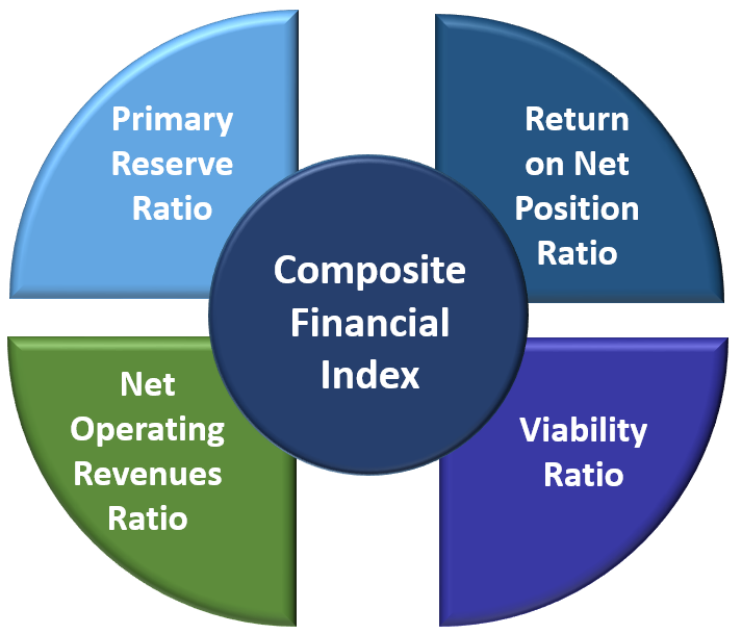
FY2018 Core Financial Ratios and Composite Financial Index



University of Maine System
Office of Finance and Treasurer
January 2019

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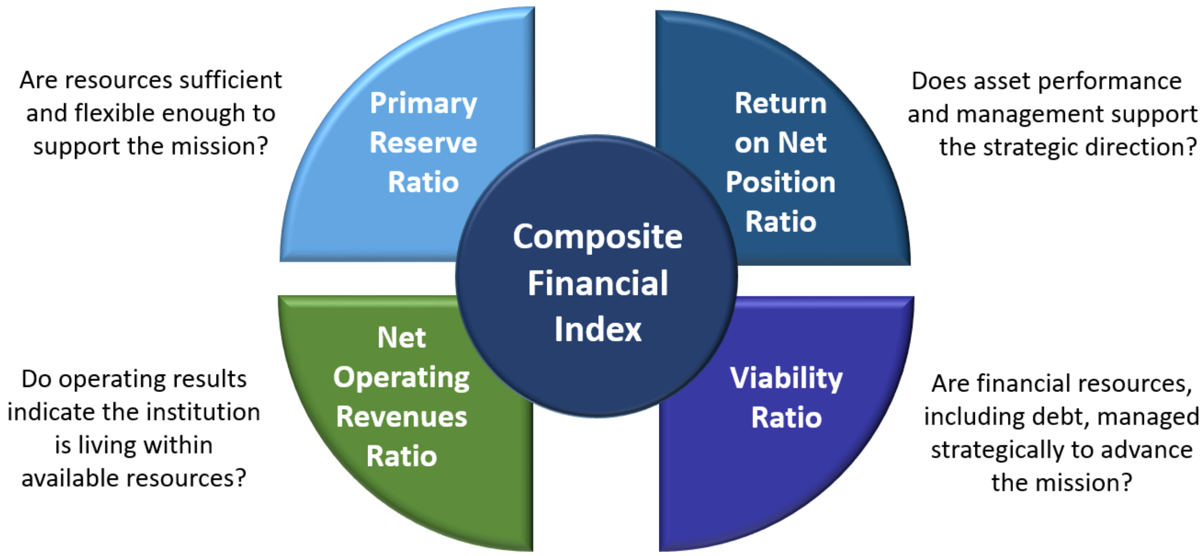
Introduction

The financial health of the University of Maine at Farmington (UMF) 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 UMF'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 the FY18 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 UMF's FY17 financial statements was a $6.4 million decrease in the previously reported FY17 beginning of year expendable net position and a corresponding increase in noncurrent liabilities as UMF 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 UMF'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. We have included a comparison of the originally stated and restated ratios in the below table.

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
UMF as originally stated	0.18	-5.53%	-2.96%	-6.66%	0.49	0.2
UMF as restated	0.04	-5.53%	-3.35%	-6.65%	0.12	-0.5
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:

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

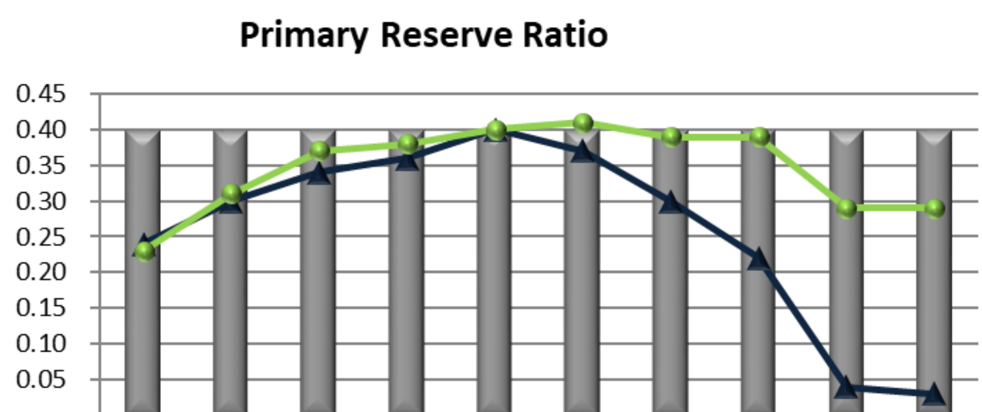
* Excluding net position restricted for capital investments

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.

Even before the FY17 restatement of expendable net position pursuant to the adoption of GASB No. 75, UMF's FY17 ratio of .18x was at a ten-year low. After the restatement, UMF's FY17 ratio fell to .04x and in FY18 it decreased a little more to .03x which provides less than 1 month of expenses.



