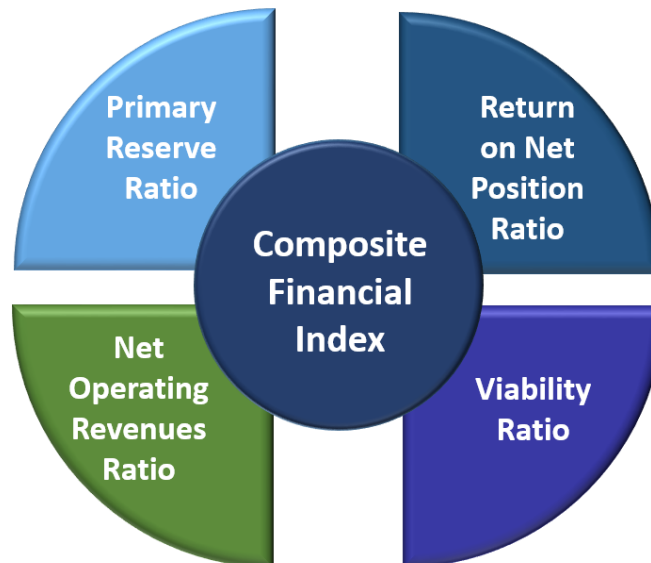




## 2018 Core Financial Ratios and Composite Financial Index



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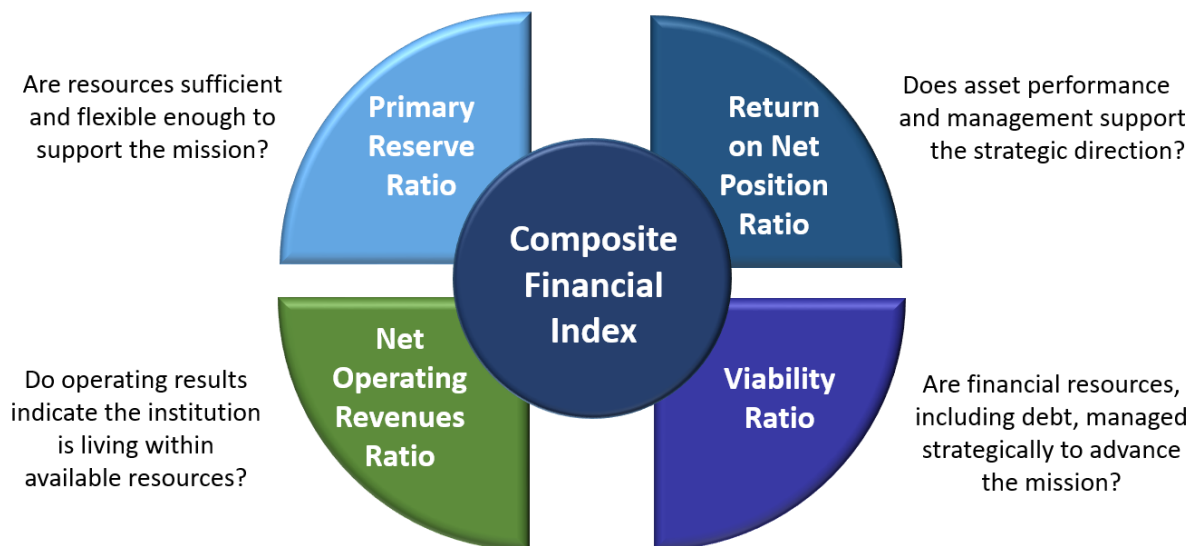
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## Introduction

The financial health of the University of Maine at Machias (UMM) 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 UMM'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 UMM's FY17 financial statements was a \$1.4 million decrease in the previously reported FY17 beginning of year expendable net position and a corresponding increase in noncurrent liabilities as UMM 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 UMM'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 and restated 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 included 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
UMM as originally stated	0.24	1.16%	7.77%	4.07%	0.54	2.0
UMM as restated	0.13	1.16%	8.73%	5.43%	0.29	1.6
UMS as originally stated	0.41	0.53%	2.39%	-1.31%	1.65	2.8
UMS as restated	0.29	2.28%	4.29%	0.99%	1.12	2.5

The **Primary Reserve Ratio** provides a snapshot of financial strength and flexibility by indicating how long the institution could function using its expendable net position (both unrestricted and restricted, excluding net position restricted for capital investments) without relying on additional net position generated by operations. This ratio is calculated as follows:

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

\* Excluding net position restricted for capital investments

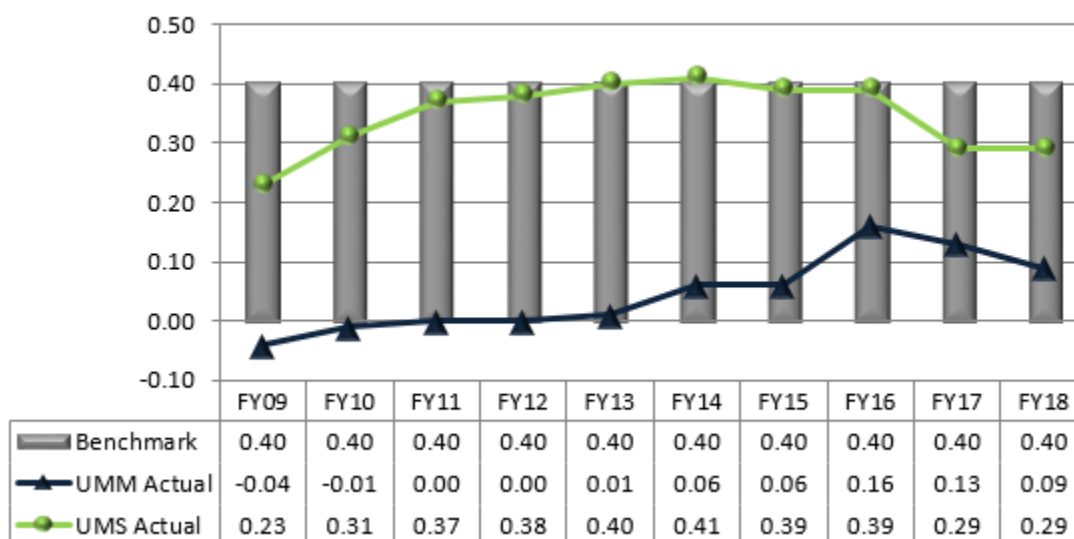
**Key items that can impact expendable net position**

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

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

The significant reduction in UMM's expendable net position pursuant to the implementation of GASB No. 75 resulted in UMM's FY17 Primary Reserve Ratio falling from the originally stated 10-year high of .24x, to the restated .13x, a ratio more consistent with FY16. In FY18, UMM's Primary Reserve Ratio decreased to .09x which provides 1 month of expense coverage.

