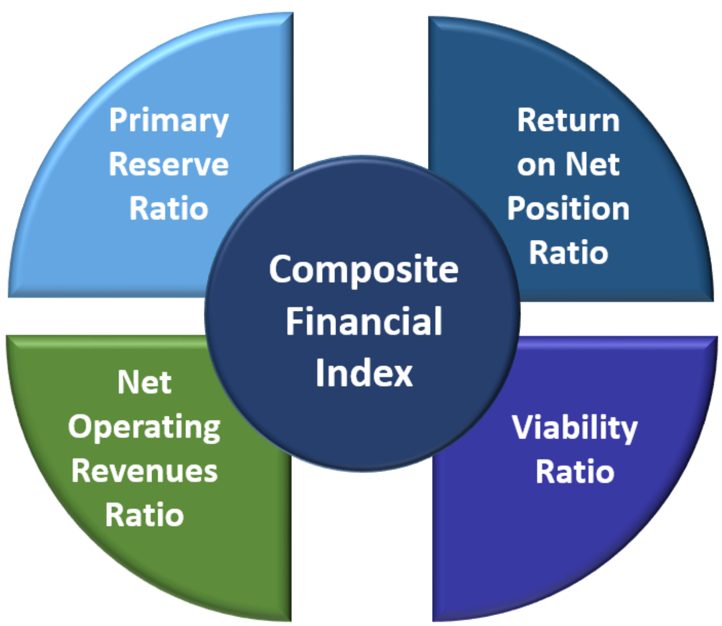
UNIVERSITY of MAINE at AUGUSTA

FY2018 Core Financial Ratios and Composite Financial Index



University of Maine System
Office of Finance and Treasurer
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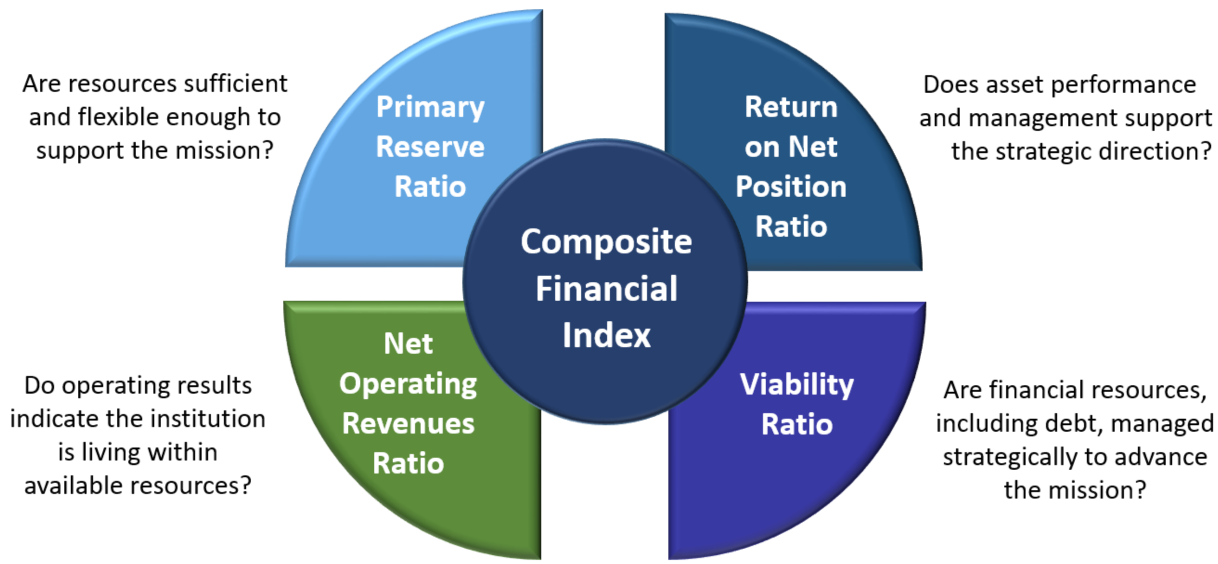
Introduction

The financial health of the University of Maine at Augusta (UMA) 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 UMA'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 Standard

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 UMA's FY17 financial statements was a $6.1 million decrease in the previously reported FY17 beginning of year expendable net position and a corresponding increase in noncurrent liabilities as UMA 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 UMA'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
UMA as originally stated	0.38	-0.78%	2.68%	-1.02%	8.22	4.7
UMA as restated	0.25	-0.78%	3.04%	-0.26%	5.45	4.4
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:

$$\frac{\text{Expendable Net Position*}}{\text{Total Expenses}}$$

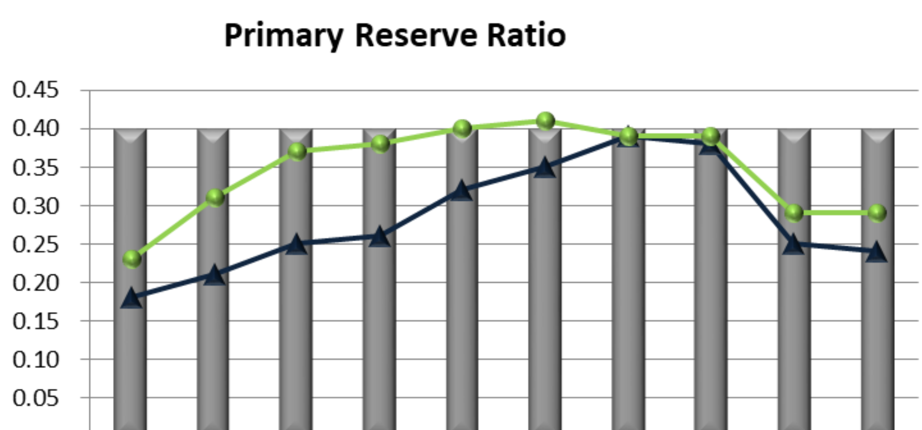
* Excluding net position restricted for capital investments

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.

After being just below the industry benchmark of .40x in FY15 and FY16, UMA's Primary Reserve Ratio dropped to .25x in FY17 due to the significant reduction in UMA's expendable net position pursuant to the implementation of GASB No. 75. In FY18, UMA's ratio decreased slightly to .24x which provides just under 3 months of expense coverage.



