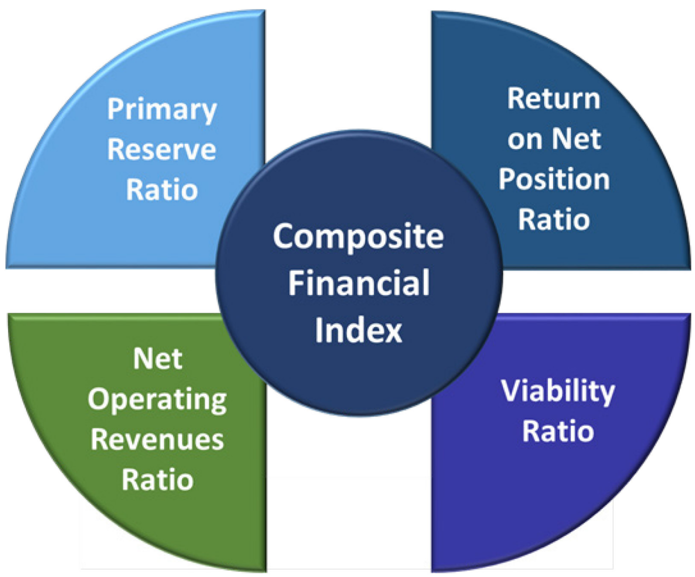
2018 Core Financial Ratios and Composite Financial Index



University of Maine System
Office of Finance and Treasurer
January 2019

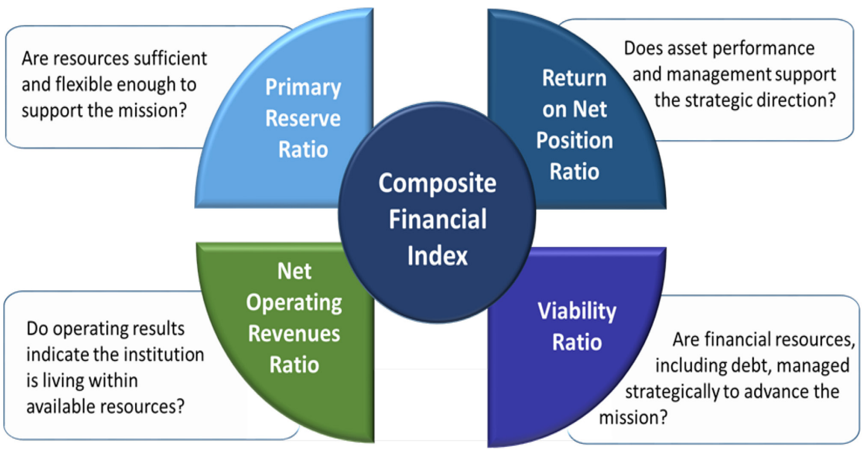
This page intentionally left blank.

TABLE OF CONTENTS

Introduction

The financial health of the University of Maine at Presque Isle (UMPI) 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 UMPI'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 UMPI's FY17 financial statements was a $2.5 million decrease in the previously reported FY17 beginning of year expendable net position and a corresponding increase in noncurrent liabilities as UMPI 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 UMPI'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. 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**
UMPI as originally stated	0.13	-4.64%	-3.51%	-7.21%	1.48	0.8
UMPI as restated	0.01	-4.64%	-3.96%	-7.26%	0.07	-0.7
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

1\. 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

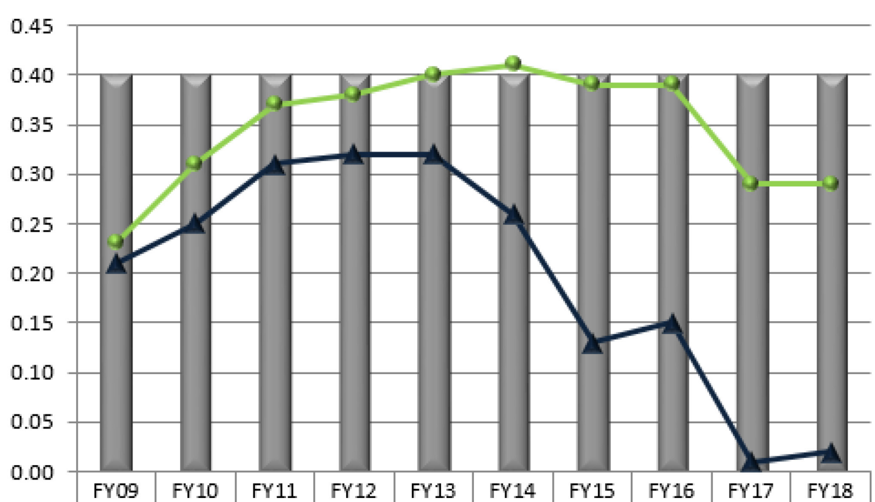
Key items that can impact expendable net position

- 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 UMPI's expendable net position pursuant to the implementation of GASB No. 75 resulted in UMPI's FY17 Primary Reserve Ratio falling from the originally stated .13x, to the restated .01x. In FY18, the ratio increased slightly to .02x or about one week of expense coverage.

Primary Reserve Ratio



	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Benchmark	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
UMPI Actual	0.21	0.25	0.31	0.32	0.32	0.26	0.13	0.15	0.01	0.02
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	*$ 3,236*	*$ 4,084*	*$ 5,194*	*$ 5,559*	*$ 5,360*	*$ 3,793*	*$ 1,284*	*$ 1,604*	*$ (1,397)*	*$ (1,113)*
Restricted expendable net position	*$ 935*	*$ 928*	*$ 1,072*	*$ 985*	*$ 1,297*	*$ 1,436*	*$ 1,430*	*$ 1,413*	*$ 1,524*	*$ 1,542*
Total expendable net position	**$ 4,171**	**$ 5,012**	**$ 6,266**	**$ 6,544**	**$ 6,657**	**$ 5,229**	**$ 2,714**	**$ 3,017**	**$ 127**	**$ 429**
Total expenses	**$ 20,090**	**$ 20,076**	**$ 20,377**	**$ 20,673**	**$ 21,113**	**$ 20,379**	**$ 20,463**	**$ 20,384**	**$ 20,551**	**$ 20,653**

In FY18, UMPI's total expendable net position made a slight improvement from the ten-year low experienced in the prior year as UMPI experienced a small positive return from unrestricted operations (operating revenues – operating expenses + depreciation expense + net nonoperating revenues). However, the unrestricted portion of expendable net position remains negative. UMPI's total expenses increased just .5% from FY17 to FY18.

