University of Maine System

Core Financial Ratios and Composite Financial Index

FY06 to FY14
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Adoption of New Accounting Standard

In FY14, the University of Maine System (UMS) adopted Governmental Accounting Standards Board Statement No. 65, Financial Reporting of Items Previously Reported as Assets and Liabilities (Statement No. 65), retroactive to July 1, 2012. Pursuant to the provisions of Statement No. 65, the UMS restated its FY13 financial statements to reflect the retroactive application of this change in accounting principle. Under Statement No. 65, all bond issuance costs are now expensed in the year incurred. Pursuant to Statement No. 65, the UMS 1) wrote-off its June 30, 2012 balance for bond issuance costs against the beginning of the year net position balance and 2) expensed bond issuance costs incurred during FY13. We have not recalculated the FY13 ratios included in this report for the restatement because the impact of the restatement is immaterial and it only impacts the net investment in capital assets category of net position.

Restatement of Scholarship Allowance and Student Aid Expense

As part of the FY14 financial statement audit, we restated the UMS’ FY13 scholarship allowance and student aid expense amounts in the Statement of Revenues, Expenses, and Changes in Net Position to correct an error that had been made in the original allocation of the University of Maine at Augusta’s FY13 total aid costs between these two lines. We further determined that the error in methodology also impacted each of the years from FY08 to FY12. The error did not impact the UMS’ bottom line (i.e., change in net position) or composite financial index for any of the years and had only a slight impact on its net operating revenues ratio for FY10, FY11, FY12, and FY13.

<table>
<thead>
<tr>
<th>Net Operating Revenues Ratio</th>
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<tr>
<td></td>
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<tr>
<td>Ratio as originally stated</td>
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<tr>
<td>Ratio as recalculated</td>
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</table>

We have opted to restate the ratios and underlying component data in this report for FY08 to FY13 to aid management in analyzing the ratio components: total expenses and total operating and nonoperating revenues.
Overview

The financial health of the UMS can be evaluated through the use of industry benchmarks and ratios. The following ratios and related benchmarks are derived from Strategic Financial Analysis for Higher Education, Seventh Edition published by KPMG; Prager, Sealy & Co., LLC; and ATTAI N. This book is widely used in the higher education industry and includes guidance for both private and public institutions.

According to the above publication, there are four fundamental financial questions that need to be addressed. Analysis of four core ratios can help us answer these questions.

- Are resources sufficient and flexible enough to support the mission? - Primary Reserve Ratio
- Do operating results indicate the institution is living within available resources? - Net Operating Revenues Ratio
- Does asset performance and management support the strategic direction? - Return on Net Position
- Are financial resources, including debt, managed strategically to advance the mission? - Viability Ratio

When combined, these four ratios deliver a single measure of the UMS’ overall financial health, hereafter referred to as the Composite Financial Index.
The Primary Reserve Ratio provides a snapshot of financial strength and flexibility by indicating how long the institution could function using its expendable net position (both unrestricted and restricted, excluding net position restricted for capital investments) without relying on additional net position generated by operations. This ratio is calculated as follows:

\[
\frac{\text{Expendable Net Position}^*}{\text{Total Expenses}}
\]

* Excluding net position restricted for capital investments

Key items that can impact the numerator for the primary reserve ratio include principal payments on debt, use of unrestricted net position to fund capital construction projects, operating results (operating revenues – operating expenses + nonoperating revenues – nonoperating expenses + depreciation) and endowment returns. The receipt of State of Maine capital appropriation revenues does not impact expendable net position as these revenues are used to acquire or construct capital assets and thereby increase net position invested in capital assets, net of related debt.

A ratio of .40x (provides about 5 months) or better is advisable to give institutions the flexibility to manage the enterprise.

Although UMS’ primary reserve ratio surpassed the industry benchmark in FY14, it is important to note that the unrestricted portion of UMS’s expendable net position decreased $4 million or 2.2% from the prior fiscal year. Unrestricted net position provides the UMS with the greatest flexibility for making strategic investments and transforming the UMS as needed.
Highlights:

- The items impacting the net operating revenues ratio impact this ratio, as total expenses are factored into both ratios and the amount of return on operating revenues excluding depreciation expense closes to expendable net position. Therefore, see page 6 for a discussion of the net operating revenues ratio.