	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
UMA Actual	0.18	0.21	0.25	0.26	0.32	0.35	0.39	0.38	0.25	0.24
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	$ 6,017	$ 8,137	$ 9,957	$ 10,952	$ 12,751	$ 12,938	$ 14,389	$ 14,995	$ 8,018	$ 7,395
Restricted expendable net position	$ 1,878	$ 1,746	$ 2,288	$ 2,113	$ 3,022	$ 3,926	$ 3,859	$ 3,407	$ 3,986	$ 4,065
Total expendable net position	**$ 7,895**	**$ 9,883**	**$ 12,245**	**$ 13,065**	**$ 15,773**	**$ 16,864**	**$ 18,248**	**$ 18,402**	**$ 12,004**	**$ 11,460**
Total expenses	**$ 44,044**	**$ 46,664**	**$ 48,159**	**$ 49,849**	**$ 49,714**	**$ 48,397**	**$ 46,909**	**$ 48,211**	**$ 47,507**	**$ 48,361**

In FY18, UMA's expendable net position decreased from the prior year and expenses increased slightly resulting in a small reduction in its Primary Reserve Ratio. As can be seen in the above table, the decrease in expendable net position was related to the unrestricted portion. This decrease is the result of a loss from operations and the use of $333 thousand of unrestricted net position for capital construction including renovations at the Katz Library and the Fitness Center. Restricted expendable net position increased primarily due to positive endowment returns for FY18.

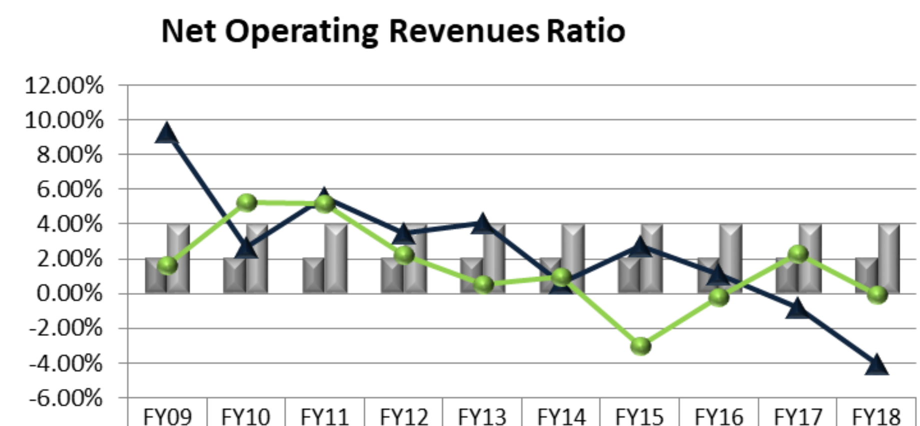
The **Net Operating Revenues Ratio** is a measure of operating results and answers the question, "Do operating results indicate that the University is living within available resources?" Operating results either increase or decrease net position and, thereby, impact the other three core ratios: Primary 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*

In FY18, UMA experienced a Net Operating Revenues Ratio of -4.06%, its lowest ratio in the ten-year period shown below.



	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%
UMA Actual	9.34%	2.66%	5.52%	3.48%	4.07%	0.57%	2.73%	1.12%	-0.78%	-4.06%
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	$ 29,563	$ 33,994	$ 36,234	$ 37,239	$ 36,470	$ 33,207	$ 31,839	$ 31,178	$ 27,853	$ 26,645
Operating expenses	$ (43,935)	$ (46,562)	$ (48,063)	$ (49,778)	$ (49,679)	$ (48,367)	$ (46,883)	$ (48,188)	$ (47,484)	$ (48,325)
Operating loss	$ (14,371)	$ (12,567)	$ (11,829)	$ (12,538)	$ (13,209)	$ (15,160)	$ (15,044)	$ (17,011)	$ (19,631)	$ (21,680)
Net nonoperating revenues	$ 18,909	$ 13,841	$ 14,641	$ 14,333	$ 15,319	$ 15,435	$ 16,359	$ 17,555	$ 19,261	$ 19,792
Operating income (loss) plus net non-operating revenues (expenses)	**$ 4,538**	**$ 1,274**	**$ 2,812**	**$ 1,795**	**$ 2,110**	**$ 275**	**$ 1,315**	**$ 544**	**$ (370)**	**$ (1,888)**
Operating revenues plus non-operating revenues	**$ 48,581**	**$ 47,938**	**$ 50,971**	**$ 51,643**	**$ 51,824**	**$ 48,672**	**$ 48,224**	**$ 48,756**	**$ 47,137**	**$ 46,473**

UMA's operating expenses increased $841 thousand or 1.8% from FY17 to FY18, while operating revenues plus non-operating revenues decreased by $664 thousand or 1.4%.

A $494 thousand increase in the Student Services functional expense category accounts for 59% of the increase in operating expenses. Other notable items were a combined increase of $375 thousand in the Operation and Maintenance of Plant and Depreciation functional expense categories. The Academic Support and Student Aid expense categories also increased while Institutional Support and Auxiliary expenses decreased.

Notable items in the net decrease in revenues are a $707 thousand decrease in net student fees, a $311 thousand decrease in grants and contracts revenue, and a $421 thousand increase in noncapital State of Maine appropriations revenue.

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:

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

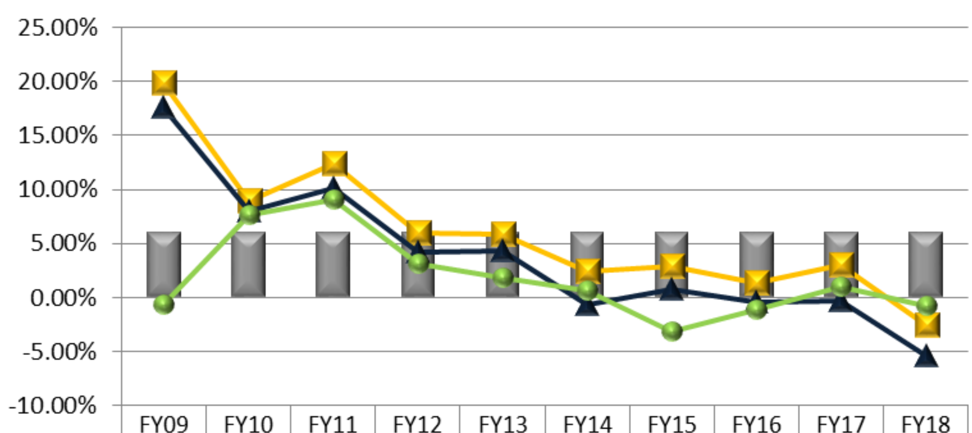
Key items that can impact expendable net position

- 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 FY18, UMA experienced its first negative nominal rate of return on net position in the ten years presented below.