### Primary Reserve Ratio



	Ratio Components \$ in thousands									
	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>
<i>Unrestricted expendable net position</i>	\$ (1,049)	\$ (858)	\$ (815)	\$ (693)	\$ (767)	\$ (290)	\$ (590)	\$ 371	\$ 603	\$ (187)
<i>Restricted expendable net position</i>	\$ 598	\$ 705	\$ 859	\$ 724	\$ 921	\$ 1,076	\$ 1,354	\$ 1,602	\$ 1,067	\$ 1,360
<b>Total expendable net position</b>	<b>\$ (451)</b>	<b>\$ (153)</b>	<b>\$ 44</b>	<b>\$ 31</b>	<b>\$ 154</b>	<b>\$ 786</b>	<b>\$ 764</b>	<b>\$ 1,973</b>	<b>\$ 1,670</b>	<b>\$ 1,173</b>
<b>Total expenses</b>	<b>\$ 12,676</b>	<b>\$ 12,744</b>	<b>\$ 13,322</b>	<b>\$ 13,537</b>	<b>\$ 13,438</b>	<b>\$ 13,573</b>	<b>\$ 12,799</b>	<b>\$ 12,621</b>	<b>\$ 12,866</b>	<b>\$ 12,490</b>

UMM's restricted expendable net position increased as a result of positive endowment returns, \$53 thousand in gifts received for the Reynolds Center Improvement Fund, and the liquidation of \$50 thousand of endowment corpus at the request of the donor. The FY18 decrease in unrestricted expendable net position was impacted primarily by the use of \$911 thousand of monies provided by UMS Governance and University Services in FY17 to fund safety and security projects, to replace the Kilburn Commons roof, and to address Americans with Disabilities Act issues.

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:

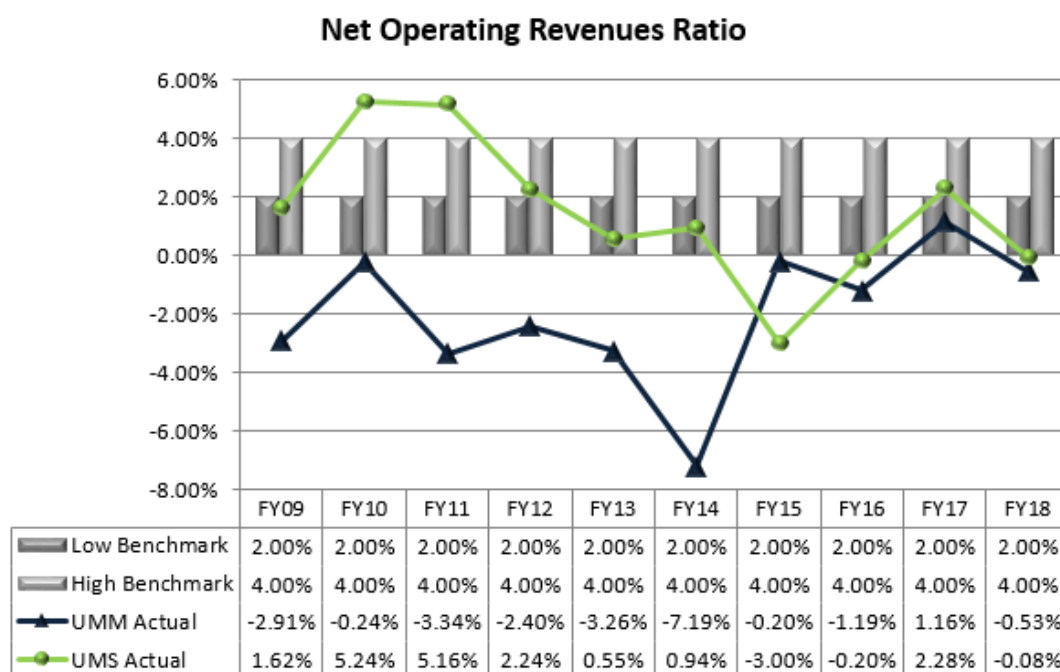
$$\frac{\text{Operating Income (Loss) plus Net Non-Operating Revenues (Expenses)}}{\text{Operating Revenues plus Non-Operating Revenues}}$$

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*

UMM’s Net Operating Revenues Ratio returned to a negative position in FY18. FY17 was the single year in the ten years reported below that a positive return was experienced.





Ratio Components \$ in thousands										
	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>
Operating revenues	\$ 7,428	\$ 8,033	\$ 8,146	\$ 8,055	\$ 7,815	\$ 7,032	\$ 6,897	\$ 6,593	\$ 6,691	\$ 6,132
Operating expenses	\$ (12,452)	\$ (12,543)	\$ (13,135)	\$ (13,375)	\$ (13,321)	\$ (13,480)	\$ (12,700)	\$ (12,496)	\$ (12,741)	\$ (12,336)
Operating loss	\$ (5,024)	\$ (4,510)	\$ (4,990)	\$ (5,320)	\$ (5,506)	\$ (6,448)	\$ (5,803)	\$ (5,903)	\$ (6,050)	\$ (6,204)
Net nonoperating revenues	\$ 4,666	\$ 4,480	\$ 4,560	\$ 5,003	\$ 5,082	\$ 5,537	\$ 5,778	\$ 5,756	\$ 6,201	\$ 6,138
<b>Operating income (loss) plus net non- operating revenues (expenses)</b>	<b>\$ (358)</b>	<b>\$ (30)</b>	<b>\$ (429)</b>	<b>\$ (317)</b>	<b>\$ (424)</b>	<b>\$ (911)</b>	<b>\$ (25)</b>	<b>\$ (148)</b>	<b>\$ 151</b>	<b>\$ (66)</b>
<b>Operating revenues plus non-operating revenues</b>	<b>\$ 12,318</b>	<b>\$ 12,714</b>	<b>\$ 12,893</b>	<b>\$ 13,220</b>	<b>\$ 13,014</b>	<b>\$ 12,662</b>	<b>\$ 12,774</b>	<b>\$ 12,474</b>	<b>\$ 13,017</b>	<b>\$ 12,424</b>

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

Decreases in UMM's operating and non-operating revenues from FY17 to FY18 were greater than the decreases in total expenses, leaving UMM with a small loss of \$66 thousand.