2.

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:

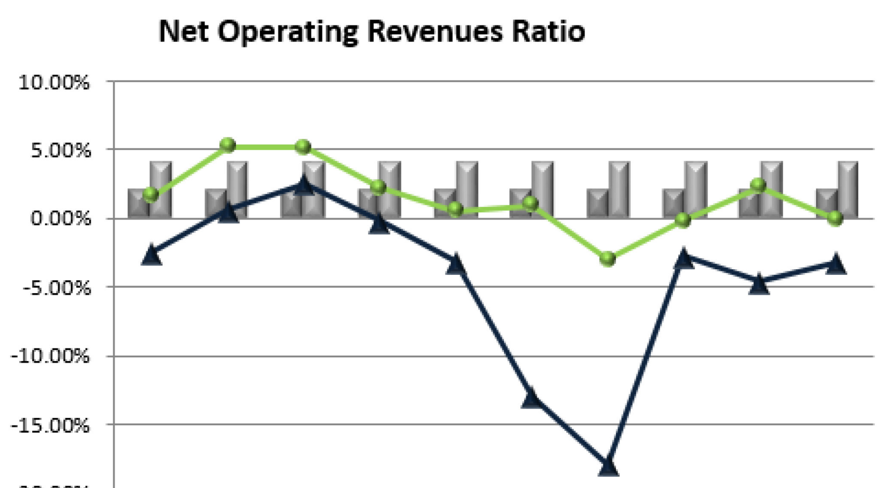
$$\frac{\text{Operating Income (Loss) plus Net Non-Operating Revenues (Expenses)}}{\text{Operating Revenues plus Non-Operating Revenues}}$$

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

UMPI has struggled over the past ten years, generating small positive returns from operations in just two of the years: FY10 and FY11.



	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%
UMPI Actual	-2.45%	0.61%	2.54%	-0.17%	-3.13%	-13.00%	-17.95%	-2.73%	-4.64%	-3.21%
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	*$ 12,513*	*$ 13,274*	*$ 13,615*	*$ 13,465*	*$ 13,303*	*$ 11,225*	*$ 10,649*	*$ 10,760*	*$ 10,688*	*$ 11,340*
Operating expenses	*$ (20,010)*	*$ (19,997)*	*$ (20,300)*	*$ (20,598)*	*$ (21,043)*	*$ (20,330)*	*$ (20,420)*	*$ (20,341)*	*$ (20,507)*	*$ (20,599)*
Operating loss	*$ (7,498)*	*$ (6,723)*	*$ (6,684)*	*$ (7,133)*	*$ (7,740)*	*$ (9,106)*	*$ (9,771)*	*$ (9,580)*	*$ (9,819)*	*$ (9,259)*
Net nonoperating revenues	*$ 7,017*	*$ 6,846*	*$ 7,216*	*$ 7,097*	*$ 7,099*	*$ 6,761*	*$ 6,657*	*$ 9,039*	*$ 8,907*	*$ 8,617*
Operating income (loss) plus net non-operating revenues (expenses)	**$ (481)**	**$ 123**	**$ 532**	**$ (36)**	**$ (641)**	**$ (2,344)**	**$ (3,114)**	**$ (542)**	**$ (912)**	**$ (642)**
Operating revenues plus non-operating revenues	**$ 19,610**	**$ 20,199**	**$ 20,908**	**$ 20,637**	**$ 20,472**	**$ 18,035**	**$ 17,349**	**$ 19,842**	**$ 19,639**	**$ 20,011**

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

Although UMPI experienced a loss for FY18, the amount of the loss was smaller than the prior year as an increase in operating revenues outpaced the increase in operating expenses and the decrease in nonoperating revenues. The increase in operating revenues is primarily attributable to a $604 thousand increase in net student fees. The decrease in nonoperating revenues is primarily attributable to the net impact of a $978 thousand increase in noncapital State of Maine appropriations revenue and a $1.3 million decrease in noncapital transfers from UMSGUS.

3. 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:

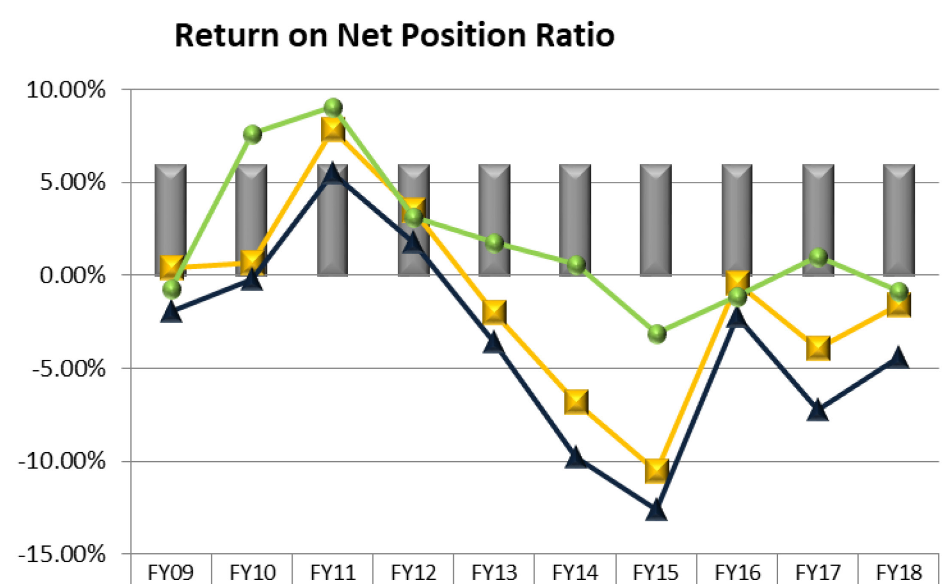
$$\frac{\text{Change in Net Position}}{\text{Total Beginning of the Year Net Position}}$$

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.

UMPI's return on net position has been negative since FY13.