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%
UMA Nominal Rate	19.88%	8.90%	12.44%	5.93%	5.89%	2.38%	2.92%	1.39%	3.04%	-2.57%
UMA Real Rate	17.58%	8.00%	10.14%	4.23%	4.29%	-0.62%	0.82%	-0.41%	-0.26%	-5.37%
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)	$ 4,538	$ 1,274	$ 2,812	$ 1,795	$ 2,110	$ 275	$ 1,315	$ 544	$ (370)	$ (1,888)
Other changes in net position	$ 1,372	$ 1,898	$ 2,017	$ 791	$ 615	$ 888	$ 149	$ 175	$ 1,772	$ 665
Change in total net position	**$ 5,910**	**$ 3,172**	**$ 4,829**	**$ 2,586**	**$ 2,725**	**$ 1,163**	**$ 1,464**	**$ 719**	**$ 1,402**	**$ (1,222)**
Total net position (beginning of year)	**$ 29,733**	**$ 35,643**	**$ 38,816**	**$ 43,645**	**$ 46,231**	**$ 48,930**	**$ 50,093**	**$ 51,557**	**$ 46,183**	**$ 47,585**

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

As can be seen in the above table, FY18 is the first year in the 10 years presented in which UMA had a negative change in total net position. UMA experienced a negative Net Operating Revenues Ratio in FY18 and other changes in net position of $665 thousand were not enough to offset that loss. Other changes in net position decreased from FY17 to FY18 as the FY17 total included a special one-time capital transfer of $1.1 million from UMS Governance & University Services to fund UMA's Lewiston Hall upgrade project.

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

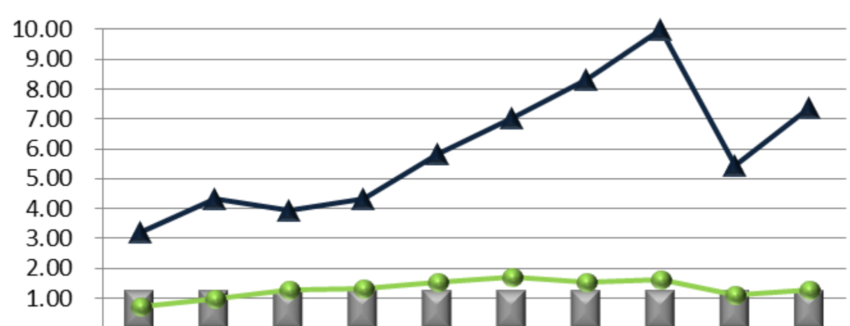
A ratio of 1.25 or greater indicates that there are sufficient resources to satisfy debt obligations.

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

Despite the significant reduction in UMA's expendable net position pursuant to the implementation of GASB No. 75, UMA's restated FY17 ratio and its FY18 ratio continue to far surpass the UMS ratio and the industry benchmark.

Viability Ratio



	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
UMA Actual	3.21	4.32	3.93	4.33	5.82	7.04	8.31	9.98	5.45	7.37
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	$ 6,017	$ 8,137	$ 9,957	$ 10,952	$ 12,751	$ 12,938	$ 14,389	$ 14,995	$ 8,018	$ 7,395
Restricted expendable net position	$ 1,878	$ 1,746	$ 2,288	$ 2,113	$ 3,022	$ 3,926	$ 3,859	$ 3,407	$ 3,986	$ 4,065
Total expendable net position	**$ 7,895**	**$ 9,883**	**$ 12,245**	**$ 13,065**	**$ 15,773**	**$ 16,864**	**$ 18,248**	**$ 18,402**	**$ 12,004**	**$ 11,460**
Long-term debt	**$ 2,460**	**$ 2,290**	**$ 3,114**	**$ 3,016**	**$ 2,711**	**$ 2,394**	**$ 2,195**	**$ 1,844**	**$ 2,202**	**$ 1,555**

In FY18, there were no additions to UMA's debt. 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.

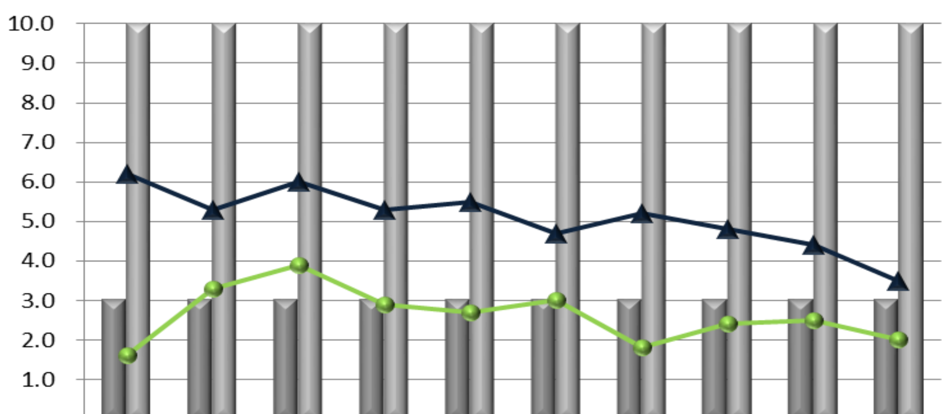
The CFI is calculated by completing the following steps:

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.

For each of the ten years reported below, UMA's CFI has surpassed the low industry benchmark and has been well above the score for the UMS.