FY18 was the first year since FY12 that UMM (and other campuses within the University of Maine System) experienced an increase in in-state tuition rates. However, a decline in enrollment caused UMM to experience a \$585 thousand (or 15%) decrease in net student fees revenue from FY17 to FY18. Other notable items in UMM's overall decrease in revenues from FY17 to FY18 include an \$841 thousand increase in noncapital State of Maine appropriations revenue and a \$928 thousand decrease in noncapital transfers from the UMS Governance and University Services unit.

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:

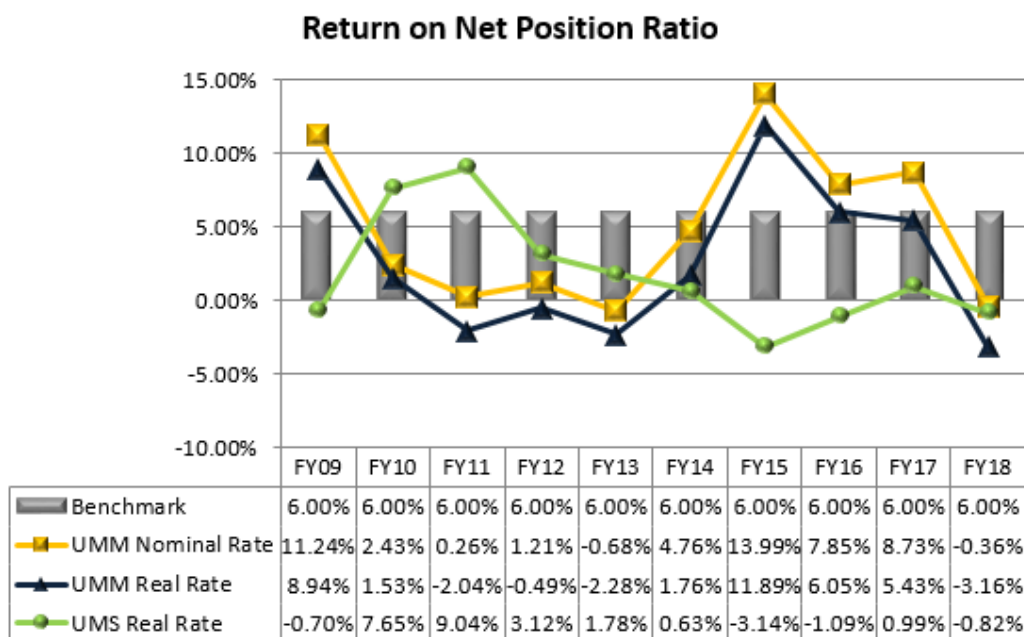
$$\frac{\text{Change in Net Position}}{\text{Total Beginning of the Year Net Position}}$$

**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.

Following 4 years of positive results, UMM's FY18 real rate of Return on Net Position has fallen to below zero.



	Ratio Components \$ in thousands									
	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>
<i>Operating income (loss) plus net non-operating revenues (expenses)</i>	\$ (358)	\$ (30)	\$ (429)	\$ (317)	\$ (424)	\$ (911)	\$ (25)	\$ (148)	\$ 151	\$ (66)
<i>Other changes in net position</i>	\$ 1,352	\$ 269	\$ 455	\$ 439	\$ 354	\$ 1,392	\$ 1,507	\$ 1,096	\$ 862	\$ 22
<b>Change in total net position</b>	<b>\$ 994</b>	<b>\$ 239</b>	<b>\$ 26</b>	<b>\$ 122</b>	<b>\$ (70)</b>	<b>\$ 481</b>	<b>\$ 1,482</b>	<b>\$ 948</b>	<b>\$ 1,012</b>	<b>\$ (45)</b>
<b>Total net position (beginning of year)</b>	<b>\$ 8,846</b>	<b>\$ 9,840</b>	<b>\$ 10,079</b>	<b>\$ 10,105</b>	<b>\$ 10,227</b>	<b>\$ 10,109</b>	<b>\$ 10,591</b>	<b>\$ 12,073</b>	<b>\$ 11,587</b>	<b>\$ 12,599</b>

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

As can be seen in the above table, other changes in net position has often been the sole source of UMM's positive return on net position. A \$764 thousand decrease in capital transfers from the UMS Governance and University Services unit from FY17 to FY18 was a significant factor in UMM's negative Return on Net Position in FY18.

The **Viability Ratio** measures expendable resources that are available to cover debt obligations (e.g., capital leases, notes payable, and bonds payable) and generally is regarded as governing an institution's ability to assume new debt. This ratio is calculated as follows:

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

\* Excluding net position restricted for capital investments

**Key items that can impact expendable net position**

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

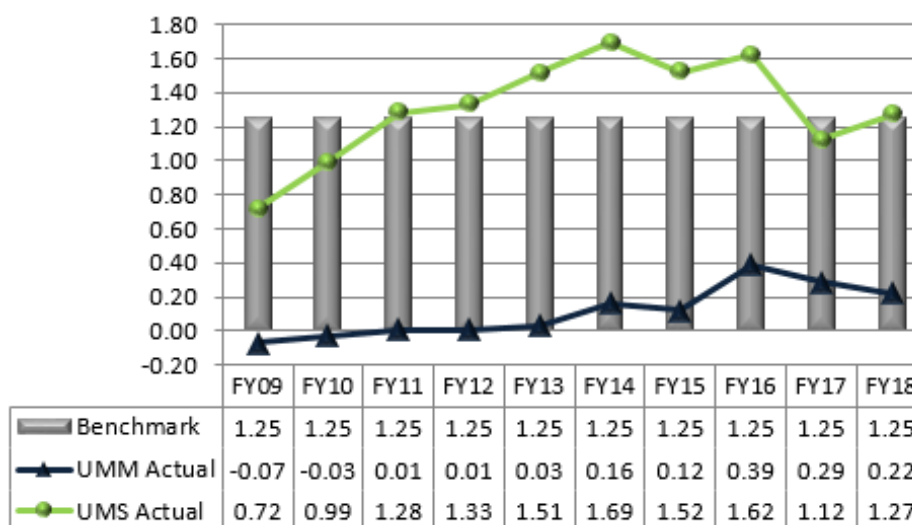
A ratio of 1.25 or greater indicates that there are sufficient resources to satisfy debt obligations.

