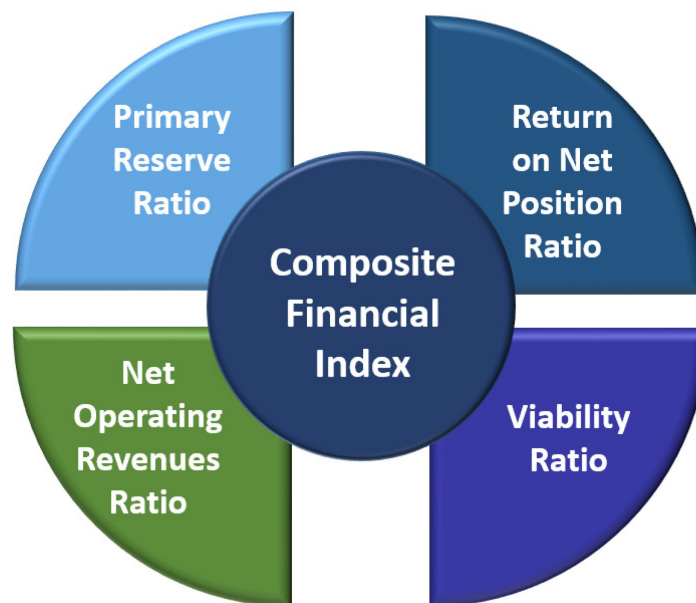




FY2019 Core Financial Ratios and Composite Financial Index



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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:

1. Are resources sufficient and flexible enough to support the mission? – **Primary Reserve Ratio**
2. Does asset performance and management support the strategic direction? – **Return on Net Position Ratio**
3. Are financial resources, including debt, managed strategically to advance the mission? – **Viability Ratio**
4. Do operating results indicate the institution is living within available resources? – **Net Operating Revenues Ratio**

When combined, these four ratios deliver a single measure of 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

Prior 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. There was no impact on USM's originally reported FY17 revenues and expenses; however, the restatement did include a \$19.9 million decrease in USM's originally reported FY17 beginning of year expendable net position; thus, significantly impacting USM's Primary Reserve and Viability ratios. The FY17 ratios included in this report are based upon data from the restated FY17 financial statements.

Primary Reserve Ratio

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

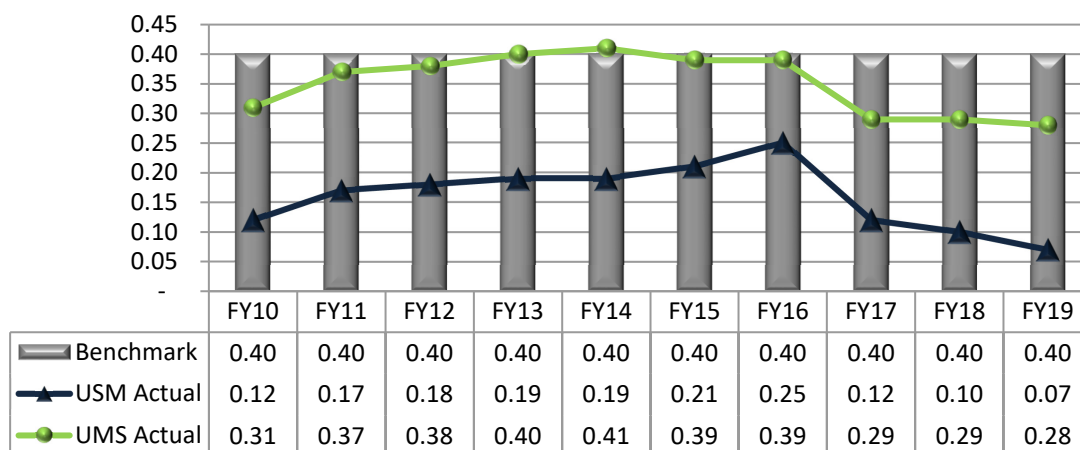
Key items that can impact expendable net position:

- 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.

In FY19, USM's Primary Reserve Ratio decreased slightly to .07x, which provides just under 1 month of expense coverage.

Primary Reserve Ratio



Primary Reserve Ratio Components \$ in thousands										
	<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>	<u>FY19</u>
Unrestricted expendable net position	\$8,697	\$16,943	\$18,202	\$18,266	\$13,760	\$15,096	\$18,745	(\$1,154)	(\$1,813)	(\$6,313)
Restricted expendable net position	\$13,319	\$14,724	\$14,108	\$15,740	\$18,593	\$19,541	\$19,549	\$19,926	\$17,966	\$18,411
Total expendable net position	\$22,016	\$31,667	\$32,310	\$34,006	\$32,353	\$34,637	\$38,294	\$18,772	\$16,153	\$12,098
Total expenses	\$181,629	\$183,875	\$181,740	\$178,356	\$171,332	\$166,824	\$153,176	\$161,124	\$166,742	\$169,885

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

Although USM experienced a positive return from operations (operating revenues - operating expenses + net nonoperating revenues + depreciation expense) in FY19, total expendable net position decreased from the prior year as USM utilized \$4 million of prior year reserves to early payoff certain outstanding debt.

