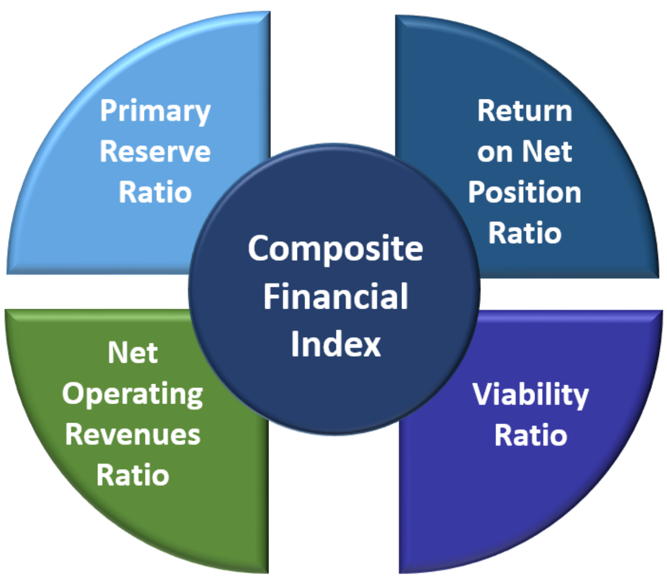
FY2018 Core Financial Ratios and Composite Financial Index



University of Maine System
Office of Finance and Treasurer
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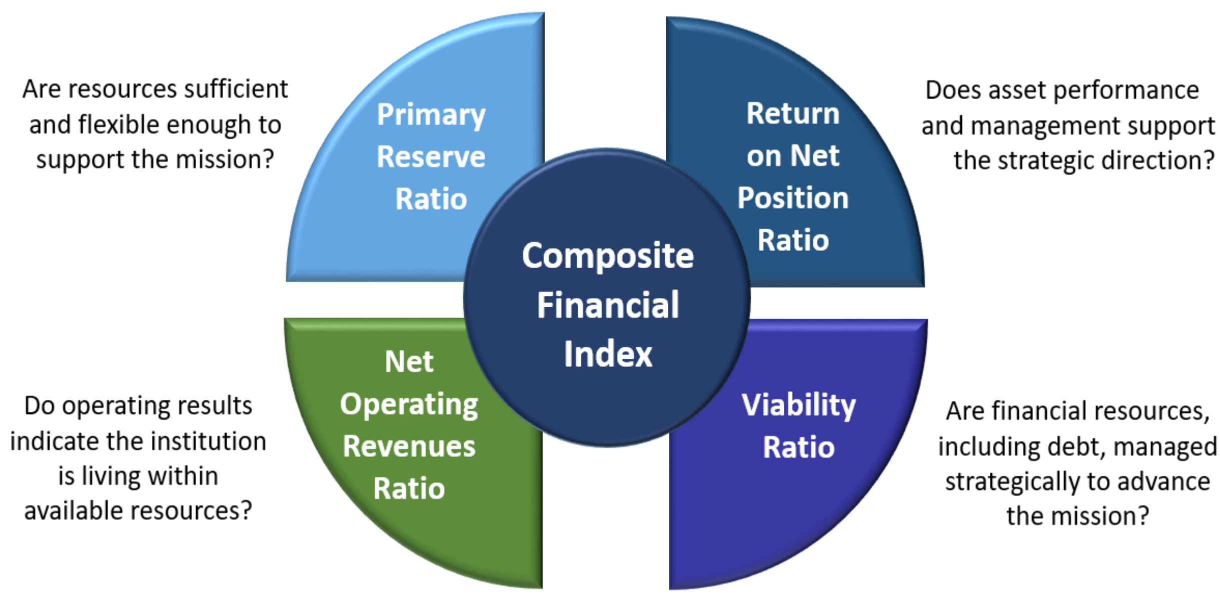
Introduction

The financial health of the University of Maine at Fort Kent (UMFK) 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 UMFK'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 UMFK's FY17 financial statements was a $2.2 million decrease in the previously reported FY17 beginning of year expendable net position and a corresponding increase in noncurrent liabilities as UMFK 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 UMFK'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**
UMFK as originally stated	0.06	0.50%	1.37%	-2.33%	0.12	0.5
UMFK as restated	-0.07	0.50%	1.60%	-1.70%	-0.14	-0.1
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:

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

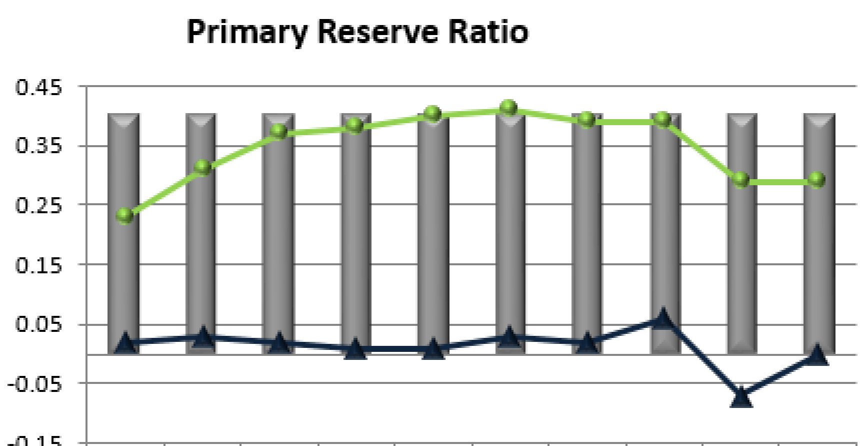
* Excluding net position restricted for capital investments

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 reduction of UMFK's FY17 expendable net position pursuant to the implementation of GASB No. 75 drove UMFK's FY17 Primary Reserve Ratio from .06x down to -.07. Although the ratio improved slightly in FY18, UMFK still has no 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
UMFK Actual	0.02	0.03	0.02	0.01	0.01	0.03	0.02	0.06	-0.07	0.00
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	$ (574)	$ (529)	$ (496)	$ (540)	$ (672)	$ (596)	$ (647)	$ (531)	$ (2,833)	$ (2,479)
Restricted expendable net position	$ 903	$ 911	$ 825	$ 731	$ 806	$ 1,111	$ 961	$ 1,546	$ 1,701	$ 2,432
Total expendable net position	**$ 329**	**$ 382**	**$ 329**	**$ 191**	**$ 134**	**$ 515**	**$ 314**	**$ 1,015**	**$ (1,132)**	**$ (47)**
Total expenses	**$ 14,435**	**$ 14,004**	**$ 14,652**	**$ 14,596**	**$ 14,708**	**$ 15,466**	**$ 16,123**	**$ 16,868**	**$ 17,390**	**$ 17,216**

Although the Primary Reserve Ratio is calculated using the total of restricted and unrestricted expendable net position, the breakdown between the two categories is important in analyzing UMFK's ratio as restricted expendable net position must be spent in accordance with restrictions imposed by third parties and is not available to pay all operating expenses. As shown above, UMFK's unrestricted expendable net position has had a deficit balance since FY09 and was at a ten-year low in FY17 after the $2.2 million reduction of net position for the implementation of GASB No. 75.