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

*Strategic Financial Analysis for Higher Education*

The significant reduction in UMM's expendable net position pursuant to the implementation of GASB No. 75, caused UMM's FY17 Viability Ratio to fall from the originally stated .54x, to the restated .29x. In FY18, the ratio decreased to .22x.

**Viability Ratio**



	Ratio Components \$ in thousands									
	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>
<i>Unrestricted expendable net position</i>	\$ (1,049)	\$ (858)	\$ (815)	\$ (693)	\$ (767)	\$ (290)	\$ (590)	\$ 371	\$ 603	\$ (187)
<i>Restricted expendable net position</i>	\$ 598	\$ 705	\$ 859	\$ 724	\$ 921	\$ 1,076	\$ 1,354	\$ 1,602	\$ 1,067	\$ 1,360
<b>Total expendable net position</b>	<b>\$ (451)</b>	<b>\$ (153)</b>	<b>\$ 44</b>	<b>\$ 31</b>	<b>\$ 154</b>	<b>\$ 786</b>	<b>\$ 764</b>	<b>\$ 1,973</b>	<b>\$ 1,670</b>	<b>\$ 1,173</b>
<b>Long-term debt</b>	<b>\$ 6,093</b>	<b>\$ 5,924</b>	<b>\$ 5,729</b>	<b>\$ 5,320</b>	<b>\$ 5,143</b>	<b>\$ 4,935</b>	<b>\$ 6,441</b>	<b>\$ 5,083</b>	<b>\$ 5,730</b>	<b>\$ 5,303</b>

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

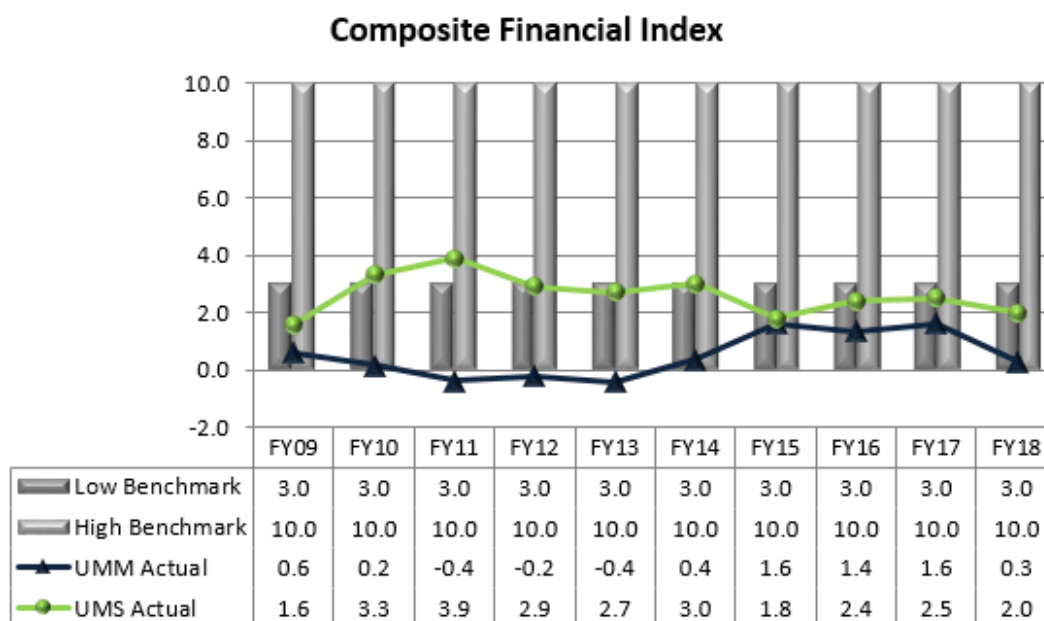
The **Composite Financial Index (CFI)** creates one overall financial measurement of the institution's health based on the four core ratios: Primary Reserve Ratio, Net Operating Revenues Ratio, Return on Net Position Ratio, and Viability Ratio. By blending these four key measures of financial health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

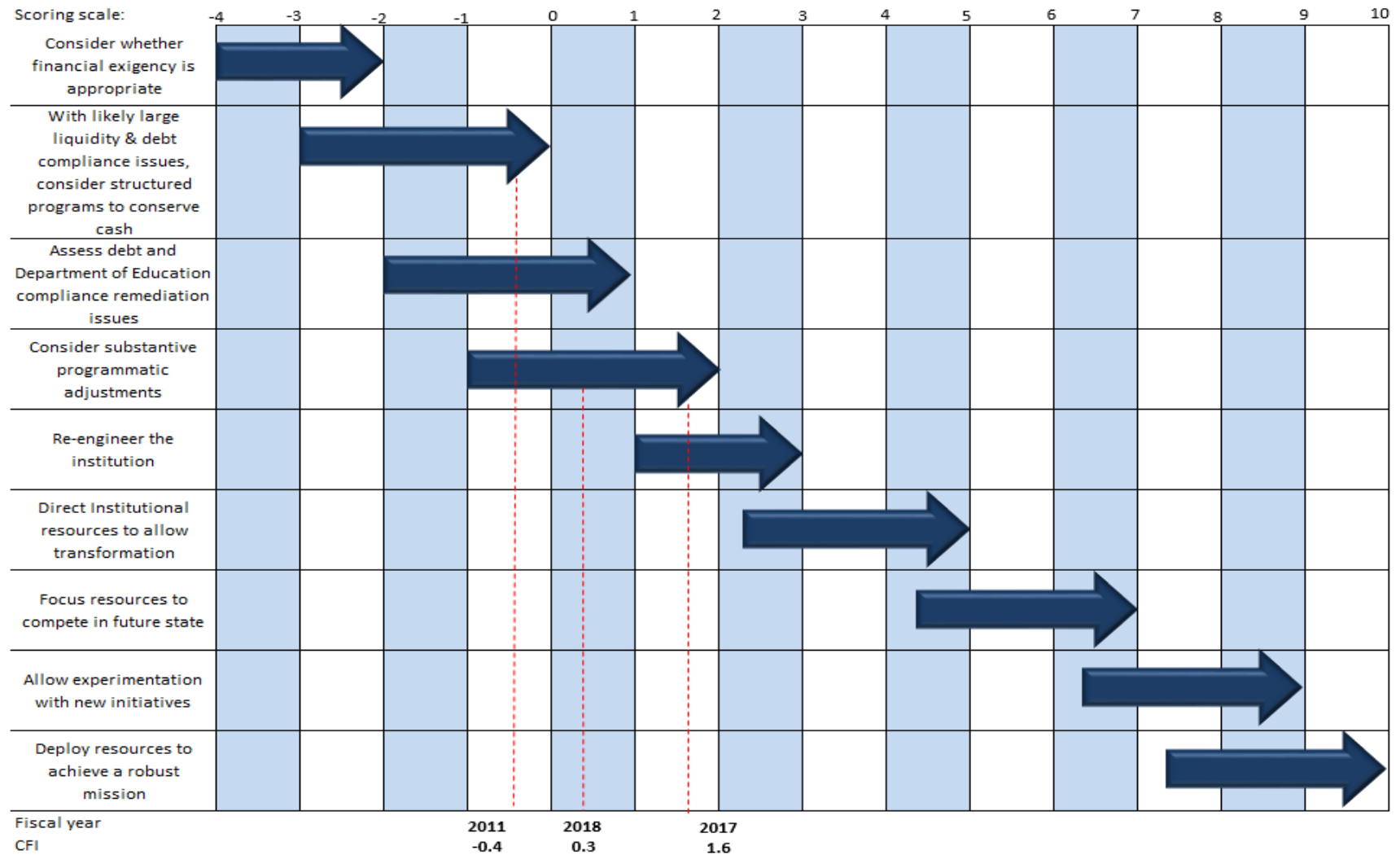
A score of 1.0 indicates very little financial health; 3, the low benchmark, represents a relatively stronger financial position; and 10 is the top of the scale.

