

Incentive Retirement Plan

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

Represented faculty who were employed before July 1, 1996 and other professional employees who were employed before July 1, 2006 participate in the University of Maine System Incentive Retirement Plan (Incentive Plan), a defined benefit plan, which was established on July 1, 1975. The Board of Trustees has authority to establish and amend provisions under the Incentive Plan subject to collective bargaining.

The Incentive Plan provides that eligible retiring employees with at least 10 years of continuous regular full-time equivalent service immediately prior to retirement will receive a benefit equivalent to 1½% times their completed years of service (up to a maximum of 27 years) times their final annual base salary. This amount is to be paid as a lump-sum contribution to the participant's retirement account. Employees enrolled in the Incentive Plan may elect to retire at any age on or after 55.

Notes to the Financial Statements

Years Ended June 30, 2016 and 2015
($ in thousands)

Employees covered by benefit terms: At June 30 total incentive retirement pension plan membership consisted of the following:

	2016	2015
Active plan participants	1,157	1,314

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

The total pension liability at the measurement date of June 30, 2016 was $22,246. The fiduciary net position as a percentage of the total pension liability was 0.00% as this plan has no assets.

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

Actuarial cost method	Entry age normal
Inflation	Not explicitly assumed
Salary increases	3.5% per year, including longevity
Discount rate	2.85% as of June 30, 2016
	3.80% as of June 30, 2015
Life expectancy	
Non-annuitants:	RP-2000 Mortality Table projected to 2028 with Scale AA
Annuitants:	RP-2000 Mortality Table projected to 2020 with Scale AA

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

For the Incentive Retirement Plan, which does not hold assets, the discount rate used to measure the total pension liability was 2.85% and is based on the municipal bond rate as of the measurement date. The municipal bond rate is based on the Bond Buyer 20-Bond General Obligation (GO) Index published for the week of June 30, 2016. The discount rate used to measure the Total Pension Liability as of June 30, 2015 is 3.80% and is based on the Bond Buyer 20-Bond GO Index published for the week of June 25, 2015.

Notes to the Financial Statements
Years Ended June 30, 2016 and 2015
($ in thousands)

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

The following presents the total pension liability as of June 30, 2016 calculated using the discount rate of 2.85%, as well as what the total pension liability would be if it were calculated using a discount rate 1-percentage point lower (1.85%) or 1-percentage point higher (3.85%) than the current rate:

	1% Decrease (1.85%)	Current Discount Rate (2.85%)	1% Increase (3.85%)
Total pension liability	$ 23,210	$ 22,246	$ 21,277

Notes to the Financial Statements
Years Ended June 30, 2016 and 2015
($ in thousands)

Changes in Total Pension Liability for the Incentive Retirement Plan

Fiscal Year Ended June 30	2016	2015
Total pension liability – beginning	$ 24,990	$ 27,440
Changes for the year:		
Service cost	718	880
Interest	877	1,110
Differences between expected and actual experience	-	(1,831)
Changes of assumptions and other inputs	921	505
Benefit payments	(5,260)	(3,114)
Total pension liability – ending (a)	22,246	24,990
Fiduciary net position – beginning	-	-
Contributions – employer	5,260	3,114
Benefit payments	(5,260)	(3,114)
Administrative expenses	-	-
Fiduciary net position – ending (b)	-	-
Net pension liability – ending (a)-(b)	$ 22,246	$ 24,990
Plan fiduciary net position as a percentage of the total pension liability	0.00%	0.00%
Covered-employee payroll*	$ 95,653	$ 92,419
Net pension liability as a percentage of covered-employee payroll	23.26%	27.04%
Contributions as a percentage of covered-employee payroll	5.50%	3.37%

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

Notes to the Financial Statements

Years Ended June 30, 2016 and 2015
($ in thousands)

Classified Employees

Basic Retirement Plan

The Basic Retirement Plan is a single employer defined contribution plan administered by the System. The Plan does not issue standalone financial statements.

The Defined Contribution Program of the Basic Retirement Plan for Classified Employees (Basic Plan) was created on July 1, 1998 in accordance with Section 403(b) of the Internal Revenue Code. Classified employees hired July 1, 1998 or later participate in the Basic Plan.

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

Full-time employees are eligible to participate in the Basic Plan once employment begins. Part-time employees are eligible once they have achieved the equivalent of five years of continuous, full-time regular service. As of June 1, 2014, all contributions are directed to TIAA as the sole record-keeper.

Employees hired prior to July 1, 1998 and who have more than five years of completed service may voluntarily contribute up to 4% of base pay to the Basic Plan and receive a 100% match from the System. Employees hired July 1, 1998 or later are required to contribute 1%. Employee contributions to the Basic Plan of up to 4% of base pay are matched 100% by the System. In addition, employees who have four or more years of completed service and do not participate in the Defined Benefit Plan, receive System contributions equal to 6% of their base pay, for a total maximum employer contribution of 10%.

The System implemented a four year vesting schedule for the employer matching contribution for classified employees hired on or after January 1, 2010 and, on January 1, 2013, implemented a five year vesting schedule. Employees hired before January 1, 2010 were fully and immediately vested in the employer matching contribution. All participant contributions are fully and immediately vested.

Upon separation from the System, participants may withdraw up to 100% of their vested account balances or transfer funds to other investment alternatives subject to Internal Revenue Service limitations and the contractual provisions of the Basic Plan.

Employee contributions made to the Basic Plan were $1,364 in FY16 and $1,431 in FY15.

Notes to the Financial Statements

Years Ended June 30, 2016 and 2015

($ in thousands)

Defined Benefit Plan

The Defined Benefit Plan (the Plan) is a single employer plan administered by the System. The Plan does not issue standalone financial statements. The Plan is maintained for eligible classified employees who chose not to join the Basic Plan. Normal retirement benefits are paid to participants who attain age 65 and retire.

The monthly retirement benefit is based on a formula specified by policy in collective bargaining agreements. Eligible employees receive the sum of:

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

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

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

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

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

	2016	2015
Inactive plan participants or beneficiaries currently receiving benefits	788	809
Inactive plan participants entitled to but not yet receiving benefits	343	345
Active plan participants	11	12
Total plan participants	1,142	1,166

The Plan is closed to new entrants.

Contributions: The System adopted a funding strategy for the Plan on February 27, 2014. The System's funding strategy follows a long-term contribution schedule, such that a level annual dollar amount will be contributed to the plan indefinitely, while never allowing the Plan's assets to be depleted. The actuarially determined annual projected contribution to the Plan is $735 through FY42; at which point benefit payments will be equivalent to contributions to the plan until there are no plan participants; however, the required contribution amount will be re-determined with each actuarial valuation as market performance and other factors will impact the required

Notes to the Financial Statements

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future funding. Funding the plan over the long-term allows the System to minimize contribution volatility.

Employees do not make contributions under the Plan.

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

	2016	2015
Total pension liability	$ 42,934	$ 43,318
Fiduciary net position	(32,763)	(36,627)
Net pension liability	$ 10,171	$ 6,691
Fiduciary net position as a percentage of the total pension liability	76.31%	84.55%

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

The total pension liability was developed from a roll forward valuation as of July 1, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method:	Entry age normal
Actuarial asset method:	The actuarial value of assets is the market value of assets
Inflation	3%
Salary increases	3.5% for all years, including longevity
Investment rate of return	6.25%, net of investment expenses, including inflation; 6.75% for FY15
Life expectancy	
Pre-retirement:	RP-2000 Mortality Table projected to FY28 with Scale AA
Post-retirement health:	RP-2000 Mortality Table projected to FY20 with Scale AA
Post-retirement disabled:	RP-2000 Mortality Table, no projection

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 are summarized in the following table:

Notes to the Financial Statements

Years Ended June 30, 2016 and 2015
($ in thousands)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Equity	8%	4.50%
Small/Mid Cap Equity	4%	4.75%
International Equity	7%	5.00%
Emerging Market Equity	3%	6.50%
Core Fixed Income	27%	0.89%
Global Multi-Sector	5%	1.96%
Global Asset Allocation	25%	4.00%
Real Estate (Core)	8%	3.50%
Hedge Funds	10%	3.50%
Cash	3%	0.00%
Total	100%	

Investment Returns:

Fiscal Year Ended June 30	2016	2015
Annual money-weighted rate of return, net of investment expenses	0.64%	0.12%

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

For the Plan, the discount rate used to measure the total pension liability at June 30, 2016 and 2015 was 6.25% and 6.75%, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from the System will be made in accordance with the Plan’s funding policy adopted on February 27, 2014. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected benefit payments of current plan participants. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

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

The following presents the net pension liability as of June 30, 2016 calculated using the discount rate of 6.25%, as well as what the net pension liability would be if it were calculated using a discount rate 1-percentage point lower (5.25%) or 1-percentage point higher (7.25%) than the current rate:

Notes to the Financial Statements
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	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Net pension liability	$ 13,322	$ 10,171	$ 7,405

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Years Ended June 30, 2016 and 2015
($ in thousands)

Changes in Net Pension Liability for the Defined Benefit Pension Plan

Fiscal Year Ended June 30	2016	2015
Total pension liability – beginning	$ 43,318	$ 45,075
Changes for the year:		
Service cost	5	40
Interest	2,769	2,884
Differences between expected and actual experience	-	12
Changes of assumptions	1,427	-
Benefit payments	(4,585)	(4,693)
Total pension liability – ending (a)	42,934	43,318
Fiduciary net position – beginning	36,627	40,201
Contributions – employer	538	1,100
Net investment income	202	27
Benefit payments	(4,585)	(4,693)
Administrative expenses	(19)	(8)
Fiduciary net position – ending (b)	32,763	36,627
Net pension liability – ending (a)-(b)	$ 10,171	$ 6,691
Plan fiduciary net position as a percentage of the total pension liability	76.31%	84.55%
Covered-employee payroll*	$ 312	$ 301
Net pension liability as a percentage of covered employee payroll	3259.94%	2222.92%
Contributions as a percentage of covered employee payroll	172.44%	365.45%
Plan assets measured at fair value	$ 32,763	$ 36,627

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

Notes to the Financial Statements

Years Ended June 30, 2016 and 2015
($ in thousands)

Funding of Basic and Defined Benefit Plans

While the Basic Plan and Defined Benefit Plan are administratively separate, they are both part of the Retirement Plan for Classified Employees and are covered by the same plan document. In accordance with Section 414(k) of the Internal Revenue Code, the System may elect to fund employer contributions to the Basic Plan and ORSP from any excess assets in the Defined Benefit Plan, subject to certain limitations.

14. POSTEMPLOYMENT HEALTH PLAN

The System follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which requires the System to account for other postemployment benefits (OPEB), primarily health care, on an accrual basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Revenues, Expenses, and Changes in Net Position when future retirees earn their postemployment benefits, rather than when they use their postemployment benefit. To the extent that an entity does not fund its actuarially required contribution, a postemployment benefit liability is recognized in the Statement of Net Position over time.

The System provides postemployment health insurance to retirees meeting certain age and years-of-service requirements. Eligible persons are those that retire with at least 10 years of continuous, full-time equivalent service after the age of 45; and former employees approved for long-term disability benefits regardless of age or service.

The Postemployment Health Plan (the Plan) is a defined benefit, single employer plan, administered by the System. The Plan does not produce standalone financial statements. Within certain limits, the Board of Trustees has authority to establish and amend provisions under the Plan for retirees. This authority is subject to collective bargaining agreements for active employees. As of June 30, 2016 and 2015, there were approximately 6,640 persons covered by the System's postemployment health plan.

The System subsidizes the cost of insurance for eligible persons who are retired from the System and have reached age 65 and former employees approved for long-term disability benefits regardless of age or service. The subsidy consists of 100% of the cost for the retiree and 50% of the costs for eligible dependents; however, the subsidy for employees who retire on or after July 1, 2010 is reduced to 93%, 90%, or 85%, of the individual health premium, depending on the employee's years of System service. As of June 30, 2016 and 2015, there were approximately 2,066 and 2,078 persons, respectively, receiving a subsidy from the System. With certain restrictions, dependents are eligible to continue coverage at the 50% rate after the death of a retiree meeting the above criteria.

Notes to the Financial Statements

Years Ended June 30, 2016 and 2015
($ in thousands)

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

As of June 30, 2016 and 2015, there were 34 and 39 persons, respectively, participating in the plan but not receiving a subsidy from the System.

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

The System's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Employer contributions made include both amounts paid to the Plan and actual medical claims paid throughout the year. The System's management is committed to annually funding at a level such that employer contributions equal the ARC. The following table shows the components of the System's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the net OPEB obligation for the years ended June 30:

Notes to the Financial Statements

Years Ended June 30, 2016 and 2015
($ in thousands)

Fiscal Year Ended June 30	(a) Annual Required Contribution (ARC)	(b) Interest on OPEB Obligation	(c) ARC Adjust-ment	(d) (a)+(b)-(c) Annual OPEB Cost	(e) Employer Contributions Made	(f) (e)/(d) Percentage of Annual OPEB Cost Contributed	(g) (d)-(e) Change in Net OPEB Obligation	Net OPEB Obligation/ (Asset) Balance
2016	$ 14,911	$ -	$ -	$ 14,911	$ 15,366	103%	$ (455)	$ 682
2015	$ 12,377	$ -	$ -	$ 12,377	$ 8,718	70%	$ 3,659	$ 1,137
2014	$ 13,052	$ -	$ -	$ 13,052	$ 18,083	139%	$ (5,031)	$ (2,522)

Employer contributions made are comprised of the following:

	Pay-as-you-go	(OPEB) Irrevocable Trust	Total Employer Contributions
2016	$ 10,229	$ 5,137	$ 15,366
2015	$ 8,718	$ -	$ 8,718
2014	$ 8,573	$ 9,510	$ 18,083

The net OPEB obligation of $682 and $1,137 as of June 30, 2016 and 2015, respectively, is included in the accompanying Statements of Net Position as a current accrued liability. The System's management is committed to funding the net obligation balance by December 31 on an annual basis. The Other Postemployment Benefits Trust invests its assets in the System MIP and follows the investment guidelines described in Note 3 of these financial statements.

As of July 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $196,680 and the actuarial value of assets was $94,167 resulting in an Unfunded Actuarial Accrued Liability (UAAL) of $102,513 which results in a funded ratio of 47.9%. The covered payroll (annual payroll of active employees covered by the Plan) was $220,629 for FY15 and the ratio of the UAAL to the covered payroll was 46.5%.

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as the actual results are compared with past expectation and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about whether the actuarial plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Notes to the Financial Statements

Years Ended June 30, 2016 and 2015
($ in thousands)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015 actuarial valuations, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7.75% investment rate of return/discount rate (net of administrative expenses), which is the rate of the expected long-term investment returns on plan assets calculated based on the funded level of the plan at the valuation date, and an annual health care cost trend rate of 8% initially, decreasing annually by 1% until an ultimate rate of 5% is reached. The actuarial value of assets is based on their fair value at July 1, 2015. The UAAL is being amortized on a level dollar basis over an open thirty year period.

Notes to the Financial Statements
Years Ended June 30, 2016 and 2015
($ in thousands)

15. DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

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

	2016			2015		
	Pension Liability	Deferred amount on Debt Refunding	Total	Pension Liability	Deferred amount on Debt Refunding	Total
Deferred outflows of resources	$ 4,438	$ 4,932	$ 9,370	$ 2,496	$ 5,232	$ 7,728
Deferred inflows of resources	$ 1,388	$ -	$ 1,388	$ 1,609	$ -	$ 1,609

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

	2016		
	Incentive Retirement Plan	Defined Benefit Plan	Total
Deferred outflows of resources			
Changes of assumption or other inputs	$ 1,192	$ -	$ 1,192
Net difference between projected and actual earnings on pension plan investments	-	3,246	3,246
Total deferred outflows of resources	1,192	3,246	4,438
Deferred inflows of resources			
Difference between expected and actual experience	1,388	-	1,388
Total deferred inflows of resources	1,388	-	1,388
Net deferred (inflows) and outflows	$ (196)	$ 3,246	$ 3,050

Notes to the Financial Statements

Years Ended June 30, 2016 and 2015

($ in thousands)

	2015		
	Incentive Retirement Plan	Defined Benefit Plan	Total
Deferred outflows of resources			
Changes of assumption or other inputs	$ 444	$ -	$ 444
Net difference between projected and actual earnings on pension plan investments	-	2,052	2,052
Total deferred outflows of resources	444	2,052	2,496
Deferred inflows of resources			
Difference between expected and actual experience	1,609	-	1,609
Total deferred inflows of resources	1,609	-	1,609
Net deferred (inflows) and outflows	$ (1,165)	$ 2,052	$ 887

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

Year Ending June 30:	Incentive Retirement Plan	Classified Defined Benefit Plan	Total
2017	$ (49)	$ 940	$ 891
2018	(49)	940	891
2019	(49)	940	891
2020	(49)	426	377
2021	(49)	-	(49)
Thereafter	49	-	49
	$ (196)	$ 3,246	$ 3,050

Notes to the Financial Statements
Years Ended June 30, 2016 and 2015
($ in thousands)

16. FAIR VALUE MEASUREMENTS

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

Level 1: Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access as of the measurement date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgement.