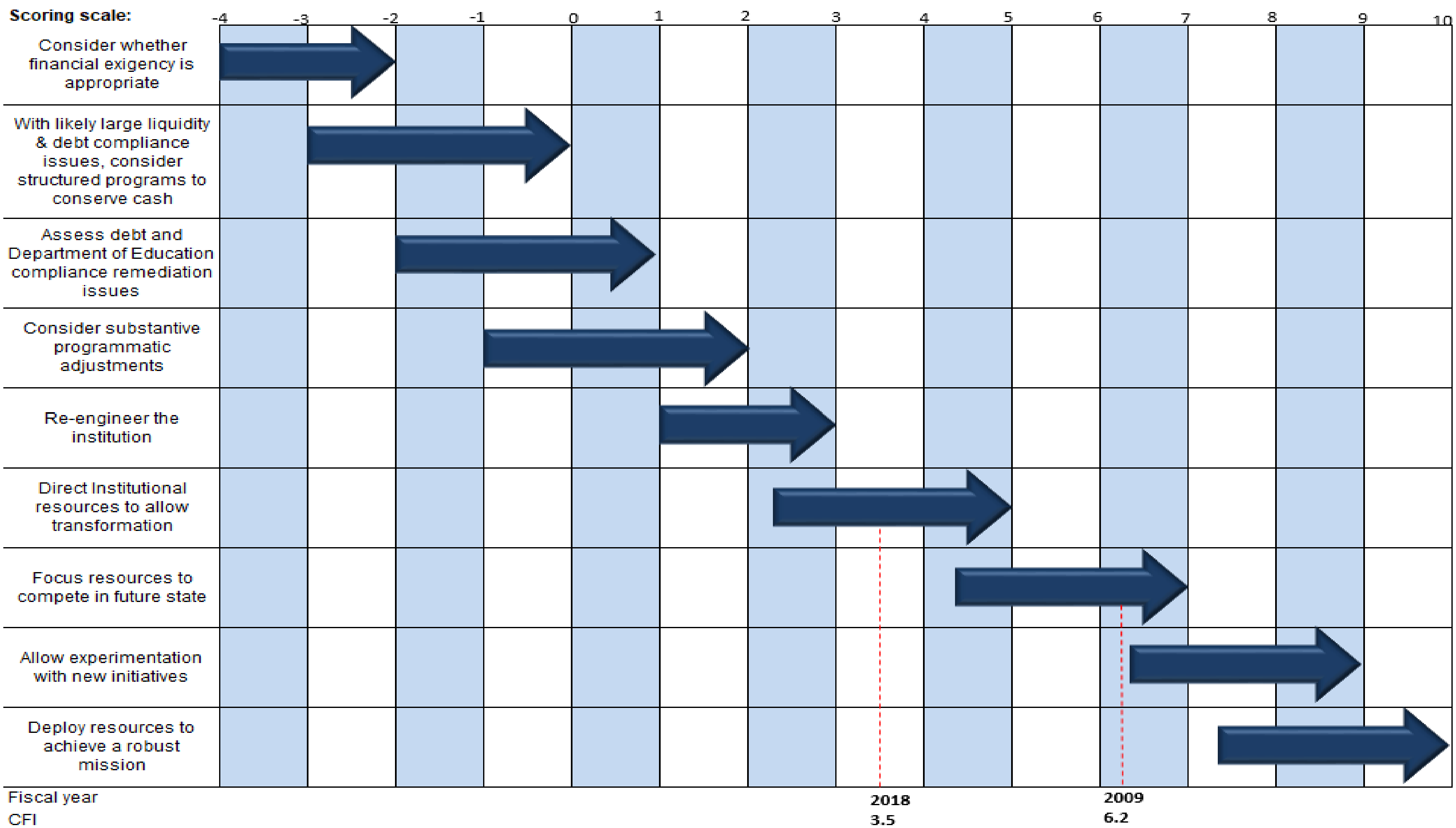
Composite Financial Index



	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
UMA Actual	6.2	5.3	6.0	5.3	5.5	4.7	5.2	4.8	4.4	3.5
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 UMA's highest (FY09) and most recent CFI scores to assist in evaluating UMA's performance.



CFI Calculation

Fiscal Year	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
+ Primary Reserve Ratio	0.18	0.21	0.25	0.26	0.32	0.35	0.39	0.38	0.25	0.24
/ 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 ** **	**1.35**	**1.58**	**1.88**	**1.95**	**2.41**	**2.63**	**2.93**	**2.86**	**1.88**	**1.80**
X Weighting Factor ***	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Ratio Score	0.47	0.55	0.66	0.68	0.84	0.92	1.03	1.00	0.66	0.63
+ Net Operating Revenues Ratio	9.34%	2.66%	5.52%	3.48%	4.07%	0.57%	2.73%	1.12%	-0.78%	-4.06%
/ 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 ** **	**10.00**	**3.80**	**7.89**	**4.97**	**5.81**	**0.81**	**3.90**	**1.60**	**-1.11**	**-4.00**
X Weighting Factor ***	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Ratio Score	1.00	0.38	0.79	0.50	0.58	0.08	0.39	0.16	-0.11	-0.40
+ Return on Net Position Ratio	19.88%	8.90%	12.44%	5.93%	5.89%	2.38%	2.92%	1.39%	3.04%	-2.57%
/ 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 ** **	**9.94**	**4.45**	**6.22**	**2.97**	**2.95**	**1.19**	**1.46**	**0.70**	**1.52**	**-1.29**
X Weighting Factor ***	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Ratio Score	1.99	0.89	1.24	0.59	0.59	0.24	0.29	0.14	0.30	-0.26
+ Viability Ratio	3.21	4.32	3.93	4.33	5.82	7.04	8.31	9.98	5.45	7.37
/ 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 ** **	**7.70**	**10.00**	**9.42**	**10.00**	**10.00**	**10.00**	**10.00**	**10.00**	**10.00**	**10.00**
X Weighting Factor ***	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Ratio Score	2.70	3.50	3.30	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Composite Financial Index	6.2	5.3	6.0	5.3	5.5	4.7	5.2	4.8	4.4	3.5

* = 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.

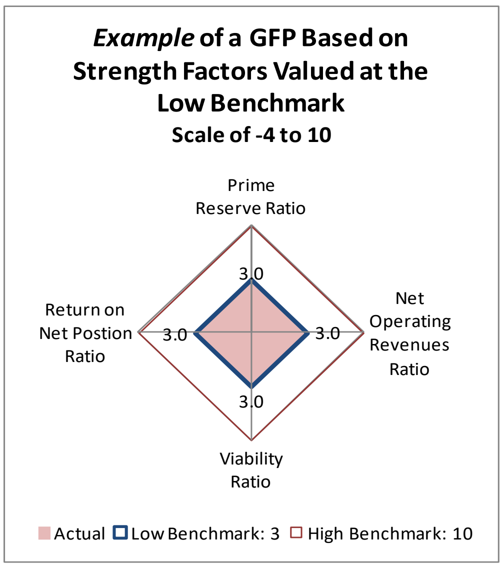
*** = The weighting factor is derived from the weighting schema defined by the authors of *Strategic Financial Analysis for Higher Education* , Seventh Edition for institutions with long-term debt.