- The issuance of revenue bonds in FY07 impacts the primary reserve ratio for FY08 and beyond as the UMS must use either expendable net position or current year returns to fund the debt service payments. See page 12 for further discussion of the bond issuance.

- Endowment returns impact the balance of expendable net position. As noted in the discussion of the return on net position ratio on page 10, endowment returns have fluctuated significantly over the past nine years.

- The use of unrestricted expendable net position to fund capital construction impacts the primary reserve ratio. The UMS utilized unrestricted expendable net position in this manner in each of the nine years; however, in FY06 thru FY10, the amounts were not large enough to impact the primary reserve ratio, and in the other years the impact was minimal.

Although the use of unrestricted net position to fund capital construction does impact the primary reserve ratio; such use does not decrease the UMS’ overall net position as the constructed assets increase net position invested in capital assets.
The **Net Operating Revenues Ratio** is a measure of operating results and answers the question, “Do operating results indicate that the University is living within available resources?” Operating results either increase or decrease net position and, thereby, impact the other three core ratios: Primary Reserve, Return on Net Position, and Viability. This ratio is calculated as follows:

\[
\text{Operating Income (Loss) plus Net Non-Operating Revenues (Expenses)} \\
\text{Operating Revenues plus Non-Operating Revenues}
\]

The authors of *Strategic Financial Analysis for Higher Education* note the following:

The primary reason institutions need to generate some level of surplus over long periods of time is because operations are one of the sources of liquidity and resources for reinvestment in institutional initiatives.

A target of at least 2% to 4% is a goal over an extended time period, although fluctuations from year to year are likely. A key consideration for institutions establishing a benchmark for this ratio would be the anticipated growth in total expenses.

After being above the high industry benchmark of 4% in FY10 and FY11, UMS’ net operating revenues ratio has steadily decreased since then and is just .41% in FY14, significantly below the 2% low benchmark.

<table>
<thead>
<tr>
<th></th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Low Benchmark</strong></td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
</tr>
<tr>
<td><strong>High Benchmark</strong></td>
<td>4.00%</td>
<td>4.00%</td>
<td>4.00%</td>
<td>4.00%</td>
<td>4.00%</td>
<td>4.00%</td>
<td>4.00%</td>
<td>4.00%</td>
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</tr>
<tr>
<td><strong>UMS Actual</strong></td>
<td>1.36%</td>
<td>2.58%</td>
<td>0.38%</td>
<td>1.62%</td>
<td>5.24%</td>
<td>5.16%</td>
<td>2.24%</td>
<td>0.55%</td>
<td>0.41%</td>
</tr>
</tbody>
</table>

**Net Operating Revenues Ratio**
The individual components that comprise the amounts in the above table are important in analyzing the UMS’ net operating revenues ratio for FY14. Although total revenues changed by an insignificant amount from FY13 to FY14, individual categories of revenue had significant fluctuations.

- Operating revenues decreased by $10.4 million or 2%. Of significance here is that unrestricted revenue sources like net student fees and other auxiliary revenues accounted for $5.2 million or 50% of the decrease and restricted grants and contracts revenue and the related recovery of indirect costs accounted for the remainder.

- Nonoperating revenues increased $10.2 million or 4.6% with noncapital gifts and investment income accounting for $6.3 million or 62% of the increase. Noncapital State of Maine appropriation accounted for $3.8 million or 37% of the increase.

Historical Highlights:

FY06: Total operating and nonoperating revenues rose 4.1%; however, they were outpaced by a 4.3% increase in total operating and nonoperating expenses.

FY07: Total operating and nonoperating revenues increased 3.6% or $21.9 million while total operating and nonoperating expenses grew 2.3% or $13.9 million. Major contributors to the revenue increase included net student fees at 7% ($13 million), noncapital state appropriation at 4% ($7.4 million), and investment income at 32.2% ($2.5 million).

FY08: A 4.3% ($27 million) increase in total operating and nonoperating revenues was unable to keep pace with the 6.7% ($40.9 million) increase in total operating and nonoperating expenses.

