FY2018 Core Financial Ratios and Composite - Financial Index -

University of Maine System
Office of Finance and Treasurer
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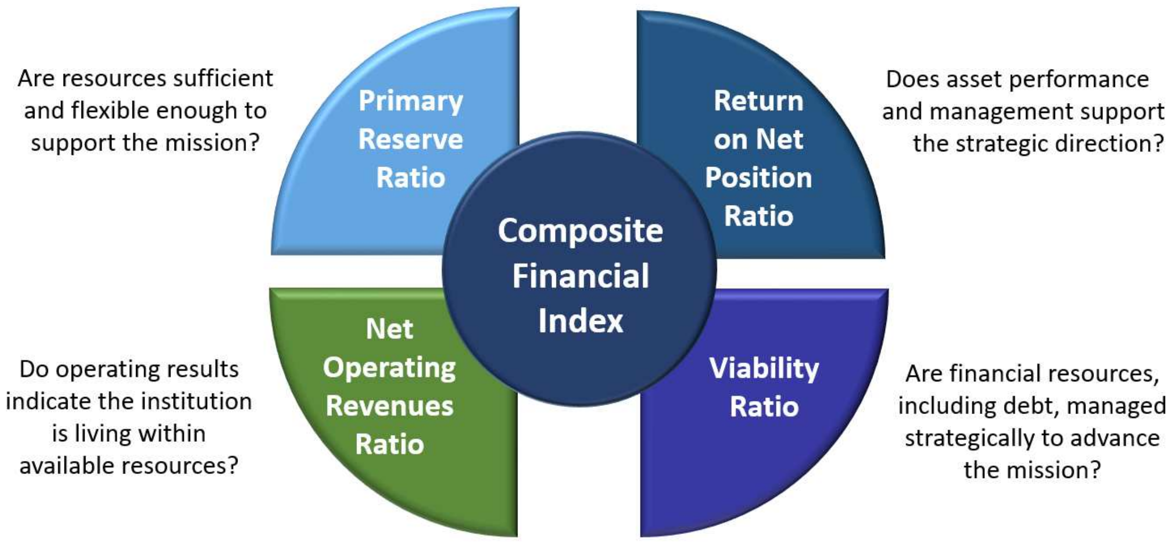
Introduction

The financial health of the University of Maine (UM) 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 ATTAIN. 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 and analysis of four core ratios can help us answer these questions.



When combined, these four ratios deliver a single measure of UM s overall financial health, hereafter referred to as the Composite Financial Index (CFI).

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, not just financial health, of the institution. As an example, if two institutions have identical CFI scores, but one requires substantial investments to meet its mission-critical issues and the other has already made those investments, the first institution is less healthy than the second. In fact, a high CFI is not necessarily indicative of a successful institution, although a low CFI generally is indicative of additional challenges. When put in the context of achievement of mission, a very high CFI with little achievement of mission may indicate a failing institution.

Strategic Financial Analysis for Higher Education

Restatement of FY17 Ratios

Adoption of New Accounting Standards

As required by generally accepted accounting principles, in FY18 the University of Maine System (UMS) adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB No. 75) related to its postemployment health plan. Pursuant to the provisions of GASB No. 75, the UMS and each of its campuses restated their FY17 financial statements to reflect the retroactive application of the accounting change. The overall impact on UM's FY17 financial statements was a $41.5 million decrease in the previously reported FY17 beginning of year expendable net position and a corresponding increase in noncurrent liabilities as UM recognized its share of the funding obligation related to the $102 million Unfunded Actuarial Accrued Liability recorded by the UMS as of July 1, 2016. There was no impact on UM's previously reported FY17 revenues and expenses.

Change in FY17 Commonfund Higher Education Price Index (HEPI)

In 2018 there is a new American Association of University Professors (AAUP) methodology related to faculty salaries that led the Commonfund to restate their 2017 HEPI number from 3.7% to 3.3%.

Restated Ratios

We have recalculated the FY17 ratios included in this report for the combined impact of adopting GASB No. 75 and the change in HEPI rate. A comparison of the originally stated and restated ratios is shown below.

FY17 Ratios and CFI						
	Primary Reserve Ratio	Net Operating Revenues Ratio	Return on Net Position Ratio (Nominal Rate)	Return on Net Position Ratio (Real Rate)	Viability Ratio	CFI
UM as originally stated	0.41	-1.01%	1.61%	-2.09%	2.12	2.9
UM as restated	0.30	-1.01%	1.77%	-1.53%	1.53	2.1
UMS as originally stated	0.41	0.53%	2.39%	-1.31%	1.65	2.8
UMS as restated	0.29	2.28%	4.29%	0.99%	1.12	2.5

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

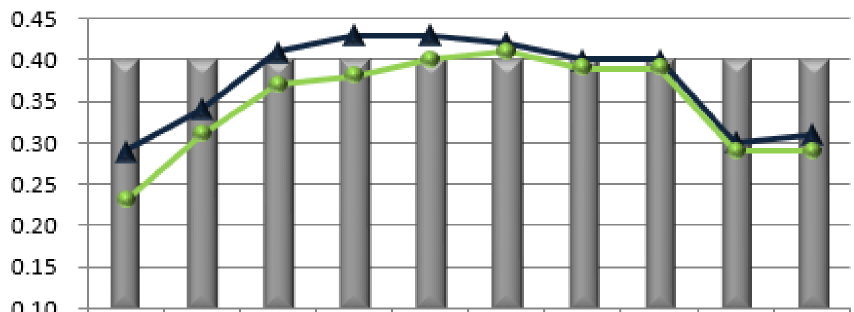
Key items that can impact expendable net position

- 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)
- endowment returns

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

The significant reduction in UM's expendable net position pursuant to the implementation of GASB No. 75 resulted in UM's FY17 Primary Reserve Ratio falling below the industry benchmark of .40x for the first time since FY10. UM's FY18 ratio of 0.31x is slightly improved from the FY17 restated ratio of .30x and provides UM with just under 4 months of expense coverage.

Primary Reserve Ratio



	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Benchmark	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
UM Actual	0.29	0.34	0.41	0.43	0.43	0.42	0.40	0.40	0.30	0.31
UMS Actual	0.23	0.31	0.37	0.38	0.40	0.41	0.39	0.39	0.29	0.29

Ratio Components $ in thousands	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Unrestricted expendable net position	*$ 48,621*	*$ 63,017*	*$ 79,472*	*$ 89,548*	*$ 88,590*	*$ 83,595*	*$ 76,578*	*$ 77,229*	*$ 42,931*	*$ 47,198*
Restricted expendable net position	*$ 44,239*	*$ 48,943*	*$ 55,781*	*$ 52,009*	*$ 55,926*	*$ 63,767*	*$ 61,846*	*$ 62,402*	*$ 65,290*	*$ 66,065*
Total expendable net position	**$ 92,860**	**$ 111,960**	**$ 135,253**	**$ 141,557**	**$ 144,516**	**$ 147,362**	**$ 138,424**	**$ 139,631**	**$ 108,221**	**$ 113,263**
Total expenses	**$ 325,703**	**$ 326,318**	**$ 332,510**	**$ 331,014**	**$ 335,241**	**$ 347,105**	**$ 344,550**	**$ 349,271**	**$ 361,202**	**$ 369,497**

Note: The above totals have not been adjusted for rounding.