	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%
UMPI Nominal Rate	0.38%	0.67%	7.81%	3.48%	-2.01%	-6.81%	-10.54%	-0.40%	-3.96%	-1.63%
UMPI Real Rate	-1.92%	-0.23%	5.51%	1.78%	-3.61%	-9.81%	-12.64%	-2.20%	-7.26%	-4.43%
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)	*$ (481)*	*$ 123*	*$ 532*	*$ (36)*	*$ (641)*	*$ (2,344)*	*$ (3,114)*	*$ (542)*	*$ (912)*	*$ (642)*
Other changes in net position	*$ 572*	*$ 40*	*$ 1,382*	*$ 954*	*$ 91*	*$ 524*	*$ 488*	*$ 452*	*$ 132*	*$ 334*
Change in total net position	**$ 91**	**$ 163**	**$ 1,914**	**$ 918**	**$ (550)**	**$ (1,820)**	**$ (2,626)**	**$ (90)**	**$ (780)**	**$ (308)**
Total net position (beginning of year)	**$ 24,238**	**$ 24,329**	**$ 24,492**	**$ 26,406**	**$ 27,324**	**$ 26,735**	**$ 24,916**	**$ 22,289**	**$ 19,690**	**$ 18,910**

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

UMPI's net position has been steadily decreasing as UMPI has experienced a negative return on net position each year since FY13.

4.

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

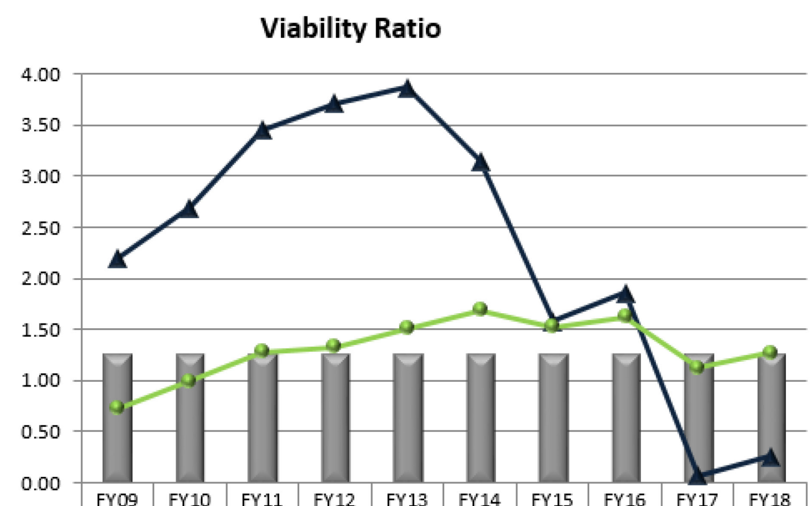
- principal payments on debt
- use of unrestricted net position to fund capital construction projects
- operating results (operating revenues – operating expenses + nonoperating revenues – nonoperating expenses + depreciation)
- endowment returns

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 UMPI's expendable net position pursuant to the implementation of GASB No. 75, caused UMPI's FY17 Viability Ratio to fall from the originally stated 1.48x, to the restated .07x. In FY18, the ratio increased to .26x.



	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
UMPI Actual	2.19	2.69	3.45	3.71	3.87	3.15	1.58	1.86	0.07	0.26
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	*$ 3,236*	*$ 4,084*	*$ 5,194*	*$ 5,559*	*$ 5,360*	*$ 3,793*	*$ 1,284*	*$ 1,604*	*$ (1,397)*	*$ (1,113)*
Restricted expendable net position	*$ 935*	*$ 928*	*$ 1,072*	*$ 985*	*$ 1,297*	*$ 1,436*	*$ 1,430*	*$ 1,413*	*$ 1,524*	*$ 1,542*
Total expendable net position	**$ 4,171**	**$ 5,012**	**$ 6,266**	**$ 6,544**	**$ 6,657**	**$ 5,229**	**$ 2,714**	**$ 3,017**	**$ 127**	**$ 429**
Long-term debt	**$ 1,907**	**$ 1,862**	**$ 1,816**	**$ 1,766**	**$ 1,722**	**$ 1,662**	**$ 1,713**	**$ 1,620**	**$ 1,781**	**$ 1,673**

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. With the exception of a new capital lease in FY15 for copiers, UMPI has not acquired new debt since FY04.

Composite Financial Index

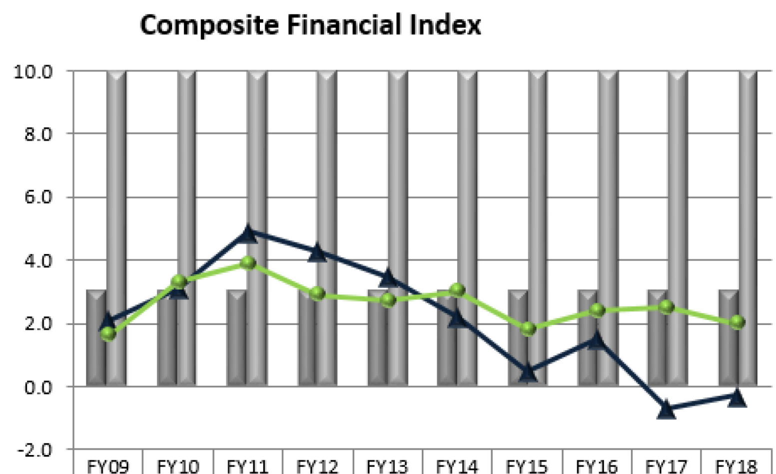
The **Composite Financial Index (CFI)** creates one overall financial measurement of the institution's health based on the four core ratios: Primary Reserve Ratio, Net Operating Revenues Ratio, Return on Net Position Ratio, and Viability Ratio. By blending these four key measures of financial health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