- Net student fees revenue increased 7.7% or $15.3 million.

- Noncapital state appropriation increased 4.5% or $8.6 million.

- A decline in investment markets resulted in a 64% ($6.7 million) decrease in investment revenue.

- A new accounting standard requiring recognition of postemployment health costs accounted for 22% or $9 million of the increase in total operating and nonoperating expenses.

- Remaining benefit costs and employee compensation costs accounted for 49% or $20 million of the increase in total operating and nonoperating expenses.
**FY09:** Facing a 3.4% ($6.8 million) decrease in noncapital state appropriation and poor investment market conditions, the UMS made budget cuts and held the increase in total unrestricted and restricted operating expenses to .8% or $4.7 million. These efforts combined with a 9.1% ($19.6 million) increase in net student fees revenue and the late receipt of $6.6 million in State fiscal stabilization revenue enabled the UMS to increase its net operating revenues ratio in FY09.

**FY10:** Factors impacting the FY10 ratio include the following:

- The UMS reduced its unrestricted budget again in FY10 as it faced another decrease in noncapital state appropriation and uncertain investment market conditions. Total operating expenses did, however, increase .2% ($500,000) due to a substantial increase in grant funded activities thanks in part to American Recovery and Reinvestment Act (ARRA) funding.

- Although gross student fees revenue increased 4% primarily due to an increase in rates charged to students, net student fees only increased .7% due to a substantial increase in PELL monies awarded to the students as noted in the next bullet.

- The UMS received a $12.3 million increase in PELL funding during FY10. Although the exact impact on the ratio is not readily determinable; we do know that it impacted the following components of the ratio calculation: the funding increased operating revenues while expenditure of the funding was split on a student by student basis between scholarship allowance which decreases operating revenues and scholarship expense which is a component of operating expenses.

- The UMS received State Fiscal Stabilization revenues in the amount of $7.2 million which were primarily used to fund compensation and benefits and student aid. FY11 will be the last year in which the UMS will receive this revenue stream.

**FY11:** Total operating and nonoperating revenues increased by 2.7% ($18.7 million), but were offset by a 2.8% ($18.3 million) increase in total operating and nonoperating expenses, resulting in a net operating revenues ratio that approximates that for FY10. Significant fluctuations included the following:

- PELL funding again increased, accounting for $5.6 million of the $12.2 million increase in grants and contracts revenue. As noted above for FY10, increases in PELL funding increase operating revenues while expenditure of the funding is split between scholarship allowance which decreases operating revenues and scholarship expense which is a component of operating expenses.

- The remaining $6.6 million increase in FY11 grants and contracts revenue is directly offset by an increase in operating expenses.

- Noncapital State of Maine appropriation revenue increased for the first time since FY08, increasing $5 million over the FY10 amount. However, at $195 million, the FY11 appropriation revenue is still below the FY08 high of $201 million.
• Total student aid costs (scholarship allowance + student aid expense) increased $10.8 million as a result of the previously mentioned increase in PELL funding and an increase in scholarships funded from unrestricted resources to partially offset the increased tuition rate charged to students.

**FY12:** Total operating and nonoperating revenues decreased by 2.3% ($16 million) and total operating expenses increased .8% ($5.2 million), resulting in a net operating revenues ratio that is less than half of what it was for the prior two fiscal years. Significant fluctuations in revenues included the following:

• With the expiration of ARRA funding, State Fiscal Stabilization revenue decreased $6.5 million and operating grants and contracts revenue decreased $3.6 million. Grants and contracts revenue decreased an additional $2.8 million due to federal cuts in the Academic Competitiveness Grant (ACG) and Science and Mathematics Access to Retain Talent Grant (SMART) programs.

• Investment income decreased $6.1 million (57%) due to market conditions.

• Gross tuition and fees revenue increased $5 million (or 2%) over FY11 primarily due to a 4.1% weighted average increase in undergraduate in-state tuition and mandatory fees. The increase, however, was partially offset by a 2% decline in credit hour enrollments from FY11 to FY12.