At 0.3, UMM's FY18 CFI score is at its lowest since FY13.



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 UMM's lowest (FY11), highest (FY17) and most recent CFI scores to assist in evaluating UMM's performance.



CFI Calculation										
Fiscal Year	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
<b>+ Primary Reserve Ratio</b>	-0.04	-0.01	0.00	0.00	0.01	0.06	0.06	0.16	0.13	0.09
/ Common Scale Value *	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133
<b>= Strength Factor **</b>	<b>-0.30</b>	<b>-0.08</b>	<b>0.00</b>	<b>0.00</b>	<b>0.08</b>	<b>0.45</b>	<b>0.45</b>	<b>1.20</b>	<b>0.98</b>	<b>0.68</b>
X Weighting Factor ***	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
<b>Ratio Score</b>	<b>-0.11</b>	<b>-0.03</b>	<b>0.00</b>	<b>0.00</b>	<b>0.03</b>	<b>0.16</b>	<b>0.16</b>	<b>0.42</b>	<b>0.34</b>	<b>0.24</b>
<b>+ Net Operating Revenues Ratio</b>	-2.91%	-0.24%	-3.34%	-2.40%	-3.26%	-7.19%	-0.20%	-1.19%	1.16%	-0.53%
/ Common Scale Value *	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
<b>= Strength Factor **</b>	<b>-4.00</b>	<b>-0.34</b>	<b>-4.00</b>	<b>-3.43</b>	<b>-4.00</b>	<b>-4.00</b>	<b>-0.29</b>	<b>-1.70</b>	<b>1.66</b>	<b>-0.76</b>
X Weighting Factor ***	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
<b>Ratio Score</b>	<b>-0.40</b>	<b>-0.03</b>	<b>-0.40</b>	<b>-0.34</b>	<b>-0.40</b>	<b>-0.40</b>	<b>-0.03</b>	<b>-0.17</b>	<b>0.17</b>	<b>-0.08</b>
<b>+ Return on Net Position Ratio</b>	11.24%	2.43%	0.26%	1.21%	-0.68%	4.76%	13.99%	7.85%	8.73%	-0.36%
/ Common Scale Value *	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
<b>= Strength Factor **</b>	<b>5.62</b>	<b>1.22</b>	<b>0.13</b>	<b>0.61</b>	<b>-0.34</b>	<b>2.38</b>	<b>7.00</b>	<b>3.93</b>	<b>4.37</b>	<b>-0.18</b>
X Weighting Factor ***	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
<b>Ratio Score</b>	<b>1.12</b>	<b>0.24</b>	<b>0.03</b>	<b>0.12</b>	<b>-0.07</b>	<b>0.48</b>	<b>1.40</b>	<b>0.79</b>	<b>0.87</b>	<b>-0.04</b>
<b>+ Viability Ratio</b>	-0.07	-0.03	0.01	0.01	0.03	0.16	0.12	0.39	0.29	0.22
/ Common Scale Value *	0.417	0.417	0.417	0.417	0.417	0.417	0.417	0.417	0.417	0.417
<b>= Strength Factor **</b>	<b>-0.17</b>	<b>-0.07</b>	<b>0.02</b>	<b>0.02</b>	<b>0.07</b>	<b>0.38</b>	<b>0.29</b>	<b>0.94</b>	<b>0.70</b>	<b>0.53</b>
X Weighting Factor ***	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
<b>Ratio Score</b>	<b>-0.06</b>	<b>-0.02</b>	<b>0.01</b>	<b>0.01</b>	<b>0.03</b>	<b>0.13</b>	<b>0.10</b>	<b>0.33</b>	<b>0.25</b>	<b>0.19</b>
<b>Composite Financial Index</b>	<b>0.6</b>	<b>0.2</b>	<b>-0.4</b>	<b>-0.2</b>	<b>-0.4</b>	<b>0.4</b>	<b>1.6</b>	<b>1.4</b>	<b>1.6</b>	<b>0.3</b>

\* = 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.