Net Operating Revenues Ratio

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:

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

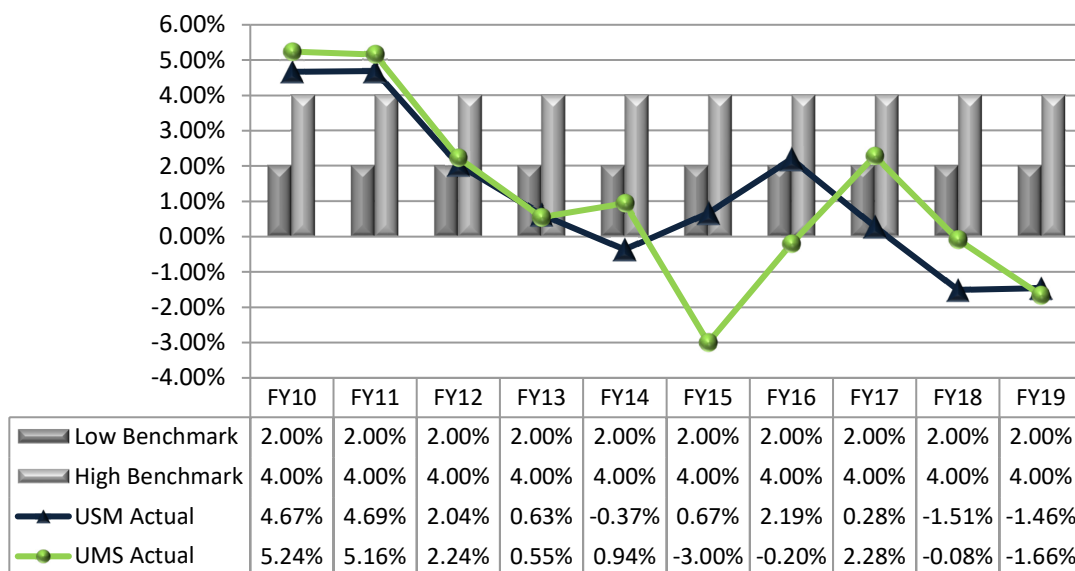
A target of at least 2% to 4% is a goal over an extended time period, although fluctuations from year to year are likely. A key consideration for institutions establishing a benchmark for this ratio would be the anticipated growth in total expenses.

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 -1.46%, USM’s FY19 Net Operating Revenues Ratio has made a small recovery from the ten-year low experienced in FY18.

Net Operating Revenues Ratio



Net Operating Revenues Ratio Components \$ in thousands										
	<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>	<u>FY19</u>
Operating revenues	\$142,395	\$144,374	\$138,380	\$131,544	\$122,084	\$113,576	\$105,253	\$105,845	\$108,285	\$109,973
Operating expenses	(\$178,476)	(\$180,918)	(\$178,867)	(\$175,818)	(\$169,316)	(\$165,021)	(\$151,579)	(\$159,548)	(\$165,327)	(\$168,486)
Operating loss	(\$36,080)	(\$36,544)	(\$40,487)	(\$44,274)	(\$47,233)	(\$51,445)	(\$46,325)	(\$53,703)	(\$57,042)	(\$58,513)
Net nonoperating revenues	\$44,971	\$45,587	\$44,267	\$45,412	\$46,604	\$52,563	\$49,750	\$54,153	\$54,569	\$56,069
Operating income (loss) plus net nonoperating revenues (expenses)	\$8,891	\$9,043	\$3,780	\$1,138	(\$629)	\$1,119	\$3,425	\$450	(\$2,473)	(\$2,444)
Operating revenues plus nonoperating revenues	\$190,519	\$192,918	\$185,520	\$179,494	\$170,704	\$167,942	\$156,600	\$161,574	\$164,269	\$167,441

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

In FY19, USM's total operating and nonoperating revenues increased for a third consecutive year as significant increases were seen in net student fees revenue and gifts currently expendable. Despite the growth in revenues, USM experienced a loss in FY19 as an increase in operating expenses outpaced the revenue growth.

Return on Net Position Ratio

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:

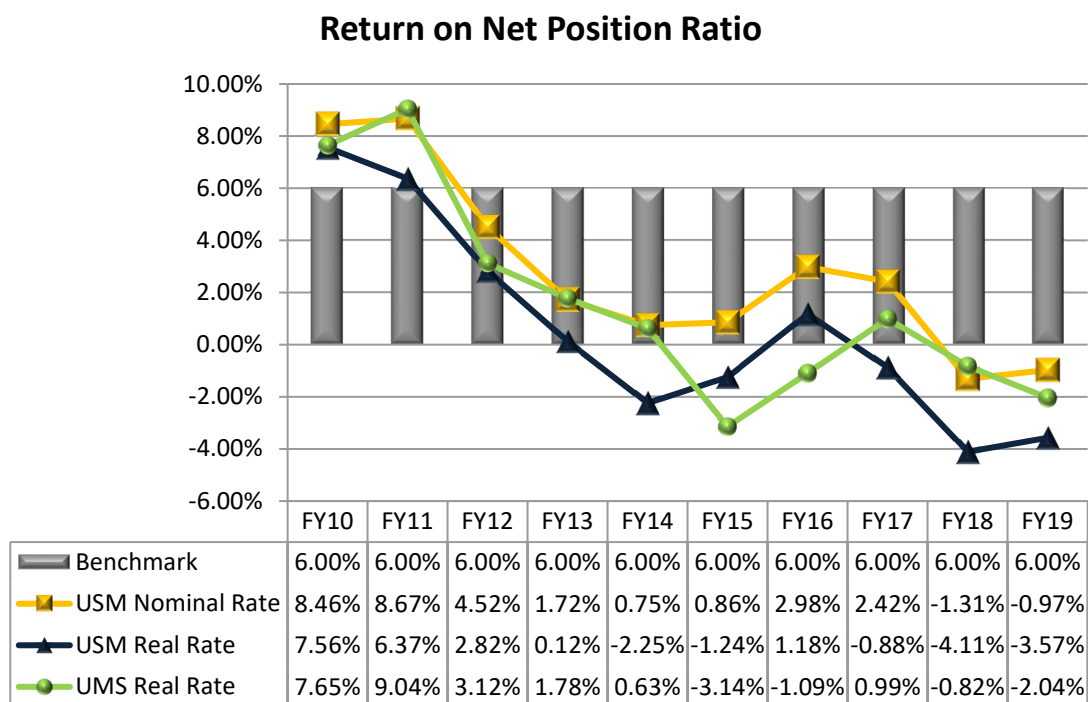
$$\frac{\text{Change in Net Position}}{\text{Total Beginning of the Year Net Position}}$$

