FY2018 Core Financial Ratios and Composite - Financial Index -

University of Maine System
Office of Finance and Treasurer

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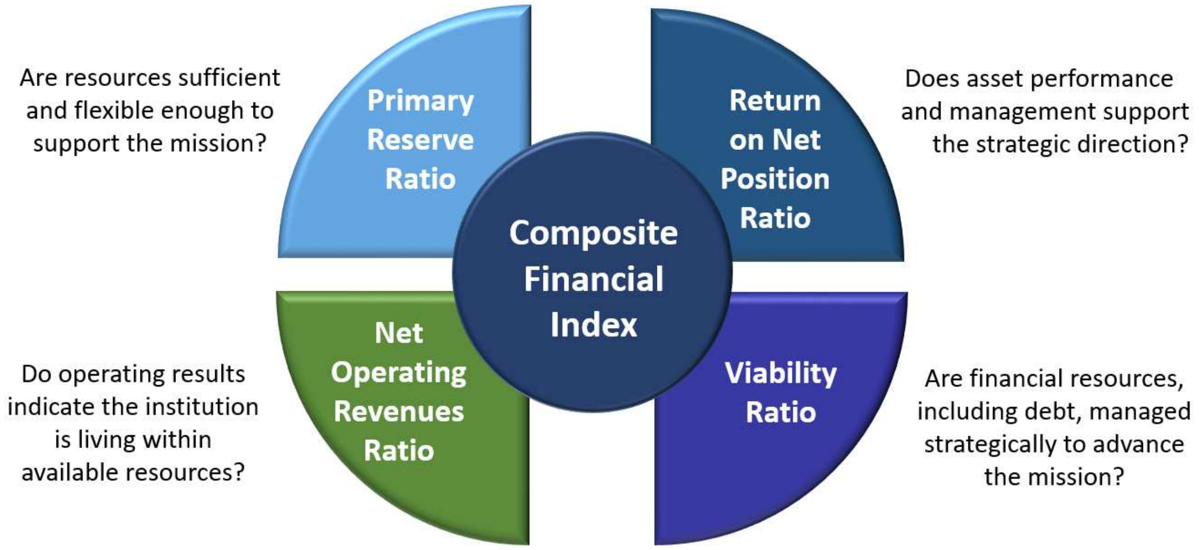
TABLE OF CONTENTS -

Introduction

The financial health of the University of Southern Maine (USM) 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 the USM s overall financial health, hereafter referred to as the Composite Financial Index (CFI).

The CFI only measures the financial component of an institution's well-being. It must be analyzed in context with other associated activities and plans to achieve an assessment of the overall health, not just financial health, of the institution. As an example, if two institutions have identical CFI scores, but one requires substantial investments to meet its mission-critical issues and the other has already made those investments, the first institution is less healthy than the second. In fact, a high CFI is not necessarily indicative of a successful institution, although a low CFI generally is indicative of additional challenges. When put in the context of achievement of mission, a very high CFI with little achievement of mission may indicate a failing institution.

Strategic Financial Analysis for Higher Education

Restatement of FY17 Ratios

Adoption of New Accounting Standard

As required by generally accepted accounting principles, in the FY18 University of Maine System (UMS) adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* GASB No. 75) related to its postemployment health plan. Pursuant to the provisions of GASB No. 75, the UMS and each of its campuses restated their FY17 financial statements to reflect the retroactive application of the accounting change. The overall impact on USM's FY17 financial statements was a $19.9 million decrease in the previously reported FY17 beginning of year expendable net position and a corresponding increase in noncurrent liabilities as USM 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 USM'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
USM as originally stated	0.24	0.28%	2.14%	-1.56%	0.74	1.5
USM as restated	0.12	0.28%	2.42%	-0.88%	0.36	0.9
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

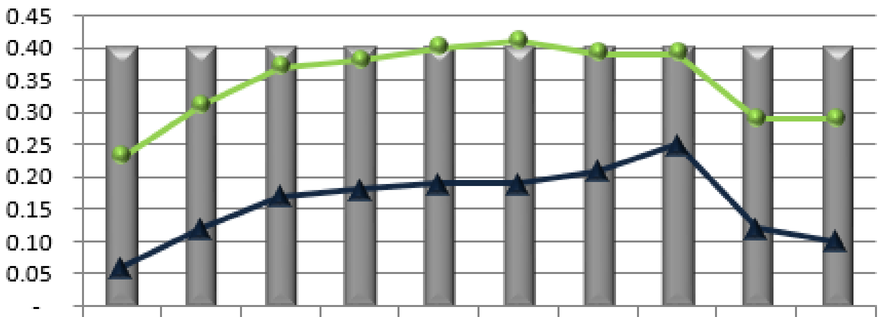
Key items that can impact expendable net position

- 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 USM's expendable net position pursuant to the implementation of GASB No. 75 drove USM's FY17 Primary Reserve Ratio from .24x down to .12x. In FY18, the ratio decreased to .10x which provides just over 1 month of expenses.

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
USM Actual	0.06	0.12	0.17	0.18	0.19	0.19	0.21	0.25	0.12	0.10
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	*$ (2,239)*	*$ 8,697*	*$ 16,943*	*$ 18,202*	*$ 18,266*	*$ 13,760*	*$ 15,096*	*$ 18,745*	*$ (1,154)*	*$ (1,813)*
Restricted expendable net position	*$ 12,710*	*$ 13,319*	*$ 14,724*	*$ 14,108*	*$ 15,740*	*$ 18,593*	*$ 19,541*	*$ 19,549*	*$ 19,926*	*$ 17,966*
Total expendable net position	**$ 10,471**	**$ 22,016**	**$ 31,667**	**$ 32,310**	**$ 34,006**	**$ 32,353**	**$ 34,637**	**$ 38,294**	**$ 18,772**	**$ 16,153**
Total expenses	**$ 182,888**	**$ 181,629**	**$ 183,875**	**$ 181,740**	**$ 178,356**	**$ 171,332**	**$ 166,824**	**$ 153,176**	**$ 161,124**	**$ 166,742**

Although USM experienced a positive return from operations (operating revenues - operating expenses + net nonoperating revenues + depreciation expense) in FY18, the return was much smaller than that for FY17 as growth in expenses outpaced the growth in revenues. Total expendable net position decreased $2.6 million as the return from operations and positive undistributed endowment returns in FY18 were not enough to offset the use of $4.7 million of expendable net position to fund construction activity and $3.2 million to repay debt.