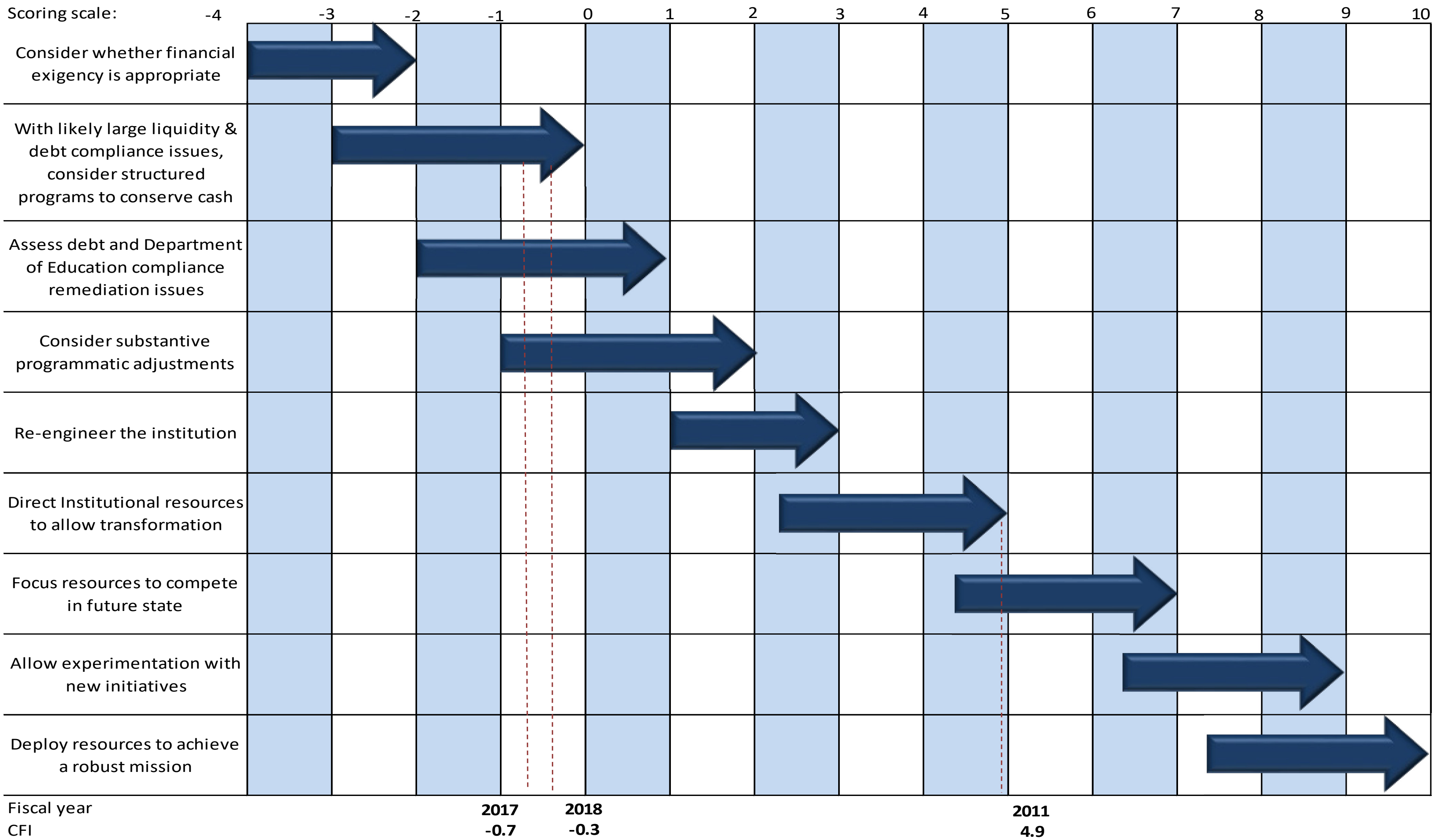
Prior to the restatement of FY17 data for the implementation of GASB No. 75, UMPI's CFI score was positive at 0.8. After the restatement it was -0.7. In FY18, UMPI's score increased slightly to -0.3.



	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
UMPI Actual	2.1	3.1	4.9	4.3	3.5	2.2	0.5	1.5	-0.7	-0.3
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 UMPI's highest (FY11), lowest (FY17) and most recent CFI scores to assist in evaluating UMPI's performance.

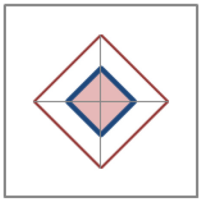


CFI Calculation										
Fiscal Year	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
+ Primary Reserve Ratio	0.21	0.25	0.31	0.32	0.32	0.26	0.13	0.15	0.01	0.02
/ Common Scale Value *	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133
= Strength Factor **	***1.58***	***1.88***	***2.33***	***2.41***	***2.41***	***1.95***	***0.98***	***1.13***	***0.08***	***0.15***
X Weighting Factor ***	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Ratio Score	0.55	0.66	0.82	0.84	0.84	0.68	0.34	0.40	0.03	0.05
+ Net Operating Revenues Ratio	-2.45%	0.61%	2.54%	-0.17%	-3.13%	-13.00%	-17.95%	-2.73%	-4.64%	-3.21%
/ 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 **	***-3.50***	***0.87***	***3.63***	***-0.24***	***-4.00***	***-4.00***	***-4.00***	***-3.90***	***-4.00***	***-4.00***
X Weighting Factor ***	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Ratio Score	-0.35	0.09	0.36	-0.02	-0.40	-0.40	-0.40	-0.39	-0.40	-0.40
+ Return on Net Position Ratio	0.38%	0.67%	7.81%	3.48%	-2.01%	-6.81%	-10.54%	-0.40%	-3.96%	-1.63%
/ Common Scale Value *	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
= Strength Factor **	***0.19***	***0.34***	***3.91***	***1.74***	***-1.01***	***-3.41***	***-4.00***	***-0.20***	***-1.98***	***-0.82***
X Weighting Factor ***	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Ratio Score	0.04	0.07	0.78	0.35	-0.20	-0.68	-0.80	-0.04	-0.40	-0.16
+ Viability Ratio	2.19	2.69	3.45	3.71	3.87	3.15	1.58	1.86	0.07	0.26
/ 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 **	***5.25***	***6.45***	***8.27***	***8.90***	***9.28***	***7.55***	***3.79***	***4.46***	***0.17***	***0.62***
X Weighting Factor ***	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Ratio Score	1.84	2.26	2.89	3.12	3.25	2.64	1.33	1.56	0.06	0.22
Composite Financial Index	**2.1**	**3.1**	**4.9**	**4.3**	**3.5**	**2.2**	**0.5**	**1.5**	**-0.7**	**-0.3**

* = 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.