A $7 million increase in compensation and benefits in FY12 was tempered by a $3.6 million decrease in grant related expenses due to the previously noted decrease in grants and contracts revenue.

**FY13:** The return from operations decreased $11.9 million from the FY12 return. Factors contributing to this decrease include:

• Gross tuition and fees increased only .8% or $2.8 million over FY12 as UMS management elected to freeze in-state tuition and fee rates.

• Recovery of indirect costs revenue decreased $1.1 million as grant and contract revenues declined. The decline in grant and contract revenues itself does not directly impact the return from operations because such revenues are recognized only to the extent of related expenses.

• Nongrants and noncontracts expenses increased from FY12 to FY13 by $12.8 million or 2%.
The **Return on Net Position Ratio** measures asset performance and management. It determines whether an institution is financially better off than in the previous year by measuring total economic return. It is based on the level and change in total net position. An improving trend in this ratio indicates that the institution is increasing its net position and is likely to be able to set aside financial resources to strengthen its future financial flexibility. This ratio is calculated as follows:

\[
\text{Change in Net Position} = \frac{\text{Total Beginning of the Year Net Position}}{\text{Total Net Position}}
\]

Items that may impact this ratio include those that impact the net operating revenues ratio, along with endowment returns, capital appropriations, capital grants and gifts, capital transfers, and endowment gifts.

The nominal rate of return on net position is the actual return unadjusted for inflation or other factors. The real rate of return adjusts the nominal rate for the effects of inflation using the Higher Education Price Index.

The UMS’ real rate of return has fallen from the high of 9.04% in FY11, to .16% in FY14. While the nominal rate decreased by only .22 percentage points from FY13 to FY14, the near doubling of the inflation factor from 1.6% to 3.0% caused the UMS’ real rate of return to decrease to just .16% for FY14.
Highlights:

The return on net position ratio has been impacted over the years by the same items that impacted the net operating revenues ratio and the following items that directly impact capital and endowment assets:

- Capital appropriation revenue from the State of Maine fluctuates with the availability of voter approved bond proceeds and the timing of the UMS' expenditure of those proceeds. The most recent voter approved bond referendum was in November 2013. Capital appropriation revenues have been as high as $12.5 million (FY06) and as low as $1.9 million (FY14).

- Capital grants and gifts revenue is also subject to fluctuation depending on the construction and fundraising activities that are occurring. During the past nine years, this revenue stream has been as low as $4.8 million in FY07 and as high as $22.6 million in FY11. The FY11 level is primarily attributable to grants received for wind energy research at the University of Maine. Over the next three years, capital grants and gifts revenue decreased a total of $15.2 million to a total of in FY14 of $7.4 million.

- Endowment returns net of amounts used for operations have fluctuated significantly with the market: $5.2 million in FY06, $11.2 million in FY07, -$7.9 million in FY08, -$22.9 million in FY09, $4.9 million in FY10, $14.4 million in FY11, -$6.4 million in FY12, $8.4 million in FY13, and $13.8 million in FY14.
The **Viability Ratio** measures expendable resources that are available to cover debt obligations (e.g., capital leases, notes payable, and bonds payable) and generally is regarded as governing an institution’s ability to assume new debt. This ratio is calculated as follows:

\[
\text{Expendable Net Position}^* - \text{Long-Term Debt}
\]

* Excluding net position restricted for capital investments

Like the primary reserve ratio, the viability ratio is impacted by such items as principal payments on debt, use of unrestricted net position to fund capital construction projects, operating results (operating revenues – operating expenses + nonoperating revenues – nonoperating expenses + depreciation) and endowment returns. Issuance of new debt would also impact the ratio.

The authors of *Strategic Financial Analysis for Higher Education* note the following:

There is no absolute threshold that will indicate whether the institution is no longer financially viable. However, the Viability Ratio, along with the Primary Reserve Ratio discussed earlier, can help define an institution’s “margin for error”. As the Viability Ratio’s value falls below 1:1, an institution’s ability to respond . . . , to adverse conditions from internal resources diminishes, as does its ability to attract capital from external sources and its flexibility to fund new objectives.

A ratio of 1.25 or greater indicates that there are sufficient resources to satisfy debt obligations.