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 five of the most recent six 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 Components \$ in thousands										
	<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>	<u>FY19</u>
Operating income (loss) plus net non-operating revenues (expenses)	\$8,891	\$9,043	\$3,780	\$1,138	(\$629)	\$1,119	\$3,425	\$450	(\$2,473)	(\$2,444)
Other changes in net position	\$2,311	\$3,415	\$3,282	\$1,662	\$1,862	\$317	\$1,583	\$3,255	\$421	\$943
Change in total net position	\$11,202	\$12,458	\$7,062	\$2,800	\$1,233	\$1,436	\$5,008	\$3,705	(\$2,052)	(\$1,502)
Total net position (beginning of year)	\$132,453	\$143,655	\$156,113	\$163,174	\$165,115	\$166,347	\$167,784	\$152,899	\$156,604	\$154,551

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

Other changes in net position increased from FY18 to FY19 as USM experienced increases in State of Maine capital appropriations revenue and capital grants and gifts revenue; however, other changes in net position were not enough to offset USM's negative return from operations.

Viability Ratio

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

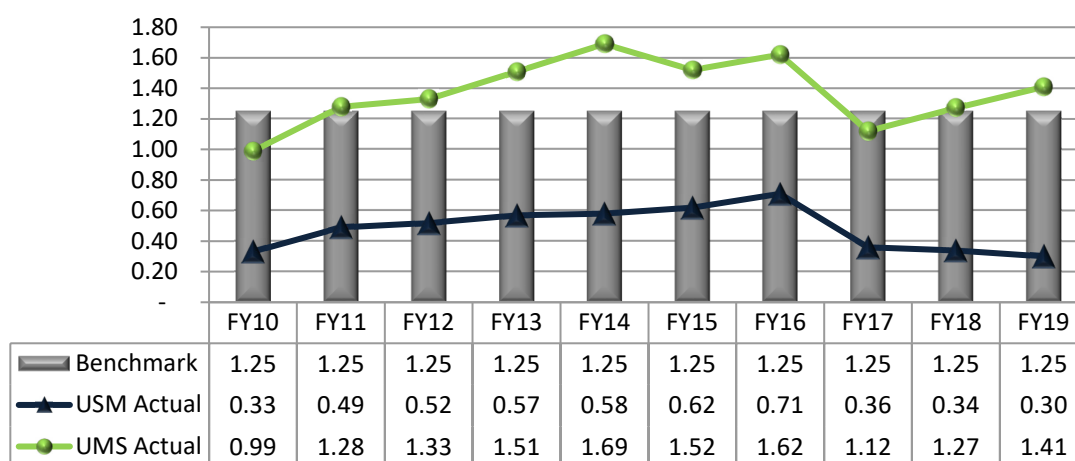
A ratio of 1.25 or greater indicates that there are sufficient resources to satisfy debt obligations.

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

At 0.30x, USM's Viability Ratio reached a ten-year low in FY19.

Viability Ratio



Viability Ratio Components \$ in thousands										
	<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>	<u>FY19</u>
Unrestricted expendable net position	\$8,697	\$16,943	\$18,202	\$18,266	\$13,760	\$15,096	\$18,745	(\$1,154)	(\$1,813)	(\$6,313)
Restricted expendable net position	\$13,319	\$14,724	\$14,108	\$15,740	\$18,593	\$19,541	\$19,549	\$19,926	\$17,966	\$18,411
Total expendable net position	\$22,016	\$31,667	\$32,310	\$34,006	\$32,353	\$34,637	\$38,294	\$18,772	\$16,153	\$12,098
Long-term debt	\$67,477	\$64,728	\$61,986	\$59,252	\$56,031	\$55,853	\$54,190	\$52,287	\$47,871	\$40,999

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

As noted in the earlier discussion of the Primary Reserve ratio, in FY19 USM utilized \$4 million of prior year reserves (unrestricted expendable net position) to early payoff certain outstanding debt. Without this debt reduction, USM's Viability Ratio for FY19 would have been .36x.

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.