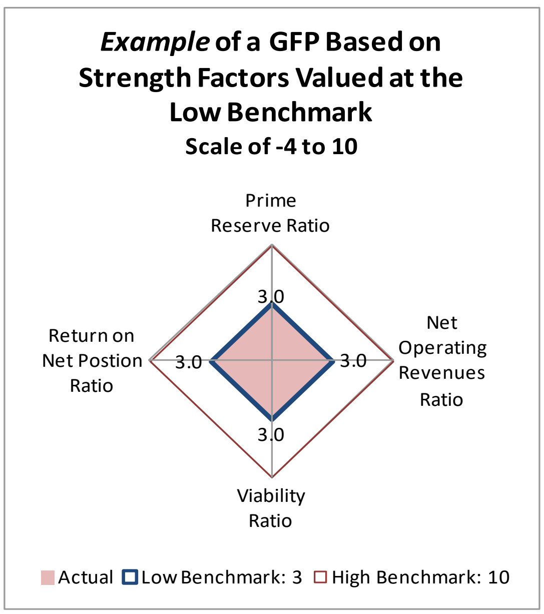


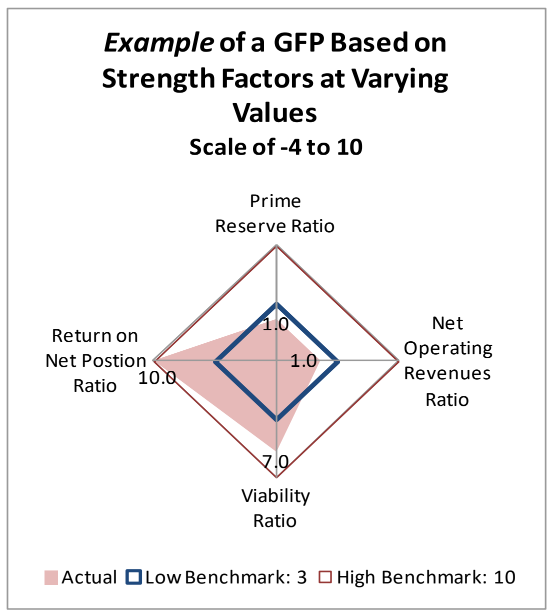
The strength factors that were used in calculating the CFI can be mapped on a diamond to show the shape of an institution's financial health compared to the industry benchmarks. This **Graphic Financial Profile** can assist management in determining whether a weakness in one ratio is offset by strength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

UMPI'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:

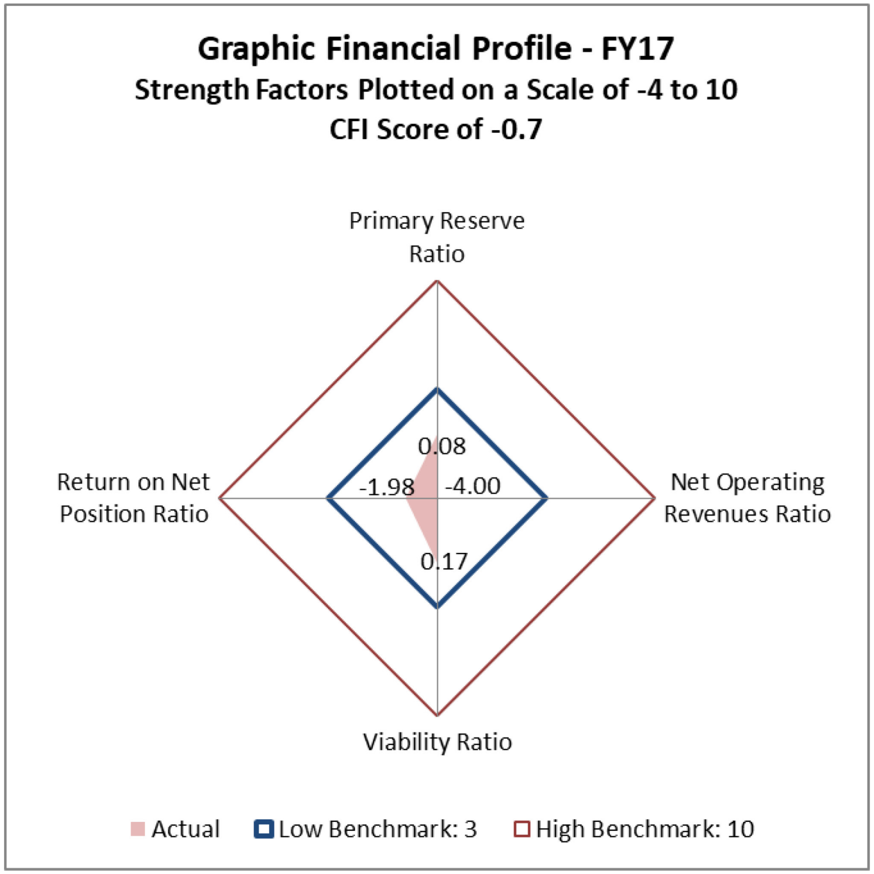


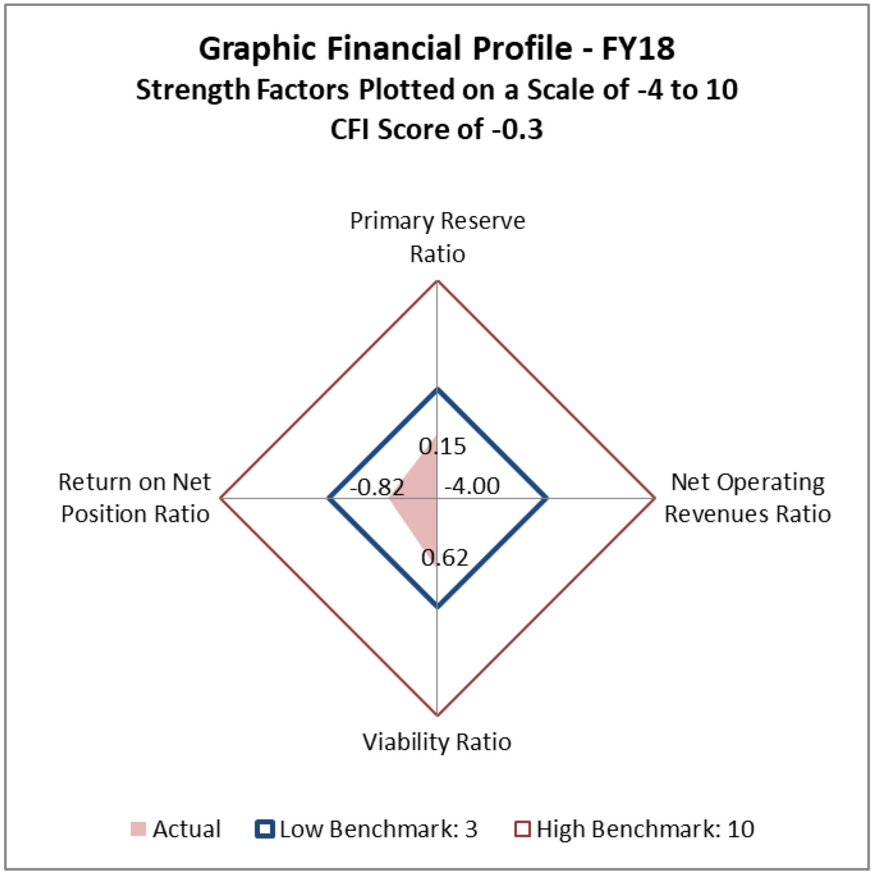


- The center point of the graphic financial profiles is -4, the lowest possible score on the scale.
- The smaller, heavily lined diamond in the graphs represents the low industry benchmark of 3.
- The outer, lightly lined diamond represents the high industry benchmark of 10 and the highest possible score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