	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
UMF Actual	0.24	0.30	0.34	0.36	0.40	0.37	0.30	0.22	0.04	0.03
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	$ 5,298	$ 7,398	$ 8,465	$ 9,747	$ 9,869	$ 7,142	$ 5,074	$ 3,301	$ (5,582)	$ (6,662)
Restricted expendable net position	$ 5,047	$ 5,393	$ 6,567	$ 6,152	$ 7,127	$ 8,481	$ 7,749	$ 6,848	$ 7,662	$ 7,981
Total expendable net position	**$ 10,345**	**$ 12,791**	**$ 15,032**	**$ 15,899**	**$ 16,996**	**$ 15,623**	**$ 12,823**	**$ 10,149**	**$ 2,080**	**$ 1,319**
Total expenses	**$ 43,055**	**$ 42,992**	**$ 44,179**	**$ 43,743**	**$ 43,006**	**$ 42,766**	**$ 42,765**	**$ 45,199**	**$ 47,209**	**$ 48,211**

UMF's restricted expendable net position increased from FY17 to FY18 primarily due to positive endowment returns. Unrestricted net position; however, decreased $1.1 million as UMF incurred a small loss from unrestricted operations (after adding back depreciation expense which closes to invested in plant); utilized $408 thousand to fund capital construction and utilized $952 thousand to pay budgeted debt service on outstanding long-term debt.

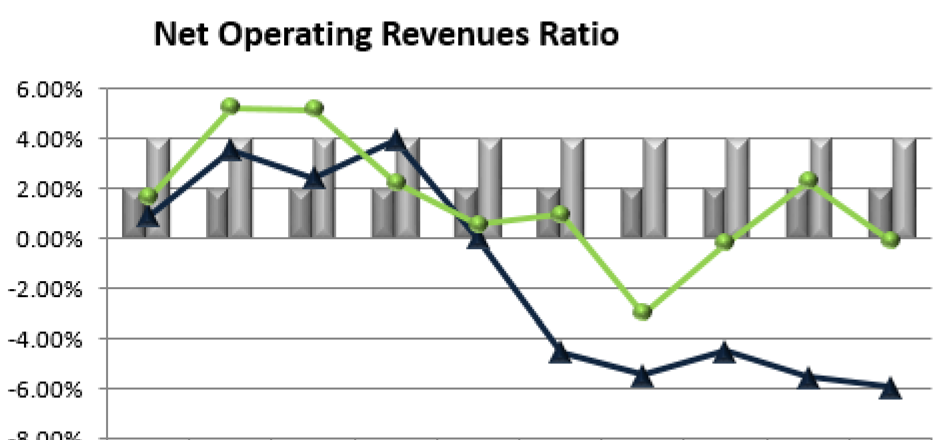
The **Net Operating Revenues Ratio** is a measure of operating results and answers the question, "Do operating results indicate that the University is living within available resources?" Operating results either increase or decrease net position and, thereby, impact the other three core ratios: Primary 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, UMF experienced a negative Net Operating Revenues Ratio for a fifth consecutive year. FY18 also marked a ten-year low for this ratio.



	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%
UMF Actual	0.93%	3.56%	2.41%	3.93%	0.03%	-4.54%	-5.44%	-4.47%	-5.53%	-5.91%
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	$ 32,152	$ 33,158	$ 33,652	$ 34,375	$ 31,796	$ 29,644	$ 29,119	$ 30,877	$ 31,079	$ 31,535
Operating expenses	$ (42,604)	$ (42,563)	$ (43,769)	$ (43,361)	$ (42,671)	$ (42,508)	$ (42,537)	$ (44,875)	$ (46,774)	$ (47,785)
Operating loss	$ (10,452)	$ (9,405)	$ (10,117)	$ (8,986)	$ (10,875)	$ (12,864)	$ (13,418)	$ (13,998)	$ (15,695)	$ (16,250)
Net nonoperating revenues	$ 10,854	$ 10,990	$ 11,206	$ 10,776	$ 10,886	$ 11,007	$ 11,213	$ 12,062	$ 13,223	$ 13,561
Operating income (loss) plus net non-operating revenues (expenses)	**$ 402**	**$ 1,585**	**$ 1,089**	**$ 1,790**	**$ 11**	**$ (1,857)**	**$ (2,205)**	**$ (1,936)**	**$ (2,472)**	**$ (2,689)**
Operating revenues plus non-operating revenues	**$ 43,457**	**$ 44,577**	**$ 45,268**	**$ 45,533**	**$ 43,017**	**$ 40,909**	**$ 40,560**	**$ 43,263**	**$ 44,737**	**$ 45,522**

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

FY18 operating plus non-operating revenues were the highest they have been since FY12 and increased $785 thousand over the FY17 total. This increase in revenue was not enough; however, to cover the $1 million increase in operating expenses.

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:

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

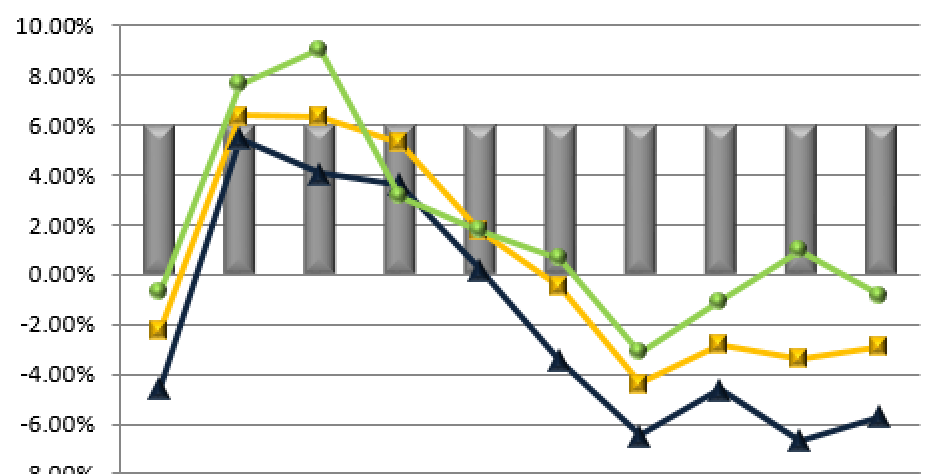
Key items that can impact expendable net position

- 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.