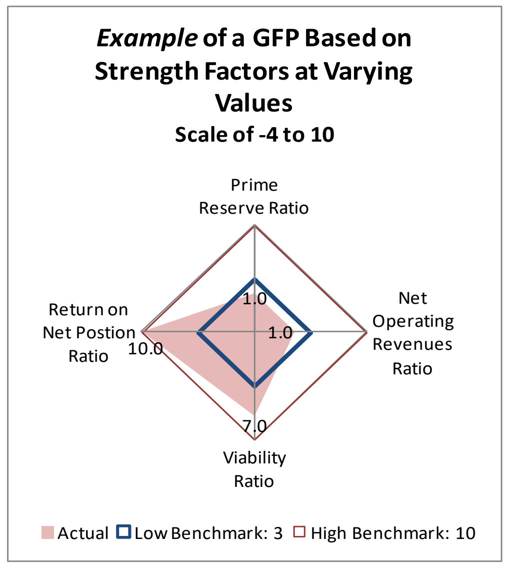
The strength factors that were used in calculating the CFI can be mapped on a diamond graph to show the shape of an institution's financial health compared to the industry benchmarks. This **Graphic Financial Profile** can assist management in determining whether a weakness in one ratio is offset by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

UMA'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:

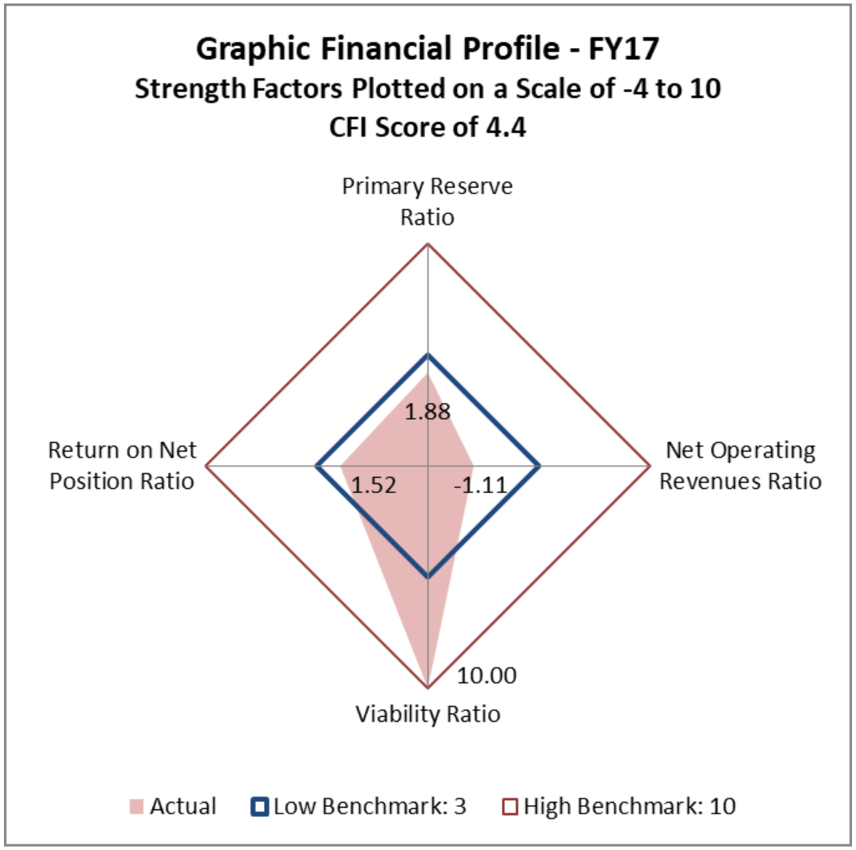


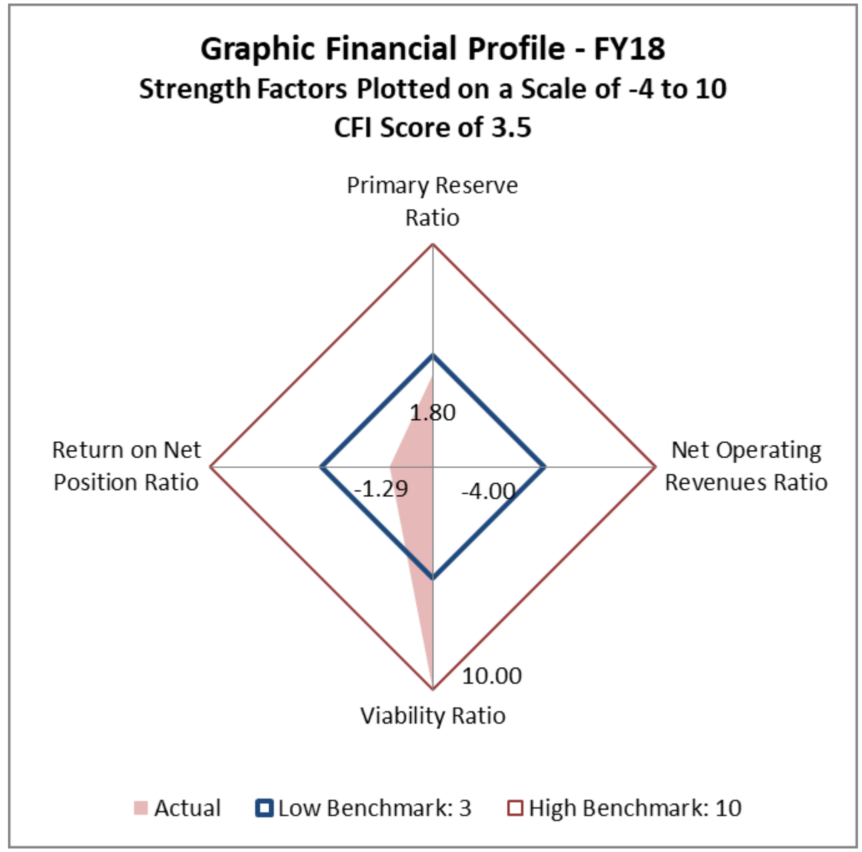


- The center point of the graphic financial profiles is -4, the lowest possible score on the scale.
- The smaller, heavily lined diamond in the graphs represents the low industry benchmark of 3.
- The outer, lightly lined diamond represents the high industry benchmark of 10 and the highest possible score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