UMPI Graphic Financial Profiles
FY17 and FY18

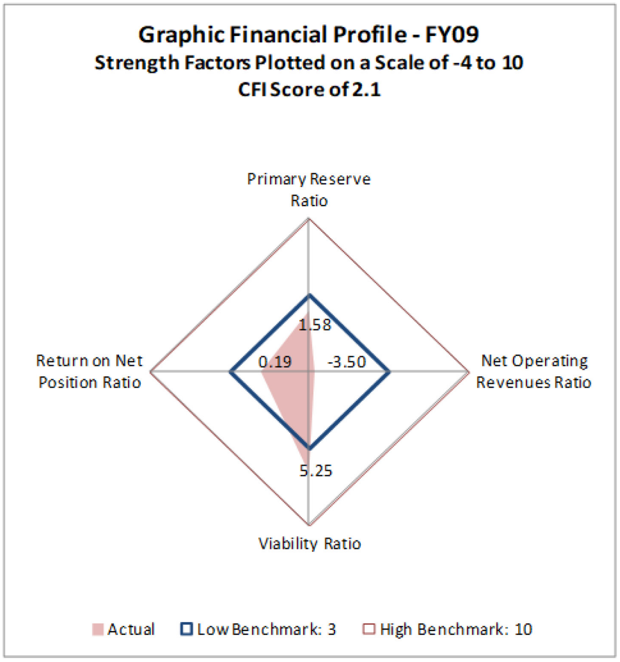
The shape of UMPI's FY18 graphic financial profile is very thin as UMPI again experienced a loss from operations at the minimum point of -4 on the scale, and a loss on net position.

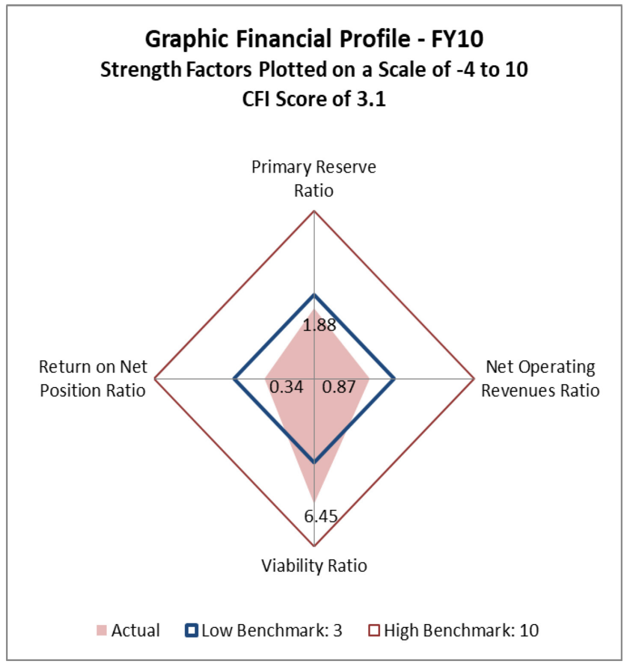


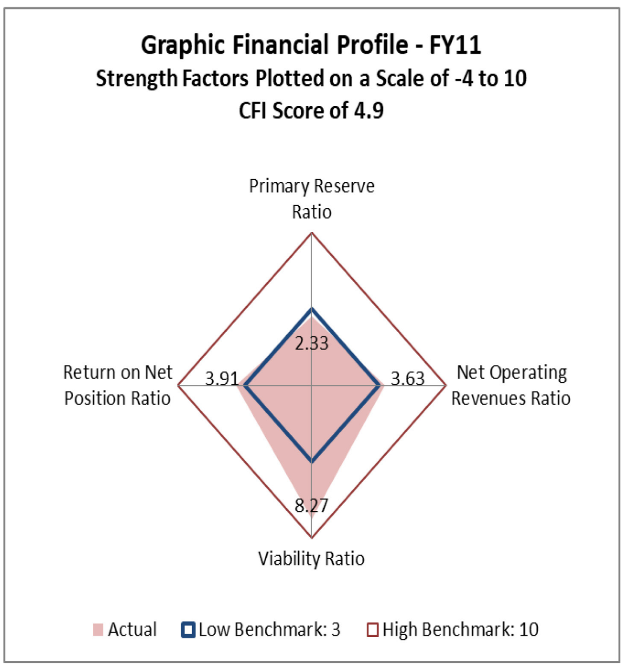


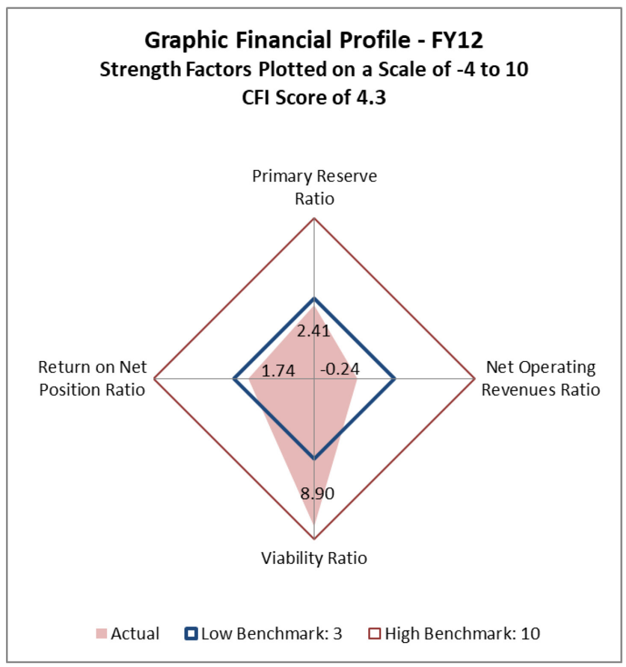
UMPI Graphic Financial Profiles FY09 to FY16