FY18 marks the fifth consecutive year that UMF has experienced both a negative nominal rate of return and a negative real rate of return.

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%
UMF Nominal Rate	-2.26%	6.38%	6.37%	5.32%	1.79%	-0.46%	-4.35%	-2.79%	-3.35%	-2.89%
UMF Real Rate	-4.56%	5.48%	4.07%	3.62%	0.19%	-3.46%	-6.45%	-4.59%	-6.65%	-5.69%
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)	$ 402	$ 1,585	$ 1,089	$ 1,790	$ 11	$ (1,857)	$ (2,205)	$ (1,936)	$ (2,472)	$ (2,689)
Other changes in net position	$ (1,526)	$ 1,522	$ 2,208	$ 1,142	$ 1,025	$ 1,585	$ (344)	$ 369	$ 857	$ 1,341
Change in total net position	**$ (1,124)**	**$ 3,107**	**$ 3,297**	**$ 2,932**	**$ 1,036**	**$ (272)**	**$ (2,549)**	**$ (1,567)**	**$ (1,615)**	**$ (1,347)**
Total net position (beginning of year)	**$ 49,813**	**$ 48,690**	**$ 51,796**	**$ 55,093**	**$ 58,026**	**$ 58,906**	**$ 58,633**	**$ 56,085**	**$ 48,156**	**$ 46,541**

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

FY18 other changes in net position of $1.3 million includes $716 thousand in endowment gifts which are up $677 thousand from the prior year. $1 million or 80% of the FY18 decrease in total net position occurred in the unrestricted expendable net position category.

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

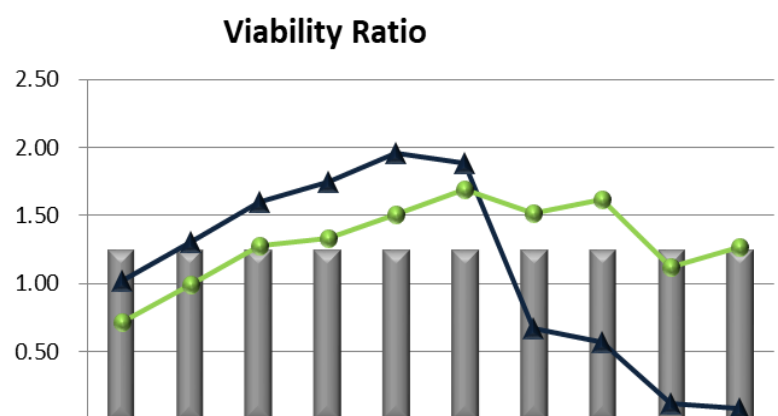
- principal payments on debt
- use of unrestricted net position to fund capital construction projects
- operating results (operating revenues – operating expenses + nonoperating revenues – nonoperating expenses + depreciation)
- endowment returns

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

UMF's Viability Ratio has been decreasing since FY14, and decreased significantly from FY16 to FY17 as expendable net position was reduced by $6.4 million pursuant to the implementation of GASB No. 75. At .08x, the FY18 ratio provides less than one month of expenses.



	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
UMF Actual	1.02	1.31	1.60	1.75	1.96	1.89	0.67	0.57	0.12	0.08
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	$ 5,298	$ 7,398	$ 8,465	$ 9,747	$ 9,869	$ 7,142	$ 5,074	$ 3,301	$ (5,582)	$ (6,662)
Restricted expendable net position	$ 5,047	$ 5,393	$ 6,567	$ 6,152	$ 7,127	$ 8,481	$ 7,749	$ 6,848	$ 7,662	$ 7,981
Total Expendable net position	**$ 10,345**	**$ 12,791**	**$ 15,032**	**$ 15,899**	**$ 16,996**	**$ 15,623**	**$ 12,823**	**$ 10,149**	**$ 2,080**	**$ 1,319**
Long-term debt	**$ 10,176**	**$ 9,780**	**$ 9,367**	**$ 9,075**	**$ 8,682**	**$ 8,257**	**$ 19,131**	**$ 17,894**	**$ 17,231**	**$ 16,106**

The same totals for expendable net position are used for this ratio and the Primary Reserve Ratio; therefore, please see discussion of that ratio on pages 3 and 4 for items impacting expendable net position.

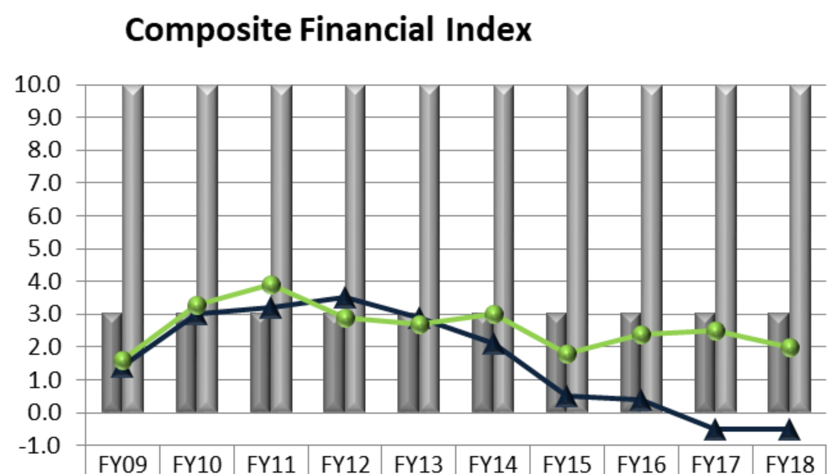
The **Composite Financial Index (CFI)** creates one overall financial measurement of the institution's health based on the four core ratios: Primary Reserve Ratio, Net Operating Revenues Ratio, Return on Net Position Ratio, and Viability Ratio. By blending these four key measures of financial health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

UMF's originally stated FY17 CFI score of .2 was a ten-year low. The restatement of FY17 for implementation of GASB 75 drove that score lower to -0.5. In FY18, the score was unchanged.