UMA Graphic Financial Profiles
FY17 and FY18

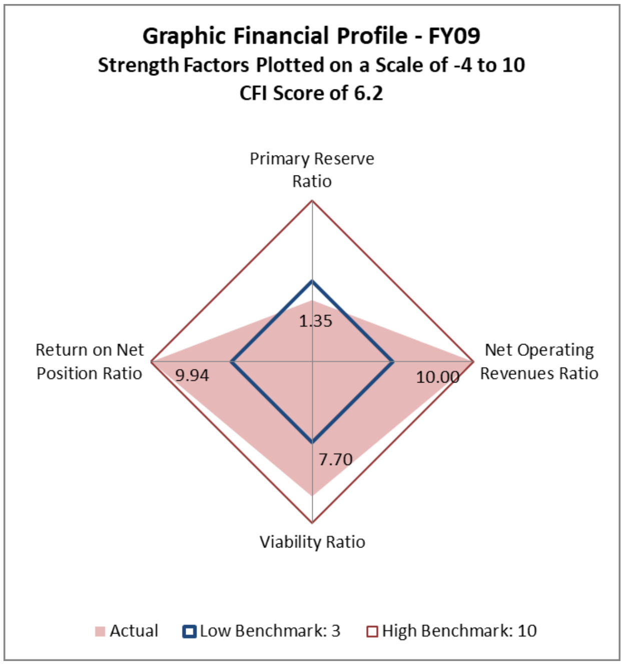
In FY18, the shape of UMA's graphic financial profile shifted toward the center as UMA experienced a negative return from both operations and on net position.

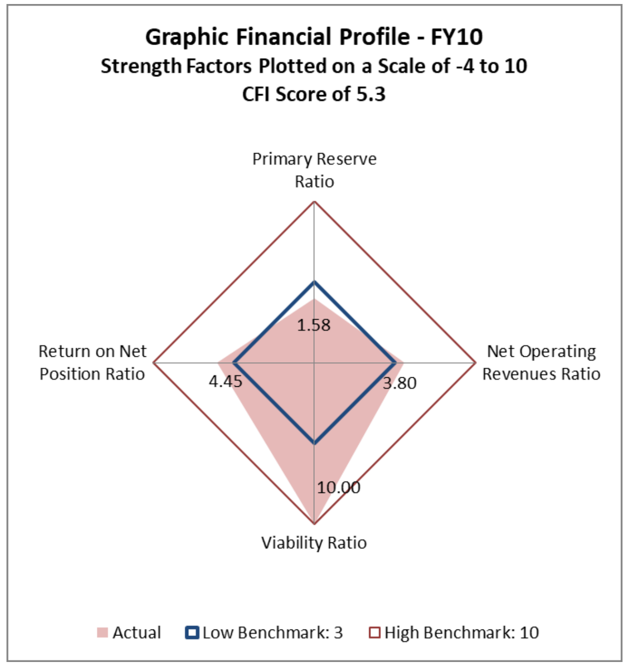


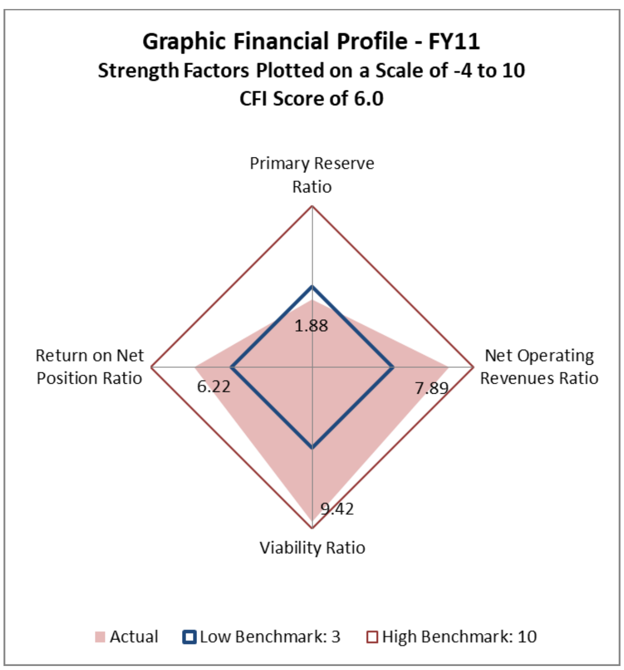


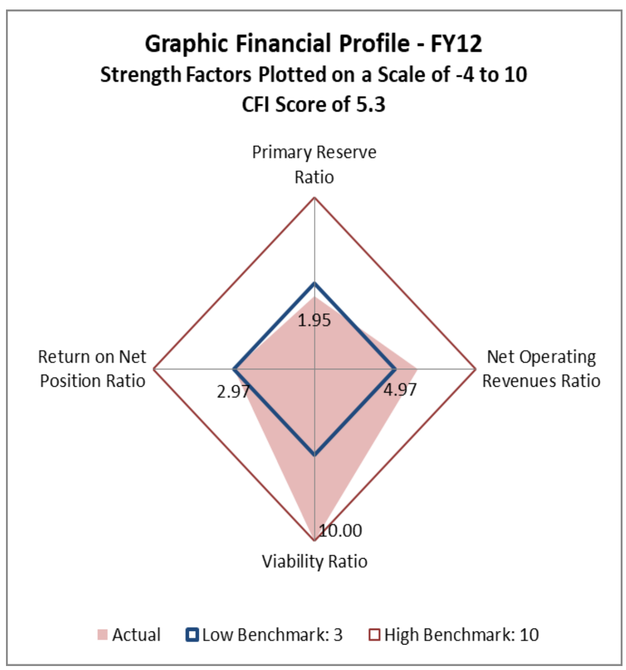
UMA Graphic Financial Profiles
FY09 to FY16