The **Net Operating Revenues Ratio** is a measure of operating results and answers the question, “Do operating results indicate that the University is living within available resources?” Operating results either increase or decrease net position and, thereby, impact the other three core ratios: Primary Reserve, Return on Net Position, and Viability. This ratio is calculated as follows:

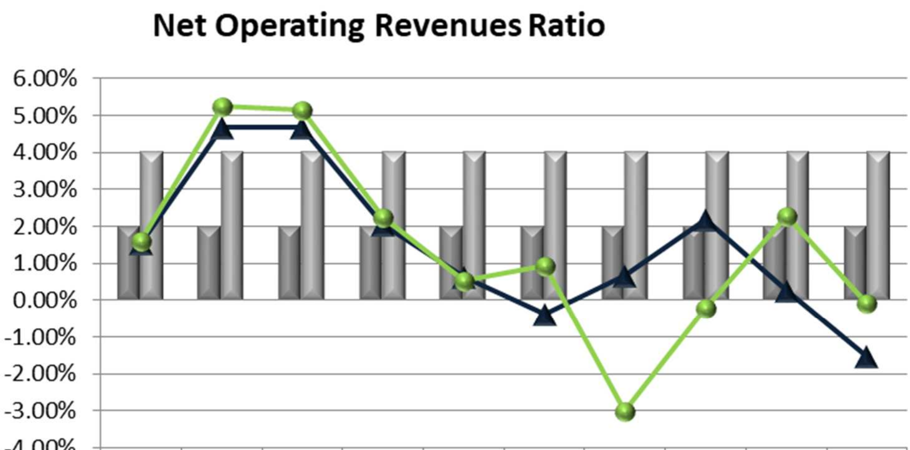
$$\frac{\text{Operating Income (Loss) plus Net Non-Operating Revenues (Expenses)}}{\text{Operating Revenues plus Non-Operating Revenues}}$$

A target of at least 2% to 4% is a goal over an extended time period, although fluctuations from year to year are likely. A key consideration for institutions establishing a benchmark for this ratio would be the anticipated growth in total expenses.

The primary reason institutions need to generate some level of surplus over long periods of time is because operations are one of the sources of liquidity and resources for reinvestment in institutional initiatives.

Strategic Financial Analysis for Higher Education

At -1.51%, USM’s FY18 Net Operating Revenues Ratio is at a 10-year low. -



	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%
USM Actual	1.55%	4.67%	4.69%	2.04%	0.63%	-0.37%	0.67%	2.19%	0.28%	-1.51%
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	*$ 137,031*	*$ 142,395*	*$ 144,374*	*$ 138,380*	*$ 131,544*	*$ 122,084*	*$ 113,576*	*$ 105,253*	*$ 105,845*	*$ 108,285*
Operating expenses	*$ (179,354)*	*$ (178,476)*	*$ (180,918)*	*$ (178,867)*	*$ (175,818)*	*$ (169,316)*	*$ (165,021)*	*$ (151,579)*	*$ (159,548)*	*$ (165,327)*
Operating loss	*$ (42,323)*	*$ (36,080)*	*$ (36,544)*	*$ (40,487)*	*$ (44,274)*	*$ (47,233)*	*$ (51,445)*	*$ (46,325)*	*$ (53,703)*	*$ (57,042)*
Net nonoperating revenues	*$ 45,197*	*$ 44,971*	*$ 45,587*	*$ 44,267*	*$ 45,412*	*$ 46,604*	*$ 52,563*	*$ 49,750*	*$ 54,153*	*$ 54,569*
Operating income (loss) plus net non-operating revenues (expenses)	**$ 2,874**	**$ 8,891**	**$ 9,043**	**$ 3,780**	**$ 1,138**	**$ (629)**	**$ 1,119**	**$ 3,425**	**$ 450**	**$ (2,473)**
Operating revenues plus non-operating revenues	**$ 185,762**	**$ 190,519**	**$ 192,918**	**$ 185,520**	**$ 179,494**	**$ 170,704**	**$ 167,942**	**$ 156,600**	**$ 161,574**	**$ 164,269**

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

In FY18, USM's total operating and nonoperating revenues increased for a second consecutive year. The $2.7 million increase over FY17 is primarily the result of a $3 million increase in net student fees revenue. Despite the growth in revenues, USM experienced a loss in FY18 as operating expenses increased $5.8 million or $3.6% over the prior year.

The **Return on Net Position Ratio** measures asset performance and management. It determines whether an institution is financially better off than in the previous year by measuring total economic return. It is based on the level and change in total net position. An improving trend in this ratio indicates that the institution is increasing its net position and is likely to be able to set aside financial resources to strengthen its future financial flexibility. This ratio is calculated as follows:

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

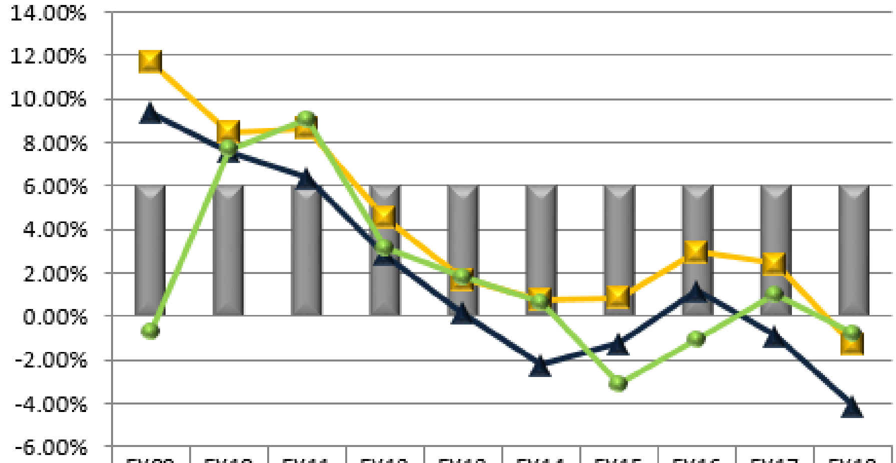
Key items that can impact expendable net position

- Items that impact the Net Operating Revenues Ratio
- endowment returns
- capital appropriations, grants, gifts, and transfers
- endowment gifts

The nominal rate of return on net position is the actual return unadjusted for inflation or other factors. The real rate of return adjusts the nominal rate for the effects of inflation using the Higher Education Price Index.

In four of the most recent five years, USM's return on net position did not keep pace with inflation and USM experienced negative real rates of return.