UMS’s viability continues to increase as it has increased its expendable net position and reduced its debt by making scheduled payments and refinancing debt as appropriate to achieve savings.
## Highlights:

The same totals for expendable net position are used for this ratio and the primary reserve ratio; therefore, please see discussion of the primary reserve ratio on page 4 for items impacting expendable net position.

The issuance and repayment of debt also impact this ratio. Significant financing activities, other than annual debt service, over the years include the following:

- The UMS issued $46.74 million in bonds in FY07 to advance refund $13.75 million in previously issued bonds and to fund new capital projects.
- In FY12, the UMS refinanced a balloon payment on its 2002 Revenue Bonds and also issued $6.4 million of new money bonds.
- UMS refinanced $72.03 million of bonds in FY13 for a net present value savings of $7.5 million.

### Ratio Components

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<thead>
<tr>
<th></th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted expendable net position</td>
<td>$61,736</td>
<td>$75,857</td>
<td>$77,197</td>
<td>$83,597</td>
<td>$127,832</td>
<td>$165,857</td>
<td>$176,632</td>
<td>$183,219</td>
<td>$179,162</td>
</tr>
<tr>
<td>Restricted expendable net position</td>
<td>$81,393</td>
<td>$92,761</td>
<td>$89,971</td>
<td>$68,458</td>
<td>$74,405</td>
<td>$85,449</td>
<td>$79,998</td>
<td>$89,366</td>
<td>$104,919</td>
</tr>
<tr>
<td>Total expendable net position</td>
<td>$143,129</td>
<td>$168,618</td>
<td>$167,168</td>
<td>$152,055</td>
<td>$202,237</td>
<td>$251,306</td>
<td>$256,630</td>
<td>$272,585</td>
<td>$284,081</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>$196,384</td>
<td>$223,779</td>
<td>$217,529</td>
<td>$212,185</td>
<td>$203,455</td>
<td>$196,566</td>
<td>$193,680</td>
<td>$180,785</td>
<td>$163,866</td>
</tr>
</tbody>
</table>
The Composite Financial Index (CFI) creates one overall financial measurement of the institution’s health based on the four core ratios: primary reserve ratio, net operating revenues ratio, return on net position ratio, and viability ratio. By blending these four key measures of financial health into a single number, a more balanced view of the state of the institution’s finances is possible because a weakness in one measure may be offset by the strength of another measure.

The CFI is calculated by completing the following steps:

1. Compute the values of the four core ratios;
2. Convert the ratio values to strength factors along a common scale;
3. Multiply the strength factors by specific weighting factors; and
4. Total the resulting four numbers (ratio scores) to reach the single CFI score.

Because the CFI only measures the financial component of an institution’s well-being, it must be analyzed in context with other associated activities and plans to achieve an assessment of the overall health of the institution. A high CFI is not necessarily indicative of a successful institution, although a low CFI generally is indicative of additional challenges. When considered in the context of achievement of mission, a very high CFI with little achievement of mission may indicate a failing institution.

A score of 1.0 indicates very little financial health; 3, the low benchmark, represents a relatively stronger financial position; and 10 is the top of the scale.