In FY18, UM's ratio increased just .01x from the prior year as total expendable net position increased $5.0 million and expenses increased $8.3 million from FY17. Notable items contributing to the increase in expendable net position include an $8.1 million increase in net student fees revenue which offsets almost all of the $8.3 million increase in expenses. Although down $2.7 million from the prior year, FY18 positive endowment investment returns also contributed to the modest increase in UM's FY18 Primary Reserve Ratio.

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:

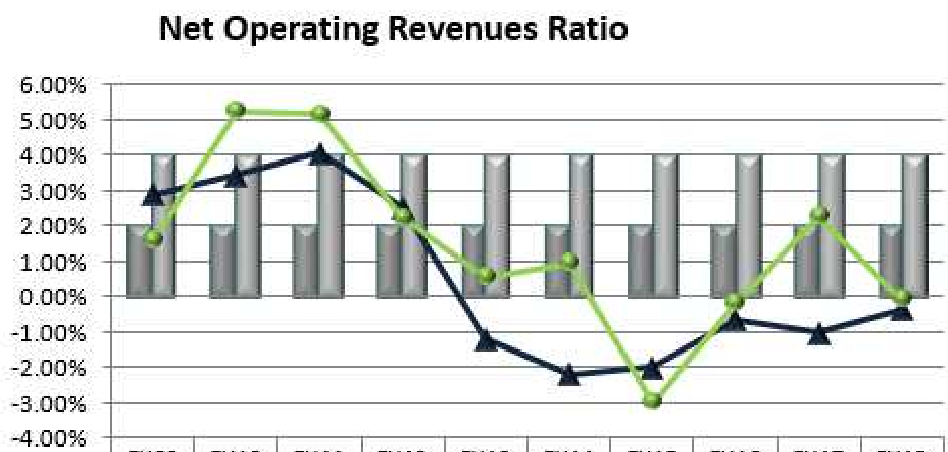
$$\frac{\text{Operating Income (Loss) plus Net Non-Operating Revenues (Expenses)}}{\text{Operating Revenues plus Non-Operating Revenues}}$$

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.

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. -

Strategic Financial Analysis for Higher Education

Although still negative, UM's FY18 Net Operating Revenues Ratio of -.35%, is the best return UM has experienced since FY12 when its ratio was 2.53%.



	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Low Benchmark	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
High Benchmark	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
UM Actual	2.91%	3.44%	4.06%	2.53%	-1.19%	-2.20%	-1.98%	-0.65%	-1.01%	-0.35%
UMS Actual	1.62%	5.24%	5.16%	2.24%	0.55%	0.94%	-3.00%	-0.20%	2.28%	-0.08%

Ratio Components $ in thousands	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Operating revenues	*$ 218,215*	*$ 227,363*	*$ 234,972*	*$ 229,661*	*$ 223,532*	*$ 230,336*	*$ 227,597*	*$ 234,918*	*$ 244,559*	*$ 252,738*
Operating expenses	*$ (320,582)*	*$ (321,733)*	*$ (328,216)*	*$ (327,065)*	*$ (331,572)*	*$ (344,163)*	*$ (341,964)*	*$ (346,996)*	*$ (359,044)*	*$ (367,574)*
Operating loss	*$ (102,366)*	*$ (94,370)*	*$ (93,244)*	*$ (97,404)*	*$ (108,041)*	*$ (113,827)*	*$ (114,367)*	*$ (112,079)*	*$ (114,486)*	*$ (114,837)*
Net nonoperating revenues	*$ 112,116*	*$ 105,988*	*$ 107,331*	*$ 106,012*	*$ 104,085*	*$ 106,369*	*$ 107,684*	*$ 109,826*	*$ 110,858*	*$ 113,540*
Operating income (loss) plus net non-operating revenues (expenses)	**$ 9,750**	**$ 11,618**	**$ 14,088**	**$ 8,608**	**$ (3,956)**	**$ (7,458)**	**$ (6,683)**	**$ (2,253)**	**$ (3,628)**	**$ (1,297)**
Operating revenues plus non-operating revenues	**$ 335,166**	**$ 337,615**	**$ 346,597**	**$ 339,622**	**$ 331,286**	**$ 339,647**	**$ 337,867**	**$ 347,019**	**$ 357,575**	**$ 368,201**

Note: The above totals have not been adjusted for rounding.

UM's operating revenues plus nonoperating revenues reached a ten year high of $368.2 million in FY18; however, they were not sufficient to cover total FY18 expenses of $369.5 million. Notable variances from the prior year include an $8.1 million increase in net student fees revenue as enrollment, tuition rates, and scholarship awards increased; an $8.5 million increase in operating expenses, a $1.2 million increase in revenue from gifts currently expendable and a net $1.5 million increase in various other nonoperating revenues.

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:

$$\frac{\text{Change in Net Position}}{\text{Total Beginning of the Year Net Position}}$$

-

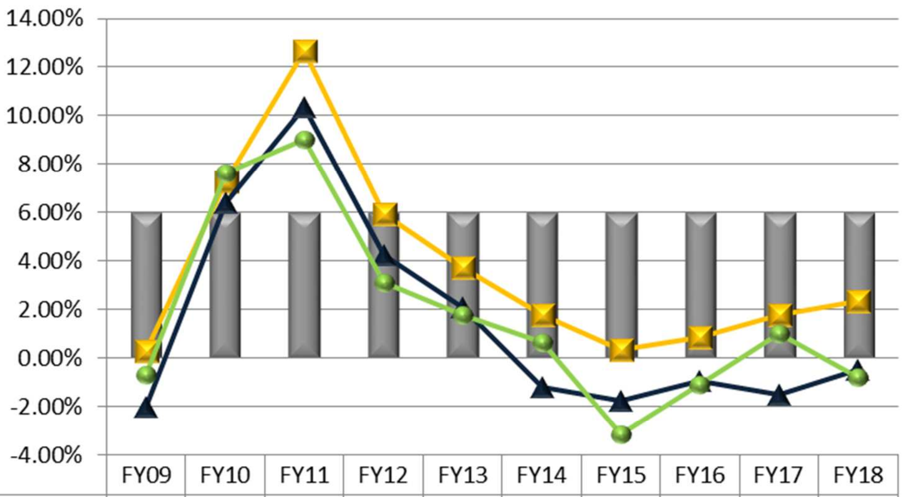
Key items that can impact expendable net position

- Items that impact the Net Operating Revenues Ratio
- endowment returns
- capital appropriations, grants, gifts, and transfers
- 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.