UMFK's unrestricted expendable net position increased from FY17 to FY18 as a $1.2 million increase in noncapital State of Maine appropriations revenue helped UMFK to experience a positive return from unrestricted operations.

The increase in expendable restricted net position from FY17 to FY18 is attributable to positive endowment returns and a $509 thousand increase in revenue from gifts currently expendable as UMFK received a $500 thousand gift in FY18 for the Irving Wood Professorship of Forestry.

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:

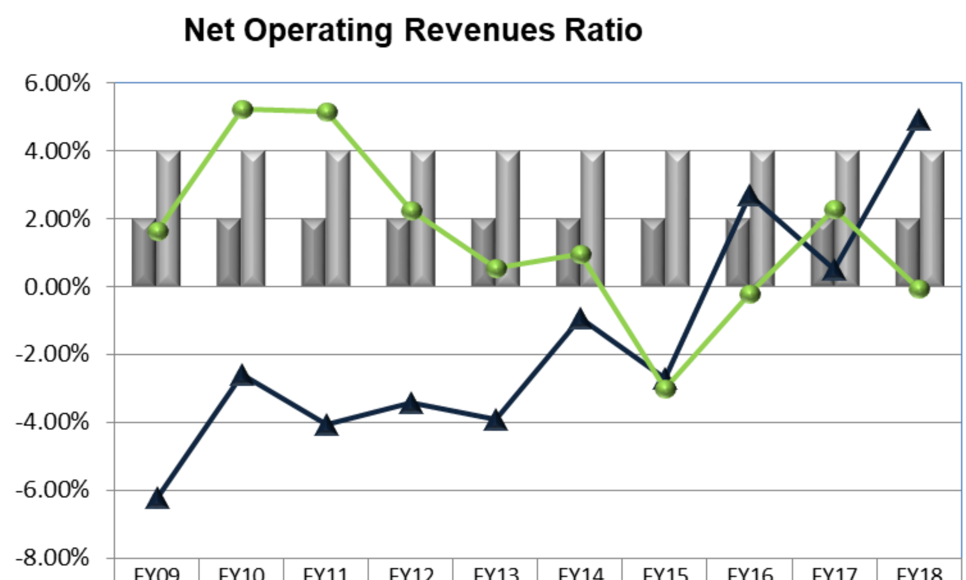
$$\frac{\text{Operating Income (Loss) plus Net Non-Operating Revenues (Expenses)}}{\text{Operating Revenues plus Non-Operating Revenues}}$$

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

After experiencing negative Net Operating Revenues ratios from FY09 to FY15, UMFK has experienced positive ratios for three consecutive years.



	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%
UMFK Actual	-6.23%	-2.60%	-4.05%	-3.44%	-3.91%	-0.93%	-2.71%	2.69%	0.50%	4.93%
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	$ 8,705	$ 8,868	$ 9,036	$ 8,607	$ 9,084	$ 9,295	$ 9,458	$ 10,394	$ 10,852	$ 10,450
Operating expenses	$ (14,124)	$ (13,697)	$ (14,355)	$ (14,309)	$ (14,439)	$ (15,268)	$ (15,936)	$ (16,658)	$ (17,185)	$ (17,019)
Operating loss	$ (5,419)	$ (4,829)	$ (5,319)	$ (5,702)	$ (5,355)	$ (5,972)	$ (6,477)	$ (6,263)	$ (6,333)	$ (6,569)
Net nonoperating revenues	$ 4,572	$ 4,474	$ 4,749	$ 5,217	$ 4,802	$ 5,830	$ 6,052	$ 6,729	$ 6,420	$ 7,462
Operating income (loss) plus net non-operating revenues (expenses)	**$ (847)**	**$ (355)**	**$ (570)**	**$ (485)**	**$ (553)**	**$ (143)**	**$ (426)**	**$ 466**	**$ 87**	**$ 893**
Operating revenues plus non-operating revenues	**$ 13,588**	**$ 13,647**	**$ 14,082**	**$ 14,111**	**$ 14,155**	**$ 15,323**	**$ 15,697**	**$ 17,333**	**$ 17,477**	**$ 18,109**

Noncapital transfers from UMSGUS to UMFK are part of nonoperating revenues. UMFK received such transfers in each of the ten years presented and was heavily reliant on them between FY12 through FY17, having received an accumulated $7.4 million during that 6-year period. Transfers for FY18 were $305 thousand, down from the $1.05 million received in FY17.

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:

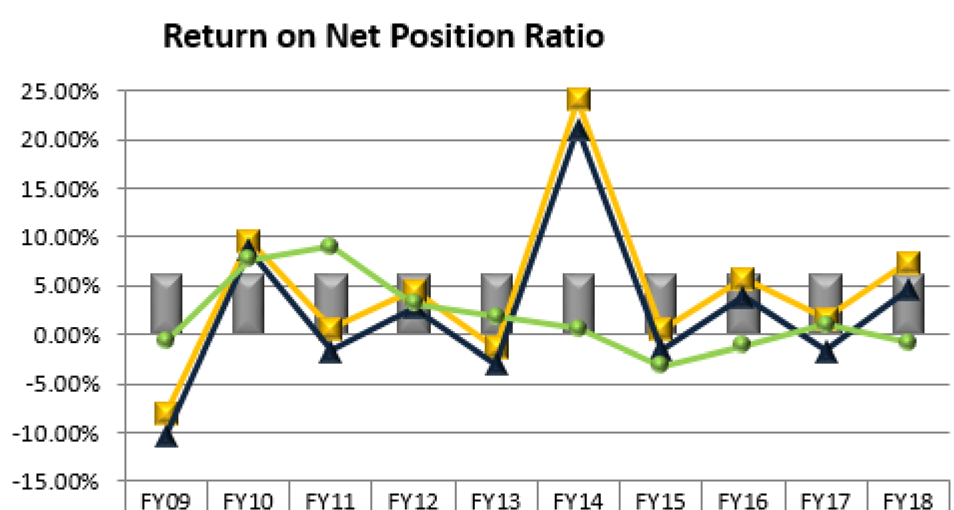
$$\frac{\text{Change in Net Position}}{\text{Total Beginning of the Year Net Position}}$$

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.