Return on Net Position Ratio



	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Benchmark	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
USM Nominal Rate	11.69%	8.46%	8.67%	4.52%	1.72%	0.75%	0.86%	2.98%	2.42%	-1.31%
USM Real Rate	9.39%	7.56%	6.37%	2.82%	0.12%	-2.25%	-1.24%	1.18%	-0.88%	-4.11%
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)	*$ 2,874*	*$ 8,891*	*$ 9,043*	*$ 3,780*	*$ 1,138*	*$ (629)*	*$ 1,119*	*$ 3,425*	*$ 450*	*$ (2,473)*
Other changes in net position	*$ 10,992*	*$ 2,311*	*$ 3,415*	*$ 3,282*	*$ 1,662*	*$ 1,862*	*$ 317*	*$ 1,583*	*$ 3,255*	*$ 421*
Change in total net position	**$ 13,866**	**$ 11,202**	**$ 12,458**	**$ 7,062**	**$ 2,800**	**$ 1,233**	**$ 1,436**	**$ 5,008**	**$ 3,705**	**$ (2,052)**
Total net position (beginning of year)	**$ 118,587**	**$ 132,453**	**$ 143,655**	**$ 156,113**	**$ 163,174**	**$ 165,115**	**$ 166,347**	**$ 167,784**	**$ 152,899**	**$ 156,604**

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

USM experienced a negative return on net position in FY18, primarily due to the loss from operations of $2.5 million (see discussion of the Net Operating Revenues Ratio). Although positive, FY18 other changes in net position of $421 thousand was significantly down from the prior year. The decline is primarily related to receipt of a one-time capital gift of $1.6 million in FY17 and a $921 thousand combined decrease from FY17 to FY18 in positive endowment returns not distributed for operations and endowment gifts.

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

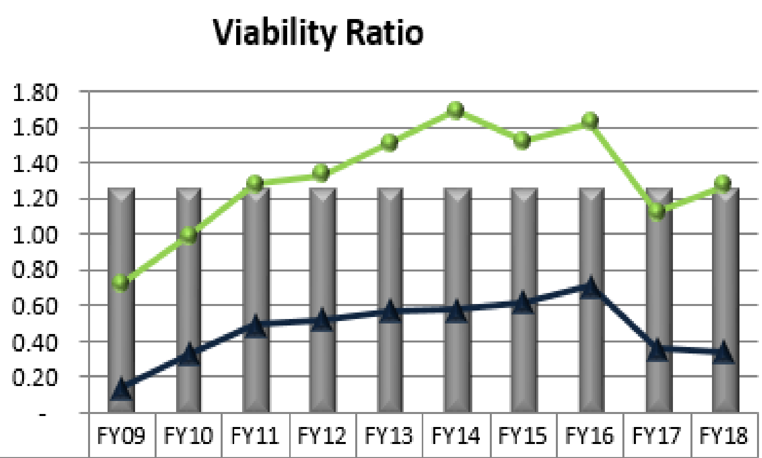
- principal payments on debt
- use of unrestricted net position to fund capital construction projects
- operating results (operating revenues – operating expenses + nonoperating revenues – nonoperating expenses + depreciation)
- endowment returns

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 implementation of GASB No. 75 had a significant impact on USM's Viability Ratio as the ratio decreased from the original .74x, to the restated .36x. In FY18, the ratio decreased again to .34x.



	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
USM Actual	0.14	0.33	0.49	0.52	0.57	0.58	0.62	0.71	0.36	0.34
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	*$ (2,239)*	*$ 8,697*	*$ 16,943*	*$ 18,202*	*$ 18,266*	*$ 13,760*	*$ 15,096*	*$ 18,745*	*$ (1,154)*	*$ (1,813)*
Restricted expendable net position	*$ 12,710*	*$ 13,319*	*$ 14,724*	*$ 14,108*	*$ 15,740*	*$ 18,593*	*$ 19,541*	*$ 19,549*	*$ 19,926*	*$ 17,966*
Total expendable net position	**$ 10,471**	**$ 22,016**	**$ 31,667**	**$ 32,310**	**$ 34,006**	**$ 32,353**	**$ 34,637**	**$ 38,294**	**$ 18,772**	**$ 16,153**
Long-term debt	**$ 73,008**	**$ 67,477**	**$ 64,728**	**$ 61,986**	**$ 59,252**	**$ 56,031**	**$ 55,853**	**$ 54,190**	**$ 52,287**	**$ 47,871**

USM's Viability Ratio decreased from FY17 to FY18 as the decrease in USM's expendable net position outpaced the reduction in its debt from scheduled debt payments. See the earlier discussion of the Primary Reserve Ratio for items that impacted expendable net position in FY18.

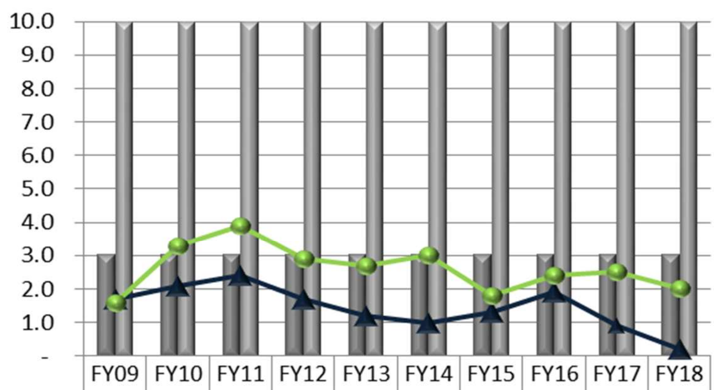
The **Composite Financial Index (CFI)** creates one overall financial measurement of the institution's health based on the four core ratios: Primary Reserve Ratio, Net Operating Revenues Ratio, Return on Net Position Ratio, and Viability Ratio. By blending these four key measures of financial health into a single number, a more balanced view of the state of the institution's finances is possible because a weakness in one measure may be offset by the strength of another measure.

The CFI is calculated by completing the following steps:

1. Compute the values of the four core ratios;
2. Convert the ratio values to strength factors along a common scale;
3. Multiply the strength factors by specific weighting factors; and
4. Total the resulting four numbers (ratio scores) to reach the single CFI score.

USM's FY18 CFI score of .2 is at a 10-year low and decreased from the prior year due to decreases in all four core financial ratios. FY18 was a year of investment for USM, with the sacrifice of short term financial improvement in return for long term gains in enrollment and retention of students.