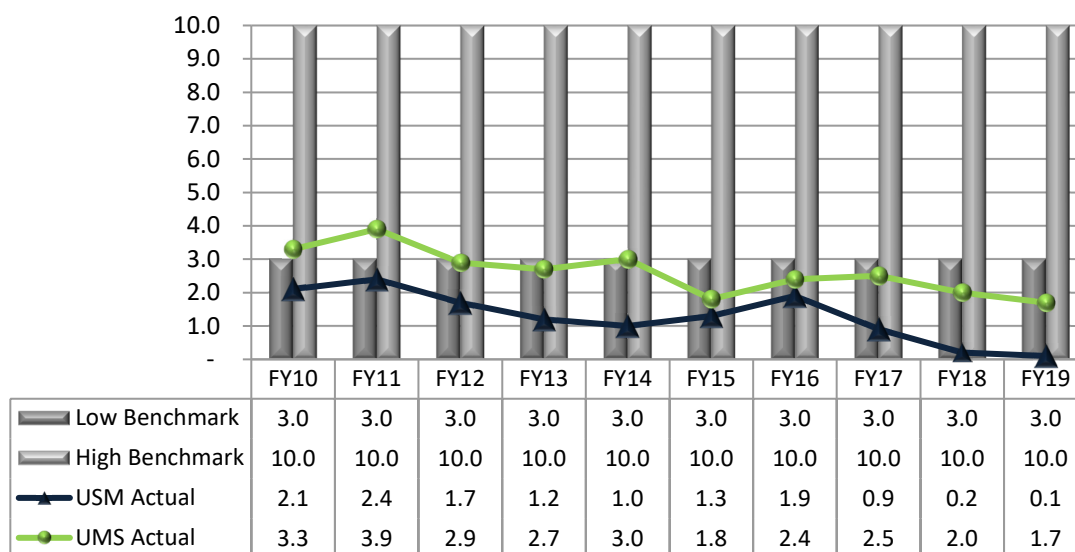
The CFI is calculated by completing the following steps:

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.

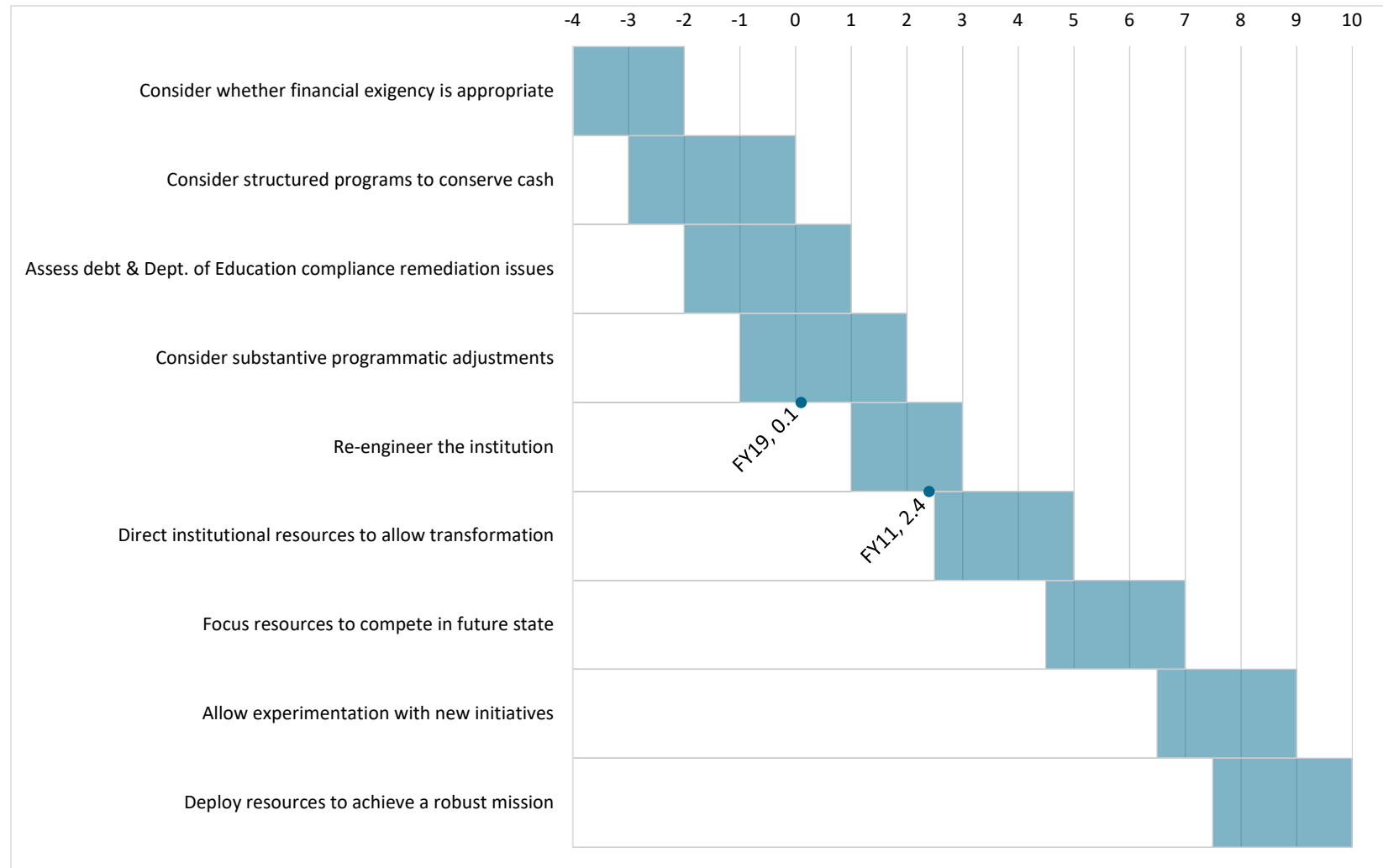
USM's FY19 CFI score of 0.1 is at a 10-year low and decreased from the prior year due to decreases in the Primary Reserve Ratio and the Viability Ratio.