UMFK's Return on Net Position Ratio has fluctuated significantly over the years.



	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%
UMFK Nominal Rate	-8.09%	9.58%	0.62%	4.45%	-1.37%	24.08%	0.51%	5.70%	1.60%	7.37%
UMFK Real Rate	-10.39%	8.68%	-1.68%	2.75%	-2.97%	21.08%	-1.59%	3.90%	-1.70%	4.57%
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)	$ (847)	$ (355)	$ (570)	$ (485)	$ (553)	$ (143)	$ (426)	$ 466	$ 87	$ 893
Other changes in net position	$ (45)	$ 1,327	$ 639	$ 983	$ 393	$ 2,881	$ 498	$ 343	$ 118	$ 69
Change in total net position	**$ (892)**	**$ 972**	**$ 69**	**$ 498**	**$ (160)**	**$ 2,738**	**$ 72**	**$ 809**	**$ 205**	**$ 962**
Total net position (beginning of year)	**$ 11,032**	**$ 10,141**	**$ 11,112**	**$ 11,181**	**$ 11,679**	**$ 11,372**	**$ 14,110**	**$ 14,182**	**$ 12,840**	**$ 13,046**

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

For many years, other changes in net position was the sole source of UMFK's positive return on net position; however, for each of the three most recent years UMFK has also experienced a positive return from 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

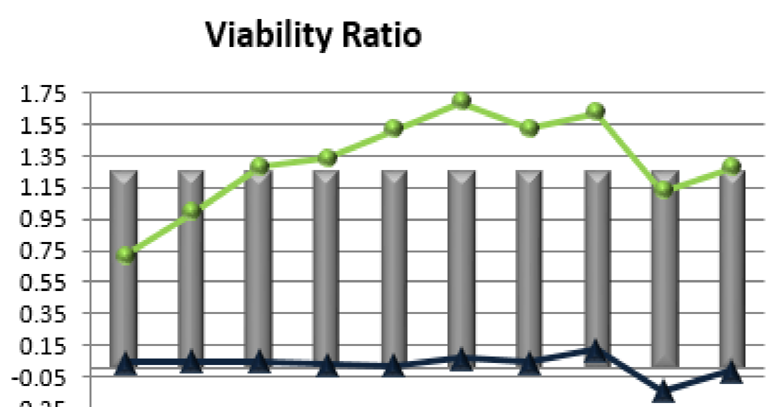
- principal payments on debt
- use of unrestricted net position to fund capital construction projects
- operating results (operating revenues – operating expenses + nonoperating revenues – nonoperating expenses + depreciation)
- endowment returns

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

UMFK's FY17 ratio went from the original .12x to the restated -.14x as FY17 expendable net position was reduced by $2.2 million pursuant to the adoption of GASB No. 75. UMFK's ratio regained some ground in FY18, climbing to -.01.



	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
UMFK Actual	0.04	0.05	0.05	0.03	0.02	0.07	0.04	0.12	-0.14	-0.01
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	$ (574)	$ (529)	$ (496)	$ (540)	$ (672)	$ (596)	$ (647)	$ (531)	$ (2,833)	$ (2,479)
Restricted expendable net position	$ 903	$ 911	$ 825	$ 731	$ 806	$ 1,111	$ 961	$ 1,546	$ 1,701	$ 2,432
Total expendable net position	**$ 329**	**$ 382**	**$ 329**	**$ 191**	**$ 134**	**$ 515**	**$ 314**	**$ 1,015**	**$ (1,132)**	**$ (47)**
Long-term debt	**$ 7,354**	**$ 7,230**	**$ 6,991**	**$ 7,229**	**$ 7,172**	**$ 6,974**	**$ 7,652**	**$ 8,722**	**$ 8,315**	**$ 7,699**

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 issuance and repayment of debt also impact this ratio. See the Financial Highlights section of this report for discussion regarding borrowing activity by UMFK over the past ten years.

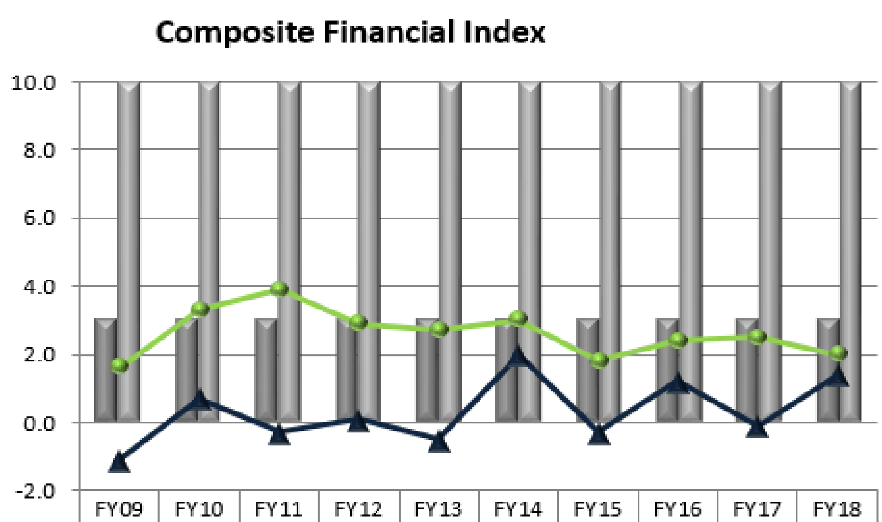
The **Composite Financial Index (CFI)** creates one overall financial measurement of the institution's health based on the four core ratios: Primary Reserve Ratio, Net Operating Revenues Ratio, Return on Net Position Ratio, and Viability Ratio. By blending these four key measures of financial health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