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

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

Notes to the Financial Statements

Years Ended June 30, 2016 and 2015
($ in thousands)

Investments measured at fair value on a recurring basis at June 30, 2016 are summarized as follows:

	Total	Fair Value Measurements Using Level 1	Level 2	Level 3
Operating Investments:				
Equities:				
Multi-strategy funds	$ 65,219	$ 65,219	$ -	$ -
Fixed income funds:				
Bonds	112,876	112,876	-	-
Money markets	21,596	21,596	-	-
Total investments by fair value level	199,691	$ 199,691	$ -	$ -
Investments measured at the NAV				
Multi-strategy funds	133			
Bank loans	12,829			
Total investments measured at the NAV	12,962			
Total investments measured at fair value	212,653			
State pool measured at amortized costs	17,939			
Total operating investments	$ 230,592			
Deposits with Bond Trustees:				
Bonds and money markets	$ 1,411	$ 1,411	$ -	$ -
Endowment Investments:				
MIP investments:				
Equities:				
Equities	$ 16,601	$ 16,601	$ -	$ -
Equity funds	112,594	112,594	-	-
Multi-strategy funds	77,087	77,087	-	-
Fixed income funds:				
Money markets	4,381	4,381	-	-
Bonds	34,108	34,108	-	-
Total MIP investments by fair value level	244,771	$ 244,771	$ -	$ -
MIP investments measured at the NAV				
Equity funds	10,257			
Multi-strategy funds	5,032			
Real assets	5,634			
Total MIP investments measured at the NAV	20,923			
Total MIP investments measured at fair value	265,694			
Less portion held on behalf of outside entities	(131,017)			
Endowment portion of MIP investments	134,677			
Separately Invested Assets:	1,144	$ 1,144	$ -	$ -
Total endowment investments measured at fair value	$ 135,821			

Notes to the Financial Statements

Years Ended June 30, 2016 and 2015

($ in thousands)

Investments measured at the NAV at June 30, 2016:

		Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible	Redemption Period Notice
Operating Investments:					
Multi-strategy funds	(1)	$ 133			
Bank loans	(2)	12,829		Bi-monthly	15 days
Total operating investments measured at the NAV		$ 12,962			
Endowment Investments:					
MIP investments measured at the NAV					
Equity funds	(3)	$ 10,257		Monthly	15 days
Multi-strategy funds	(1)	5,032	$ 3,268	Monthly, quarterly	14 days, 45 days
Real assets	(4)	5,634			
Total pooled investments measured at the NAV		20,923			
Less portion held on behalf of outside entities		(10,317)			
Total endowment investments measured at the NAV		$ 10,606			

Notes to the Financial Statements

Years Ended June 30, 2016 and 2015
($ in thousands)

Investments measured at fair value on a recurring basis at June 30, 2015 are summarized as follows

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
Operating Investments:				
Equities:				
Multi-strategy funds	$ 61,502	$ 61,502	$ -	$ -
Fixed income funds:				
Bonds	118,824	118,824	-	-
Money markets	11,552	11,552	-	-
Total investments by fair value level	191,878	$ 191,878	$ -	$ -
Investments measured at the NAV				
Multi-strategy funds	9,663			
Bank loans	18,941			
Total investments measured at the NAV	28,604			
Total investments measured at fair value	220,482			
State pool measured at amortized cost	10,872			
Total operating investments	$ 231,354			
Deposits with Bond Trustees:				
Bonds and money markets	$ 12,744	$ 12,744	$ -	$ -
Endowment Investments:				
MIP investments:				
Equities:				
Equities	$ 13,407	$ 13,407	$ -	$ -
Equity funds	110,526	110,526	-	-
Multi-strategy funds	82,501	82,501	-	-
Fixed income funds:				
Money markets	147	147	-	-
Bonds	27,220	27,220	-	-
Total MIP investments by fair value level	233,801	$ 233,801	$ -	$ -
MIP investments measured at the NAV				
Equity funds	8,545			
Multi-strategy funds	20,136			
Real assets	5,270			
Total MIP investments measured at the NAV	33,951			
Total MIP investments measured at fair value	267,752			
Less portion held on behalf of outside entities	(127,675)			
Endowment portion of MIP investments	140,077			
Separately Invested Assets:	2,470	$ 2,470	$ -	$ -
Total endowment investments measured at fair value	$ 142,547			

Notes to the Financial Statements
Years Ended June 30, 2016 and 2015
($ in thousands)

Investments measured at the NAV at June 30, 2015:

		Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible	Redemption Period Notice
Operating Investments:					
Multi-strategy funds	(1)	$ 9,663			
Bank loans	(2)	18,941		Bi-monthly	15 days
Total operating investments measured at the NAV		$ 28,604			
Endowment Investments:					
MIP investments measured at the NAV					
Equity funds	(3)	$ 8,545		Monthly	15 days
Multi-strategy funds	(1)	20,136	$ 3,840	Monthly, quarterly	14 days, 45 days
Real assets	(4)	5,270			
Total MIP investments measured at the NAV		33,951			
Less portion held on behalf of outside entities		(16,189)			
Total endowment investments measured at the NAV		$ 17,762			

Additional information for investments measured at the NAV at June 30 2016 and 2015 is as follows:

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

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

(3) Equity funds: These funds have a mandate requiring the portfolio manager to invest the shareholders' money primarily in equities. Securities that are actively traded are valued based on quoted prices for identical securities in active markets and those that are not actively traded are valued based upon observable market inputs.

(4) Real Assets: Consists of equity and debt investments in commercial timberland property. Investments typically involve an active management strategy structured for realization of profits from the long-term appreciation of investments and moderate income from operations. The NAV per share is calculated based on the ownership interest in partners' capital and significant direct or indirect observable inputs or recent observable transaction information for similar investments.

Notes to the Financial Statements
Years Ended June 30, 2016 and 2015
($ in thousands)

17. COMPONENT UNITS

The System is supported in part by several foundations and alumni associations that raise funds on the System's behalf. The System determined that one of those entities, the University of Maine Foundation ("the Foundation"), meets the criteria set forth under GASB Statement No. 61 for inclusion as a discretely presented component unit of the System.

The Foundation is a legally separate, tax-exempt organization, which acts primarily as a fund-raising organization to supplement the resources that are available to the System in support of its programs. The Board of Directors of the Foundation is self-perpetuating and independent of the System's Board of Trustees. Although the System does not control the timing or amount of receipts from the Foundation, the Foundation holds and invests resources almost entirely for the System's benefit (specifically the University of Maine); the System is entitled to access a majority of the economic resources held; and the economic resources held are "significant to the System" based on a 5% of net position threshold. The Foundation has accordingly been discretely presented as a component unit of the System in the accompanying financial statements as of and for the years ended June 30, 2016 and 2015, and is reported in separate financial statements as the Foundation reports its financial results under Financial Accounting Standards Board standards rather than GASB standards. Contributions to the permanent endowment were $4,828 for FY16 and $5,138 for FY15.

The Foundation asset category, long-term investments, endowment, comprised 86% of the Foundation's total assets as of June 30, 2016 and 2015. Remaining disclosures in this note relate to this asset group.