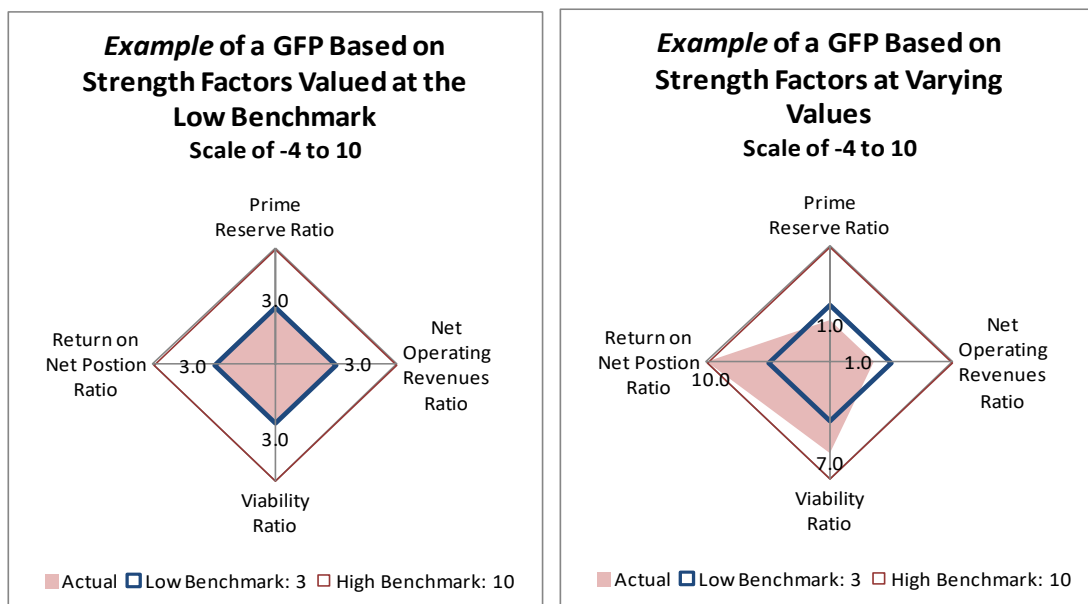


The strength factors that were used in calculating the CFI can be mapped on a diamond to show the shape of an institution's financial health compared to the industry benchmarks. This **Graphic Financial Profile** can assist management in determining whether a weakness in one ratio is offset by strength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

The UMM's Graphic Financial Profiles begin on the next page.

### Illustration

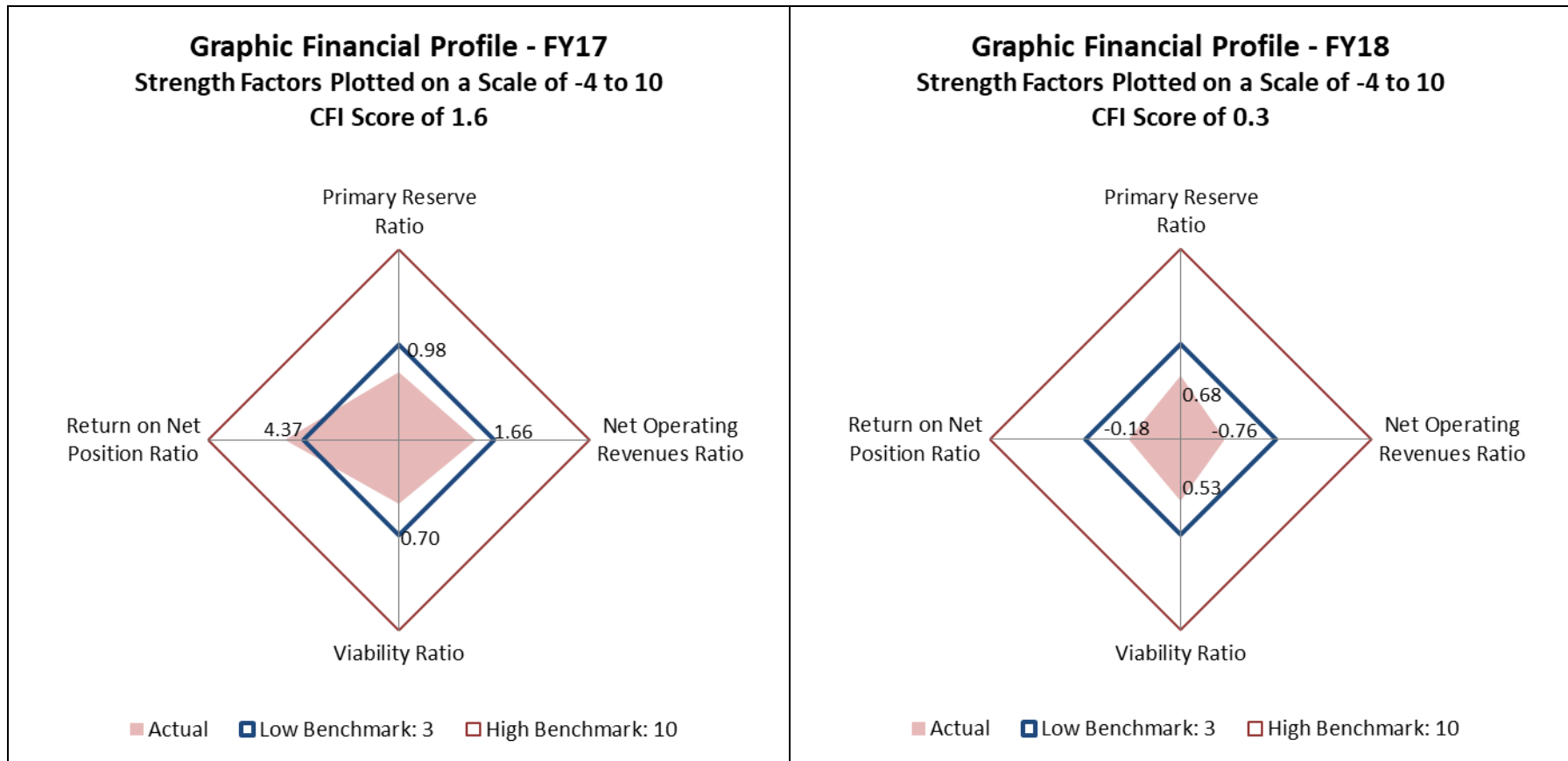
*Below are two examples* of a Graphic Financial Profile (GFP): one plots actual strength factors that equal the low industry benchmark of 3 and one that plots actual strength factors that fall above and below the low benchmark:



- 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.

### UMM Graphic Financial Profiles FY17 and FY18

UMM's FY18 graphic financial profile has narrowed from the previous year but maintains color in all quadrants.