	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
UMF Actual	1.4	3.0	3.2	3.5	2.9	2.1	0.5	0.4	-0.5	-0.5
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.

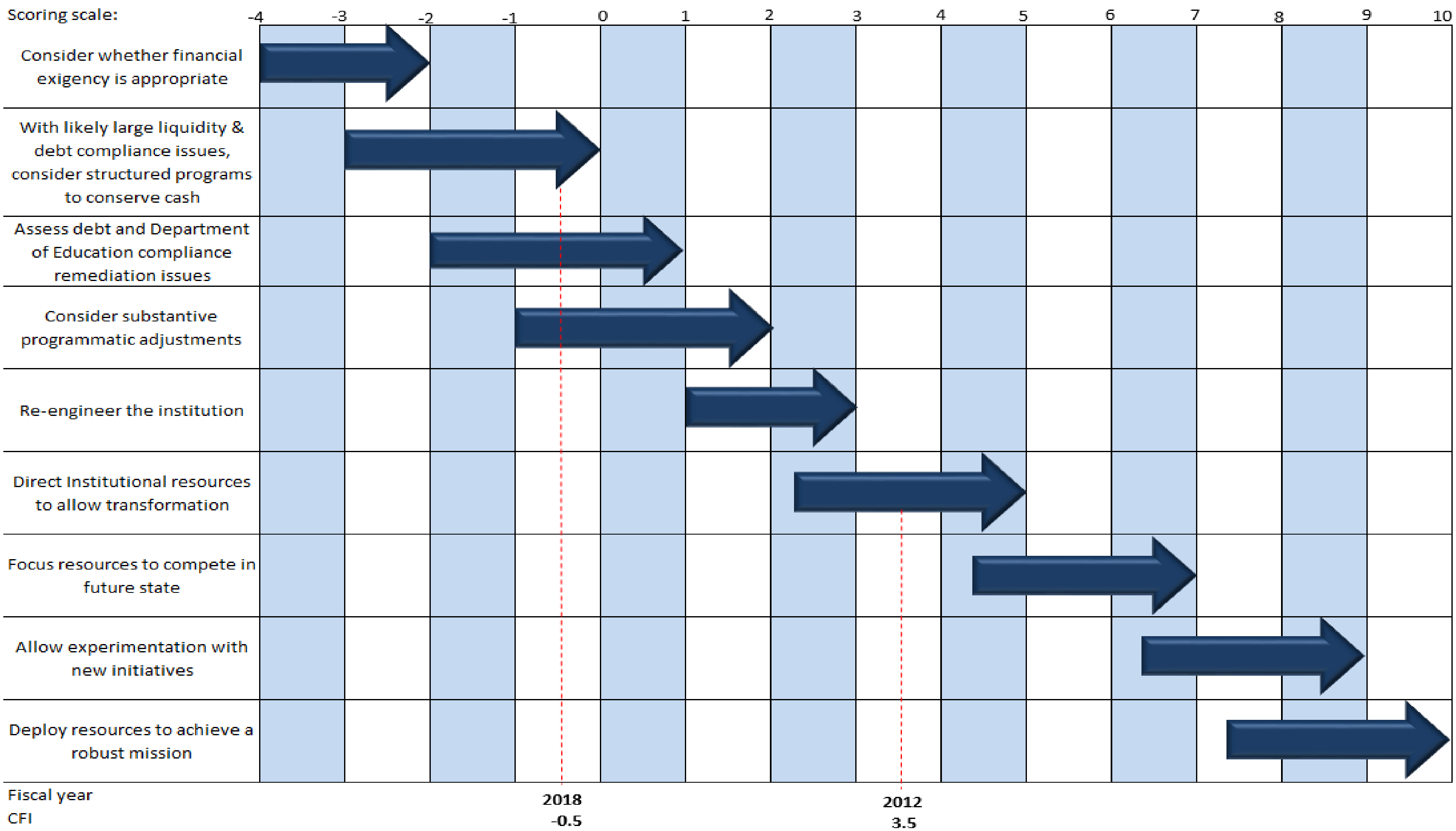
CFI Calculation										
Fiscal Year	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**
+ Primary Reserve Ratio	0.24	0.30	0.34	0.36	0.40	0.37	0.30	0.22	0.04	0.03
/ Common Scale Value *	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133
= Strength Factor **	***1.80***	***2.26***	***2.56***	***2.71***	***3.01***	***2.78***	***2.26***	***1.65***	***0.30***	***0.23***
X Weighting Factor ***	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Ratio Score	**0.63**	**0.79**	**0.90**	**0.95**	**1.05**	**0.97**	**0.79**	**0.58**	**0.11**	**0.08**
+ Net Operating Revenues Ratio	0.93%	3.56%	2.41%	3.93%	0.03%	-4.54%	-5.44%	-4.47%	-5.53%	-5.91%
/ 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 **	***1.33***	***5.09***	***3.44***	***5.61***	***0.04***	***-4.00***	***-4.00***	***-4.00***	***-4.00***	***-4.00***
X Weighting Factor ***	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Ratio Score	**0.13**	**0.51**	**0.34**	**0.56**	**0.00**	**-0.40**	**-0.40**	**-0.40**	**-0.40**	**-0.40**
+ Return on Net Position Ratio	-2.26%	6.38%	6.37%	5.32%	1.79%	-0.46%	-4.35%	-2.79%	-3.35%	-2.89%
/ 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 **	***-1.13***	***3.19***	***3.19***	***2.66***	***0.90***	***-0.23***	***-2.18***	***-1.40***	***-1.68***	***-1.45***
X Weighting Factor ***	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Ratio Score	**-0.23**	**0.64**	**0.64**	**0.53**	**0.18**	**-0.05**	**-0.44**	**-0.28**	**-0.34**	**-0.29**
+ Viability Ratio	1.02	1.31	1.60	1.75	1.96	1.89	0.67	0.57	0.12	0.08
/ 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 **	***2.45***	***3.14***	***3.84***	***4.20***	***4.70***	***4.53***	***1.61***	***1.37***	***0.29***	***0.19***
X Weighting Factor ***	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Ratio Score	**0.86**	**1.10**	**1.34**	**1.47**	**1.65**	**1.59**	**0.56**	**0.48**	**0.10**	**0.07**
Composite Financial Index	**1.4**	**3.0**	**3.2**	**3.5**	**2.9**	**2.1**	**0.5**	**0.4**	**-0.5**	**-0.5**

* = 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 overlapping arrows represent the ranges of measurement that an institution may find useful in assessing itself. We have overlaid the scale with UMF's highest (FY12) and most recent CFI scores to assist in evaluating UMF's performance.