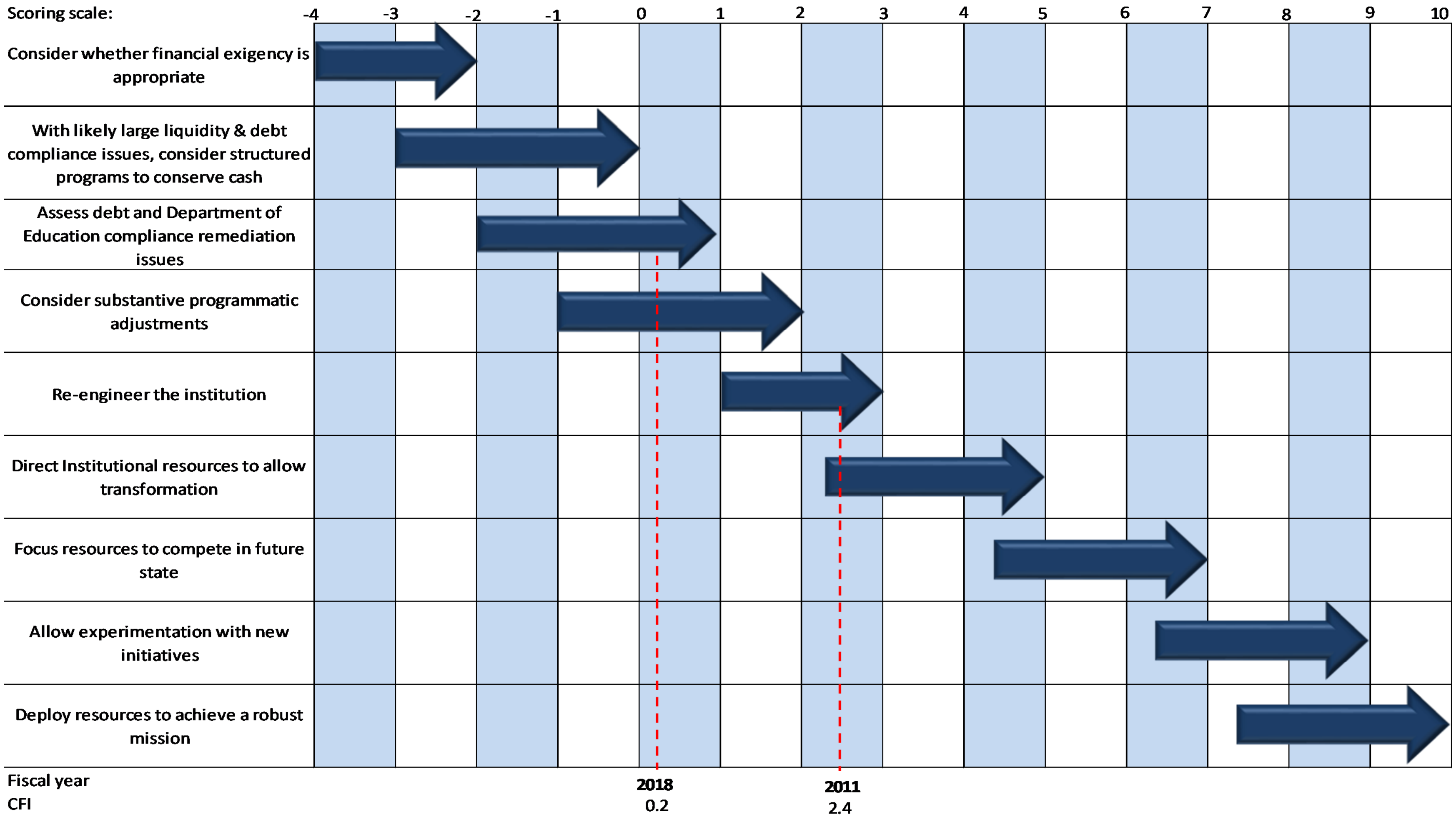
Composite Financial Index



	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Low Benchmark	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
High Benchmark	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
USM Actual	1.7	2.1	2.4	1.7	1.2	1.0	1.3	1.9	0.9	0.2
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 USM's highest (FY11) and most recent CFI scores to assist in evaluating USM'S performance.



CFI Calculation										
Fiscal Year	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
+ Primary Reserve Ratio	0.06	0.12	0.17	0.18	0.19	0.19	0.21	0.25	0.12	0.10
/ 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 **	***0.45***	***0.90***	***1.28***	***1.35***	***1.43***	***1.43***	***1.58***	***1.88***	***0.90***	***0.75***
X Weighting Factor ***	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Ratio Score	0.16	0.32	0.45	0.47	0.50	0.50	0.55	0.66	0.32	0.26
+ Net Operating Revenues Ratio	1.55%	4.67%	4.69%	2.04%	0.63%	-0.37%	0.67%	2.19%	0.28%	-1.51%
/ 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 **	***2.21***	***6.67***	***6.70***	***2.91***	***0.90***	***-0.53***	***0.96***	***3.13***	***0.40***	***-2.16***
X Weighting Factor ***	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Ratio Score	0.22	0.67	0.67	0.29	0.09	0.05	0.10	0.31	0.04	0.22
+ Return on Net Position Ratio	11.69%	8.46%	8.67%	4.52%	1.72%	0.75%	0.86%	2.98%	2.42%	-1.31%
/ 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 **	***5.85***	***4.23***	***4.34***	***2.26***	***0.86***	***0.38***	***0.43***	***1.49***	***1.21***	***-0.66***
X Weighting Factor ***	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Ratio Score	1.17	0.85	0.87	0.45	0.17	0.08	0.09	0.30	0.24	0.13
+ Viability Ratio	0.14	0.33	0.49	0.52	0.57	0.58	0.62	0.71	0.36	0.34
/ 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 **	***0.34***	***0.79***	***1.18***	***1.25***	***1.37***	***1.39***	***1.49***	***1.70***	***0.86***	***0.82***
X Weighting Factor ***	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Ratio Score	0.12	0.28	0.41	0.44	0.48	0.49	0.52	0.60	0.30	0.29
Composite Financial Index	**1.7**	**2.1**	**2.4**	**1.7**	**1.2**	**1.0**	**1.3**	**1.9**	**0.9**	**0.2**

* = 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.