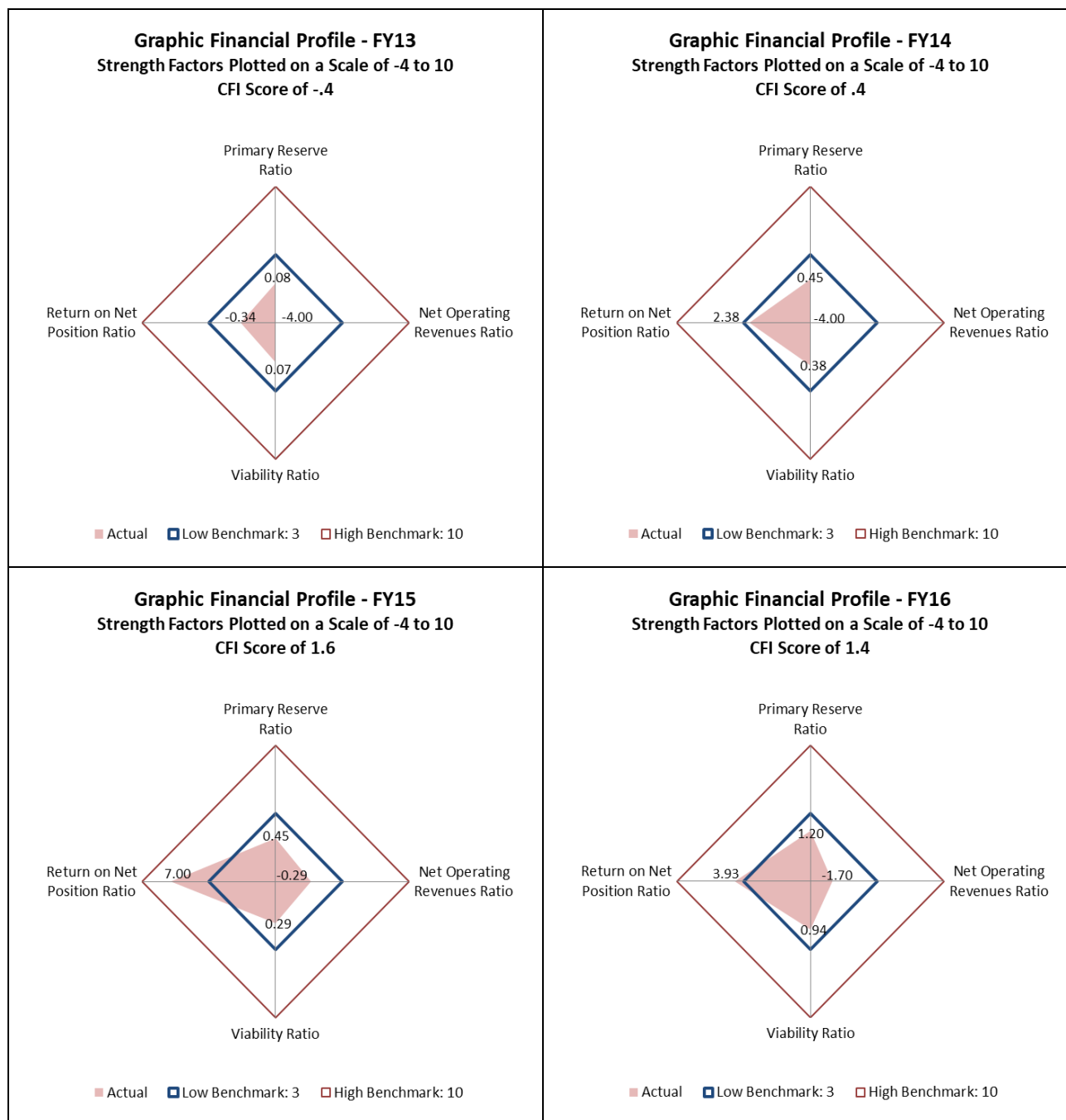


## UMM Graphic Financial Profiles

### FY09 to FY16

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





**UMM  
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 expense closes to expendable net position. Therefore, see the discussion of the Net Operating Revenues Ratio later on this page.

**FY09:** Expendable net position continued to decline as operating expenses increased.

**FY10:** UMM significantly reduced the deficit in its expendable net position as unrestricted operating revenues increased and unrestricted operating expenses decreased. The increase in total unrestricted and restricted operating expenses is attributable to increased grant activity.

**FY11:** The FY11 endowment return was more than double the FY10 return and was the primary contributor to the increase in UMM's total expendable net position.

**FY12:** Although total expendable net position decreased from the prior year, there was an increase in unrestricted expendable net position. Negative endowment returns was the primary contributor to the decrease in restricted expendable net position.

**FY13:** UMM's restricted expendable net position increased in FY13 as endowment returns rallied.

**FY14:** The improvement in UMM's unrestricted expendable net position from FY13 is primarily the result of \$556 thousand of unrestricted capital transfers from UMSGUS that remained unspent as of June 30, 2014. These transfers are expected to be spent on the designated construction projects during FY15. Positive endowment returns account for the FY14 increase in restricted expendable net position.

**FY15:** At the end of FY15, \$241 thousand of the \$556 thousand of capital transfers received from UMSGUS in FY14 remained unspent as UMM spent just \$315 thousand in FY15 on its Powers Hall Exterior and Masonry Repair project. Restricted expendable net position increased from the prior year despite negative endowment returns, due to

a one-time gift of \$375 thousand, restricted for beautification of the campus.

**FY16:** UMSGUS forgave the \$1.1 million working capital loan advanced to UMM in FY08 and FY09; thus, increasing UMM's unrestricted expendable net position. Restricted expendable net position increased from the prior year due to timing differences related to Maine Economic Improvement Fund awards received by UMM in FY16 and not fully spent until the subsequent fiscal year.

**FY17:** Prior to the FY17 restatement for the implementation of GASB No. 75, UMM's Primary Reserve Ratio was at a 10 year high of 0.24x. The FY17 restatement resulted in a \$1.4 million reduction of opening unrestricted expendable net position which in turn resulted in a restated primary reserve ratio of 0.13x.

Despite positive endowment returns in FY17, UMM's restricted expendable net position decreased as \$816 thousand of restricted bond proceeds were used to fund prior year and current year costs for the Kimball Hall Demolition project that was appropriately expensed rather than capitalized. Total project expenses closed out to restricted expendable net position and the deficit created by these expenses will eventually be replenished from unrestricted resources as UMM annually generates revenue to pay debt service on the bonds that funded the project.