Composite Financial Index



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 blocks of color 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	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
+ Primary Reserve Ratio	0.12	0.17	0.18	0.19	0.19	0.21	0.25	0.12	0.10	0.07
/ 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 **	0.90	1.28	1.35	1.43	1.43	1.58	1.88	0.90	0.75	0.53
X Weighting Factor ***	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Ratio Score	0.32	0.45	0.47	0.50	0.50	0.55	0.66	0.32	0.26	0.19
+ Net Operating Revenues Ratio	4.67%	4.69%	2.04%	0.63%	-0.37%	0.67%	2.19%	0.28%	-1.51%	-1.46%
/ 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 **	6.67	6.70	2.91	0.90	-0.53	0.96	3.13	0.40	-2.16	-2.09
X Weighting Factor ***	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Ratio Score	0.67	0.67	0.29	0.09	-0.05	0.10	0.31	0.04	-0.22	-0.21
+ Return on Net Position Ratio	8.46%	8.67%	4.52%	1.72%	0.75%	0.86%	2.98%	2.42%	-1.31%	-0.97%
/ Common Scale Value *	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
= Strength Factor **	4.23	4.34	2.26	0.86	0.38	0.43	1.49	1.21	-0.66	-0.49
X Weighting Factor ***	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Ratio Score	0.85	0.87	0.45	0.17	0.08	0.09	0.30	0.24	-0.13	-0.10
+ Viability Ratio	0.33	0.49	0.52	0.57	0.58	0.62	0.71	0.36	0.34	0.30
/ 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 **	0.79	1.18	1.25	1.37	1.39	1.49	1.70	0.86	0.82	0.72
X Weighting Factor ***	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Ratio Score	0.28	0.41	0.44	0.48	0.49	0.52	0.60	0.30	0.29	0.25
Composite Financial Index	2.1	2.4	1.7	1.2	1.0	1.3	1.9	0.9	0.2	0.1

* = 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.

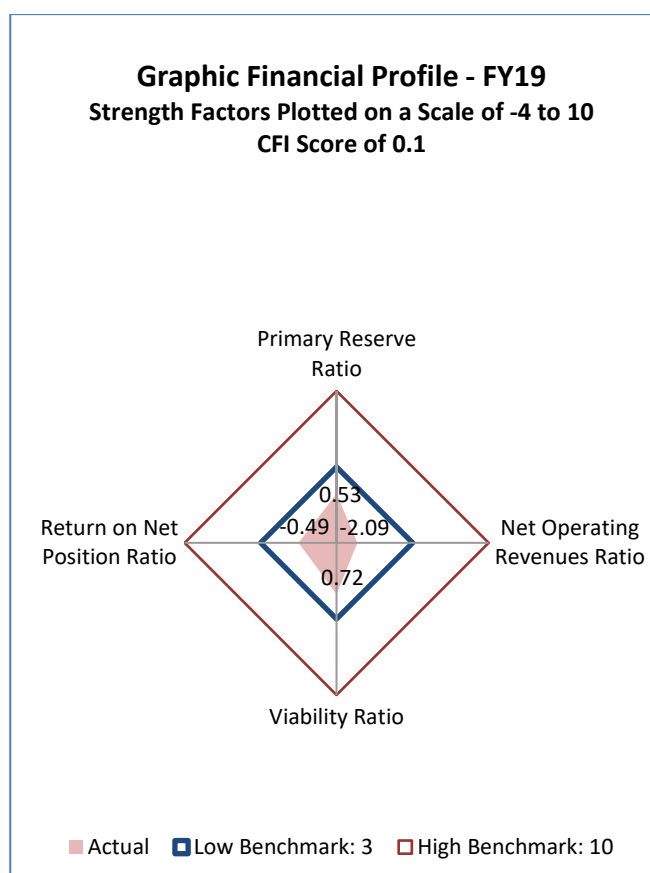
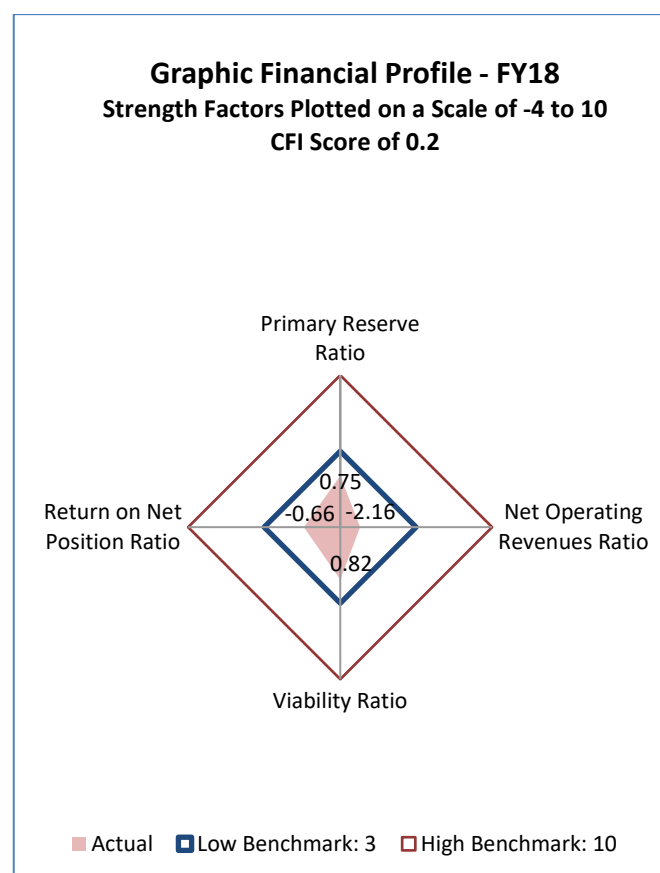
Graphic Financial Profiles