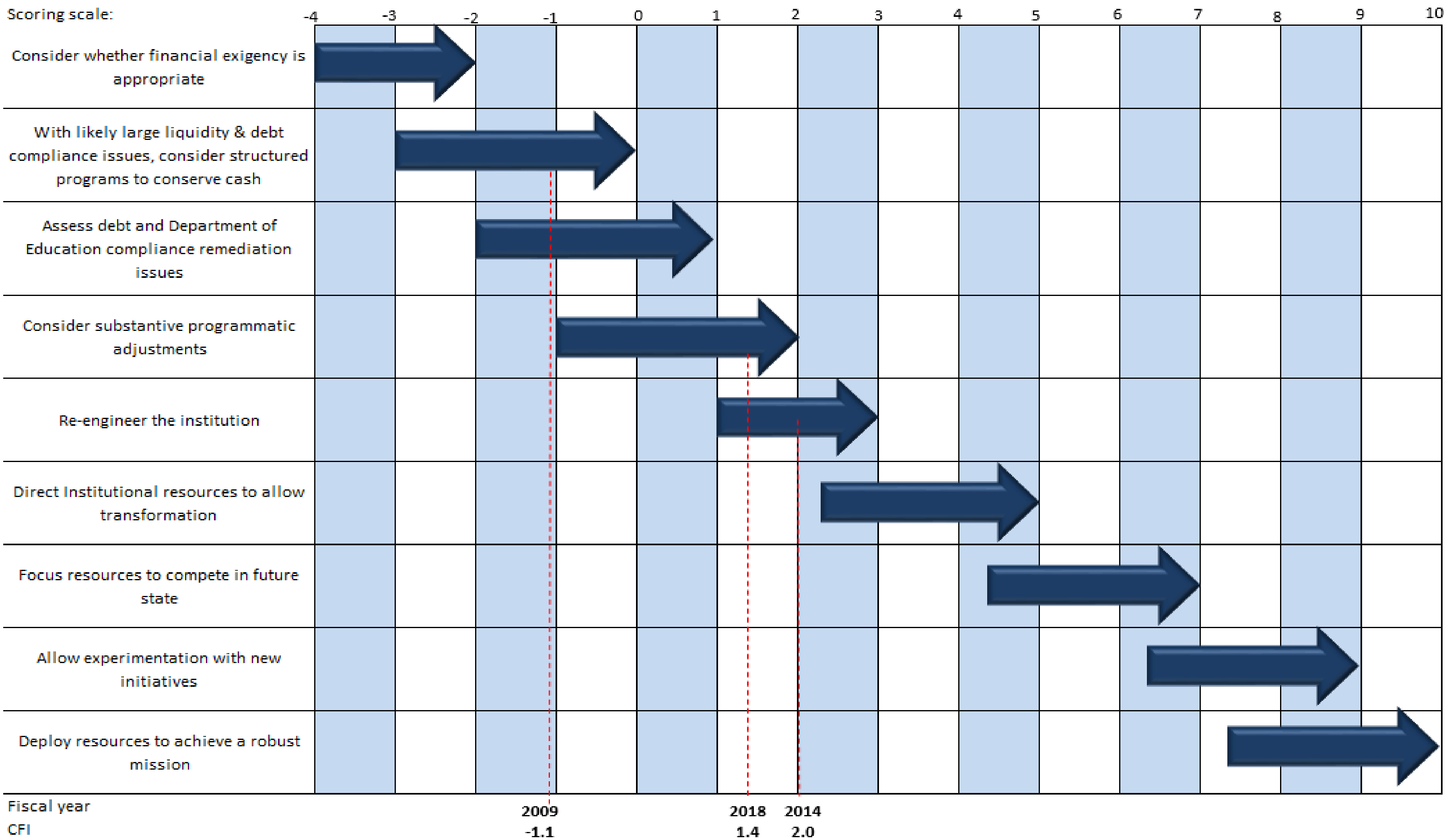
UMFK's CFI score has fluctuated significantly over the years with the fluctuations in its Net Operating Revenues and Return on Net Position ratios.



	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
UMFK Actual	-1.1	0.7	-0.3	0.1	-0.5	2.0	-0.3	1.2	-0.1	1.4
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 UMFK's lowest (FY09) highest (FY14), and most recent CFI scores to assist in evaluating UMFK's performance.



CFI Calculation										
Fiscal Year	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
+ Primary Reserve Ratio	0.02	0.03	0.02	0.01	0.01	0.03	0.02	0.06	-0.07	0.00
/ 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 **	**0.15**	**0.23**	**0.15**	**0.08**	**0.08**	**0.23**	**0.15**	**0.45**	**-0.53**	**0.00**
X Weighting Factor ***	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Ratio Score	0.05	0.08	0.05	0.03	0.03	0.08	0.05	0.16	-0.19	0.00
+ Net Operating Revenues Ratio	-6.23%	-2.60%	-4.05%	-3.44%	-3.91%	-0.93%	-2.71%	2.69%	0.50%	4.93%
/ 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 **	**-4.00**	**-3.71**	**-4.00**	**-4.00**	**-4.00**	**-1.33**	**-3.87**	**3.84**	**0.71**	**7.04**
X Weighting Factor ***	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Ratio Score	-0.40	-0.37	-0.40	-0.40	-0.40	-0.13	-0.39	0.38	0.07	0.70
+ Return on Net Position Ratio	-8.09%	9.58%	0.62%	4.45%	-1.37%	24.08%	0.51%	5.70%	1.60%	7.37%
/ 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 **	**-4.00**	**4.79**	**0.31**	**2.23**	**-0.69**	**10.00**	**0.26**	**2.85**	**0.80**	**3.69**
X Weighting Factor ***	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Ratio Score	-0.80	0.96	0.06	0.45	-0.14	2.00	0.05	0.57	0.16	0.74
+ Viability Ratio	0.04	0.05	0.05	0.03	0.02	0.07	0.04	0.12	-0.14	-0.01
/ 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 **	**0.10**	**0.12**	**0.12**	**0.07**	**0.05**	**0.17**	**0.10**	**0.29**	**-0.34**	**-0.02**
X Weighting Factor ***	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Ratio Score	0.04	0.04	0.04	0.02	0.02	0.06	0.04	0.10	-0.12	-0.01
Composite Financial Index	-1.1	0.7	-0.3	0.1	-0.5	2.0	-0.3	1.2	-0.1	1.4

* = 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.