Contributing to unrestricted expendable net position were two large transfers received from UMS Governance and University Services (UMSGUS):

- \$790 thousand of administrative savings placed in an unrestricted capital planning reserve for future safety and security projects
- \$675 thousand of budget stabilization funds placed in projects to replace the Kilburn Commons roof and to address ADA issues

**Net Operating Revenues Ratio**

**FY09:** UMM's ratio increased significantly from FY08 to FY09 as new federal stimulus monies were used to pay compensation and benefits that would otherwise have been paid from unrestricted operations. A 6.8% increase in operating revenues combined with only a 1.1% increase in operating expenses also contributed to the improvement in the ratio.

**FY10:** UMM's ratio again increased significantly as federal stimulus monies were again used to pay compensation and benefits that would otherwise have been paid from unrestricted operations or eliminated. Also, unrestricted

operating revenues increased 3.9% and unrestricted operating expenses decreased .8%.

**FY11:** UMM's ratio decreased significantly as a 4.5% increase in expenses outpaced a 1.4% or \$179 thousand net increase in revenues. Grants and contracts revenue increased \$625 thousand while gross tuition and fees and educational sales and services revenues decreased.

**FY12:** UMM experienced increases in net student fees and noncapital transfers from USMSGUS of \$379 thousand and \$567 thousand, respectively. These increases were partially offset by decreases in noncapital grants revenue and State Fiscal Stabilization Program revenue of \$419 thousand and a \$171 thousand, respectively.

FY12 noncapital transfers from USMSGUS included \$271 for strategic investment fund projects, \$239 thousand for various noncapital construction/maintenance projects, and \$172 thousand for various operating activities. Most of the \$239 thousand transfer for noncapital projects remained unspent as of June 30, 2012; thus, contributing to the increase in UMM's Net Operating Revenues Ratio from FY11 to FY12. Expenditure of these unspent monies in FY13 will have the opposite impact on the FY13 Net Operating Revenues Ratio.

**FY13:** In FY13, UMM received total operating transfers from USMSGUS of \$708 thousand to help cover operating costs. Despite these transfers, UMM's FY13 loss from operations was \$107 thousand greater than FY12 as UMM experienced a decline in revenues from net student fees and operating grants and contracts.

**FY14:** Despite receiving \$1.1 million in noncapital transfers from USMSGUS in FY14, UMM experienced a \$911 thousand loss from operations as gross tuition and fees revenue decreased \$531 thousand from the prior year and nongrant and noncontract expenses (operating expenses + interest expense + scholarship allowance – grants and contracts expenses) increased \$223 thousand.

**FY15:** A \$774 decrease in expenses from the prior year, a \$370 thousand increase in expendable gift revenue, and a \$241 thousand increase in noncapital transfers from USMSGUS helped UMM to almost break even in FY15, despite a \$211 thousand decrease in net student fees revenue.

**FY16:** Despite incurring \$317 thousand of expenses to demolish Kimball Hall, UMM's total expenses decreased \$170 thousand. Total operating and non-operating revenues decreased \$300 thousand from FY15 as a \$659 thousand increase in noncapital State of Maine appropriation revenue was not enough to offset a \$337 thousand decrease in net student fees revenue and decreases in several other revenue streams.

**FY17:** Increases in UMM's total operating and non-operating revenues from FY16 to FY17 outpaced the increase in total expenses, leaving UMM with a small operating return of \$151 thousand. Notable items in the increase in revenues include a \$293 thousand (or 8.1%) increase in net student fee revenue and a \$297 thousand increase in noncapital transfers from USMSGUS which brought the total of such transfers to \$1 million for FY17.

**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 USMSGUS, many services (e.g., Procurement, Human Resources, Information Technology, Facilities, and Finance) that had previously existed at each of the campuses and USMSGUS. The costs of University Services were then allocated back out to UMM 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 UMA'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

<b>FY09</b>	(\$353)	<b>FY14</b>	\$206
<b>FY10</b>	\$101	<b>FY15</b>	(\$92)
<b>FY11</b>	\$242	<b>FY16</b>	(\$136)
<b>FY12</b>	(\$95)	<b>FY17</b>	\$162
<b>FY13</b>	\$144	<b>FY18</b>	\$82

- Capital appropriation revenue from the State of Maine fluctuates with the availability of voter approved bond proceeds and the timing of UMM's expenditure of those proceeds. These appropriations have occurred in 6 of the last 10

years presented; most notably when UMM received \$816 thousand in FY09 and \$1.2 million in FY15.

- Over the ten years presented in this report, UMM received \$10 thousand of capital grants and gifts revenues in FY10 and \$167 thousand in FY13.
- Endowment gifts have been a constant, but usually not significant, source of revenue for UMM. FY15 is the exception when UMM received \$427 thousand.
- Over the years UMM received the following transfers from UMSGUS to fund key construction projects:
  - \$892 thousand in **FY09** as match money on a construction project funded with State of Maine capital appropriation monies.
  - \$188 thousand in **FY10** to fund the Reynolds Gym boiler project.
  - \$225 thousand in **FY12** to fund a scheduled jump in UMM's debt service on the 2005 University Revenue Bonds.
  - \$1.1 million in **FY14** for several capital projects, including repairs to Powers Hall.
  - \$675 thousand in **FY17** for projects to replace the Kilburn Commons roof and to address ADA issues

- On a one-time basis, in **FY15**, UMSGUS forgave the \$1.1 million working capital loan advanced to UMM in FY08 and FY09.

#### 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 on page 18 for items impacting expendable net position.

The issuance and repayment of debt also impact this ratio. Notable changes in UMM's outstanding long-term debt other than annual scheduled payments include the following:

- Over FY08/FY09 UMSGUS advanced \$1.1 million to UMM as a working capital loan to cover UMM's FY07 and FY08 unrestricted net position deficits.
- UMM borrowed \$1.4 million in UMS Revenue Bonds in FY15 to finance a natural gas pipeline for the campus.
- In FY16, UMSGUS forgave the \$1.1 million working capital loan advanced to UMM in FY08/FY09.
- UMM borrowed \$970 thousand in UMS Revenue bonds in FY17 to finance demolition of Kimball Hall and classroom technology upgrades. The State of Maine is providing appropriation dollars restricted to pay the debt service on these new bonds.