In the five most recent years, UM's return on net position did not keep pace with inflation. -

Return on Net Position Ratio



	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Benchmark	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
UM Nominal Rate	0.29%	7.28%	12.65%	5.95%	3.70%	1.78%	0.32%	0.83%	1.77%	2.32%
UM Real Rate	-2.01%	6.38%	10.35%	4.25%	2.10%	-1.22%	-1.78%	-0.97%	-1.53%	-0.48%
UMS Real Rate	-0.70%	7.65%	9.04%	3.12%	1.78%	0.63%	-3.14%	-1.09%	0.99%	-0.82%

Ratio Components $ in thousands	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Operating income (loss) plus net non-operating revenues (expenses)	*$ 9,750*	*$ 11,618*	*$ 14,088*	*$ 8,608*	*$ (3,956)*	*$ (7,458)*	*$ (6,683)*	*$ (2,253)*	*$ (3,628)*	*$ (1,297)*
Other changes in net position	*$ (8,771)*	*$ 12,817*	*$ 31,477*	*$ 15,547*	*$ 19,846*	*$ 15,379*	*$ 8,122*	*$ 6,005*	*$ 10,986*	*$ 11,098*
Change in total net position	**$ 979**	**$ 24,435**	**$ 45,565**	**$ 24,155**	**$ 15,890**	**$ 7,921**	**$ 1,439**	**$ 3,752**	**$ 7,358**	**$ 9,802**
Total net position (beginning of year)	**$ 334,696**	**$ 335,674**	**$ 360,109**	**$ 405,673**	**$ 429,829**	**$ 444,313**	**$ 452,234**	**$ 453,672**	**$ 415,936**	**$ 423,294**

Note: The above totals have not been adjusted for rounding.

As can be seen in the above table, other changes in net position has been the sole source of UM's positive return on net position since FY13. Although the FY18 total for other changes in net position is fairly consistent with that for FY17, two notable changes occurred in the components of this total: a $2.5 million increase in capital grants and gifts and a $2.6 million reduction in endowment returns, net of amount used for operations.

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:

$$\frac{\text{Expendable Net Position*}}{\text{Long-Term Debt}}$$

* Excluding net position restricted for capital investments

Key items that can impact expendable net position

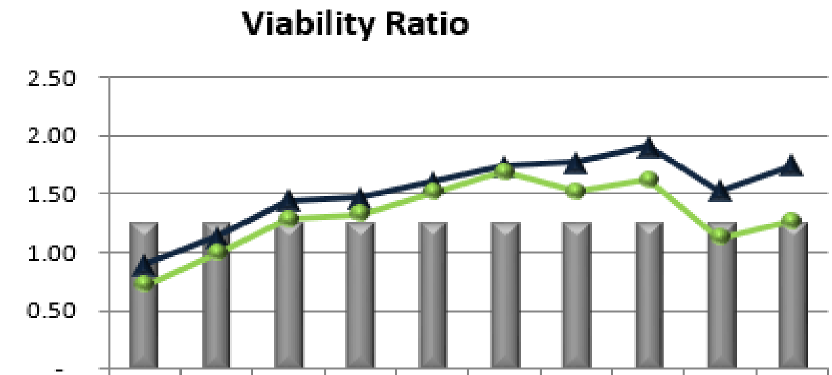
- principal payments on debt
- use of unrestricted net position to fund capital construction projects
- operating results (operating revenues – operating expenses + nonoperating revenues – nonoperating expenses + depreciation)
- endowment returns

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

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.

Strategic Financial Analysis for Higher Education

The significant reduction in UM's expendable net position pursuant to the implementation of GASB No. 75, caused UM's FY17 Viability Ratio to fall from the originally stated 10-year high of 2.12x, to the restated 1.53x. In FY18, the ratio increased to 1.75x.



	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Benchmark	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
UM Actual	0.90	1.13	1.44	1.47	1.60	1.74	1.77	1.91	1.53	1.75
UMS Actual	0.72	0.99	1.28	1.33	1.51	1.69	1.52	1.62	1.12	1.27

Ratio Components $ in thousands	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Unrestricted expendable net position	*$ 48,621*	*$ 63,017*	*$ 79,472*	*$ 89,548*	*$ 88,590*	*$ 83,595*	*$ 76,578*	*$ 77,229*	*$ 42,931*	*$ 47,198*
Restricted expendable net position	*$ 44,239*	*$ 48,943*	*$ 55,781*	*$ 52,009*	*$ 55,926*	*$ 63,767*	*$ 61,846*	*$ 62,402*	*$ 65,290*	*$ 66,065*
Expendable net position	**$ 92,860**	**$ 111,960**	**$ 135,253**	**$ 141,557**	**$ 144,516**	**$ 147,362**	**$ 138,424**	**$ 139,631**	**$ 108,221**	**$ 113,263**
Long-term debt	**$ 103,245**	**$ 98,741**	**$ 93,943**	**$ 96,118**	**$ 90,602**	**$ 84,583**	**$ 78,081**	**$ 73,038**	**$ 70,529**	**$ 64,588**

Note: The above totals have not been adjusted for rounding.

In FY18, UM's debt was at a ten-year low. Expendable net position regained ground in FY18 after incurring a $41.5 million reduction in FY17 related to the implementation of GASB No. 75. See the earlier discussion of the Primary Reserve Ratio for items that impacted expendable net position in FY18.

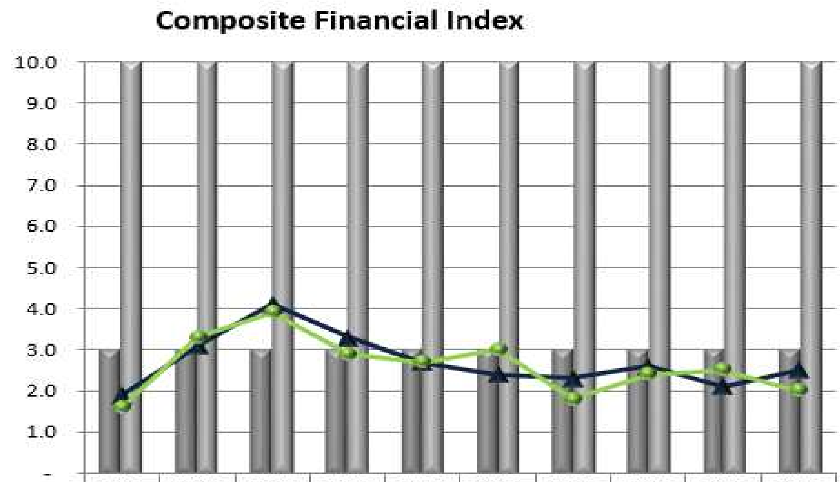
The **Composite Financial Index (CFI)** creates one overall financial measurement of the institution's health based on the four core ratios: Primary Reserve Ratio, Net Operating Revenues Ratio, Return on Net Position Ratio, and Viability Ratio. By blending these four key measures of financial health 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.

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.