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 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 USM's ratio strength factors are plotted and shaded to show how USM's health compares with the low (3) and high (10) industry benchmarks.

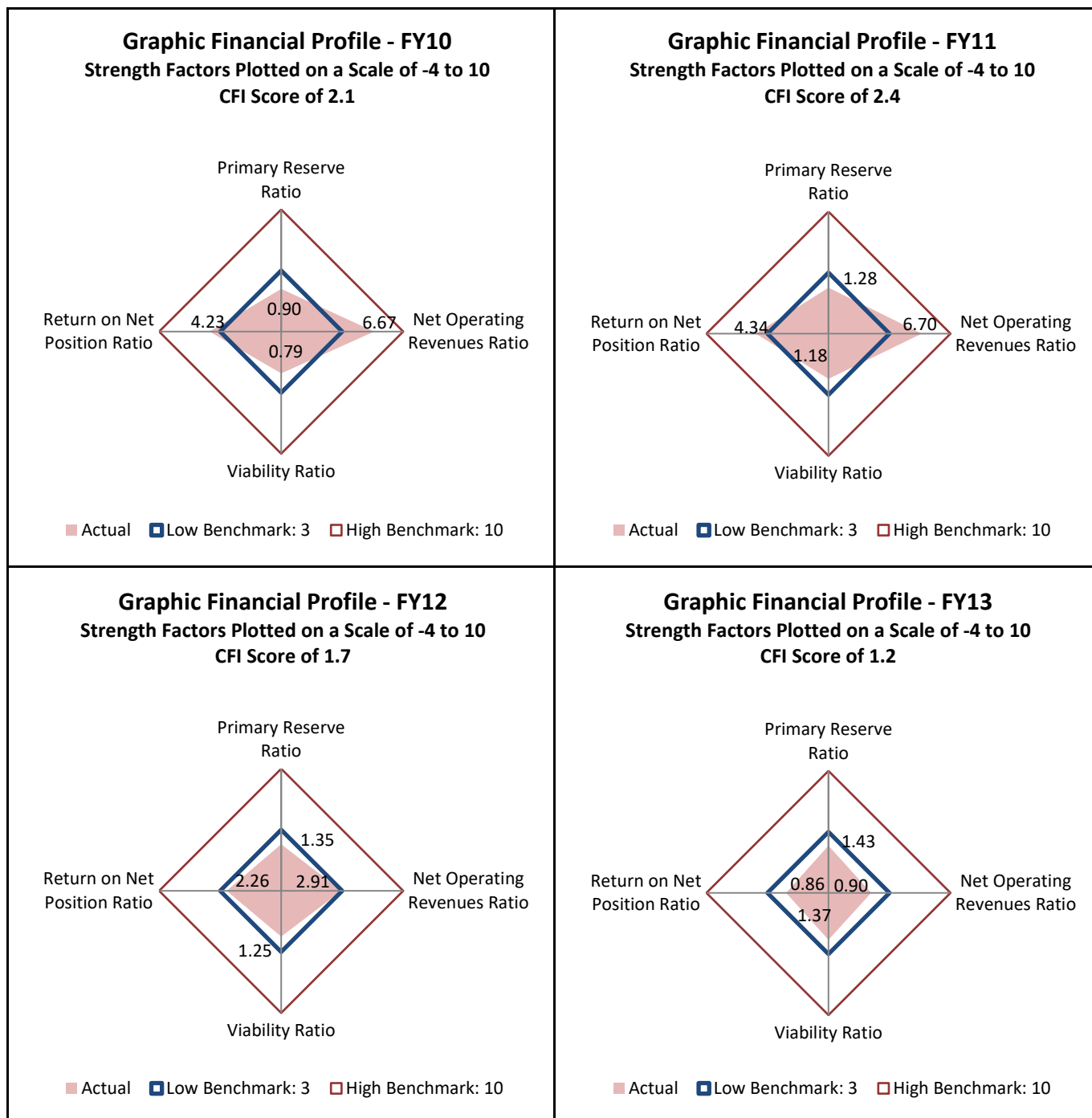
USM Graphic Financial Profiles FY18 and FY19

In FY19, the shape of the USMS's graphic financial profile narrowed as USM experienced lower returns from operations and from overall net position.