Long-term Investments, Endowment

The Foundation maintains a general pool of investments for its endowments. These investment securities are stated at fair value based on quoted market prices within active markets. The fair values of alternative investments are determined from information supplied by the investment managers based on the market values of underlying investments on a net asset value basis. Investment income is reflected in the statement of activities as unrestricted or temporarily restricted based upon the existence and nature of any donor-imposed restrictions.

The Foundation has established a specific set of investment objectives and guidelines for investment managers that attempt to provide a predictable stream of income while seeking to maintain the purchasing power of the endowment assets over the long-term. The investment policy establishes an achievable return objective and seeks to manage risk through diversification of asset classes. The current long-term return objective is to return 8.3% in 2016 and 2015. Actual returns in any given year may vary from these amounts.

Notes to the Financial Statements
Years Ended June 30, 2016 and 2015
($ in thousands)

Endowment spending policy

The Foundation utilizes a spending policy for its pooled endowment in order to provide for the current and long-term needs of endowment recipients. The spending policy determines the endowment income to be distributed. For the years ended June 30, 2016 and 2015, the spending policy is 4.5% of the average market value for the five previous years ending December 31. For permanent endowments, spending is contingent upon a fund's market value exceeding principal balances.

For the year beginning July 1, 2014, the Foundation adopted a prudent expenditure for funds with a market value below principal. Unless the donor has explicitly stated the principal is not expendable under any circumstances, prudent expenditures of 2.25% will be distributed for funds less than ten percent below principal and 1% for funds ten percent or more below principal for that year. During the years ended June 30, 2016 and 2015, the Foundation distributed $8,577 and $8,489, respectively, to the System for both restricted and unrestricted purposes.

Fair value measurements

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

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

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

Notes to the Financial Statements
Years Ended June 30, 2016 and 2015
($ in thousands)

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

	2016				
	Level 1	Level 2	Level 3	Total	Liquidity
Total U.S. equities	$ 46,977	$ -	$ -	$ 46,977	Daily/Monthly
Total non U.S. equities	59,978	-	-	59,978	Daily/ Monthly/ Quarterly
Total U.S. fixed income	18,379	-	-	18,379	Daily
Total global fixed income	5,072	-	-	5,072	Monthly
Total alternative investments	-	-	46,064	46,064	Monthly/ Quarterly/ Semi-Annually/ Annually
Cash	3,417	-	-	3,417	Daily
Total long-term investments, endowment	$ 133,823	$ -	$ 46,064	$ 179,887	

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

18. SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENT

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

Required Supplemental Information – Retirement Plans

Year ended June 30, 2016
(Unaudited)
($ in thousands)

Schedules of Funding Progress

Actuarial valuation (date as of July 1)	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll (b-a)/(c)
Postemployment Health Plan						
2015	$ 94,167	$ 196,680	$ 102,513	47.9%	$ 220,629	46.5%
2013	$ 73,042	$ 163,893	$ 90,851	44.6%	$ 244,938	37.1%
2012	$ 52,800	$ 169,921	$ 117,121	31.1%	$ 234,720	49.9%

Required Supplemental Information – Retirement Plans
Year ended June 30, 2016
(Unaudited)
($ in thousands)

Incentive Retirement Plan:

Changes in Total Pension Liability

Fiscal Year Ended June 30	2016	2015
Total pension liability:		
Service cost	$ 718	$ 880
Interest	877	1,110
Differences between expected and actual experience	-	(1,831)
Changes of assumptions and other inputs	921	505
Benefit payments	(5,260)	(3,114)
Net change in total pension liability	(2,744)	(2,450)
Total pension liability – beginning	24,990	27,440
Total pension liability – ending	$ 22,246	$ 24,990
Covered-employee payroll	$ 95,653	$ 92,419
Total pension liability as a percentage of covered-employee payroll	23.26%	27.04%

Schedule of Employer Contributions

Fiscal Year Ended June 30	2016	2015
Actuarially determined contribution	$ -	$ -
Contributions in relation to the actuarially determined contribution	5,260	3,114
Contribution deficiency (excess)	$ (5,260)	$ (3,114)
Covered-employee payroll	$ 95,653	$ 92,419
Contributions as a percentage of covered-employee payroll	5.50%	3.37%

Required Supplemental Information – Retirement Plans
Year ended June 30, 2016
(Unaudited)
($ in thousands)

Incentive Retirement Plan – continued:

Notes to Required Supplementary Information

Changes of benefit terms:

None.

Changes of assumptions and other inputs:

The discount rate changed from 3.80% as of the beginning of the measurement period to 2.85% as of the end of the measurement period.

Methods and assumptions used in calculations of actuarially determined contributions:

The University of Maine System Incentive Retirement Plan is funded on a terminal funding basis - funded when costs become due and payable.

Actuarial cost method	Entry age normal
Inflation	Not explicitly assumed
Salary increases	3.5% per year, including longevity
Payroll growth	3.5% per year

Assets:

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

Required Supplemental Information – Retirement Plans

Year ended June 30, 2016
(Unaudited)
($ in thousands)

Defined Benefit Plan:

Changes in Net Pension Liability and Related Ratios

Fiscal Year Ended June 30	2016	2015
Changes for the year:		
Service cost	$ 5	$ 40
Interest	2,769	2,884
Differences between expected and actual experience	-	12
Changes of assumptions	1,427	-
Benefit payments	(4,585)	(4,693)
Net change in total pension liability	(384)	(1,757)
Total pension liability – beginning	43,318	45,075
Total pension liability – ending (a)	42,934	43,318
Contributions – employer	538	1,100
Net investment income	202	27
Benefit payments	(4,585)	(4,693)
Administrative expenses	(19)	(8)
Net change in plan fiduciary net position	(3,864)	(3,574)
Fiduciary net position – beginning	36,627	40,201
Fiduciary net position – ending (b)	32,763	36,627
Net pension liability – ending (a)-(b)	$ 10,171	$ 6,691
Plan fiduciary net position as a percentage of the Total pension liability	76.31%	84.55%
Covered-employee payroll*	$ 312	$ 301
Net pension liability as a percentage of covered-employee payroll	3259.94%	2222.92%

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

Required Supplemental Information – Retirement Plans
Year ended June 30, 2016
(Unaudited)
($ in thousands)

Defined Benefit Plan – continued:

Schedule of Employer Contributions

Fiscal Year Ended June 30	2016	2015	2014
Actuarially determined contribution	$ 538	$ 550	$ 550
Contributions in relation to the actuarially determined contribution	538	1,100	550
Contribution deficiency (excess)	$ -	$ (550)	$ -
Covered-employee payroll*	$ 312	$ 301	$ 692
Contributions as a percentage of covered-employee payroll	172.44%	365.45%	79.48%

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

Required Supplemental Information – Retirement Plans
Year ended June 30, 2016
(Unaudited)
($ in thousands)

Defined Benefit Plan – continued:

Notes to Required Supplementary Information

Changes of benefit terms:

None.

Changes of assumptions:

The investment return rate was changed from 6.75% to 6.25% and the administrative expense assumption was changed from $50, increasing by 2% per year, to $30, increasing by 2% per year up to a maximum of $70.

Methods and assumptions used in calculations of actuarially determined contributions:

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

Actuarial cost method	Entry age normal
Asset valuation method	The actuarial value of assets is the market value of assets.
Inflation	3% per year
Salary increases	3.5% per year
Payroll increases	3.5% per year
Investment rate of return/ discount rate	6.25%, net of investment expenses, compounded annually. Previously, 6.75%

Investment Returns:

Fiscal Year Ended June 30	2016	2015	2014
Annual money-weighted rate of return, net of investment expenses	64%	0.12%	14.27%

Required Supplemental Information – Retirement Plans

Year ended June 30, 2016
(Unaudited)
($ in thousands)

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

Supplemental Information Required by the State of Maine

Schedules of Activities

($ in thousands)

Year Ended June 30, 2016

Functions/Programs	Expenses	Charges for Services	Program Investment Loss	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue
University of Maine System	$ 665,431	$ 289,270	$ (7,946)	$ 170,864	$ 2,881	$ (210,362)

General Revenues:	
Unrestricted interest and investment losses	2,561
Additions to endowments - gifts	1,180
State of Maine noncapital appropriation	201,404
State of Maine capital appropriation	13,104
Loss on disposal of capital assets	(1,813)
Total Revenues and Extraordinary Items	216,436
Change in Net Position	6,074
Net Position, Beginning of Year	860,631
Net Position, End of Year	$ 866,705