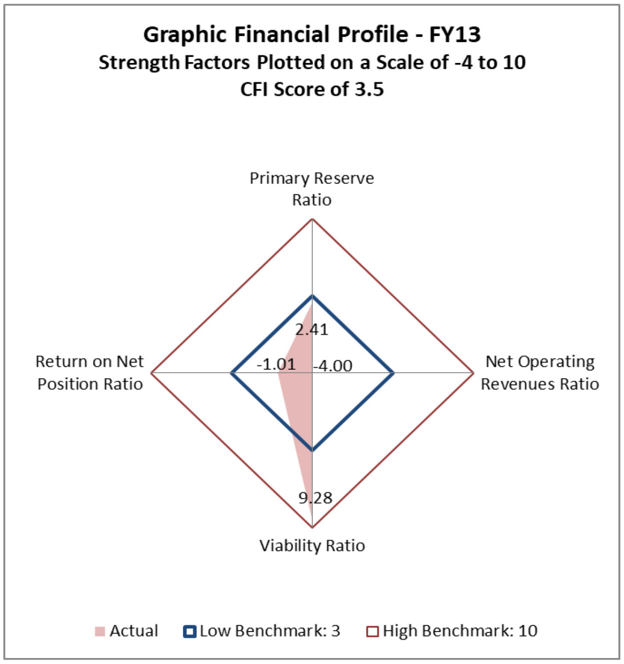
Changes in the shape of UMPI's graphic financial for FY09 thru FY16 can be seen below and on the next page.

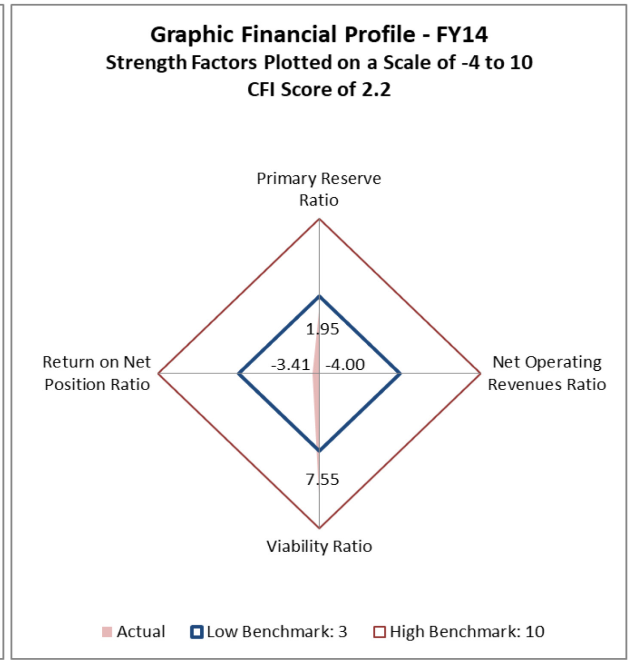


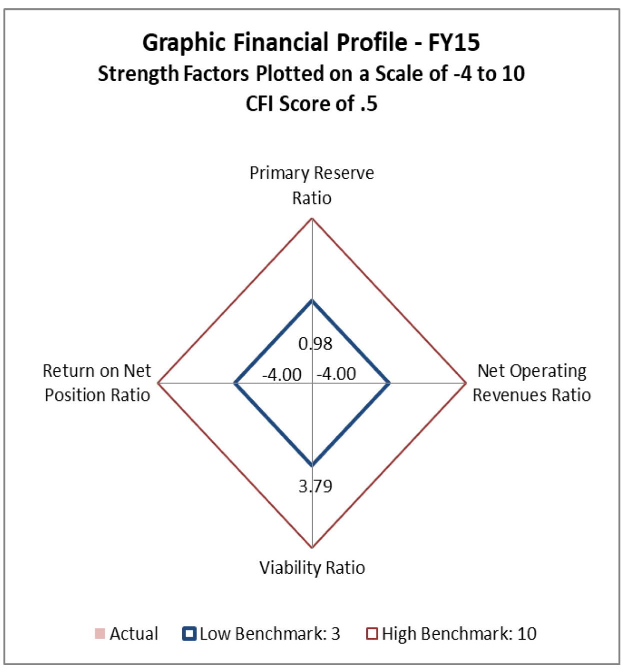


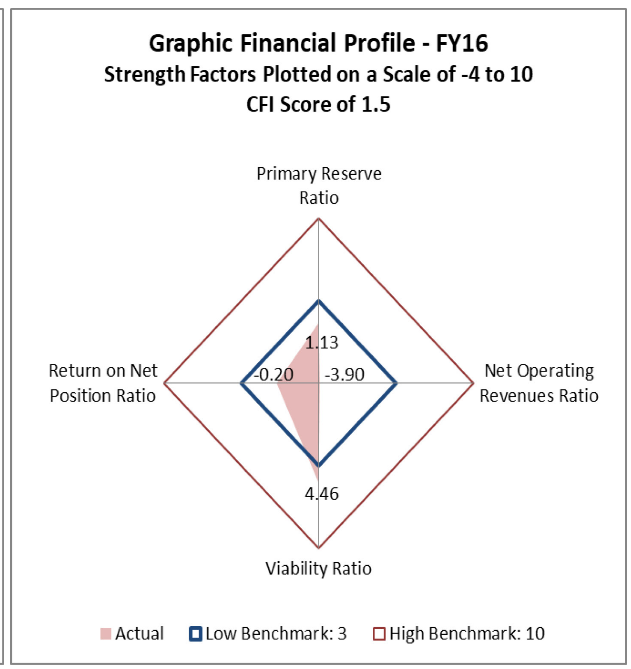





Graphic Financial Profile - FY13
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of 3.5
Primary Reserve Ratio
Net Operating Revenues Ratio
Viability Ratio
Return on Net Position Ratio
2.41
-4.00
9.28
-1.01
Actual
Low Benchmark: 3
High Benchmark: 10


Graphic Financial Profile - FY14
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of 2.2
Primary Reserve Ratio
Net Operating Revenues Ratio
Viability Ratio
Return on Net Position Ratio
1.95
-4.00
7.55
-3.41
Actual
Low Benchmark: 3
High Benchmark: 10


Graphic Financial Profile - FY15
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of .5
Primary Reserve Ratio
Net Operating Revenues Ratio
Viability Ratio
Return on Net Position Ratio
0.98
-4.00
3.79
-4.00
Actual
Low Benchmark: 3
High Benchmark: 10


Graphic Financial Profile - FY16
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of 1.5
Primary Reserve Ratio
Net Operating Revenues Ratio
Viability Ratio
Return on Net Position Ratio
1.13
-3.90
4.46
-0.20
Actual
Low Benchmark: 3
High Benchmark: 10

UMPI
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, the discussion of the Net Operating Revenues Ratio later on this page.