After being above the low industry benchmark in FY11, UMS’ CFI has hovered just below the benchmark for all subsequent years.
The performance of the CFI score can be evaluated on a scale of -4 to 10 as shown on the following page. These scores do not have absolute precision. They are indicators of ranges of financial health that can be indicators of overall institutional well-being, when combined with nonfinancial indicators. This would be consistent with the fact that there are a large number of variables that can impact an institution and influence the results of these ratios. However, the ranges do have enough precision to be indicators of the institutional financial health, and the CFI as well as its trend line, over a period of time, can be the single most important measure of the financial health for the institution.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ Primary Reserve Ratio</td>
<td>0.24</td>
<td>0.28</td>
<td>0.26</td>
<td>0.23</td>
<td>0.31</td>
<td>0.37</td>
<td>0.38</td>
<td>0.40</td>
<td>0.42</td>
</tr>
<tr>
<td>/ Common Scale Value *</td>
<td>0.133</td>
<td>0.133</td>
<td>0.133</td>
<td>0.133</td>
<td>0.133</td>
<td>0.133</td>
<td>0.133</td>
<td>0.133</td>
<td>0.133</td>
</tr>
<tr>
<td>= Strength Factor **</td>
<td>1.80</td>
<td>2.11</td>
<td>1.95</td>
<td>1.73</td>
<td>2.33</td>
<td>2.78</td>
<td>2.86</td>
<td>3.01</td>
<td>3.16</td>
</tr>
<tr>
<td>X Weighting Factor ***</td>
<td>35%</td>
<td>35%</td>
<td>35%</td>
<td>35%</td>
<td>35%</td>
<td>35%</td>
<td>35%</td>
<td>35%</td>
<td>35%</td>
</tr>
<tr>
<td>Ratio Score</td>
<td>0.63</td>
<td>0.74</td>
<td>0.68</td>
<td>0.61</td>
<td>0.82</td>
<td>0.97</td>
<td>1.00</td>
<td>1.05</td>
<td>1.11</td>
</tr>
<tr>
<td>+ Net Operating Revenues Ratio</td>
<td>1.36%</td>
<td>2.58%</td>
<td>0.38%</td>
<td>1.62%</td>
<td>5.24%</td>
<td>5.16%</td>
<td>2.24%</td>
<td>0.55%</td>
<td>0.41%</td>
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<tr>
<td>/ Common Scale Value *</td>
<td>0.7%</td>
<td>0.7%</td>
<td>0.7%</td>
<td>0.7%</td>
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<tr>
<td>= Strength Factor **</td>
<td>1.94</td>
<td>3.69</td>
<td>0.54</td>
<td>2.31</td>
<td>7.49</td>
<td>7.37</td>
<td>3.20</td>
<td>0.79</td>
<td>0.59</td>
</tr>
<tr>
<td>X Weighting Factor ***</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
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</tr>
<tr>
<td>Ratio Score</td>
<td>0.19</td>
<td>0.37</td>
<td>0.05</td>
<td>0.23</td>
<td>0.75</td>
<td>0.74</td>
<td>0.32</td>
<td>0.08</td>
<td>0.06</td>
</tr>
<tr>
<td>+ Return on Net Position Ratio</td>
<td>6.11%</td>
<td>7.36%</td>
<td>1.49%</td>
<td>1.60%</td>
<td>8.55%</td>
<td>11.34%</td>
<td>4.82%</td>
<td>3.38%</td>
<td>3.16%</td>
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<tr>
<td>/ Common Scale Value *</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>= Strength Factor **</td>
<td>3.06</td>
<td>3.68</td>
<td>0.75</td>
<td>0.80</td>
<td>4.28</td>
<td>5.67</td>
<td>2.41</td>
<td>1.69</td>
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<td>X Weighting Factor ***</td>
<td>20%</td>
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<tr>
<td>Ratio Score</td>
<td>0.61</td>
<td>0.74</td>
<td>0.15</td>
<td>0.16</td>
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<td>+ Viability Ratio</td>
<td>0.73</td>
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<td>0.77</td>
<td>0.72</td>
<td>0.99</td>
<td>1.28</td>
<td>1.33</td>
<td>1.51</td>
<td>1.73</td>
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<tr>
<td>/ Common Scale Value *</td>
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<tr>
<td>= Strength Factor **</td>
<td>1.75</td>
<td>1.80</td>
<td>1.85</td>
<td>1.73</td>
<td>2.37</td>
<td>3.07</td>
<td>3.19</td>
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<tr>
<td>X Weighting Factor ***</td>
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<td>35%</td>
<td>35%</td>
<td>35%</td>
<td>35%</td>
<td>35%</td>
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</tr>
<tr>
<td>Ratio Score</td>
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<td>0.63</td>
<td>0.65</td>
<td>0.61</td>
<td>0.83</td>
<td>1.07</td>
<td>1.12</td>
<td>1.27</td>
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</table>

Composite Financial Index

| 2.0 | 2.5 | 1.5 | 1.6 | 3.3 | 3.9 | 2.9 | 2.7 | 2.9 |
The overlapping arrows represent the ranges of measurement that an institution may find useful in assessing itself.