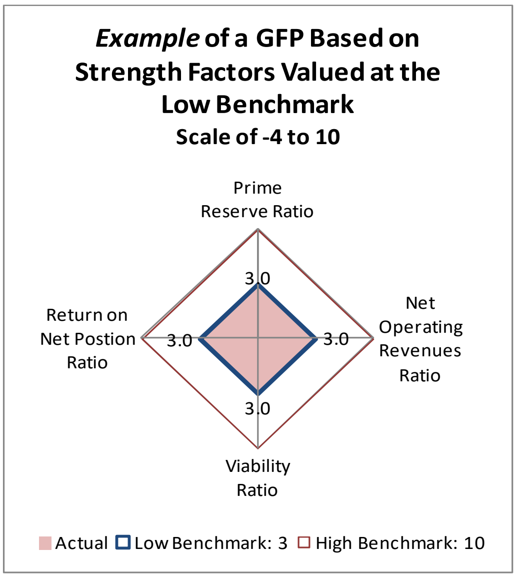
*** = The weighting factor is derived from the weighting schema defined by the authors of *Strategic Financial Analysis for Higher Education*, Seventh Edition for institutions with long-term debt.

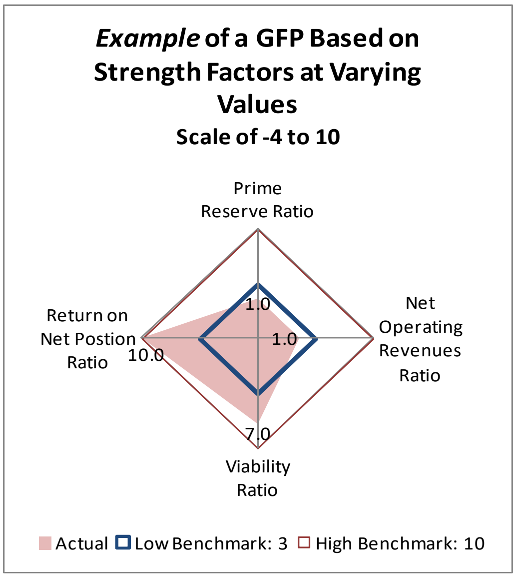
The strength factors that were used in calculating the CFI can be mapped on a diamond to show the shape of an institution's financial health compared to the industry benchmarks. This **Graphic Financial Profile** can assist management in determining whether a weakness in one ratio is offset by strength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

USM'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:

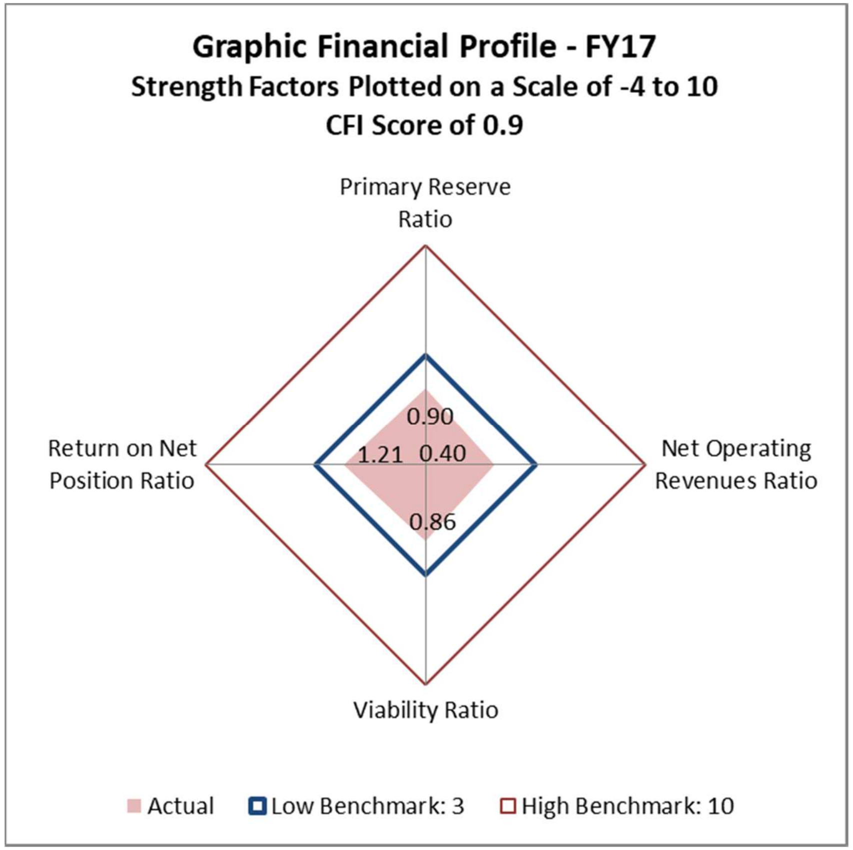


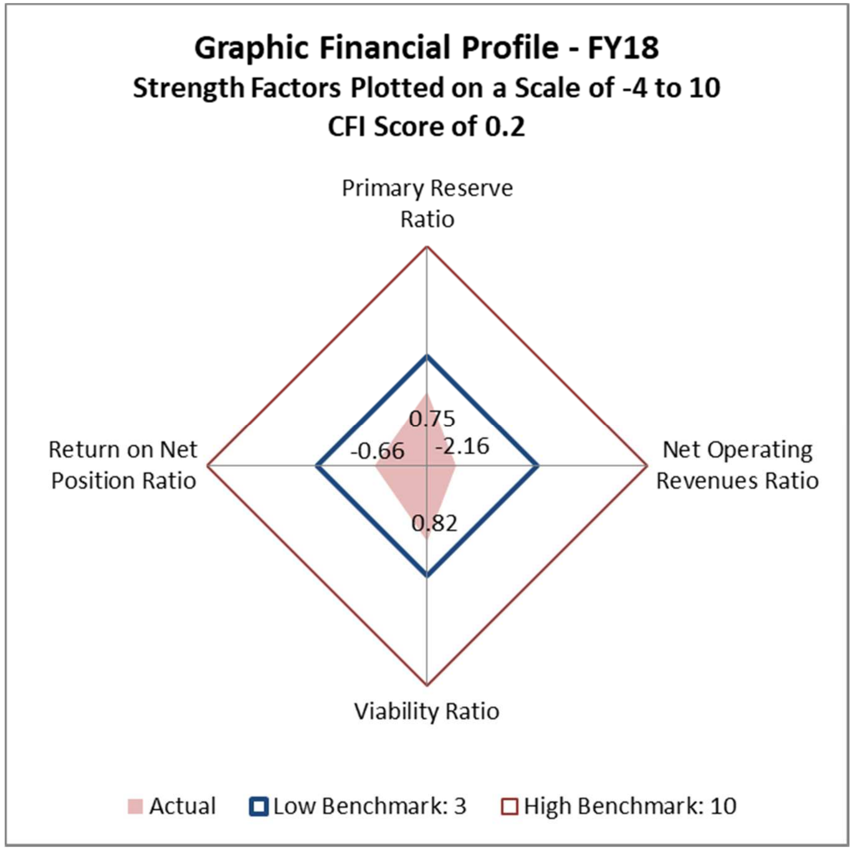


- The center point of the graphic financial profiles is -4, the lowest possible score on the scale.
- The smaller, heavily lined diamond in the graphs represents the low industry benchmark of 3.
- The outer, lightly lined diamond represents the high industry benchmark of 10 and the highest possible score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