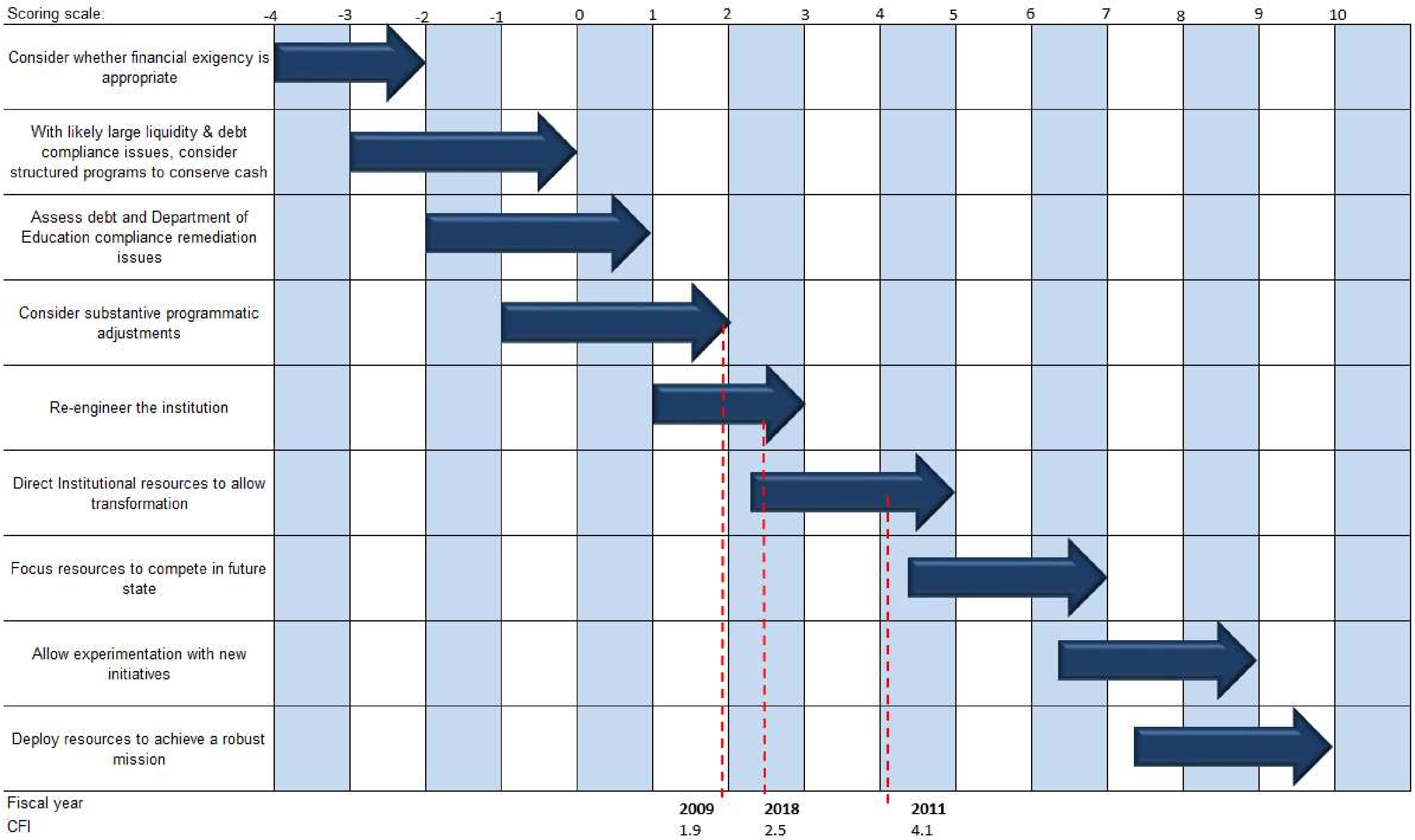
At 2.5, UM's FY18 CFI has remained under the low industry benchmark of 3.0 for the last six years. -



	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Low Benchmark	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
High Benchmark	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
UM Actual	1.9	3.1	4.1	3.3	2.7	2.4	2.3	2.6	2.1	2.5
UMS Actual	1.6	3.3	3.9	2.9	2.7	3.0	1.8	2.4	2.5	2.0

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.

The overlapping arrows represent the ranges of measurement that an institution may find useful in assessing itself. We have overlaid the scale with UM's lowest (FY09), highest (FY11), and most recent CFI scores to assist in evaluating UM'S performance.



CFI Calculation										
Fiscal Year	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
+ Primary Reserve Ratio	0.29	0.34	0.41	0.43	0.43	0.42	0.40	0.40	0.30	0.31
/ Common Scale Value *	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133
= Strength Factor **	***2.14***	***2.58***	***3.08***	***3.23***	***3.23***	***3.16***	***3.01***	***3.01***	***2.26***	***2.33***
X Weighting Factor ***	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Ratio Score	0.75	0.90	1.08	1.13	1.13	1.11	1.05	1.05	0.79	0.82
+ Net Operating Revenues Ratio	2.91%	3.44%	4.06%	2.53%	-1.19%	-2.20%	-1.98%	-0.65%	-1.01%	-0.35%
/ Common Scale Value *	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
= Strength Factor **	***4.16***	***4.92***	***5.80***	***3.61***	***-1.70***	***-3.14***	***-2.83***	***-0.93***	***-1.44***	***-0.50***
X Weighting Factor ***	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Ratio Score	0.42	0.49	0.58	0.36	0.17	0.31	0.28	0.09	0.14	0.05
+ Return on Net Position Ratio	0.29%	7.28%	12.65%	5.95%	3.70%	1.78%	0.32%	0.83%	1.77%	2.32%
/ Common Scale Value *	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
= Strength Factor **	***0.15***	***3.64***	***6.33***	***2.98***	***1.85***	***0.89***	***0.16***	***0.42***	***0.89***	***1.16***
X Weighting Factor ***	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Ratio Score	0.03	0.73	1.27	0.60	0.37	0.18	0.03	0.08	0.18	0.23
+ Viability Ratio	0.90	1.13	1.44	1.47	1.60	1.74	1.77	1.91	1.53	1.75
/ Common Scale Value *	0.417	0.417	0.417	0.417	0.417	0.417	0.417	0.417	0.417	0.417
= Strength Factor **	***2.16***	***2.72***	***3.45***	***3.53***	***3.84***	***4.17***	***4.24***	***4.58***	***3.67***	***4.20***
X Weighting Factor ***	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Ratio Score	0.76	0.95	1.21	1.24	1.34	1.46	1.48	1.60	1.28	1.47
Composite Financial Index	**1.9**	**3.1**	**4.1**	**3.3**	**2.7**	**2.4**	**2.3**	**2.6**	**2.1**	**2.5**

* = The common scale value is derived from the scoring scale defined by the authors of *Strategic Financial Analysis for Higher Education*, Seventh Edition for public institutions with an endowment spending rate.