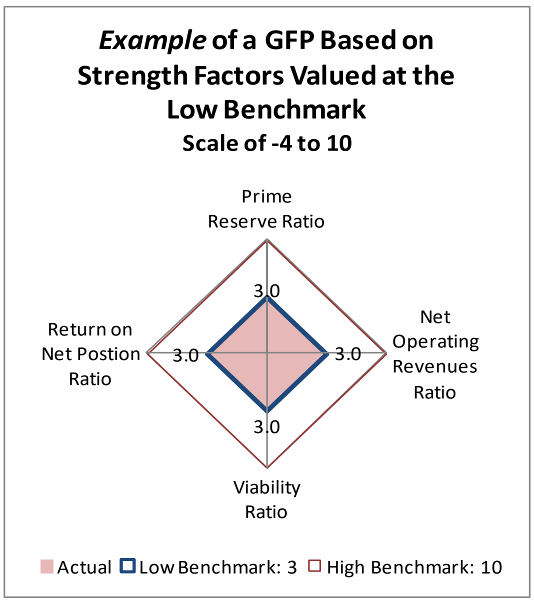
*** = The weighting factor is derived from the weighting schema defined by the authors of *Strategic Financial Analysis for Higher Education* , Seventh Edition for institutions with long-term debt.

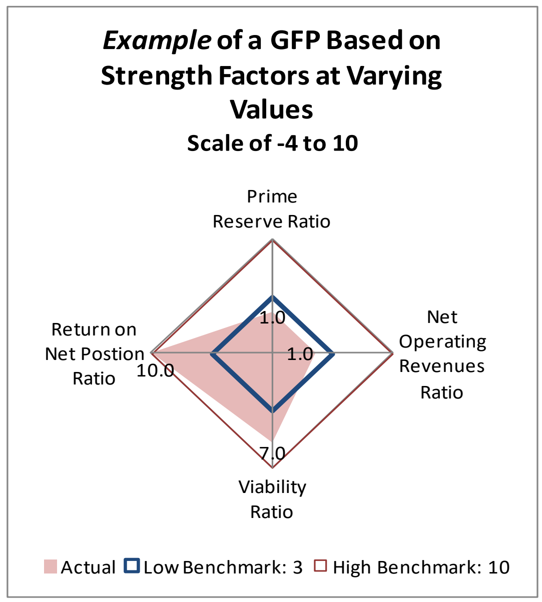
The strength factors that were used in calculating the CFI can be mapped on a diamond to show the shape of an institution's financial health compared to the industry benchmarks. This **Graphic Financial Profile** can assist management in determining whether a weakness in one ratio is offset by strength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

UMFK'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:

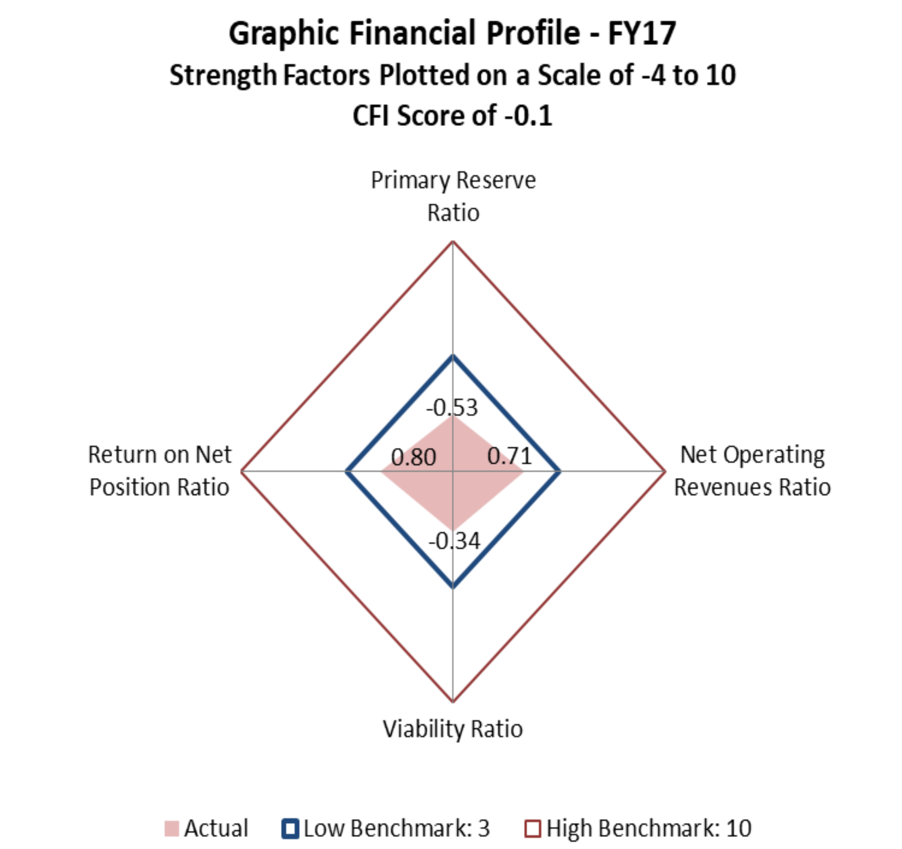


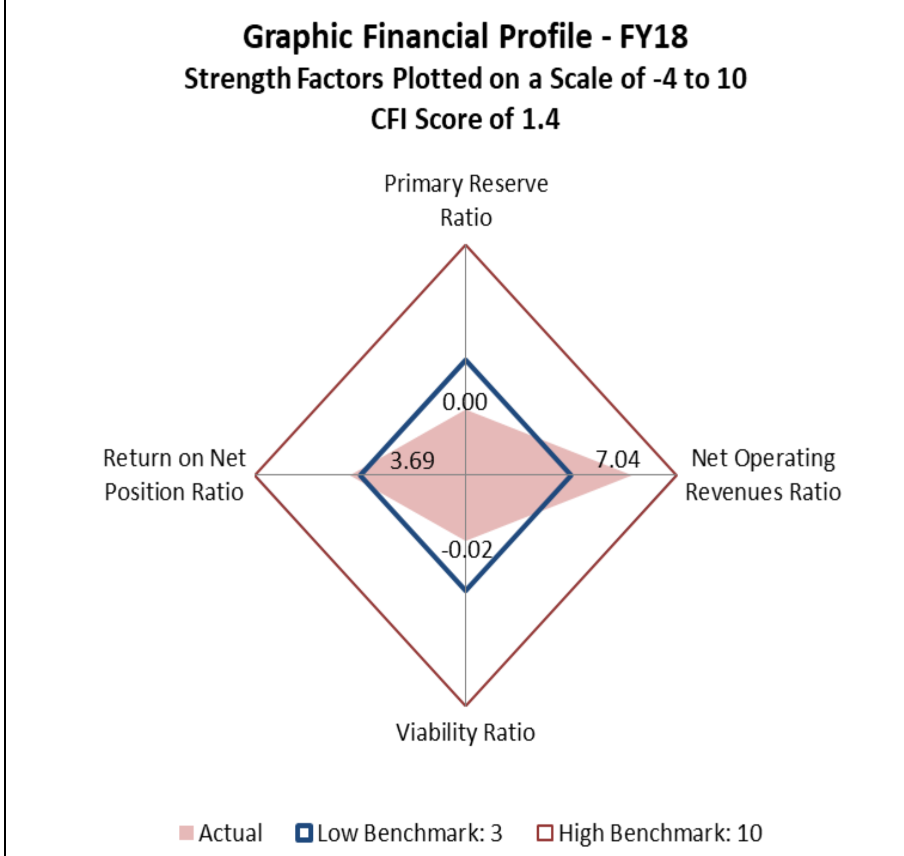


- The center point of the graphic financial profiles is -4, the lowest possible score on the scale.
- The smaller, heavily lined diamond in the graphs represents the low industry benchmark of 3.
- The outer, lightly lined diamond represents the high industry benchmark of 10 and the highest possible score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

UMFK Graphic Financial Profiles
FY17 and FY18

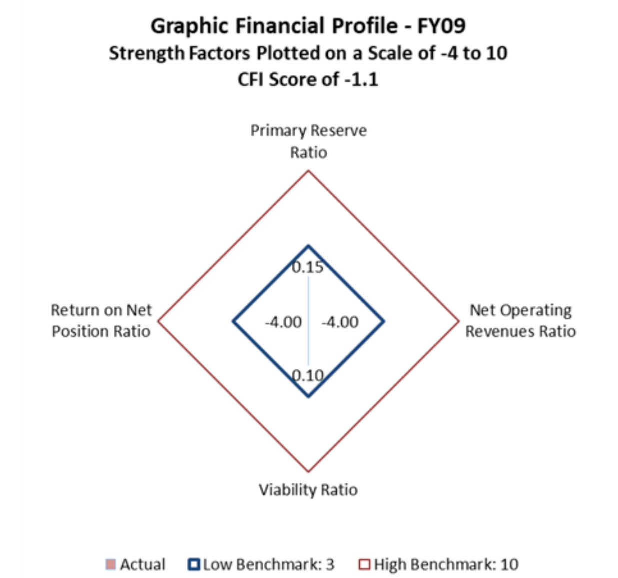
UMFK's positive CFI score in FY18 is attributable to positive returns from both operations and on total net position.

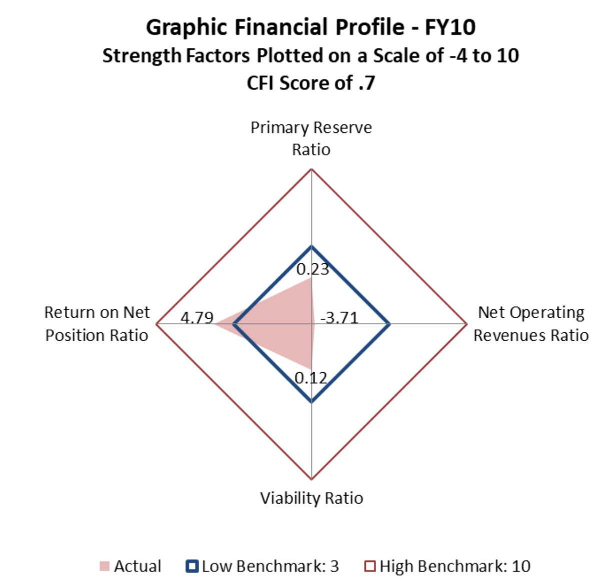


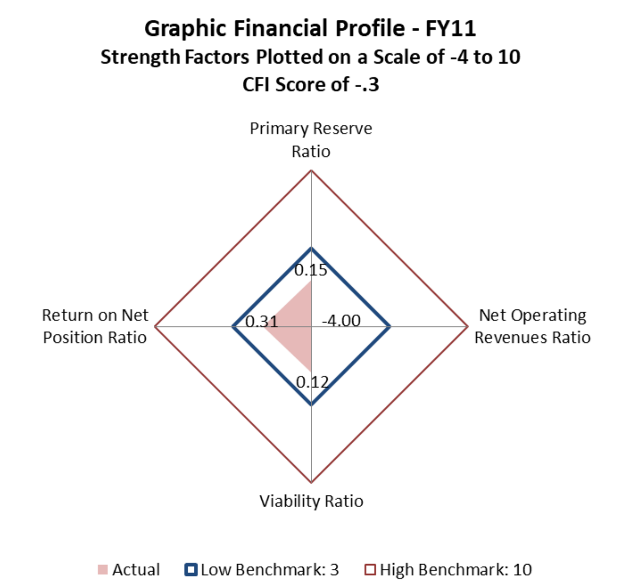


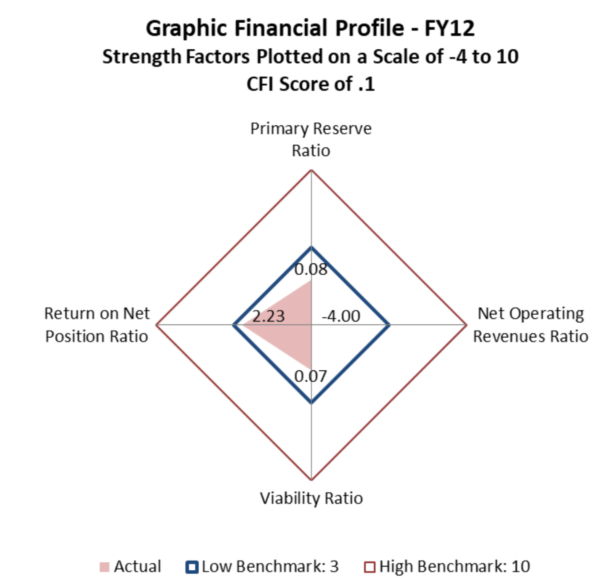
UMFK Graphic Financial Profiles
FY09 to FY16