USM Graphic Financial Profiles
FY17 and FY18

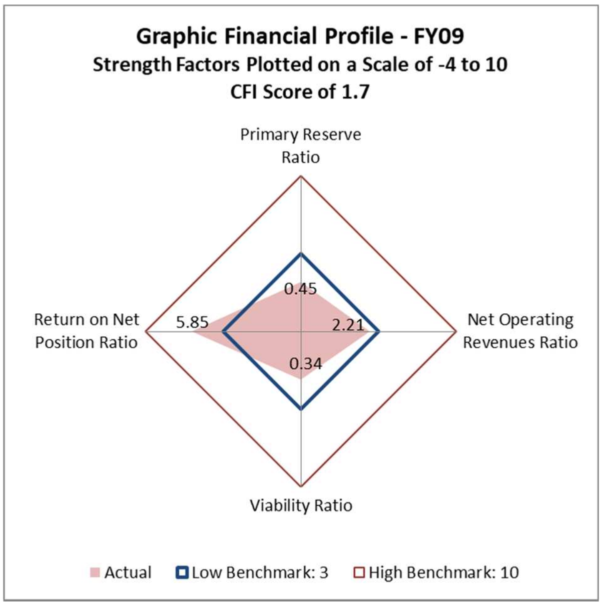
In FY18, the shape of the USMS's graphic financial profile narrowed as USM experienced lower returns from operations and from overall net position.

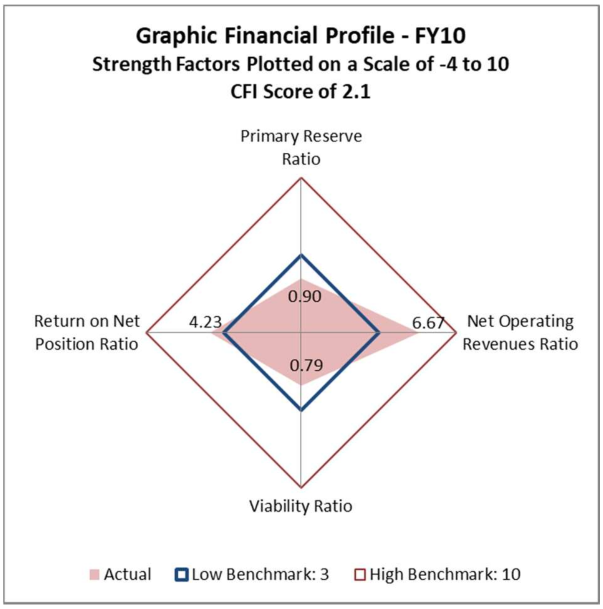


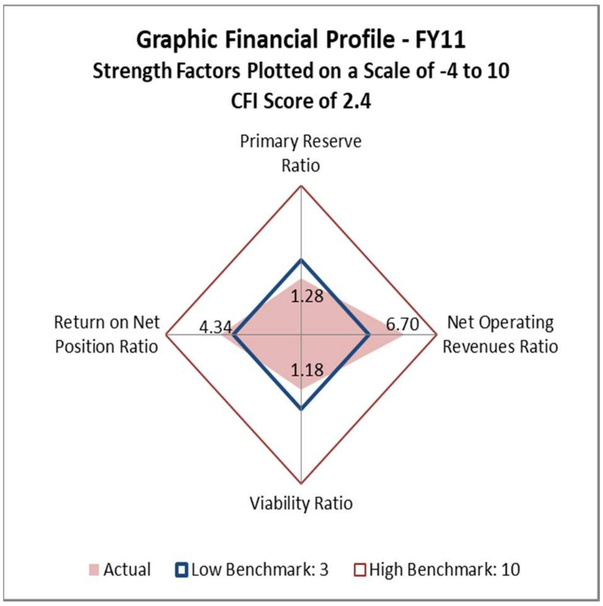


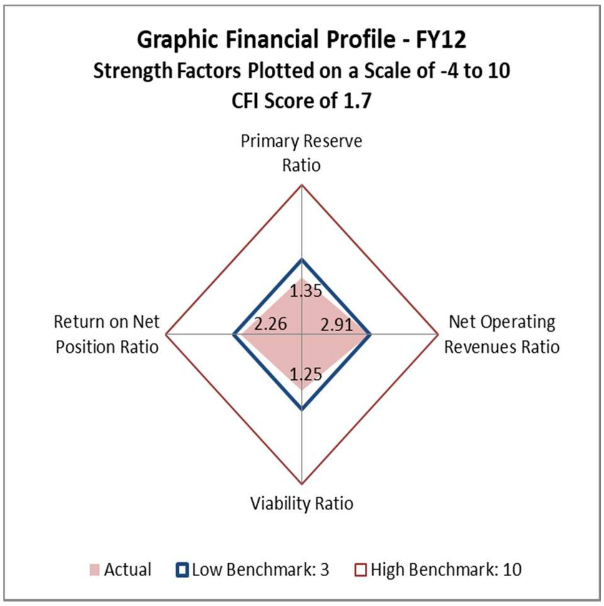
USM Graphic Financial Profiles -
FY09 to FY16 -

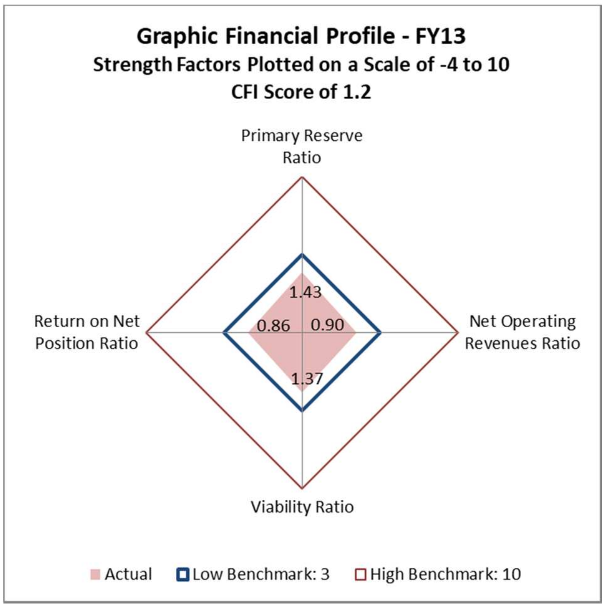
Changes in the shape of USM's graphic financial for FY09 thru FY16 can be seen below and on the next page.