Scoring scale:
- Consider whether financial exigency is appropriate
- With likely large liquidity & debt compliance issues, consider structured programs to conserve cash
- Assess debt and Department of Education compliance remediation issues
- Consider substantive programmatic adjustments
- Re-engineer the institution
- Direct Institutional resources to allow transformation
- Focus resources to compete in future state
- Allow experimentation with new initiatives
- Deploy resources to achieve a robust mission

Fiscal year CFI

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2014</th>
<th>2011</th>
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<tr>
<td>CFI</td>
<td>1.5</td>
<td>2.9</td>
<td>3.9</td>
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</tbody>
</table>

We have overlaid the scale with UMS’ lowest (FY08), highest (FY11), and most recent CFI scores to assist in evaluating UMS’ performance.
The strength factors that were used in calculating the CFI can be mapped on a diamond to show the shape of an institution’s financial health compared to the industry benchmarks. This Graphic Financial Profile can assist management in determining whether a weakness in one ratio is offset by strength in another ratio.

*Illustrated below are two examples* of a Graphic Financial Profile (GFP): one plots actual strength factors that equal the low industry benchmark of 3 and one that plots actual strength factors that fall above and below the low benchmark:

- The center point of the graphic financial profiles is -4, the lowest possible score on the scale.
- The smaller, heavily lined diamond in the graphs represents the low industry benchmark of 3.
- The outer, lightly lined diamond represents the high industry benchmark of 10 and the highest possible score on the scale for each ratio.
- The actual values of the institution’s ratio strength factors are plotted and shaded to show how the institution’s health compares with the low (3) and high (10) industry benchmarks. In the left graph, the plotted actual values fill the smaller diamond as each of the actual values is at the low benchmark of 3. In the right graph, the smaller diamond is not filled as the actual values of two ratios fall below the low industry benchmark of 3. Also, in the right graph, part of the outer diamond is filled as values for two of the ratios surpass the low benchmark of 3.
UMS’ Graphic Financial Profile
FY14

Although decreased from the prior year, UMS’ net operating revenues ratio and return on net position ratio remained positive allowing UMS to increase its two capitalization ratios.
UMS’ Graphic Financial Profiles
FY06 to FY13

Although three of the strength factors are below the low industry benchmark of 3.0, the shape of the shaded area for FY06 is relatively balanced between returns and capitalization.
For FY07, the shape of the shaded area continues to be relatively balanced although the two capitalization strength factors remain below the low industry benchmark.

**Graphic Financial Profile - FY07**

*UMS*

**Strength Factors Plotted on a Scale of -4 to 10**

CFI Score of 2.5

- Primary Reserve Ratio
- Return on Net Position Ratio
- Net Operating Revenues Ratio
- Viability Ratio

- Actual
- Low Benchmark: 3
- High Benchmark: 10

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January 2015
For FY08, the shape of the shaded area was thinner than the year before as the UMS experienced minimal returns from operations and from total net position.

Graphic Financial Profile - FY08
UMS
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of 1.5

Actual Low Benchmark: 3 High Benchmark: 10
Although the UMS’ return from operations increased significantly in FY09, the return on net position was smaller as the UMS experienced negative endowment investment returns. Capitalization levels decreased slightly from FY08.
Although still below the industry benchmark, the capitalization strength factors rebounded in FY10 as UMS’ operating return and return on total net position surpassed the benchmark.
Strong returns in FY11, contributed to three of the strength factors surpassing the low industry benchmark of 3. The strength factor for the primary reserve ratio remains just below the low industry benchmark at 2.8.

Graphic Financial Profile - FY11

UMS

Strength Factors Plotted on a Scale of -4 to 10
CFI Score of 3.9

Actual  □ Low Benchmark: 3  □ High Benchmark: 10
All of the strength factors fall just above or just below the low benchmark of 3.0 in FY12 as the return on operations and the return on net position fell sharply in FY12.
In FY13, the strength factors for the net operating revenues ratio and the return on net position ratio continued to shrink away from the low industry benchmark while the strength factors for the primary reserve and viability ratios surpassed the low benchmark.