** = The strength factor is the result of dividing the ratio value by the common scale value to determine a comparable value (strength) for each ratio that can be analyzed on a common scale of -4 to 10.

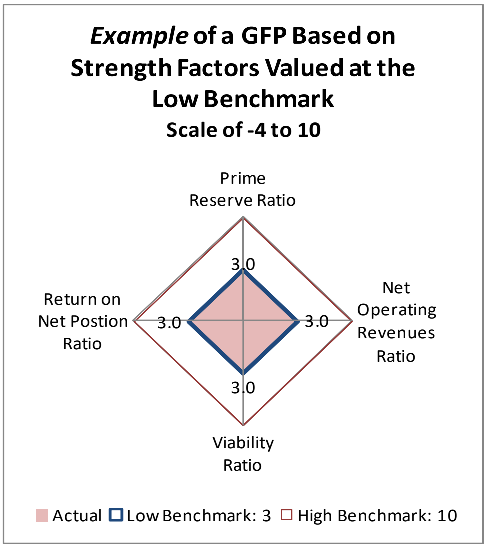
*** = The weighting factor is derived from the weighting schema defined by the authors of *Strategic Financial Analysis for Higher Education*, Seventh Edition for institutions with long-term debt.

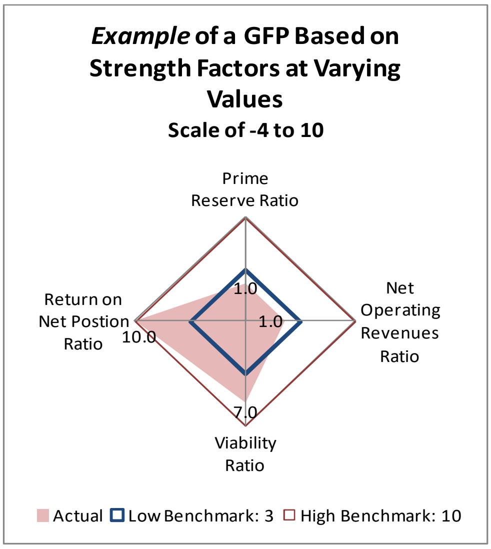
The strength factors that were used in calculating the CFI can be mapped on a diamond to show the shape of an institution's financial health compared to the industry benchmarks. This **Graphic Financial Profile** can assist management in determining whether a weakness in one ratio is offset by strength in another ratio.

UM's Graphic Financial Profiles begin on the next page.

Illustration

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:

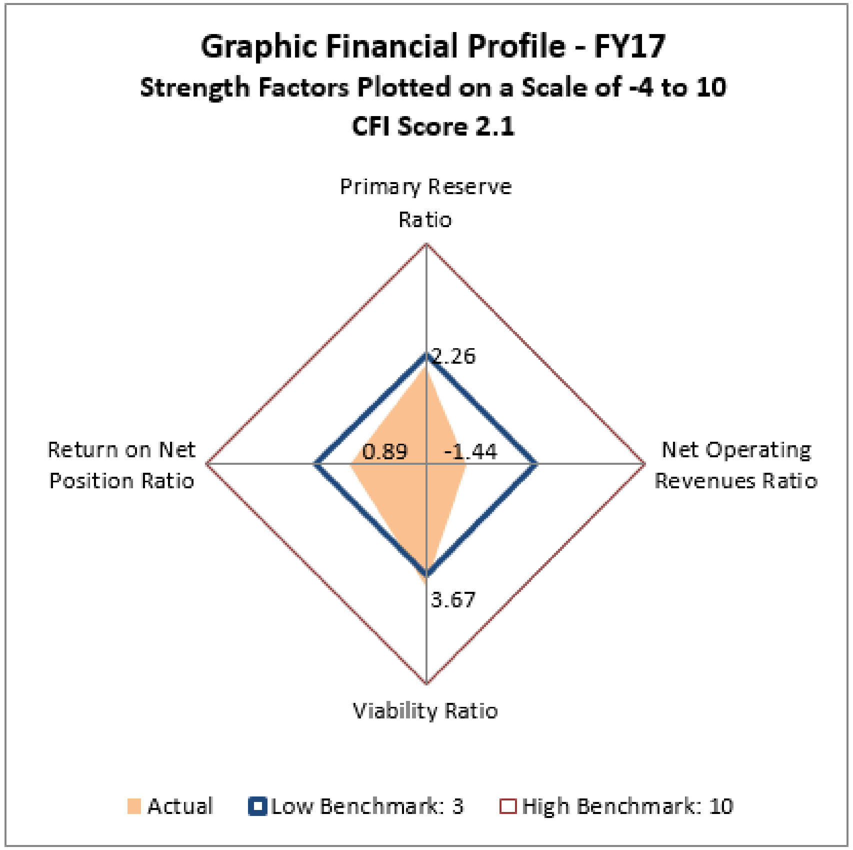


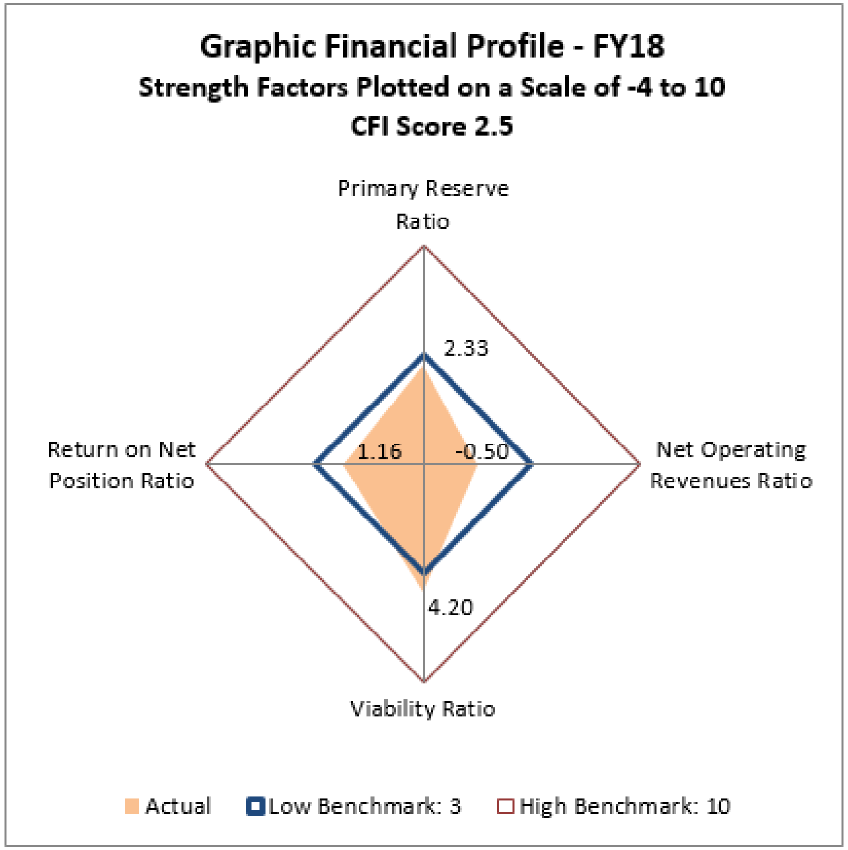


- The center point of the graphic financial profiles is -4, the lowest possible score on the scale.
- The smaller, heavily lined diamond in the graphs represents the low industry benchmark of 3.
- The outer, lightly lined diamond represents the high industry benchmark of 10 and the highest possible score 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.