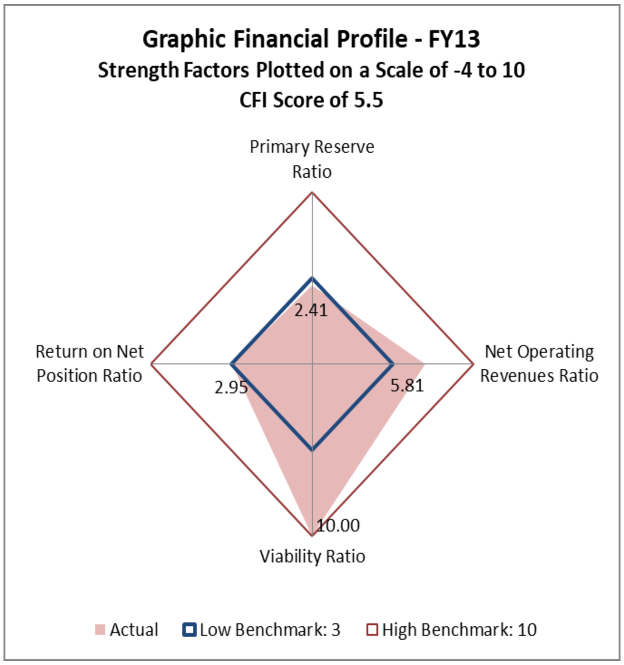
Changes in the shape of UMA's graphic financial for FY09 thru FY16 can be seen below and on the next page.

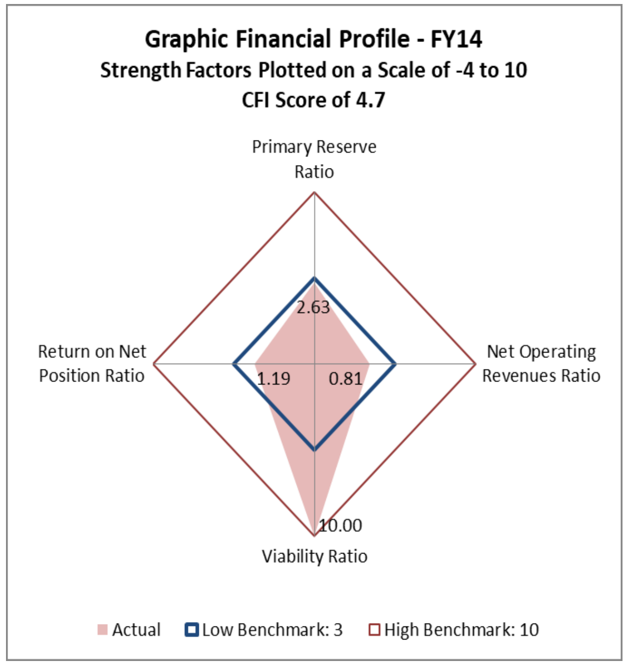


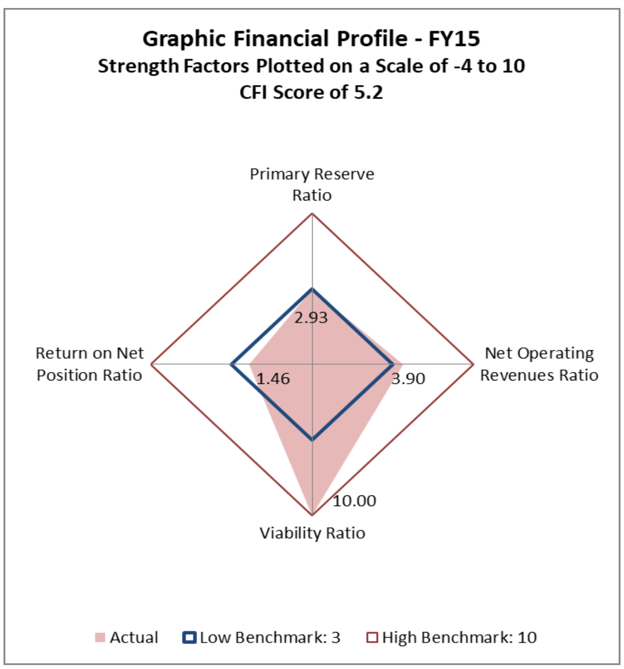


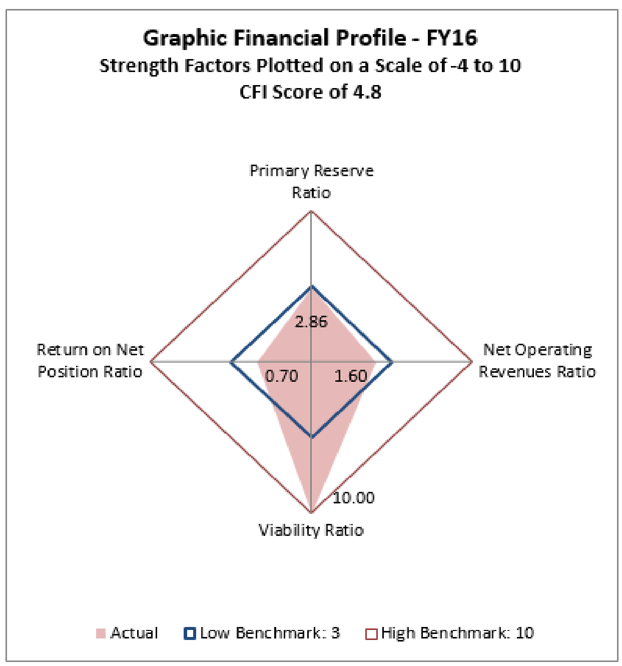





Graphic Financial Profile - FY13
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of 5.5
Primary Reserve Ratio
2.41
Return on Net Position Ratio
2.95
Net Operating Revenues Ratio
5.81
10.00
Viability Ratio
Actual
Low Benchmark: 3
High Benchmark: 10


Graphic Financial Profile - FY14
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of 4.7
Primary Reserve Ratio
2.63
Return on Net Position Ratio
1.19
0.81
Net Operating Revenues Ratio
10.00
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 of 5.2
Primary Reserve Ratio
2.93
Return on Net Position Ratio
1.46
3.90
Net Operating Revenues Ratio
10.00
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 of 4.8
Primary Reserve Ratio
2.86
Return on Net Position Ratio
0.70
1.60
Net Operating Revenues Ratio
10.00
Viability Ratio
Actual
Low Benchmark: 3
High Benchmark: 10

UMA
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: Although the exact impact on the ratio is not readily determinable, it should be noted that on July 1, 2008, expendable net position of $1.3 million for University College (UC) was transferred from the System Office to UMA. High level analysis indicates that the impact of this transfer and the cost of operations for UC had minimal positive impact on UMA's **FY09** Primary Reserve Ratio.