Year Ended June 30, 2015

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

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

BerryDunn

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
University of Maine System

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of the University of Maine System (the System), a component unit of the State of Maine, which comprise the statement of net position and the statement of financial position for its component unit as of June 30, 2016, the related statements of revenues, expenses and changes in net position and cash flows, and the statement of activities for its component unit, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated November 14, 2016, which contained an unmodified opinion on those financial statements. Our report includes a reference to other auditors, who audited the financial statements of the discretely presented component unit of the System, as described in our report on the System's financial statements. The audit of the financial statements of the component unit was not conducted in accordance with *Governmental Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance or other matters for the discretely presented component unit of the System.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Berry Dunn McNeil & Parker, LLC

Bangor, Maine
November 14, 2016

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<u>APPENDIX E</u>

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate dated as of May 17, 2017 (this "Disclosure Certificate") is executed and delivered by the University of Maine System (the "Issuer") in connection with the issuance of $30,340,000 University of Maine System Revenue Bonds, Series 2017 (the "Bonds"). The Bonds are being issued pursuant to Title 20-A, Part 5, Chapters 411 and 412, sections 10901 – 10965, inclusive, of the Maine Revised Statutes, as amended (the "Act") and a resolution of the Board of Trustees of the Issuer adopted March 14, 2016. The Issuer covenants and agrees as follows:

Section 1. <u>Definitions</u>. The following words and terms used in this Disclosure Certificate shall have the following respective meanings:

(a) "Annual Report" shall mean any Annual Report provided by the Issuer in accordance with the requirements of sections 3 and 4 of this Disclosure Certificate.

(b) "Fiscal Year" shall have the meaning ascribed to such term in the Bonds.

(c) "MSRB" shall mean the Municipal Securities Rulemaking Board.

(d) "Participating Underwriter" shall mean any original underwriter of the Bonds required to comply with the Rule in connection with any offering of the Bonds.

(e) "Rule" shall mean Rule 15c2-12 promulgated by the SEC under the Securities and Exchange Act of 1934, as amended (17 CFR Part 240, §240.15c2-12), as amended, as in effect on the date of this Disclosure Certificate, including any official interpretation thereof issued either before or after the effective date of this Disclosure Certificate which is applicable to this Disclosure Certificate.

(f) "SEC" shall mean the United States Securities and Exchange Commission.

Any capitalized word or term used in this Disclosure Certificate and not otherwise defined herein shall have the meaning ascribed to such word or term in the Official Statement dated May 3, 2017 (the "Official Statement") pertaining to the Bonds.

Section 2. <u>Purpose; Beneficiaries</u>. This Disclosure Certificate is entered into solely to assist the Participating Underwriter in complying with subsection (b)(5) of the Rule. This Disclosure Certificate constitutes a written undertaking for the benefit of the beneficial owners (within the meaning of the Rule) of the Bonds (such beneficial owners being sometimes called herein "owners").

Section 3. <u>Provision of Annual Reports</u>. Not later than 180 days after the end of each Fiscal Year of the Issuer, commencing with its Fiscal Year ending June 30, 2017, the Issuer shall deliver to the MSRB the Annual Report for such Fiscal Year, or in a timely manner notice of the Issuer's failure to provide the Annual Report. If the Annual Report does not contain the Issuer's audited financial statements for the Fiscal Year of the Annual Report, then the Issuer shall, in any event, deliver to the MSRB the Issuer's audited financial statements no later than 240 days after the end of its Fiscal Year, or notice of the Issuer's failure to provide such audited financial statements.

Section 4. Content of Annual Reports. The Annual Report shall contain (i) the audited financial statements of the Issuer for the applicable Fiscal Year if audited financial statements are then available, and (ii) financial information and operating data for the applicable Fiscal Year consisting of (A) enrollment information for the Issuer, (B) information regarding tuition and room and board fees charged by the Issuer, (C) information regarding financial assistance provided to students through the Issuer and (D) information regarding the number of faculty members and other employees of the Issuer.

Any or all of the items listed above may be included by reference to other documents, including official statements pertaining to debt issued by the Issuer, which have been submitted to the MSRB. If the document incorporated by reference is a "final official statement" which satisfies the requirements of the Rule, it will also be available from the MSRB. The Issuer's annual financial statements for each Fiscal Year shall be prepared in accordance with generally accepted accounting principles. Such financial statements shall be audited by a firm of certified public accountants appointed by the Issuer.

Section 5. Reporting of Significant Events. Whenever the Issuer obtains knowledge of the occurrence of any of the following listed events with respect to the Bonds, the Issuer shall file notice of such occurrence in a timely manner not in excess of nine (9) business days with the MSRB:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults, if material;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties*;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties*;

(v)substitution of credit or liquidity providers, or their failure to perform*;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Bonds, or other material events affecting the tax-exempt status of the Bonds;

(vii) modifications to rights of the holders of the Bonds, if material;

(viii) bond calls, if material, and tender offers;

(ix) defeasances;

(x)release, substitution or sale of property securing repayment of the Bonds*;

(xi) rating changes;

(xii) bankruptcy, insolvency, receivership or similar event of the Issuer (provided that for the purposes of this clause, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer);

(xiii) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material*.

*Not applicable to the Bonds.

Section 6. <u>Additional Information</u>. This Disclosure Certificate shall not be construed to prevent the Issuer from providing any information in addition to that which is specifically required by sections 3, 4 and 5 of this Disclosure Certificate ("Additional Information"), using the means of dissemination set forth in this Disclosure Certificate or any means of communication in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to provide any Additional Information, the Issuer shall have no obligation in the future to update the Additional Information or to provide information similar to the Additional Information.

Section 7. <u>Enforceability of This Disclosure Certificate; Termination</u>. To the extent permitted by law, the provisions of this Disclosure Certificate are enforceable against the Issuer in accordance with the terms hereof by any of the owners of the Bonds, including any beneficial owner acting as a third party beneficiary (upon proof of its status as a beneficial owner reasonably satisfactory to the Treasurer of the Issuer). To the extent permitted by law, any such owner shall have the right, for the equal benefit and protection of all owners of the Bonds, to enforce its rights against the Issuer and to compel the Issuer and any of their officers, agents or employees to perform and carry out their duties under the provisions of this Disclosure Certificate; provided, however, that the sole remedy for a violation of this Disclosure Certificate shall be an action to compel specific performance of the obligations of the Issuer under this Disclosure Certificate and shall not include any right to monetary damages. A breach or default under this

Disclosure Certificate shall not constitute an Event of Default under the Bonds. This Disclosure Certificate shall terminate if no Bonds remain outstanding (without regard to an economic defeasance) or if the provisions of the Rule concerning continuing disclosure are no longer in effect, whichever occurs first.

Section 8. Amendments. This Disclosure Certificate may be amended, changed or modified by the parties hereto, without the consent of, or notice to, any of the owners of the Bonds, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the SEC or its staff (whether required or optional), (b) to add to the covenants of the Issuer for the benefit of the owners of the Bonds, (c) to modify the contents, presentation and format of the Annual Report from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (d) to otherwise modify the undertaking of the Issuer in this Disclosure Certificate in a manner consistent with the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (c) or (d), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Bonds, as determined either by a party unaffiliated with the Issuer (such as the firm serving at the time as bond counsel to the Issuer) or by the vote or consent of the registered owners of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment, which consent may be obtained in accordance with the Bonds. Any amendment, change or modification to this Disclosure Certificate shall be in writing.

If this Disclosure Certificate is amended with respect to the Annual Report to be submitted by the Issuer hereunder, the Annual Report containing the amended financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of financial information being provided. If this Disclosure Certificate is amended with respect to the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made will present a comparison between the financial statements or information prepared on the basis of the new accounting principles and the financial statements or information prepared on the basis of the former accounting principles. Such comparison will include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the Issuer to meet its obligations. To the extent reasonably feasible, the comparison will also be quantitative. The Issuer shall give notice of any change in the accounting principles to the MSRB as promptly as practicable after such change has been determined.

Section 9. Governing Law. This Disclosure Certificate shall be governed by and construed in accordance with the laws of the State of Maine and applicable law of the United States of America.