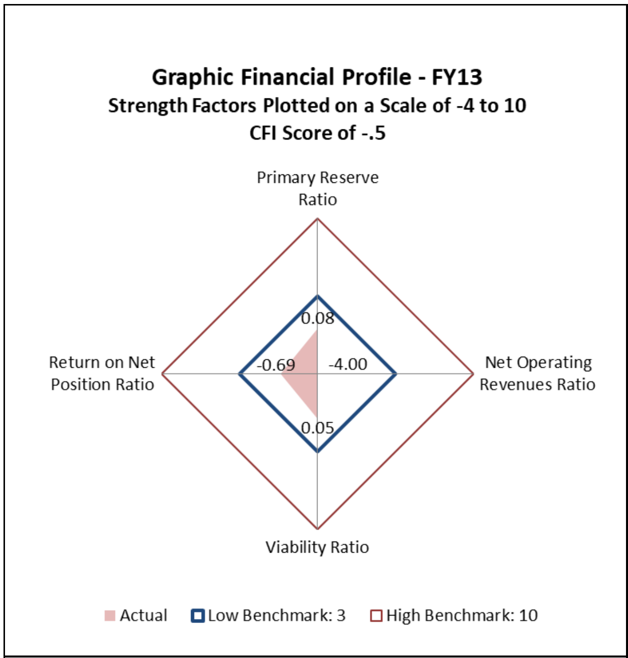
Changes in the shape of UMFK's graphic financial for FY09 thru FY16 can be seen below and on the next page.

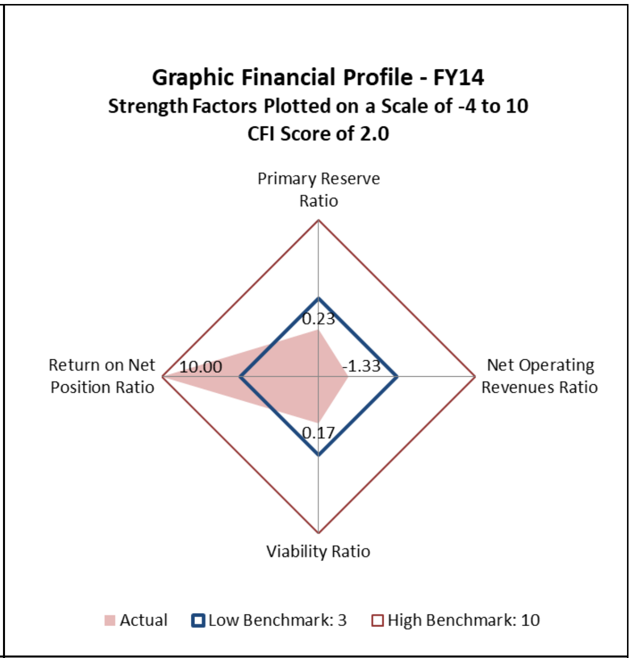


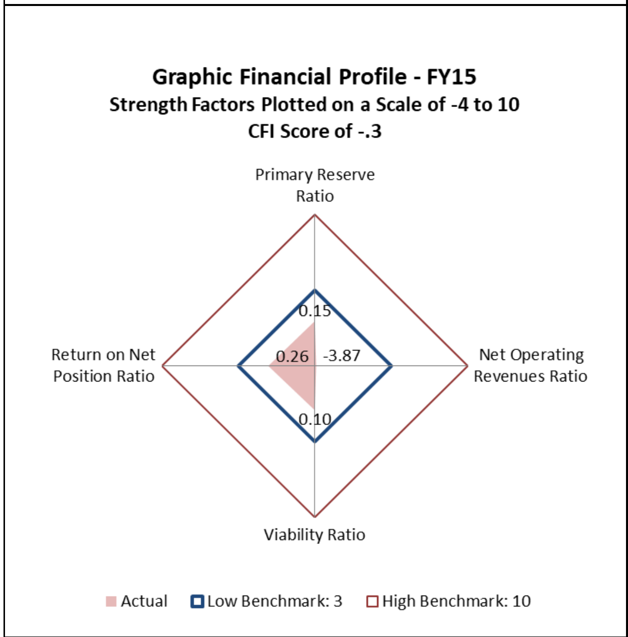


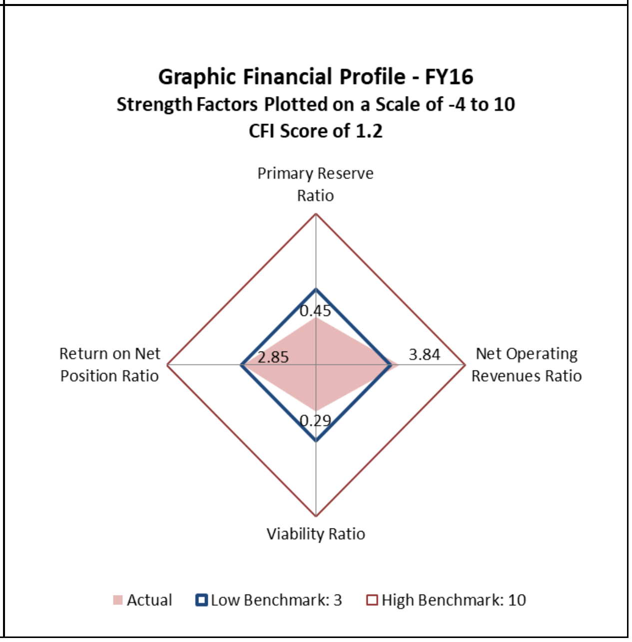





Graphic Financial Profile - FY13
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of -.5
Primary Reserve Ratio
Net Operating Revenues Ratio
Viability Ratio
Return on Net Position Ratio
0.08
-4.00
0.05
-0.69
Actual
Low Benchmark: 3
High Benchmark: 10


Graphic Financial Profile - FY14
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of 2.0
Primary Reserve Ratio
Net Operating Revenues Ratio
Viability Ratio
Return on Net Position Ratio
0.23
-1.33
0.17
10.00
Actual
Low Benchmark: 3
High Benchmark: 10


Graphic Financial Profile - FY15
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of -.3
Primary Reserve Ratio
Net Operating Revenues Ratio
Viability Ratio
Return on Net Position Ratio
0.15
-3.87
0.10
0.26
Actual
Low Benchmark: 3
High Benchmark: 10


Graphic Financial Profile - FY16
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of 1.2
Primary Reserve Ratio
Net Operating Revenues Ratio
Viability Ratio
Return on Net Position Ratio
0.45
3.84
0.29
2.85
Actual
Low Benchmark: 3
High Benchmark: 10

UMFK
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

The items impacting the Net Operating Revenues Ratio impact this ratio, as total expenses are factored into both ratios and the amount of return on operating revenues excluding depreciation expenses closes to expendable net position. Therefore, see pages 18 and 19 of this report for a discussion of the Net Operating Revenues Ratio.