UM Graphic Financial Profiles -
FY17 and FY18 -

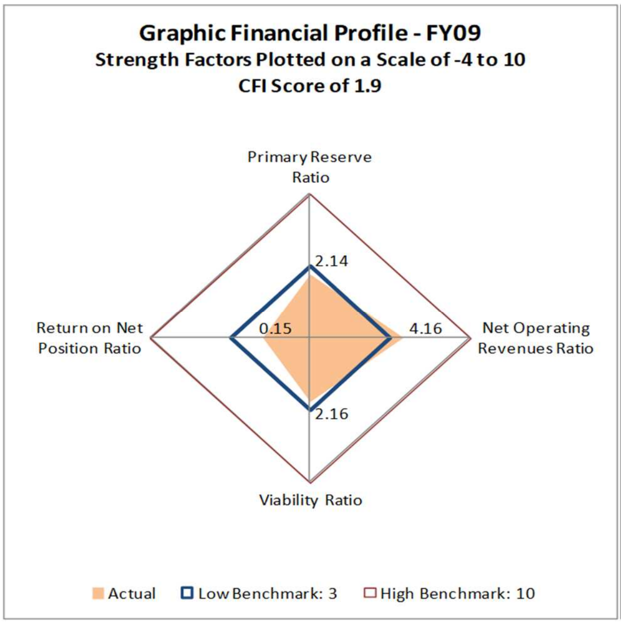
In FY18, the shape of the UM's graphic financial profile shifted slightly to the left and right, as UM experienced a better return from operations and a higher return on net position.

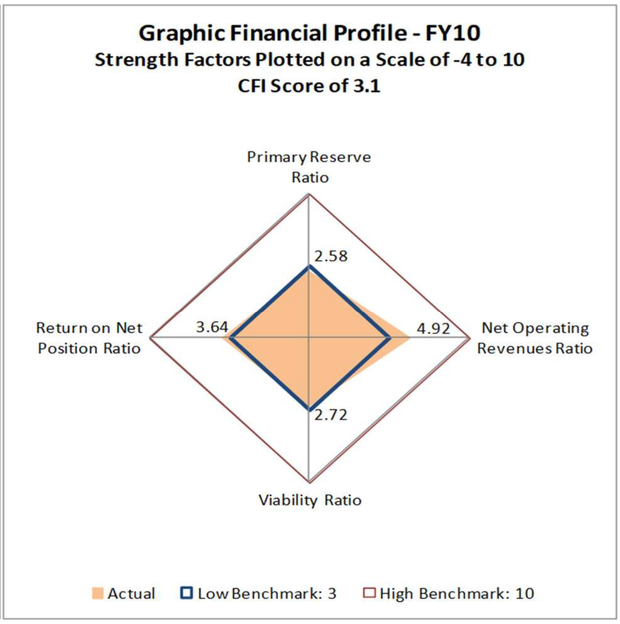


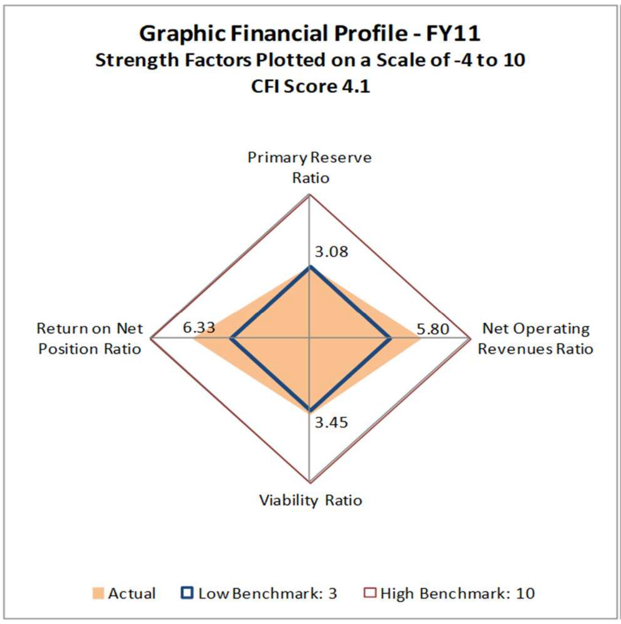


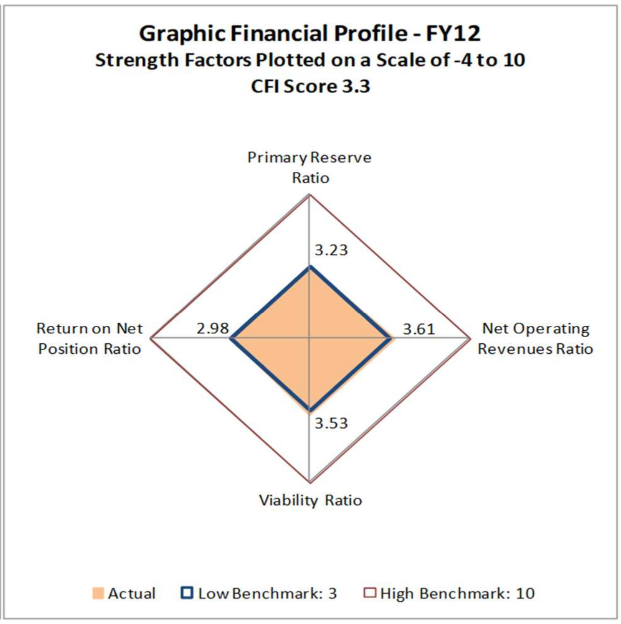
UM Graphic Financial Profiles
FY09 to FY16

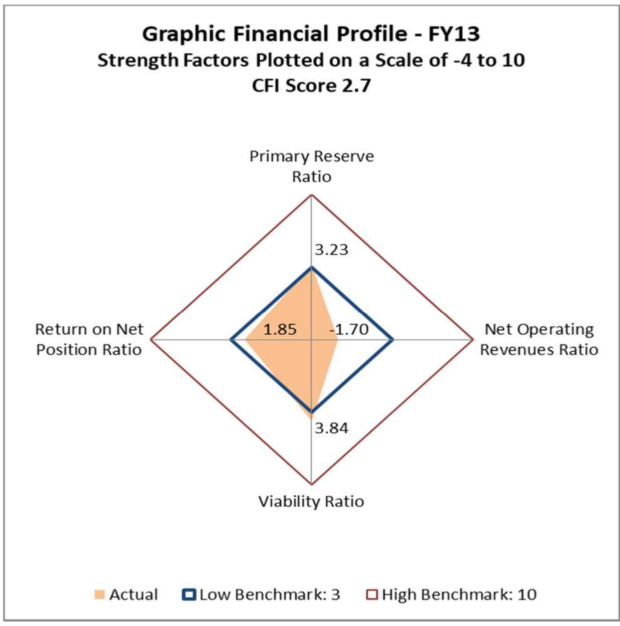
Changes in the shape of UM's graphic financial for FY09 thru FY16 can be seen below and on the next page.