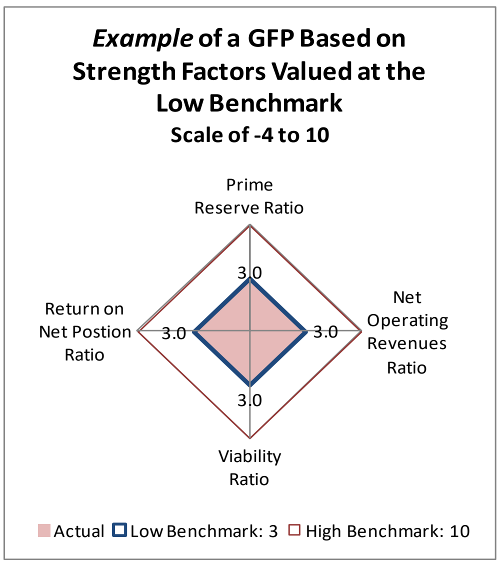


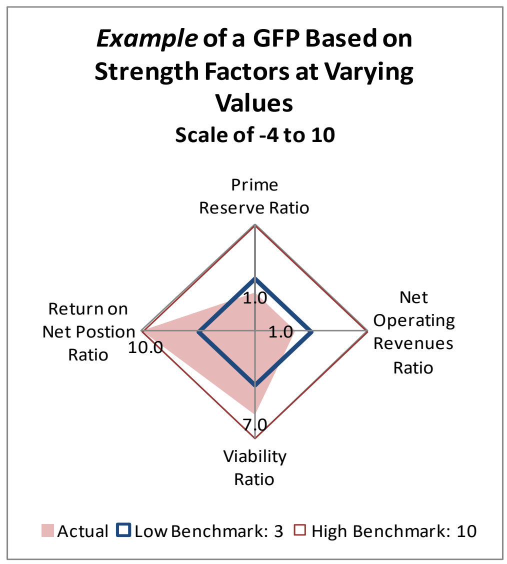
The strength factors that were used in calculating the CFI can be mapped on a diamond to show the shape of an institution's financial health compared to the industry benchmarks. This **Graphic Financial Profile** can assist management in determining whether a weakness in one ratio is offset by strength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

UMF'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:

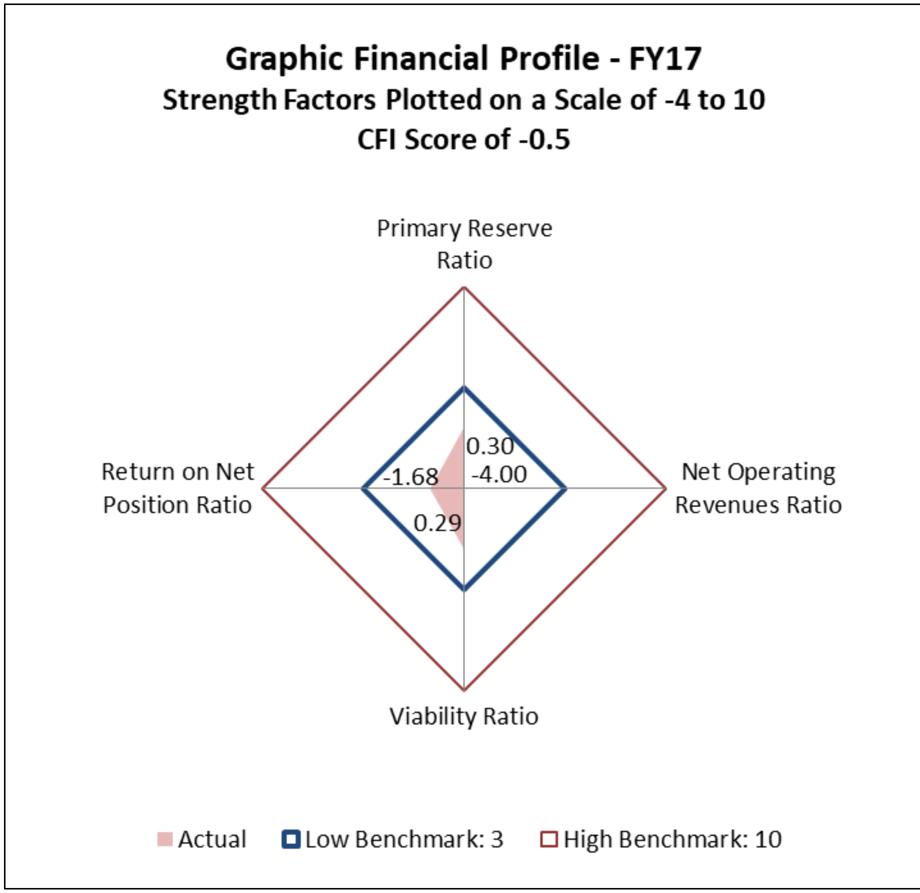


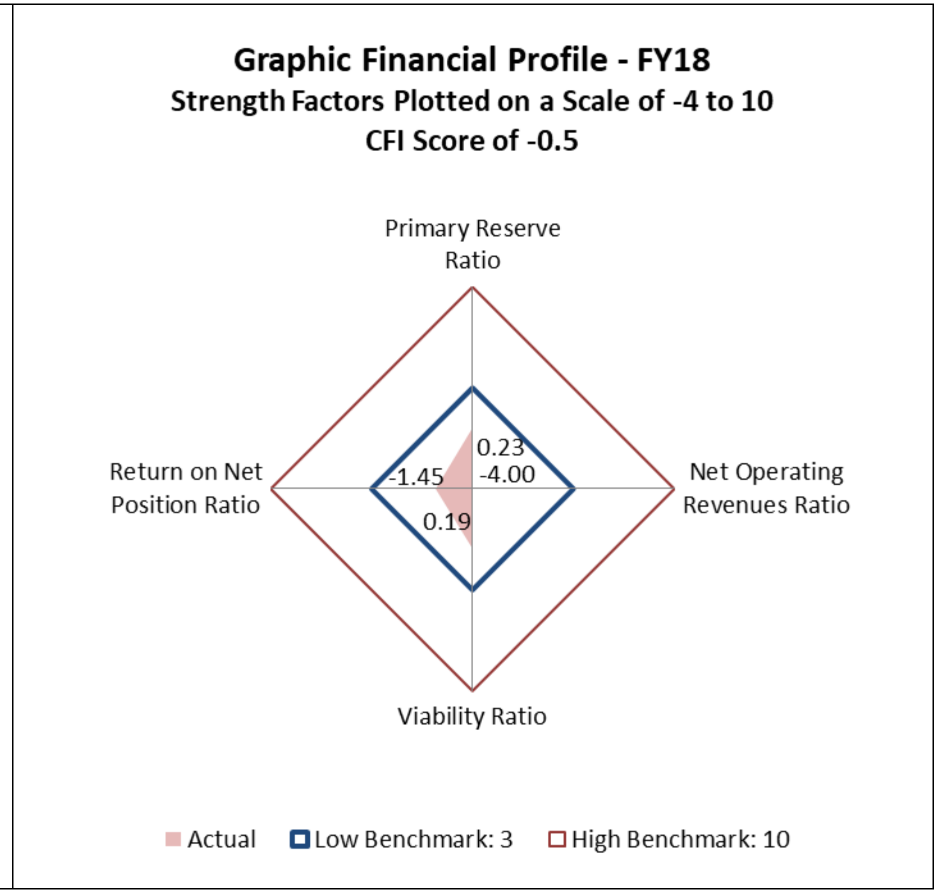


- The center point of the graphic financial profiles is -4, the lowest possible score on the scale.
- The smaller, heavily lined diamond in the graphs represents the low industry benchmark of 3.
- The outer, lightly lined diamond represents the high industry benchmark of 10 and the highest possible score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

UMF Graphic Financial Profiles
FY17 and FY18

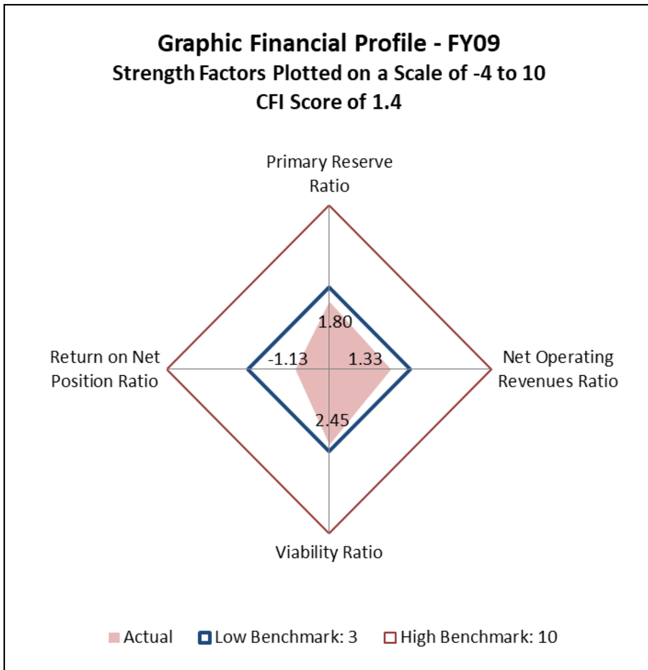
The shape of UMF's FY18 graphic financial profile is unchanged from the FY17 shape as UMF again experienced negative returns from operations and on net position. The shape has basically been the same since FY14.