FY09: The Primary Reserve Ratio decreased considerably as endowment returns were negative and operations generated a loss almost twice as large as the FY08 loss.

FY10: The ratio improved slightly in FY10 as UMFK reduced operating expenses and slightly increased total operating and nonoperating revenues.

FY11: The Primary Reserve Ratio fell as UMFK experienced a greater loss from operations in FY11 than it did in FY10.

FY12: UMFK reduced expenses from FY11 to FY12; however, the Primary Reserve Ratio fell to a seven year low as UMFK's expendable net position dropped $138 thousand. Key contributors to this drop include negative endowment returns and the utilization of expendable net position to fund various construction projects, including renovation of the student service center, acquisition and maintenance of the armory, and installation of the sports center boiler.

FY13: A $206 thousand increase in endowment returns helped to offset the loss from operations and allow UMFK's Primary Reserve Ratio to remain at .01x.

FY14: Endowment returns were the primary factor in the FY14 increase in UMFK's restricted expendable net position from the prior fiscal year.

FY15: Restricted expendable net position decreased from the prior year due to negative endowment returns and a focused expenditure of Racino Scholarship monies. Unrestricted net position decreased due to a loss from operations.

FY16: Restricted expendable net position increased from the prior year as negative endowment returns were more than offset by receipt of the following items that remained unspent as of June 30, 2016: $500 thousand gift for the Irving Wood Professorship of Forestry and $109 thousand Maine Economic Improvement Fund award for the Enhancing Application of Remote Sensing Research in Maine through Ground-Based Spectroradiometry project.

The deficit in unrestricted net position decreased from the prior year primarily due to the receipt of $1.5 million in budget stabilization transfers from UMGUS which helped UMFK pay for FY16 operations and set aside monies for future projects, including $173 thousand for the Cyr Hall Roof Replacement project.

FY17: The $2.2 million reduction of UMFK's expendable net position pursuant to the implementation of GASB No. 75 caused UMFK's restated FY17 expendable net position to be a deficit of $1.1 million.

During FY17, UMFK utilized $359 thousand of unrestricted expendable net position to finance capital construction projects, including $115 thousand for the Nadeau Hall Roof Replacement project and $114 thousand to acquire the Kelly House.

Net Operating Revenues Ratio

FY09: Operating revenues fell 5.5% and nonoperating revenues only increased 1.5% from the prior year. Without the State Fiscal Stabilization Program revenue, FY09 nonoperating revenues would have decreased 3%.

FY10: Although still negative, the FY10 ratio improved significantly over that for FY09 as UMFK reduced operating expenses by $433 thousand. Revenues increased slightly.

FY11: The increase in revenues from the prior year was outpaced by an increase in operating expenses. Where appropriate, management spent down restricted net position balances to pay operating costs that otherwise would have been paid from unrestricted funds. Although total expendable net position decreased, the decision to utilize restricted net position allowed UMFK to reduce the deficit in its unrestricted net position.

FY12: Noncapital transfers of $1.09 million from UMSGUS (formerly the "System Office") from both strategic investment funds and other sources were the primary contributor to the increase in UMFK's total operating and nonoperating revenues and therefore the improved net operating revenues ratio.

FY13: An increase in enrollment contributed to the $512 thousand increase over FY12 tuition and fees revenue. This increase was not, however, enough to offset the impact of other significant factors in FY13: increases in financial aid costs and other operating expenses and a $444 thousand decrease in noncapital transfers from UMSGUS.

FY14: The $1.2 million increase in total operating and non-operating revenues from the prior year is primarily attributable to an $862 thousand increase in noncapital transfers from UMSGUS. A $140 thousand increase in noncapital grants and a $117 thousand increase in educational sales and services were the other significant contributors to the overall increase in revenues. Expenses increased $760 thousand.

FY15: Total expenses increased $668 thousand from the prior year, but total operating and non-operating revenues only increased $374 thousand. Non-operating revenues once again included transfers from UMSGUS in the amount of $1.7 million, up $179 thousand from FY14. Noncapital grant revenue increased again in FY15, this time by $143 thousand.

FY16: UMFK generated its first positive return from operations in a period that spans at least eleven years. Total operating and operating revenues increased $1.6 million from the prior year. Notable items contributing to this increase include a $761 increase in net student fees revenue, a $227 increase in educations sales and services revenue, a $474 thousand increase in noncapital State of Maine appropriations revenue, a $470 increase in expendable gifts revenue, and a $259 decrease in noncapital transfers from UMSGUS. Expenses increased just $745 thousand.

FY17: Noncapital transfers from UMSGUS to UMFK are part of nonoperating revenues. UMFK received such transfers in each of the ten years presented and has been heavily reliant on them since FY12, having received an accumulated $7.4 million from FY12 thru FY17. Transfers for FY17 were $1 million.

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 UMFK 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 UMFK'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 Return Net of Amount Used for Operations

$ in thousands

FY09	($306)	**FY14**	$209
FY10	$86	**FY15**	($79)
FY11	$224	**FY16**	($100)
FY12	($93)	**FY17**	$90
FY13	$124	**FY18**	$37

- Capital appropriation revenue from the State of Maine fluctuates with the availability of voter approved bond proceeds and the timing of UMFK's expenditure of those proceeds. UMFK has received this revenue each of the ten years presented:

Capital Appropriation Revenue
$ in thousands

FY09	$260	**FY14**	$138
FY10	$1,172	**FY15**	$606
FY11	$328	**FY16**	$446
FY12	$194	**FY17**	$32
FY13	$30	**FY18**	$42

- Capital grants and gifts have not been a consistent revenue stream for UMFK; however, in the years that UMFK receives them, they are usually significant: $500 thousand in FY12, $146 thousand in FY13, and $2.5 million in FY14.

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.

The issuance and repayment of debt also impact this ratio. Over the past ten years UMFK has borrowed:

- $150 thousand from UMSGUS in FY09 to acquire the Cyr House property.
- $475 thousand from UMSGUS in FY12 to fund the Sports Center boiler, Crocker Hall, and Student Success and Learning Center capital projects.
- $2.6 million from Efficiency Maine Trust over the course of FY15 and FY16 to partially fund UMFK's biomass boiler project.
- $230 thousand in UMS Revenue bonds in FY17 to finance classroom technology upgrades. The State of Maine is providing appropriation dollars restricted to pay the debt service on these new bonds.