Section 10. Titles of Sections. The titles of sections in this Disclosure Certificate shall have no effect in construing this Disclosure Certificate.

Section 11. Actions to be Performed on Non-Business Days. Any action required by this Disclosure Certificate to be taken on a Saturday, Sunday or holiday within the State of Maine may be taken on the next business day with the same force and effect as if taken on the day so required.

Section 12. No Previous Non-Compliance. The Issuer represents that in the previous five years it has not failed to comply in all material respects with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of Rule 15c2-12.

Signed as of the date first written above.

UNIVERSITY OF MAINE SYSTEM

By: ____
Ryan W. Low
Treasurer

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APPENDIX F

OFFICIAL NOTICE OF SALE

$30,250,000*
University of Maine System
Revenue Bonds
Series 2017
(Book-Entry-Only)

NOTICE IS HEREBY GIVEN that electronic (as explained below) bids will be received by the University of Maine System (the "System") for the purchase of all (but not less than all) of the System's $30,250,000* Revenue Bonds, Series 2017 (the "Series 2017 Bonds"). The bids will be received up to the time (unless postponed as described herein) and in the manner described below:

Bid Date and Time

Wednesday, May 3, 2017 (the "Bid Date"), 10:30 a.m., Eastern Daylight Time ("EDT"). For the purposes of the electronic bid, the time maintained by ParityDalcomp, which has been approved by the System as the provider of electronic bidding services ("Parity"), shall constitute the official time.

Electronic Bids

Bids shall be submitted electronically through Parity in accordance with its Rules of Participation and the Official Notice of Sale until 10:30 a.m., EDT, but no bid will be received after the time for receiving bids specified above. In the event of a conflict between the Official Notice of Sale and any information provided by Parity, including the Parity Rules of Participation, the Official Notice of Sale shall control. In the event of a malfunction in the electronic bidding process, the bid time, the bid date or both may be postponed at the option of the System. See instructions under "Form of Bid; Electronic Bids" below. For further information about Parity, any prospective bidder may contact the System's financial advisor, PFM Financial Advisors LLC ("PFMFA"), or Parity Customer Support as follows:

PFM Financial Advisors LLC
99 Summer St., Suite 1020
Boston, MA 02110
Attn: Jeremy Bass
TEL: (617) 330-6914
Email: bassj@pfm.com

Parity Customer Support
1359 Broadway, 2nd Floor
New York, NY 10018
Telephone (212) 849-5021

Right to Modify or Amend Notice of Sale; Right to Postpone Bid Date

The System reserves the right to modify the Official Notice of Sale, including changing the scheduled maturities or increasing or reducing the aggregate principal amount of the Series 2017 Bonds and the principal amount of any maturity offered for sale, prior to the Bid Date. If any modification occurs, supplemental information with respect to the Series 2017 Bonds will be communicated through TM3 (www.tm3.com) ("TM3") not later than 5:00 p.m., EDT, on the day preceding the Bid Date and bidders shall bid upon the Series 2017 Bonds based upon the terms thereof set forth in the modified Official Notice of Sale. If any prospective bidder does not subscribe to TM3, please call PFMFA to make arrangements to obtain notice of any modification of the Official Notice of Sale prior to 5:00 p.m., EDT, on the day preceding the Bid Date. The term "Official Notice of Sale" means and includes this Official Notice of Sale as modified in any communication through TM3 or through any such other arrangements.

In addition, the System reserves the right to postpone the Bid Date. In the event of a postponement, the new Bid Date and time and any revised date of expected delivery will be announced

* *Preliminary, subject to change.*

through TM3 not later than 9:30 a.m., EDT, on the day on which bids may be submitted. As stated above, if any prospective bidder does not subscribe to TM3, such bidder should contact PFMFA to make other arrangements to obtain notice of any modification of the Official Notice of Sale. On any such alternative Bid Date, bidders may submit bids for the purchase of the Series 2017 Bonds in conformity with the Official Notice of Sale.

Information Pertaining to the Series 2017 Bonds

The Official Notice of Sale sets forth only a brief summary of certain provisions of the Series 2017 Bonds. For additional information pertaining to the Series 2017 Bonds, a prospective bidder should refer to the System's Preliminary Official Statement with respect to the Bonds dated April 26, 2017 (the "Preliminary Official Statement"). In the event of any conflict between the Preliminary Official Statement and the Official Notice of Sale, other than conflicts related changes to scheduled maturities or the aggregate principal amount of the Series 2017 Bonds as more fully described herein, the Preliminary Official Statement shall control.

Authorization

The Series 2017 Bonds will be issued by the System pursuant to the Maine Revised Statutes, Title 20-A, chapters 411 and 412, as amended from time to time (the "Act") and a resolution adopted on March 14, 2016 (the "Bond Resolution") by the Board of Trustees of the System. Proceeds from the sale of the Series 2017 Bonds, together with certain other funds of the System, will be used (i) to pay costs of certain System projects, (ii) to refund certain revenue bonds previously issued by the System and (iii) to pay certain expenses incurred in connection with the issuance of the Series 2017 Bonds.

Outstanding Bonds

The System has previously issued twelve series of its revenue bonds of which $139,415,000 principal amount will be outstanding immediately prior to the issuance of the Series 2017 Bonds (the "Outstanding Bonds"). The Series 2017 Bonds and the Outstanding Bonds are payable from revenues of the System.

Book-Entry-Only Form

The Series 2017 Bonds will be issued in book-entry-only form, initially registered in the name of Cede & Co., as partnership nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers will not receive certificates representing their interests in the Series 2017 Bonds. Individual purchases will be in the principal amount of $5,000 and multiples thereof. Payments of principal, interest and redemption premium, if any, will be made by the System to DTC for subsequent disbursement by DTC.

Serial Bonds and/or Term Bonds

Bidders may provide that all of the Series 2017 Bonds be issued as serial bonds or may provide that any two or more consecutive annual principal amounts be combined into one or more term bonds. Any number of term bonds may be designated, but each term bond must bear a single rate of interest. Within one hour after the oral award of the Series 2017 Bonds, the successful bidder shall provide the System with the serial bond designations and with any two or more consecutive annual maturities bearing a single rate which the successful bidder proposes to combine into one or more term bonds.

Interest Payment Dates

The Series 2017 Bonds will be dated as of the date of their delivery and will bear interest from that date payable semiannually on each March 1 and September 1, commencing September 1, 2017, until maturity.

Maturity Schedule

The Series 2017 Bonds will be subject to principal amortization through serial maturities on March 1 in the years and in the amounts set forth below (the "Maturity Schedule"), subject to the adjustments described below.

Maturity or Sinking Fund Payment Date, March 1	Maturity or Sinking Fund Payment Amount*
2018	$4,395,000
2019	3,185,000
2020	3,260,000
2021	3,430,000
2022	3,595,000
2023	3,775,000
2024	3,965,000
2025	2,265,000
2026	2,380,000

Adjustment of Maturity Schedule

The System reserves the right to change the Maturity Schedule up until 5:00 p.m., EDT, on the day preceding the day on which bids may be submitted. Any revision of the Maturity Schedule will be communicated through TM3 or in accordance with arrangements timely made with PFMFA by a prospective bidder which does not subscribe to TM3.

The System reserves the right to change the Maturity Schedule or the revised Maturity Schedule after the oral award of the Series 2017 Bonds by increasing or decreasing the principal amount of each maturity by such amount as the System may determine. In such event, the final aggregate principal amount of the Series 2017 Bonds will be increased or decreased by the net amount of such change or changes in the principal amount of one or more maturities, which net change will not exceed fifteen percent (15%) of the original aggregate principal amount of the Series 2017 Bonds. The System expects that the final maturity schedule will be communicated to the successful bidder by 9:30 a.m., EDT on the day following the date of the oral award provided the System has received the reoffering prices and yields for the Series 2017 Bonds from the successful bidder, as described below under "Award, Delivery and Payment." The dollar amount bid by the successful bidder will be adjusted to reflect any adjustments in the aggregate principal amount of the Series 2017 Bonds to be issued. The adjusted bid price will reflect changes in the dollar amount of the underwriter's discount, any original issue discount and any original issue premium, but will not change the per-bond underwriter's discount as calculated from the bid and reoffering prices required to be delivered to the System as stated herein. The successful bidder may not withdraw its bid or change the interest rates bid or the initial reoffering prices as a result of any changes made to the principal amounts within these limits.