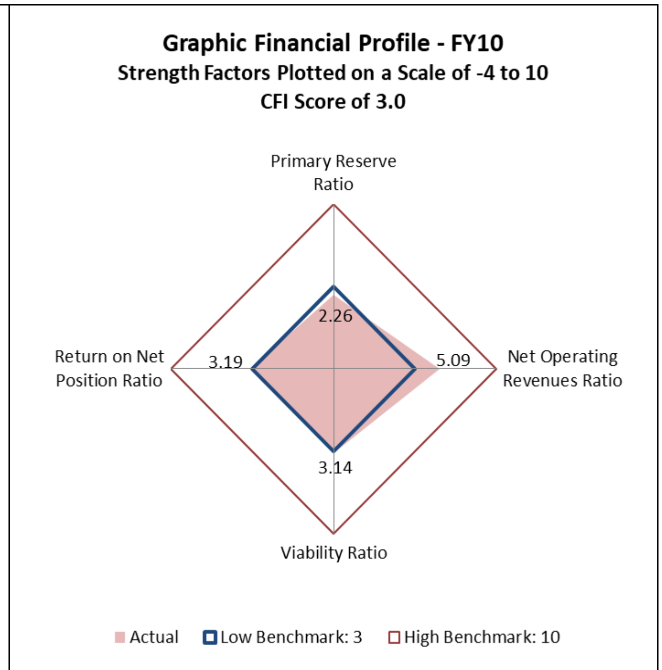


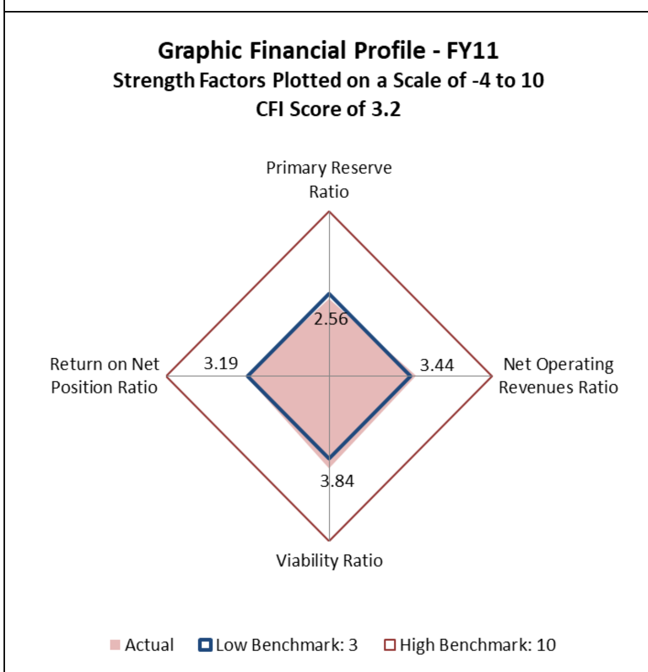


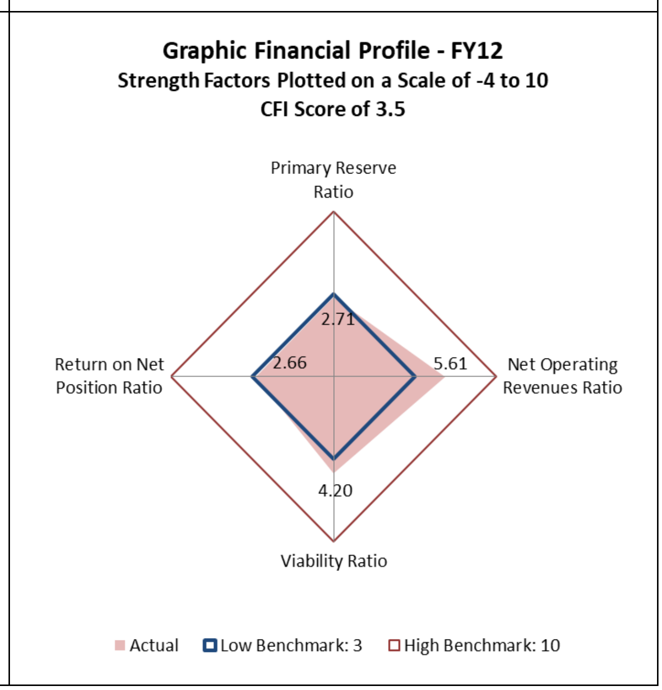
UMF Graphic Financial Profiles
FY09 to FY16

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

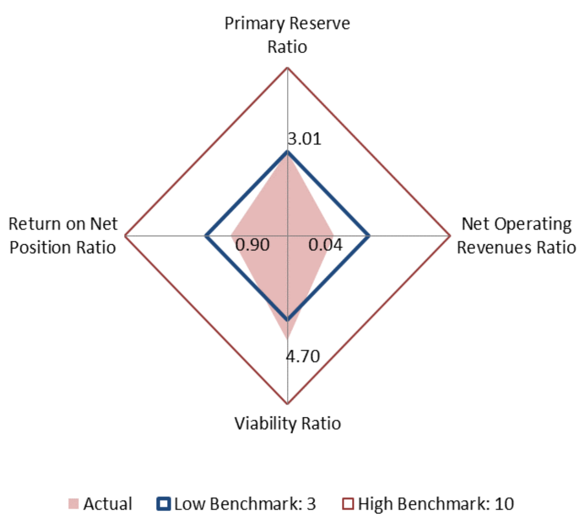




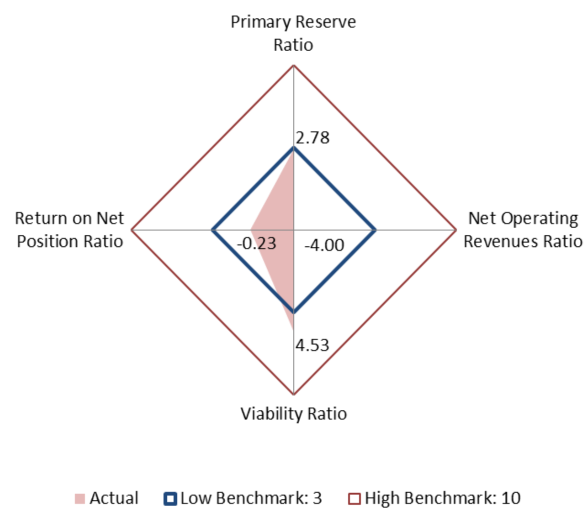




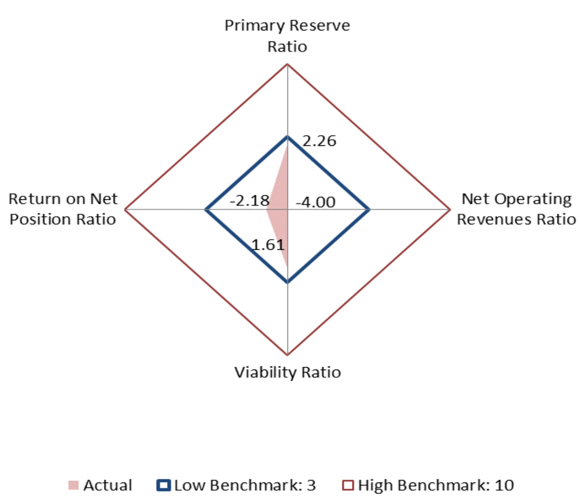
Graphic Financial Profile - FY13
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of 2.9