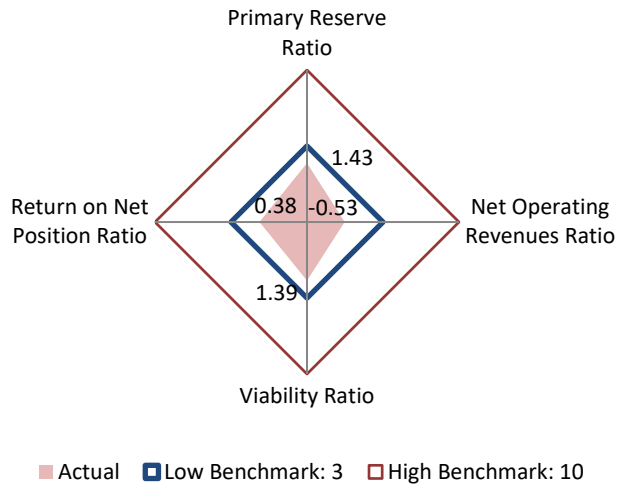


USM Graphic Financial Profiles FY10 to FY17

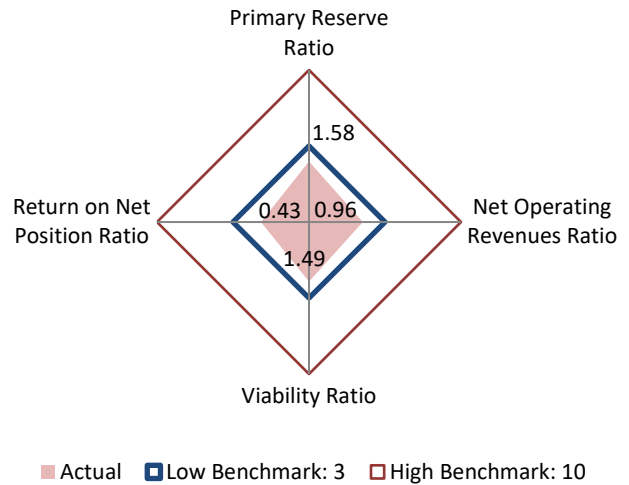
Changes in the shape of USM's graphic financial for FY10 thru FY17 can be seen below and on the next page.



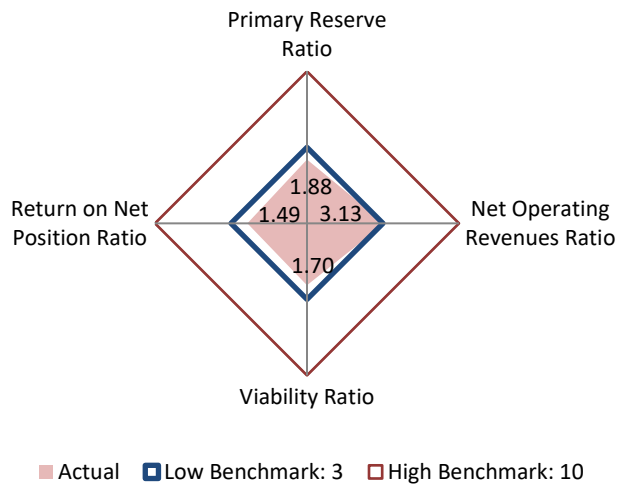
Graphic Financial Profile - FY14
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of 1.0



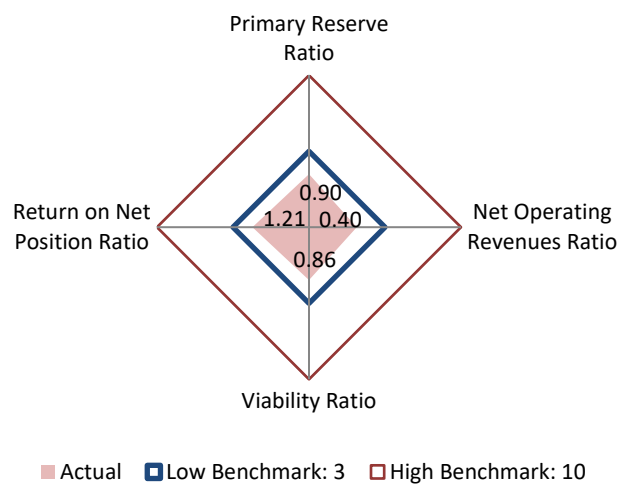
Graphic Financial Profile - FY15
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of 1.3



Graphic Financial Profile - FY16
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of 1.9



Graphic Financial Profile - FY17
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of 0.9



USM Financial Highlights FY10 to FY18

We have compiled the following financial highlights from prior years' reports as a resource in understanding the ratios presented in this report for prior fiscal years.

Primary Reserve Ratio

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.

FY18: Although USM experienced a positive return from operations (operating revenues - operating expenses + net non-operating 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.

Net Operating Revenues Ratio

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.

FY18: 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

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.

Endowment Returns Net of Amount Used for Operations \$ in millions

FY10	\$0.6	FY15	(\$0.8)
FY11	\$1.9	FY16	(\$1.0)
FY12	(\$0.9)	FY17	\$0.9
FY13	\$1.0	FY18	\$0.3
FY14	\$1.7	FY19	(\$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 \$2.5 million in a single year (FY16) and as little as zero (FY14).
- Capital grants and gifts have been a constant source of revenue over the last 10 years; however, the level of such funding has fluctuated. These revenues have been as high as \$2.0 million in FY12 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 \$26 million since FY10. 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 significant 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.