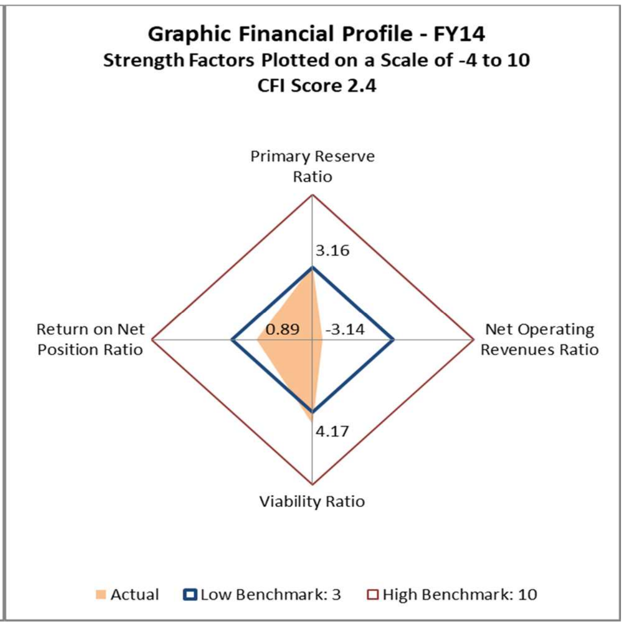


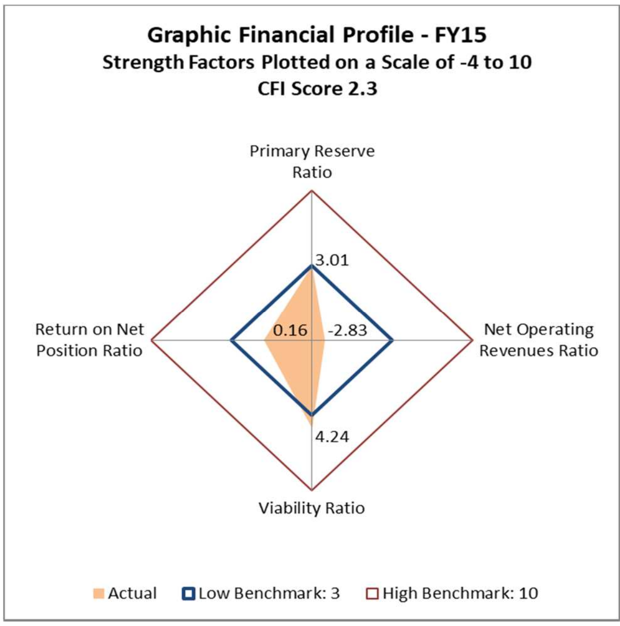


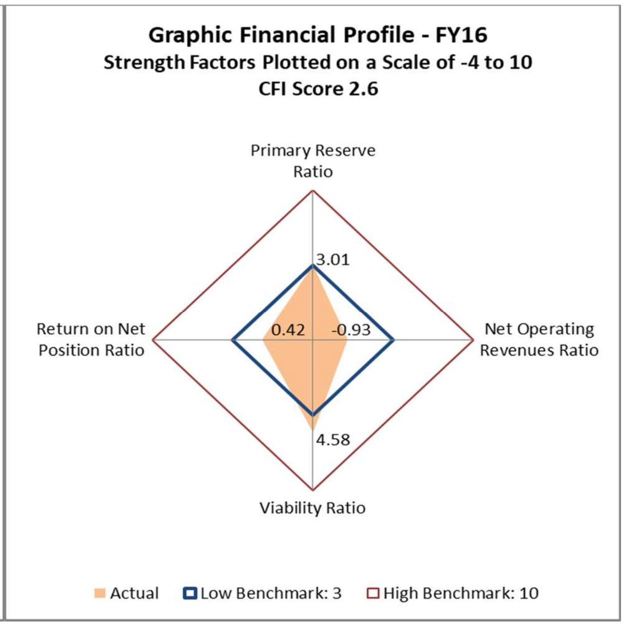





Graphic Financial Profile - FY13
Strength Factors Plotted on a Scale of -4 to 10
CFI Score 2.7
Primary Reserve Ratio
3.23
Return on Net Position Ratio
1.85
-1.70
Net Operating Revenues Ratio
3.84
Viability Ratio
Actual
Low Benchmark: 3
High Benchmark: 10


Graphic Financial Profile - FY14
Strength Factors Plotted on a Scale of -4 to 10
CFI Score 2.4
Primary Reserve Ratio
3.16
Return on Net Position Ratio
0.89
-3.14
Net Operating Revenues Ratio
4.17
Viability Ratio
Actual
Low Benchmark: 3
High Benchmark: 10


Graphic Financial Profile - FY15
Strength Factors Plotted on a Scale of -4 to 10
CFI Score 2.3
Primary Reserve Ratio
3.01
Return on Net Position Ratio
0.16
-2.83
Net Operating Revenues Ratio
4.24
Viability Ratio
Actual
Low Benchmark: 3
High Benchmark: 10


Graphic Financial Profile - FY16
Strength Factors Plotted on a Scale of -4 to 10
CFI Score 2.6
Primary Reserve Ratio
3.01
Return on Net Position Ratio
0.42
-0.93
Net Operating Revenues Ratio
4.58
Viability Ratio
Actual
Low Benchmark: 3
High Benchmark: 10

UM - Financial Highlights - FY09 thru FY17 -

The following financial highlights are provided as a resource in understanding prior years' changes in the core ratios.

Primary Reserve Ratio

FY09: Management cut E&G expenses to address a $4.7 million decrease in noncapital State of Maine appropriation revenue. The receipt of $4 million in State Fiscal Stabilization revenues in late FY09 helped to curb the decrease in the Primary Reserve Ratio as the stabilization dollars were applied to operating costs that otherwise would have been paid from educational and general revenues. Negative endowment returns helped to drive down the ratio.

FY10/FY11: Fiscal Stabilization revenues helped to offset reduced State of Maine appropriation revenues.

FY12: UM's Primary Reserve Ratio reached its highest point in the five-year period then ended, despite challenges such as a decrease in operating grants and contracts revenue to FY10 levels, the loss of State Fiscal Stabilization revenues, and negative endowment returns.

FY13: Expendable net position increased as positive operating returns before depreciation expense and positive endowment returns more than offset the impact of increased expenses and use of $8 million of unrestricted expendable net position for capital construction.