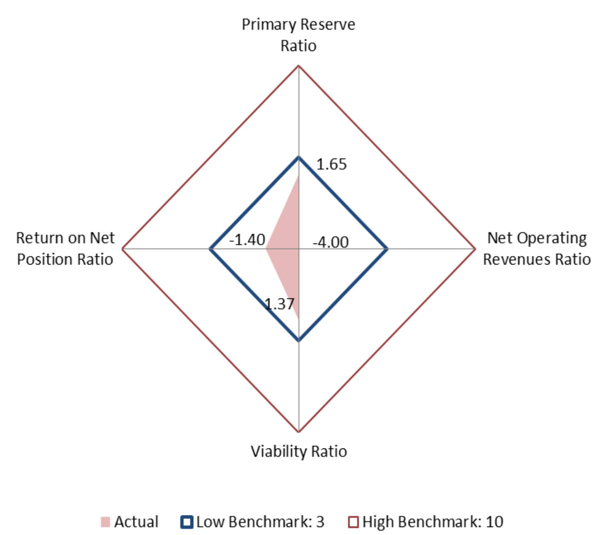
Graphic Financial Profile - FY14
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of 2.1



Graphic Financial Profile - FY15
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of .5



Graphic Financial Profile - FY16
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of .4



UMF
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: Despite positive operating results in FY09, the Primary Reserve Ratio declined as operating costs continued to climb, endowment returns declined, and UMF invested in capital construction.

FY10: The Primary Reserve Ratio rebounded as UMF increased unrestricted operating revenues and decreased unrestricted operating expenses. Positive endowment returns also contributed to the increase in expendable net position.

FY11: A high endowment return was the primary contributor to the ratio increase as operating results were lower than in FY10 and more unrestricted net position was used for capital construction than in FY10.

FY12: UMF decreased expenses, increased its return on operations, and utilized less expendable net position on capital construction, resulting in an increase in its Primary Reserve Ratio.

FY13: A high endowment return is the primary contributor to the increase in UMF's Primary Reserve Ratio. Despite a $737 thousand decrease in total expenses, the return from operations decreased $1.8 million from FY12.

FY14: UMF's expenses decreased from FY13 to FY14; however, expendable net position decreased as positive endowment returns were outpaced by a negative return from operations and the utilization of $2.1 million of unrestricted expendable net position for capital construction, including $942 thousand for a geothermal well field project and $476 thousand for the Merrill Hall Boiler Replacement project.

FY15: Expenses remained flat, but expendable net position decreased $2.8 million as UMF experienced negative endowment returns and a loss from operations and utilized $1.3 million of unrestricted expendable net position for capital construction, including $928 thousand for the Dearborn Gym Renovation project and $234 thousand for the South Dining Hall Beam Replacement project.

FY16: UMF again experienced negative endowment returns and a loss from operations. They also used $613 thousand of unrestricted expendable net position to fund capital construction, including $453 thousand for the Lockwood 1st Floor project.

FY17: UMF's restricted expendable net position increased from FY16 to FY17 primarily due to positive endowment returns. Prior to restatement of FY17, unrestricted net position decreased $2.5 million or 80% as UMF incurred a small loss from unrestricted operations (after adding back depreciation expense which closes to invested in plant); utilized $1 million to fund capital construction, including $481 thousand for the Prescott Field Acquisition project and $122 thousand for the Card Access project; and utilized $900 thousand to pay budgeted debt service on outstanding long-term debt. Pursuant to the implementation of GASB No. 75, UMF's FY17 opening unrestricted expendable net position was reduced by $6.4 million, resulting in the FY17 Primary Reserve Ratio falling to 0.04x from 0.22x in FY16.

Net Operating Revenues Ratio

FY09: Total operating revenues again grew; however, nonoperating revenues declined as the noncapital State of Maine appropriation was curtailed and as investment income dropped 99% from the FY08 amount. Growth in operating expenses outpaced revenues.

FY10: Increased operating returns over the prior year are primarily attributable to an increase in gross tuition and fees and a decrease in unrestricted operating expenses.

FY11: A 1.5% increase in operating revenues from the prior year was outpaced by a 2.8% increase in expenses, primarily in the areas of academic support, operations and maintenance, student aid, and auxiliary.

FY12: UMF reduced its operating expenses and increased its operating revenues to offset the loss of State Fiscal Stabilization monies.

FY13: Total expenses decreased $737 thousand; however, total operating and nonoperating revenues decreased $2.5 million or 5.5%. A freeze of in-state tuition rates combined with a drop in enrollment resulted in a $1.6 million decrease in net student fees revenue.

FY14: Net student fees revenue decreased $1.8 million or 8.35% from FY13 as the combination of a freeze of in-state tuition rates and a drop in enrollment had a major impact on UMF's operating results for a second consecutive year.

FY15: The freeze on in-state tuition rates remained in effect and UMF's net student fees revenues declined for a third consecutive year. The decline from FY14 to FY15 was $714 thousand compared with the $1.8 million decrease from FY13 to FY14. Expenses were flat from FY14 to FY15.

FY16: The freeze on in-state tuition rates remained in effect and UMF's net student fees revenues declined just $76 thousand. Both overall operating revenues and non-operating revenues increased from the prior year, but could not keep pace with the $2.4 million or 6% increase in expenses.

FY17: FY17 operating plus non-operating revenues were the highest they have been since FY12; however, they could not cover total expenses which were at a ten year high.

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 UMF 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:

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

Endowment Returns Net of Amount Used for Operations

$ in thousands

FY09	($2,191)	**FY14**	$1,463
FY10	$546	**FY15**	($648)
FY11	$1,322	**FY16**	($885)
FY12	($624)	**FY17**	$767
FY13	$899	**FY18**	$336

- State of Maine Capital appropriations revenue fluctuates with the availability of voter approved bond proceeds and the timing of UMF's expenditure of those proceeds. Over the past ten years, UMF has received some level of this revenue in all years except FY13 and FY14.
- UMF has had capital grants and gifts revenue in only two years: $4 thousand in FY09 and $120 thousand in FY16.
- UMF received endowment gifts in each of the ten years presented in this report. Notable gift totals are $646 thousand for FY11, $1.5 million for FY12, and $716 thousand in FY18. The FY12 total included a $1.3 million gift of assets from the University of Maine at Farmington Alumni Foundation upon its dissolution.

Viability Ratio

The same totals for expendable net position are used for this ratio and the Primary Reserve Ratio; therefore, please see discussion of that ratio for items impacting expendable net position.