FY10/FY11: Expendable net position increased in FY10 and again in FY11, as operating revenues and endowment returns outpaced the increase in expenses – see discussion of the net operating revenues ratio. In each of these years, UMA utilized $1.7 million of unrestricted expendable net position for capital construction.

FY12: UMA increased its expendable net position by generating a positive return on operations that more than offset the negative return on endowment investments and use of $1.8 million of unrestricted expendable net position to fund construction activity.

FY13: UMA's Primary Reserve Ratio increased again as positive operating and endowment returns more than offset the use of $920 thousand of expendable net position to fund construction activity.

FY14: As shown on page 6, UMA's FY14 return from operations decreased significantly from the prior fiscal year. The returns, however, were positive and combined with good endowment returns, allowed UMA to invest $1 million of unrestricted net position in capital construction and still increase its total expendable net position.

FY15: UMA's ratio increased slightly in FY15, as UMA experienced both an increase in expendable net position and a decrease in total expenses compared to the prior fiscal year. The growth in expendable net position was primarily in the unrestricted portion as negative endowment returns contributed to a decrease in the restricted portion. The $1.5 million increase in unrestricted expendable net position was net of $408 thousand utilized for capital construction.

FY16: An increase in expenses outpaced an increase in expendable net position, causing UMA's ratio to decrease slightly from FY15. The increase in expendable net position was net of negative endowment returns and use of $1 million in unrestricted expendable net position for capital construction.

FY17: $2.6 million of unrestricted net position was used for capital construction. Pursuant to the implementation of GASB No. 75, FY17 beginning of year unrestricted expendable net position was reduced by $6.1 million resulting in the FY17 Primary Reserve Ratio falling to 0.25x from the originally stated 0.38x. Restricted expendable net position increased primarily due to positive endowment returns.

Net Operating Revenues Ratio

FY09: The ratio of 9.34% is attributable to the one-time transfer of University College's net position of $3.3 million from System Wide Services. This transfer is part of UMA's FY09 nonoperating revenues. Without this transfer, UMA's FY09 ratio would have been .7%. The increase from the FY08 ratio of -.17% to the adjusted FY09 ratio of .7% is primarily attributable to an increased allocation of the State of Maine noncapital appropriation as a result of UMA assuming operation of University College.

FY10: The **FY10** ratio is more comparable with the ratios for FY06 and FY07 as it is not influenced by a transfer of assets from System Wide Services as occurred in FY09.

FY11: UMA increased operating revenues 5.9% from the prior year and contained the growth in operating expenses to 2.5%.

FY12: Expenses increased $1.6 million from FY11, but gross revenues only increased $555 thousand. Net student fees revenue increased $1.2 million (9.8%); however, noncapital State of Maine appropriation revenue and noncapital grants and contracts revenue decreased and State fiscal stabilization dollars expired in FY11.

FY13: Expenses decreased from FY12; however, the increase in the Net Operating Revenues Ratio is primarily the result of a $643 thousand increase in noncapital State of Maine appropriation revenue and a $300 thousand transfer from the System Office to mitigate the FY13 freeze on in-state tuition rates.

FY14: UMA's ratio fell below the low industry benchmark for the first time since FY08. A $2.1 million (8%) decrease in gross tuition and fees revenue was the primary contributor to the decrease in UMA's operating return from FY13. To mitigate this revenue decrease, UMA decreased total financial aid costs (scholarship allowance plus student aid expense) and other operating expenses.

Because of a change made in FY14 in how UMA allocates financial aid costs between scholarship allowance (part of total revenues) and student aid expense (part of operating expenses), total revenues in the above table do not appear to reflect the drop in tuition revenue from FY13 to FY14. Revenues in the above table for years prior to FY14 do not reflect this change in methodology. Under the new method, UMA's FY13 revenues would have been $51.8 million compared with the $48.7 million for FY14.

FY15: Expenses decreased $1.5 million from the prior year, enabling UMA's ratio to once again surpass the low industry benchmark despite a $400 thousand decrease in total operating and nonoperating revenues. Nonoperating revenues increased almost $1 million while operating revenues decreased $1.4 million.

FY16: UMA's ratio fell below the low industry benchmark as operating revenues declined for a fourth consecutive year. An increase in nonoperating revenues more than offset the decline in operating revenues, but was not enough to also keep pace with a $1.3 million increase in expenses.

FY17: UMA's expenses decreased $704 thousand from FY16 to FY17, but this decrease was outpaced by a $1.6 million decrease in operating revenues plus non-operating revenues. Notable items in this revenues decrease are a $1.5 million decrease in net student fees, a $1.9 million decrease in grants and contracts revenue, and a $1.4 million increase in noncapital State of Maine appropriations revenue.

FY15/16/17: 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 UMA 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

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:

- The impact of undistributed endowment returns on UMA's Return on Net Position has fluctuated significantly over the years with changes in the level of endowment returns.

Endowment Return Net of Amount Used for Operations
$ in thousands

FY09	($1,054)	**FY14**	$780
FY10	$364	**FY15**	($354)
FY11	$776	**FY16**	($486)
FY12	($246)	**FY17**	$440
FY13	$580	**FY18**	$198

- Capital appropriation revenue from the State of Maine fluctuates with the availability of voter approved bond proceeds and the timing of UMA's expenditure of those proceeds. UMA did not have any of these revenues in FY10, FY12, FY13, and FY14.
- With the exception of FY09, UMA received capital grants and gifts each of the past ten years. The level of such revenues fluctuated depending on the construction and fundraising activities that was occurring. Notable items include a $1.1 million gift of property on Water Street in Augusta in FY10 and $760 thousand of capital gifts and grants in FY11.
- Endowment gifts have been a constant, but usually not significant, source of revenue for UMA. Exceptions include $1 million for FY12, $359 thousand for FY15, and $224 thousand for FY16.

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.

The issuance and repayment of debt also impact this ratio. Over the years, UMA has borrowed money infrequently: $1 million in FY11 for construction of the College Center/Dental Health Clinic and $715 thousand in FY17 to finance classroom technology upgrades. The State of Maine is providing appropriation dollars restricted to pay the debt service on the 2017 bonds.