University of Southern Maine

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30, 2010 to 2019

\$ in thousands

	2010	2011	2012	2013	2014	2015	2016	RESTATED 2017	2018	2019
OPERATING REVENUES										
Tuition and fees	\$74,219	\$78,380	\$78,081	\$78,502	\$74,446	\$70,290	\$67,203	\$68,650	\$74,065	\$78,303
Residence and dining fees:	13,414	12,658	10,102	10,912	10,767	10,077	10,563	10,973	11,153	12,235
Less: scholarship allowances:	(14,916)	(16,507)	(16,105)	(16,597)	(16,375)	(16,842)	(18,471)	(20,126)	(22,719)	(25,319)
Net student fees	72,717	74,530	72,078	72,816	68,837	63,525	59,294	59,497	62,499	65,219
Federal, state, and private grants and contracts	50,188	50,513	48,703	41,713	38,462	35,928	33,822	33,828	33,574	33,344
Recovery of indirect costs	4,920	5,646	5,610	4,859	4,211	3,739	3,424	3,580	3,425	3,358
Educational sales and service	6,022	5,830	4,814	5,484	5,282	5,163	5,213	5,219	5,267	5,215
Other auxiliary enterprises	8,275	7,589	6,922	6,416	5,049	4,966	3,260	3,454	3,230	2,552
Interest income on loans	274	266	253	254	242	254	240	267	289	287
Total Operating Revenues	142,395	144,374	138,380	131,544	122,084	113,576	105,253	105,845	108,285	109,973
OPERATING EXPENSES										
Instruction	59,881	60,059	60,661	59,413	57,536	55,430	44,928	46,486	46,982	49,794
Research	13,913	13,701	12,478	10,930	10,879	7,704	6,689	8,075	8,510	7,900
Public service	22,805	23,683	22,935	20,015	18,989	19,524	18,925	20,285	19,449	19,532
Academic support	19,230	20,341	20,585	20,044	18,718	17,714	16,544	16,740	17,109	17,649
Student services	11,029	10,729	10,514	12,204	10,162	11,554	12,698	13,356	14,041	14,874
Institutional support	11,823	11,772	12,697	13,203	12,051	13,625	13,899	15,894	17,913	16,892
Operation and maintenance of plant	10,690	11,594	11,049	12,105	12,231	11,078	10,882	11,626	12,844	11,740
Depreciation and amortization	5,790	5,951	6,095	6,880	7,013	7,112	6,997	7,060	7,539	7,824
Student aid	5,801	6,419	6,263	6,455	7,281	7,571	8,299	8,625	9,737	10,851
Auxiliary	17,514	16,669	15,590	14,570	14,455	13,708	11,718	11,401	11,202	11,431
Total Operating Expenses	178,476	180,918	178,867	175,818	169,316	165,021	151,579	159,548	165,327	168,486
Operating Income (Loss)	(36,080)	(36,544)	(40,487)	(44,274)	(47,233)	(51,445)	(46,325)	(53,703)	(57,042)	(58,513)
NONOPERATING REVENUES (EXPENSE)										
Noncapital State of Maine appropriations	43,310	44,456	44,019	44,242	44,946	44,614	47,957	51,904	51,653	51,810
State Fiscal Stabilization Program	2,396	1,511	0	0	0	0	0	0	0	0
Gifts currently expendable	1,329	1,212	1,271	1,179	1,737	1,353	1,732	1,840	1,626	2,747
Endowment income distributed for operations	872	1,029	1,158	1,282	1,226	1,252	1,353	1,347	1,336	1,384
Investment income	185	14	12	8	2	2	14	30	94	175
Interest expense	(3,153)	(2,957)	(2,873)	(2,538)	(2,016)	(1,803)	(1,597)	(1,576)	(1,415)	(1,399)
Other nonoperating expenses	0	0	0	0	0	0	0	0	0	0
Noncapital transfers	32	322	681	1,240	709	7,145	292	609	1,275	1,351
Net Nonoperating Revenue (Expense)	44,971	45,587	44,267	45,412	46,604	52,563	49,750	54,153	54,569	56,069
Income (Loss) Before Other Changes in Net Position	8,891	9,043	3,780	1,138	(629)	1,119	3,425	450	(2,473)	(2,444)
OTHER CHANGES IN NET POSITION										
State of Maine capital appropriations	599	690	1,456	246	0	915	2,505	521	203	512
Capital grants and gifts	507	846	2,020	211	59	68	1	1,620	0	372
Endowment return, net of amount used for operations	691	1,916	(857)	1,020	1,706	(781)	(988)	867	356	(256)
Endowment gifts	32	26	64	42	93	38	41	437	27	483
Gain on disposal of capital assets and other changes	499	0	601	0	0	12	(226)	0	(114)	(48)
Capital transfers	(16)	(63)	(2)	143	4	66	250	(189)	(50)	(121)
Total Other Changes in Net Position	2,312	3,414	3,282	1,662	1,861	318	1,583	3,255	421	943
Increase (Decrease) in Net Position	11,202	12,458	7,062	2,800	1,233	1,436	5,008	3,705	(2,052)	(1,502)
NET POSITION										
Net Position - beginning of year	132,453	143,655	156,112	163,174	165,115	166,347	167,784	152,899	156,604	154,551
Net Position - end of year	\$143,655	\$156,112	\$163,174	\$165,974	\$166,347	\$167,784	\$172,792	\$156,604	\$154,551	\$153,050