FY09: Negative operating results, negative endowment returns, and investments in capital construction caused the Primary Reserve Ratio to decrease.

FY10: Expendable net position increased as UMPI increased operating revenues and reduced operating expenses. Also, a minimal amount of unrestricted net position was used to fund capital construction.

FY11: UMPI's Primary Reserve Ratio increased again in FY11 as UMPI experienced significantly higher operating and endowment returns than in FY10. State of Maine capital appropriations and capital grants and gifts were available to UMPI in FY11 to fund capital construction; therefore, the amount of unrestricted net position needed to fund such activities was minimal.

FY12: Despite negative endowment returns, UMPI's Primary Reserve Ratio increased slightly in FY12 as UMPI experienced a positive return from operations after adding back depreciation which impacts net position invested in capital assets rather than expendable net position.

FY13: UMPI's Primary Reserve Ratio remained unchanged from the prior year as the increase in expendable net position was offset by an increase in expenses. UMPI used less than $100 thousand of unrestricted net position for construction in FY13.

FY14: The $1.6 million decrease in UMPI's unrestricted net position from FY13 to FY14 is attributable to a loss from operations. See the discussion of the Net Operating Revenues Ratio later on this page for more information.

FY15: The decrease in UMPI's expendable net position from FY14 is attributable to negative returns from operations and endowments. No unrestricted net position was used for capital construction as $575 thousand of State of Maine capital appropriation monies was available.

FY16: Unrestricted expendable net position increased as UMPI experienced a positive return from operations after adding back depreciation which impacts net position invested in capital assets rather than expendable net position. Negative endowment returns contributed to the decrease from the prior year in restricted expendable net position.

FY17: UMPI's expendable net position was at a 10-year low even before net position was restated and reduced by $2.5 million for the implementation of GASB No. 75. This restatement combined with the loss from operations were the primary contributors to the decline in expendable net position from FY16 to FY17. Endowment returns were positive in FY17, contributing to the increase in restricted expendable net position over the prior year.

Net Operating Revenues Ratio

FY09: Operating expenses decreased slightly; however, operating and nonoperating revenues decreased significantly, resulting in an even larger negative return than the prior year. The FY09 decrease in revenues primarily occurred in net student fees and noncapital State of Maine appropriation (net of State Fiscal Stabilization Program funds).

FY10: A 6.1% increase in operating revenues and slight decrease in operating expenses more than offset a decrease in nonoperating revenues; resulting in a positive net operating revenues ratio.

FY11: UMPI increased student fees revenue, utilized more of available State Fiscal Stabilization monies, and contained the growth in expenses to 1.5%.

FY12: Decreases in net student fees revenue, noncapital grants revenue, and State Fiscal Stabilization revenue combined with an increase in operating expenses, resulted in a negative return from operations in FY12.

FY13: UMPI's Net Operating Revenues Ratio was negative again, as operating revenues decreased primarily due to a drop in enrollments combined with a system-wide freeze of in-state tuition rates and mandatory unified fees. Operating expenses increased again in FY13, reaching an eight-year high.

FY14: The freeze on in-state tuition rates continued and enrollments declined again in FY14, resulting in a $1.1 million decrease from the prior year in gross tuition and fees revenue. UMPI also experienced a $157 thousand decline in residence and dining fees revenue and a $328 thousand decrease in noncapital transfers from UMSGUS. Nongrant and noncontract expenses (operating expenses +

interest expense + scholarship allowance – grants and contracts expenses) only decreased $123 thousand.

FY15: The FY15 loss from operations is attributable to a reduction in revenues as expenses only increased $84 thousand from the prior year. Enrollment issues continued to plague UMPI in FY15 along with the continuing system-side freeze on in-state tuition. Net student fees decreased $741 thousand from the prior year and were partially offset by a $218 thousand increase in noncapital grants revenue and the related indirect cost recovery revenue. UMPI also experienced a $142 thousand decrease in noncapital State of Maine appropriations revenue.

FY16: A $1.7 million increase in noncapital transfers from UMSGUS was the primary contributor to the improvement in UMPI's Net Operating Revenues Ratio from FY15 to FY16. Net student fees revenue bounced back in FY16, increasing $170 thousand from the prior year despite the continuing freeze on in-state tuition rates. Noncapital State of Maine appropriations revenue increased $257 thousand, expendable gifts increased $438 thousand, and total expenses decreased $79 thousand.

FY17: UMPI's loss from operations increased from FY16 to FY17 as total operating and non-operating revenues decreased and expenses increased. A $672 thousand increase in noncapital State of Maine appropriations revenue, a $101 thousand increase in noncapital grants and contracts revenue, and a small $33 thousand increase in net student fees were not enough to offset reductions in several other revenues, including expendable gifts revenue, educational sales and services revenue, and noncapital transfers from UMSGUS.

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 UMPI 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 UMPI'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	($263)	**FY14**	$141
FY10	$49	**FY15**	($67)
FY11	$154	**FY16**	($84)
FY12	($70)	**FY17**	$75
FY13	$80	**FY18**	$31

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

FY09	$218	**FY14**	$ --
FY10	$ --	**FY15**	$575
FY11	$220	**FY16**	$420
FY12	$255	**FY17**	$58
FY13	$ --	**FY18**	$36

- With the exception of the following three years, capital grants and gifts have not been a significant revenue stream for UMPI: $1 million in FY11, $746 thousand in FY12, $242 thousand in FY14 and $147 thousand in FY18.

Viability Ratio

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

The issuance and repayment of debt also impact this ratio. With the exception of a new capital lease in FY15 for copiers, UMPI has not acquired new debt since FY04.