No Optional Redemption

The Series 2017 Bonds are not subject to redemption at the option of the System.

Interest Rate, Maximum Discount and Maximum Premium

Bidders must specify a rate of interest for each maturity of the Series 2017 Bonds. The rates of interest must be expressed in multiples of one-eighth (1/8) or one-twentieth (1/20) of one percent (1%) and no interest rate can exceed 5% per annum. All Series 2017 Bonds of the same maturity must bear the same rate of interest. The lowest dollar price per maturity may be no less than 98%.

Bidders may bid to purchase the Series 2017 Bonds from the System with or without a premium provided that no bid will be considered if the bid to purchase the Series 2017 Bonds is at an aggregate price less than 100% or more than 120% of the principal amount thereof.

* *Preliminary, subject to change.*

Reoffering Price

The successful bidder will, within one hour after the oral award of the Series 2017 Bonds, advise the System of the initial public reoffering price of each maturity of the Series 2017 Bonds, expressed both as a stated amount and as a percentage of the principal amount of such maturity (each a "Reoffering Price").

Certificate Regarding Offering and Pricing of the Series 2017 Bonds

As of the date of delivery of the Series 2017 Bonds and as a condition precedent to the delivery of the Series 2017 Bonds by the System, the successful bidder shall furnish to the System a certificate acceptable to Preti, Flaherty, Beliveau, & Pachios, LLP, Bond Counsel to the System ("Bond Counsel") to the effect that (a) each maturity of the Series 2017 Bonds was the subject of a bona fide initial offering to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers (collectively, "Wholesalers")) on the date of the written award of the Series 2017 Bonds to the successful bidder (the "Award Date") at the Reoffering Price for such maturity; (b) the successful bidder first sold not less than 10% of each maturity of the Series 2017 Bonds to the public (excluding Wholesalers) on the Award Date at prices not greater than the Reoffering Price for such maturity; (c) as to maturities, if any, to be specified in such certificate (each an "Excepted Maturity") for which there were insufficient sales to the public to make the certification in (b) for all maturities of the Series 2017 Bonds, the successful bidder reasonably expected as of the Award Date to sell each such Excepted Maturity at prices not greater than the Reoffering Price for such Excepted Maturity; (d) the successful bidder had no reason to believe as of the Award Date that any maturity of the Series 2017 Bonds would be sold to the public (excluding Wholesalers) at prices greater than the Reoffering Price for such maturity; and (e) the Reoffering Price for each maturity of the Series 2017 Bonds did not exceed the fair market value of such maturity as of the Award Date. The certificate shall also set forth the arbitrage yield on the Series 2017 Bonds. The certificate shall state that it is made on the best knowledge, information and belief of the successful bidder after appropriate investigation.

Form of Bid; Electronic Bids

A prospective bidder must submit its bid electronically through the facilities of Parity, in accordance with the Rules of Participation and other requirements of Parity. In order to submit an electronic bid through Parity, bidders must be contracted customers of Parity's Competitive Bidding System. If a prospective bidder does not have a contract with Parity, it should call (212) 849-5021 to become a customer.

Registration with Parity is required in order to submit an electronic bid, and the System will not confirm any registration and will not be responsible for any failure of a prospective bidder to register. By registering to bid for the Series 2017 Bonds, a prospective bidder is not obligated to submit a bid for the Series 2017 Bonds.

Further information about Parity, including qualification, registration, rules and any fee charged, may be obtained from Parity by calling Parity Customer Support at (212) 849-5021.

By submitting a bid for the Series 2017 Bonds, a prospective bidder represents and warrants to the System that such bidder's bid for the purchase of the Series 2017 Bonds (if a bid is submitted for the Series 2017 Bonds) is submitted for and on behalf of such prospective bidder by an officer or agent who is duly authorized to bind the prospective bidder to a legal, valid and enforceable contract for the purchase of the Series 2017 Bonds. An electronic bid made through the facilities of Parity shall be deemed an unconditional and irrevocable offer, in response to the Official Notice of Sale, which shall be binding upon the bidder as if made by a signed, sealed bid delivered in tangible form to the System and which shall be a binding contractual obligation of the bidder, when and if accepted by the System. The System shall not be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of, Parity, the use of such facilities being at the sole risk of the prospective bidder.

Disclaimer for Electronic Bids

Each prospective bidder shall be solely responsible for registering to bid through Parity as described in Attachment A hereto and for obtaining any modification of the Official Notice of Sale. Each prospective bidder shall be solely responsible for making necessary arrangements to access Parity for purposes of submitting its bid in a timely manner and in compliance with the requirements of the Official Notice of Sale. Neither the System nor Parity shall have any duty or obligation to undertake such registration to bid for any prospective bidder or to provide or assure such access to any prospective bidder, and neither the System nor Parity shall be responsible for a bidder's failure to register to bid or for a bidder's use of Parity's services, or have any liability for any delay, interruption or damage caused by Parity or any other person. The System is using Parity as a communication mechanism, and not as the System's agent, to conduct the electronic bidding for the Series 2017 Bonds. The System is not bound by any advice or determination of Parity or any other person to the effect that any particular bid complies with the terms of the Official Notice of Sale. Any cost, expense or damage incurred by any prospective bidder in connection with its registration with, or bid through, Parity is the sole responsibility of such bidder and the System is not responsible, directly or indirectly, for any such cost, expense or damage. If a prospective bidder encounters any difficulty in registering to bid, or in submitting, modifying or withdrawing a bid, for the Series 2017 Bonds, it should telephone Parity and notify PFMFA by facsimile at (617) 951-2361 or by telephone at (617) 330-6914.

List of Members of Account

Bidders are requested to list on the Confirmation of Sale which is available upon request the names of the members of the account on whose behalf the bid is made.

Award, Delivery and Payment

It is expected that, if acceptable bids are received and unless all bids are rejected by the System, the Series 2017 Bonds will be awarded in writing to the highest bidder not later than 24 hours after the time established for the receipt of bids. The highest bidder shall be the bidder submitting the best price for the Series 2017 Bonds, which best price shall be that resulting in the lowest true interest cost. The true interest cost for the Series 2017 Bonds (expressed as an annual interest rate) will be that rate which, as of May 17, 2017, discounts semiannually all future principal and interest payments to the aggregate bid price. The true interest cost shall be based upon the principal amount of each maturity of the Series 2017 Bonds as set forth in the Maturity Schedule (such principal amounts may be modified with notification though TM3 or through individual communication with prospective bidders) and the bid price and interest rate set forth in each bid submitted in accordance with the Official Notice of Sale. It is requested that each bid be accompanied by a computation of such true interest cost to the System under the terms of the bid in accordance with the method of calculation described in this paragraph (computed to six decimal places), but such computation is not to be considered as part of the bid for the Series 2017 Bonds. In the event that two or more bidders have bid the same true interest cost (calculated to six decimal places), the Treasurer of the System shall determine in his sole discretion which of the bidders shall be awarded the Series 2017 Bonds or he may determine in his sole discretion to award the Series 2017 Bonds in such proportions as he may determine to such two or more bidders.

The oral award of the Series 2017 Bonds is subject to written confirmation by the System. When the successful bidder has been ascertained, such bidder will be notified orally or by other means. Promptly thereafter, and if the bidder has not already done so, such bidder shall provide to the System the completed, signed Confirmation of Sale which is available upon request. Then the System will make the award in writing if the Confirmation of Sale conforms to the terms of the electronic bid and such oral award.

It is currently expected, subject to change, that delivery of the Series 2017 Bonds will be made to the successful bidder through the facilities of DTC in New York, New York on May 17, 2017. The successful bidder shall pay for the Series 2017 Bonds on the date of delivery in **IMMEDIATELY AVAILABLE FEDERAL FUNDS** by 10:00 a.m., EDT, on the date of delivery. Any expenses of providing immediately available funds shall be borne by the successful bidder. Payment on the delivery date shall be made in an amount equal to the price bid for the Series 2017 Bonds less the amount of the Good Faith Deposit.