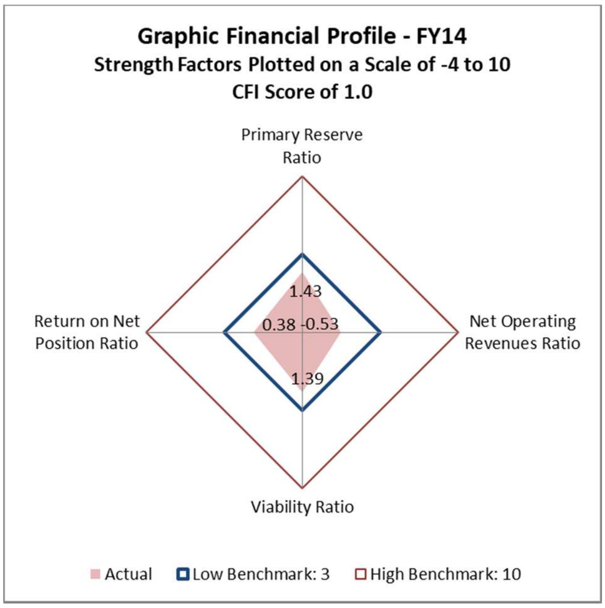


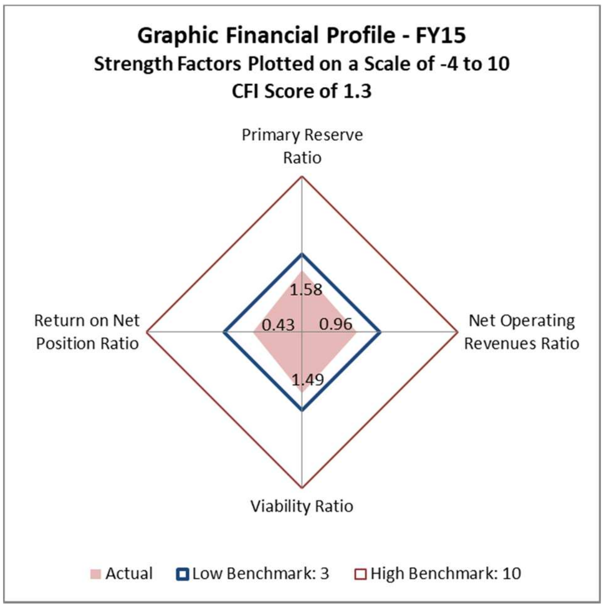


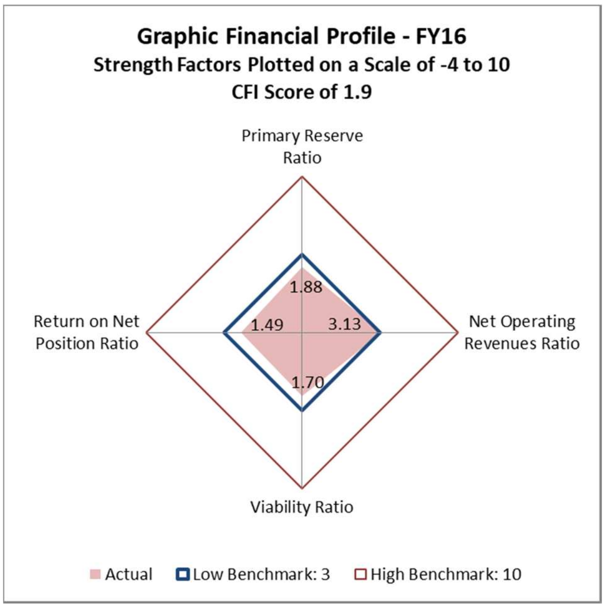





Graphic Financial Profile - FY13
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of 1.2
Primary Reserve Ratio
Return on Net Position Ratio
Net Operating Revenues Ratio
Viability Ratio
1.43
0.86
0.90
1.37
Actual
Low Benchmark: 3
High Benchmark: 10


Graphic Financial Profile - FY14
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of 1.0
Primary Reserve Ratio
Return on Net Position Ratio
Net Operating Revenues Ratio
Viability Ratio
1.43
0.38
-0.53
1.39
Actual
Low Benchmark: 3
High Benchmark: 10


Graphic Financial Profile - FY15
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of 1.3
Primary Reserve Ratio
Return on Net Position Ratio
Net Operating Revenues Ratio
Viability Ratio
1.58
0.43
0.96
1.49
Actual
Low Benchmark: 3
High Benchmark: 10


Graphic Financial Profile - FY16
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of 1.9
Primary Reserve Ratio
Return on Net Position Ratio
Net Operating Revenues Ratio
Viability Ratio
1.88
1.49
3.13
1.70
Actual
Low Benchmark: 3
High Benchmark: 10

USM - Financial Highlights - FY09 thru FY17 -

The following financial highlights are provided as a resource in understanding prior years' changes in the core ratios.

Primary Reserve Ratio

FY09: The ratio increased from the prior year due to the receipt of external funding that was in transit at the end of the prior year and management's efforts to increase revenues and cut expenses.

FY10: USM's ratio doubled from FY09 primarily because of positive endowment returns and successful efforts to increase revenues and decrease expenses related to unrestricted operations.

FY11: The ratio increased as USM surpassed the high industry benchmark for the Net Operating Revenues Ratio which in turn helped increase the Primary Reserve Ratio. During FY11, USM utilized $3.2 million of expendable net position on capital costs to renovate and repair existing buildings. Although it has no impact on the Primary Reserve Ratio, USM also utilized $2.5 million of expendable net position restricted specifically for capital investments.

FY12: Unrestricted expendable net position increased $1.3 million from the prior year, net of $4.7 million utilized on numerous renovation projects. Although it has no impact on the Primary Reserve Ratio, USM also utilized $3.6 million of expendable net position restricted specifically for capital investments.

FY13: Positive endowment returns were the greatest contributor to the increase in the Primary Reserve Ratio. The $3.8 million decrease in expenses also contributed to the increase in the ratio; however, this contribution is somewhat artificial as it is net of a $6 million decrease in grant and contract expenses (see discussion of the Net Operating Revenues Ratio) and a $2.6 million increase in expenses for continuing activities.