FY14: Expendable net position increased as positive operating returns before depreciation expense (depreciation expense impacts net position invested in capital assets) and positive endowment returns more than offset the impact of increased expenses and use of $7.1 million of unrestricted expendable net position for capital construction.

FY15: UM's expenses decreased from the prior year; however, so did expendable net position, causing UM's ratio to decrease in FY15. UM's FY15 operating results were not enough to offset $3.7 million of negative endowment returns, net of amount used for operations and $8 million of unrestricted net position used for construction projects.

FY16: UM's ratio held steady at .40x as operating results were more than sufficient to offset $4.8 million of negative endowment returns, net of amount used for operations and $5 million of unrestricted net position used for construction projects.

FY17: Prior to restatement of FY17 data, UM's ratio increased just .01x from the prior year as total expendable net position increased $10 million and expenses increased $11.9 million from FY16. Notable items contributing to the originally stated increase in expendable net position include a $9.1 million increase in net student fees revenue, an $11.9 million increase in expenses, a $5.4 million increase in noncapital State of Maine appropriations revenue, and a $9.4 million increase in endowment return, net of amount used for operations.

As previously noted, the restatement of FY17 data included a $41.5 million reduction in expendable net position which caused UM's FY17 Primary Reserve Ratio to fall from the originally stated .41x down to .30x.

Net Operating Revenues Ratio

FY09/FY10/FY11: These years were economically challenging times in the State of Maine. UM management continued to make tough budget decisions to control expenses and increase the University's financial health. Their success is evident in the steady increase in operating returns from FY09 through FY11.

FY12: Economic challenges continued as UM experienced its first decline in the five-year period then ended in total operating and nonoperating revenues. Grants and contracts revenue decreased 8.5%, indirect cost recovery revenue decreased 10.7%, and State Fiscal Stabilization revenue was no longer available.

FY13: UM's return from operations decreased $12.6 million from the prior year and UM experienced its first loss from operations in the six-year period then ended. A freeze of in-state tuition and fee rates and a reduction in state appropriation revenue as a result of Outcomes Based Funding metrics were key factors in the loss from operations. A reduction in grants and contracts revenue also contributed to the loss to the extent that personnel previously paid from grants and contracts were instead paid from E&G during FY13. An increase in depreciation expense as a result of strategic investments in capital improvements during recent years along with current year investments in strategic areas such as enrollment management, student retention efforts, and major maintenance projects also negatively impacted this ratio in FY13.

FY14: During recent years UM management had focused on strategic efforts to increase enrollments after seeing declines in FY12 and FY13. In FY14, those efforts proved successful as enrollments increased and gross student fees increased $10 million or 6% from FY13 despite a continued freeze on in-state tuition and fee rates. The increase in student fees revenue was, however, more than offset by a $4 million increase in the amount of institutional funds used for student financial aid costs and a $10.8 million increase in expenses not related to grants and contracts and not related to financial aid.

FY15: UM's ratio improved slightly from FY14, as UM experienced a smaller loss which was net of a $2 million or 1.5% increase in net student fees revenue, a $3 million decrease in grants and contracts revenue and the related recovery of indirect costs revenue, a $2 million decrease in operating expenses, a $2 million decrease in noncapital State of Maine appropriations revenue, a $1 million increase in noncapital transfers from other campuses, and a net $1 million increase in various other operating and nonoperation revenue sources.

FY16: Although still at a loss, UM's return on operations was significantly improved, going from a loss of $6.7 million in FY15 to a loss of $2.3 million in FY16. Operating revenues increased $7.3 million or 3%, with $3.5 million of the increase coming from net student fees. Nonoperating revenues increased $1.8 million with $1.6 million of the increase occurring from gifts currently expendable. Outpacing these revenue increases was a $4.7 million increase in expenses.

FY17: At $357.6 million, UM's operating revenues plus nonoperating revenues was at a ten-year high in FY17. These revenues were not, however; enough to cover total FY17 expenses of $361.2 million that were also at a ten-year high. Notable variances from the prior year include a $9.1 million increase in net student fees revenue, a $12 million increase in operating expenses, a $5.4 million increase in noncapital State of Maine appropriations, and a $3.8 million decrease in gifts currently expendable revenue.

FY15/FY16/FY17: Although the exact impact on this ratio is not readily determinable, it should be noted that during this three-year time span, the UMS underwent a reorganization to centralize under the University Services portion of UMSGUS, many services (e.g., Procurement, Human Resources, Information Technology, Facilities, and Finance) that had previously existed at each of the campuses and UMSGUS. The costs of University Services were then allocated back out to UM and the other campuses within the UMS along with an additional allocation of noncapital State of Maine appropriation revenues to help cover the costs of the centralized services. This reorganization occurred in a staggered approach with all University Services costs being allocated to the campuses by FY17.

Return on Net Position Ratio

UM's 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 are included in other changes in net position and directly impact capital and endowment assets:

- Undistributed endowment returns impact UM's Return on Net Position Ratio every year; however, the impact has fluctuated significantly over the years with changes in market returns.

$ in millions

FY09	($13.9)	**FY14**	$8.5
FY10	$2.7	**FY15**	($3.7)
FY11	$8.6	**FY16**	($4.8)
FY12	($4.0)	**FY17**	$4.5
FY13	$5.0	**FY18**	$1.9

- State of Maine capital appropriations revenue fluctuates with the availability of voter approved bond proceeds and the timing of UM's expenditure of those proceeds. Over the past ten years, UM has received as much as $8.2 million in a single year (FY16) and as little as $1.8 million (FY14).
- Capital grants and gifts have been a constant source of revenue over the years; however, the level of such funding has been influenced by a variety of things, including the types of projects being undertaken and the availability of external funding for the projects. These revenues were particularly high in FY11 when UM received a total of $20 million, primarily due to the offshore wind energy research being conducted by UM. In FY12, capital grants and gifts revenue remained high at $16 million; however, the revenue was received for more varied purposes than in FY11. By FY17, capital grants and gifts revenue dropped to $1.6 million, the lowest amount received in the most recent ten years then ended. Capital grants and gifts of $4.2 million were received by UM in FY18.

Viability Ratio

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 for items impacting expendable net position.

FY09: Management intentionally reduced outstanding debt to free up resources for operations.

FY12: UM's debt increased slightly from the prior year as additional UMS revenue bonds were issued to finance renovation of UM's Memorial Gym. The State of Maine is providing appropriation dollars restricted to pay the debt service on these new bonds.

FY13: $3.2 million of the decrease in UM's outstanding debt balance is attributable to the UMS refinancing portions of its previously issued bonds to attain savings.

FY15/FY17: The UMS refinanced debt again in both of these years bringing some savings to UM; however, not nearly as significant as the savings in FY13.

FY17: UM acquired $2.4 million in new debt to finance classroom technology upgrades. The State of Maine is providing appropriation dollars restricted to pay the debt service on these new bonds.