Good Faith Deposit

The apparent successful bidder, as reported by Parity, shall provide to the System a good faith deposit in the amount of $30,000 for the winning bid on the Series 2017 Bonds (the "Good Faith Deposit"). The successful bidder shall provide the Good Faith Deposit by wire transfer directly to the System upon notification of the oral award, but in any case, no later than 4:00 p.m., EDT, on the date of the oral award. Wire instructions will be provided to the successful bidder upon notification of the oral award.

The written award will not be made until the System has confirmation of receipt of the Good Faith Deposit, and if the successful bidder fails to deliver the Good Faith Deposit by the designated time, the System will have the option to withdraw the oral award and the successful bidder shall be responsible to the System for all consequential damages arising from such withdrawal.

The Good Faith Deposit will be deposited by the System and applied to the purchase price of the Series 2017 Bonds. By submitting a bid for the Series 2017 Bonds, the bidder is acknowledging that, if the bidder becomes the successful bidder for the Series 2017 Bonds and fails to accept and pay for the Series 2017 Bonds on the date of delivery, the System will suffer actual damages, including increased costs of servicing its debt. The System and the successful bidder agree that such actual damages are difficult to compute as of the Award Date. The bidder therefore agrees that the Good Faith Deposit shall be retained by the System as and for full liquidated damages (the amount of which the System and the successful bidder agree is a reasonable estimate of such actual damages) for such failure and for any and all defaults, losses or damages hereunder on the part of the successful bidder, and thereupon all the System's claims and rights against the successful bidder shall be fully released and discharged, even though it may be subsequently determined that the System's actual damages are greater. No interest will be paid upon the Good Faith Deposit submitted by any bidder. If the aggregate principal amount of the Series 2017 Bonds is adjusted, as described under the caption "Adjustment of Maturity Schedule," the successful bidder will not be required to deposit an additional Good Faith Deposit and will not be entitled to the return of any portion of the Good Faith Deposit previously delivered.

Official Statement

The System has approved the Preliminary Official Statement, which the System has deemed final for the purpose of Rule 15c2-12 promulgated by the Securities and Exchange Commission, subject to the omissions permitted by paragraph (b)(1) of such Rule. Within seven business days after the Award Date, the System will provide the successful bidder such reasonable number of printed copies of the final Official Statement as such bidder may have requested from the System within one business day after the Award Date. Up to 100 copies of the final Official Statement will be furnished without cost to the successful bidder and additional copies, if desired, will be made available at the successful bidder's expense.

CUSIP Numbers

The successful bidder will at its expense obtain CUSIP numbers for the Series 2017 Bonds and provide those numbers to the System and Bond Counsel within one business day after the Award Date. It is currently expected that CUSIP numbers will be printed in the final Official Statement and on the Series 2017 Bonds, but the System will assume no obligation for the assignment or printing of such numbers or for the correctness of such numbers, and neither the failure to print such numbers nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder of the Series 2017 Bonds to accept delivery of and make payment for the Series 2017 Bonds.

Documents to be Delivered as of and prior to the Date of Delivery of the Bonds

At or before 1:00 p.m., EDT, on the business day before the date of delivery of the Series 2017 Bonds, the System will deliver to the successful bidder (a) the opinion of Bond Counsel substantially in the form set forth as Appendix B to the Preliminary Official Statement, (b) a certificate executed on behalf of the System to the effect that nothing has come to the System's attention which would cause the System to believe that the Official Statement (excluding any information pertaining to (i) the public offering prices or yields of the Bonds, (ii) The Depository Trust Company and Cede & Co., (iii) any bond insurer or its bond insurance policy, (iv) PFMFA or (v) the successful bidder and its purchase of the Series 2017 Bonds) contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements and information therein, in light of the circumstances under which they were made, not misleading and (c) the Continuing Disclosure Certificate executed on behalf of the System substantially in the form set forth as Appendix E to the Preliminary Official Statement.

At or before 1:00 p.m., EDT, on the business day before the date of delivery of the Series 2017 Bonds, the successful bidder will deliver to the System and Bond Counsel, in form and substance acceptable to Bond Counsel, (a) a receipt for the Series 2017 Bonds executed on behalf of the successful bidder, (b) the certificate more fully described under the heading “Certificate Regarding Offering and Pricing of the Series 2017 Bonds” herein executed on behalf of the successful bidder and (c) evidence that the Official Statement has been filed with the Municipal Securities Rulemaking Board.

Additional Information

The information and descriptions in the Official Notice of Sale do not purport to be complete, comprehensive or definitive. Statements regarding specific documents, including the Series 2017 Bonds, are summaries of, and subject to, the detailed provisions of such documents and are qualified in their entirety by reference to each such document. Copies of the Bond Resolution, the Official Notice of Sale and the Confirmation of Sale for the Series 2017 Bonds will be furnished to any potential bidder upon request made to PFMFA. The Preliminary Official Statement and the Official Notice of Sale will also be made available through www.i-DealProspectus.com. For information contact Parity or PFMFA.

Any capitalized term used but not defined in the Official Notice of Sale or in the Confirmation of Sale for the Series 2017 Bonds shall have the meaning ascribed to such term in the Preliminary Official Statement.

Right of Rejection

The System reserves the right, in its sole discretion, to reject any or all bids. Any bid not complying with the terms of the Official Notice of Sale or specifying any conditions in addition to those contained herein may be rejected. The System reserves the right to waive any irregularity in compliance with the terms of the Official Notice of Sale.

Date: April 26, 2017

UNIVERSITY OF MAINE SYSTEM

s/Ryan W. Low

Ryan W. Low
Treasurer of the University of Maine System

Attachment A

INSTRUCTIONS TO VIEW THE PRELIMINARY OFFICIAL STATEMENT
(NO REGISTRATION NECESSARY)

- Go to URL www.i-DealProspectus.com
- Using the state and a range of dates, search for the University of Maine System Preliminary Official Statement
- Using Adobe Acrobat Reader you may search and print the document.
- If you do not have Adobe software, it can be downloaded for free at www.i-DealProspectus.com
- Contact I-Deal Prospectus at (212) 849-5024 with questions or problems.

INSTRUCTIONS TO SUBMIT A BID THROUGH PARITY

- You must be a contracted customer of Parity's Competitive Bidding System. If you do not have a contract with Parity, call (212) 849-5021 to become a customer.
- In Parity select the University of Maine System sale among the list of current sales.
- Go to the bid form page. Keep track of the time clock and be sure to read all bid specifications on the bottom.
- Once you have created and saved a bid in Parity, click the final bid button in Parity to submit the bid to Parity.
- Upon clicking the Final Bid button, the bidder will see a message box in Parity that states: "Do you want to submit this bid to Parity? By submitting the bid electronically through Parity, you represent and warrant that this bid for the purchase of the Bonds is submitted by the representative who is duly authorized to bind the bidder to a legal, valid, enforceable contract for the purchase of the Bonds. The Official Notice of Sale is incorporated herein by this reference."
- If during the bid calculation Parity warns you that your current bid violates the bid parameters, please change your bid to meet bid specifications. The Parity system will submit bids, which violate the bid parameters, but the System does not intend to consider any bids that do not meet its parameters.
- You may choose to proceed with submission of the bid or choose to cancel the submission.
- Contact Parity at (212) 849-5021 with questions or to report problems.

Summary Schedule for Bidders*

Date	EDT	Event
May 2, 2017	5:00 p.m.	Notification of revisions, if any, of the Official Notice of Sale for the Series 2017 Bonds published on TM3 (www.tm3.com) or through individual communication with PFM Financial Advisors LLC ("PFMFA").
May 3, 2017	9:30 a.m.	Notification of revisions, if any, of the due date or time of bids for the Series 2017 Bonds published on TM3 (www.tm3.com) or through individual communication with PFMFA.
	10:30 a.m.	Deadline for the submission of bids for the Series 2017 Bonds.
	3:00 p.m.	Time by which the System expects to award the Series 2017 Bonds in writing to the successful bidder.
	4:00 p.m.	Deadline for the successful bidder to wire the Good Faith Deposit to the System.
May 4, 2017	10:30 a.m.	Deadline for the System to award the Series 2017 Bonds in writing to the successful bidder.

* *Preliminary, subject to change.*

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Maine's Public Universities

UNIVERSITY OF MAINE SYSTEM

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