FY14: Although the Primary Reserve Ratio remained unchanged from the prior fiscal year, the components of the ratio changed significantly: unrestricted net position decreased $4.5 million, bringing this category to its lowest point in the past four years; restricted net position increased $2.9 million; and expenses decreased $7 million. Ever cognizant of the need to invest in its facilities, USM spent $5.9 million of unrestricted net position on various projects including the Gorham CHP upgrade project, the Gorham water tower repair project, and the International Study Center project.

FY15: After declining in FY14, total expendable net position increased $2.3 million in FY15. Unrestricted net position increased $1.3 million, net of $3.2 million utilized on various capital projects, including the Portland CHP Upgrade project. Expenses decreased $4.5 million from FY14, even though FY15 costs included $6.7 million in severance pay and special retirement incentive costs funded by University of Maine System Governance and University Services (UMSGUS).

FY16: A $13.6 decrease in expenses from the prior year was a significant contributor to the FY16 increase in USM's ratio. This decrease in expenses was attributable in part to a decline in grant activity and a reduction in USM's workforce made through the severance packages and retirement incentives offered in the prior year. Also contributing to the increase in the ratio, was a $3.6 million increase in unrestricted net position, net of $5.5 million utilized on various capital projects, including the Portland CHP Upgrade and Luther Bonney Student Services projects.

FY17: Prior to restatement, USM experienced its first increase in total expenses since FY11. USM also experienced a positive return from operations during FY17 which contributed to the increase in expendable net position from FY16 to FY17; however, the return was much smaller than that for FY16 as growth in expenses outpaced the growth in revenues. Expendable net position increased $371 thousand as the return from operations and positive undistributed endowment returns in FY17 more than offset the use of expendable net position to fund construction activity ($4.4 million) and to repay debt ($3.1 million).

Pursuant to the implementation of GASB No. 75, FY17 beginning of year expendable net position was reduced by $19.9 million resulting in a restated FY17 Primary Reserve Ratio of .12x, down from the previously reported .24x.

Net Operating Revenues Ratio

FY09: USM's ratio increased significantly over the prior year due to management's efforts to improve controls, increase revenues, and decrease expenses.

FY10: Management's tough budgeting decisions continued in FY10 and USM increased revenues and significantly decreased expenses related to unrestricted operations (e.g., educational & general, auxiliary, and designated) which had a major impact on this ratio.

FY11: USM's ratio increased again as USM underwent organizational changes and continued to realize the financial impact of management's tough budgeting decisions. Contributing to the FY11 results was a $1.15 million increase in noncapital State of Maine appropriation revenue that more than offset the $885 thousand decrease in State Fiscal Stabilization Program revenue.

FY12: Total operating and nonoperating revenues decreased $7.4 million from FY11 as USM experienced significant decreases in residence and dining fees, operating grants, and educational sales and services and the elimination of State Fiscal Stabilization Program revenue. A $2.1 million decrease in operating expenses partially offset the loss of revenues.

FY13: Total operating and nonoperating revenues decreased $6 million from FY12. A decrease in grant funding from the State of Maine Department of Health and Human Services and a related decrease in indirect cost recovery were primary factors for this decrease in revenues. A $3.4 million decrease in operating expenses partially offset the loss of revenues.

FY14: USM experienced a loss for the first time since FY07 as cuts in operating expenses were not enough to offset declines from the prior fiscal year in several revenue categories: $4 million decrease in tuition and fees revenues, $1.4 million decrease in other auxiliary enterprise revenues, and a $648 thousand decrease in recovery of indirect costs revenue. Noncapital grant revenues also decreased by $3.3 million, but were directly offset with a decline in related expenses.

FY15: USM returned to a positive return from operations in FY15. If we exclude $6.7 million of severance and special retirement incentive costs that were actually funded by UMSGUS, USM reduced its operating expenses by $11 million from FY14 to FY15. Offsetting this decline in operating expenses was a $9.5 million decrease in total operating and nonoperating revenues, including a $5.3 million decrease in net student fees and a $2.5 million decrease in grants and contracts revenue.

FY16: Total operating and nonoperating revenues decreased again from FY15 to FY16; however, the $11.3 million decrease was more than matched by a $13.6 million decrease in total expenses.

FY17: Total operating and nonoperating revenues increased $5 million from FY16 to FY17, the first increase USM has experienced since FY11. $3.9 million of the increase was in USM's allocation of noncapital State of Maine appropriation. Offsetting this increase in revenue was an $8 million increase in total expenses. $4 million of the increase in expenses was in a combination of instruction, research, and public service expenses.

FY15/FY16/FY17: Although the exact impact on this ratio is not readily determinable, it should be noted that during this three-year time span, the UMS underwent a reorganization to centralize under the University Services portion of UMSGUS, many services (e.g., Procurement, Human Resources, Information Technology, Facilities, and Finance) that had previously existed at each of the campuses and UMSGUS. The costs of University Services were then allocated back out to USM 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 are included in other changes in net position and directly impact capital and endowment assets:

- **Undistributed endowment returns** impact USM's Return on Net Position Ratio every year; however, the impact has fluctuated significantly over the years with changes in investment market returns.

$ in millions

FY09	($3.1)	**FY14**	$1.7
FY10	$0.6	**FY15**	($0.8)
FY11	$1.9	**FY16**	($1.0)
FY12	($0.9)	**FY17**	$0.9
FY13	$1.0	**FY18**	$0.3

- State of Maine capital appropriations revenue fluctuates with the availability of voter approved bond proceeds and the timing of USM's expenditure of those proceeds. Over the past ten years, USM has received as much as $3.1 million in a single year (FY09) and as little as zero (FY14).

- Capital grants and gifts have been a constant source of revenue over the years; however, the level of such funding has fluctuated. These revenues have been as high as $11.7 million in FY09 and as low as zero in FY18.

Viability Ratio

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

USM's long-term debt has decreased $25 million since FY09. Reducing the level of outstanding debt has been intentional and has involved both the early payoff of debt ($1.6 million in internal loans in FY10) and decisions in the earlier years to not undertake projects that require financing. Over the past ten years, USM has borrowed additional money only a couple of times:

- $3 million internal loan from UMSGUS in **FY15** to fund improvement to the Portland central heat plant
- $1.6 million internal loan from UMSGUS in **FY16** to fund WiFi upgrades in the residence halls.
- $1.7 million 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.