



FY2020 Core Financial Ratios and Composite Financial Index



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Introduction

The financial health of the University of Maine (UM) can be evaluated using 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. Ratios presented for the University of Maine System (UMS) were obtained from the separately prepared “Core Financial Ratios and Composite Financial Index” report prepared for the UMS.

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 UM’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

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:

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

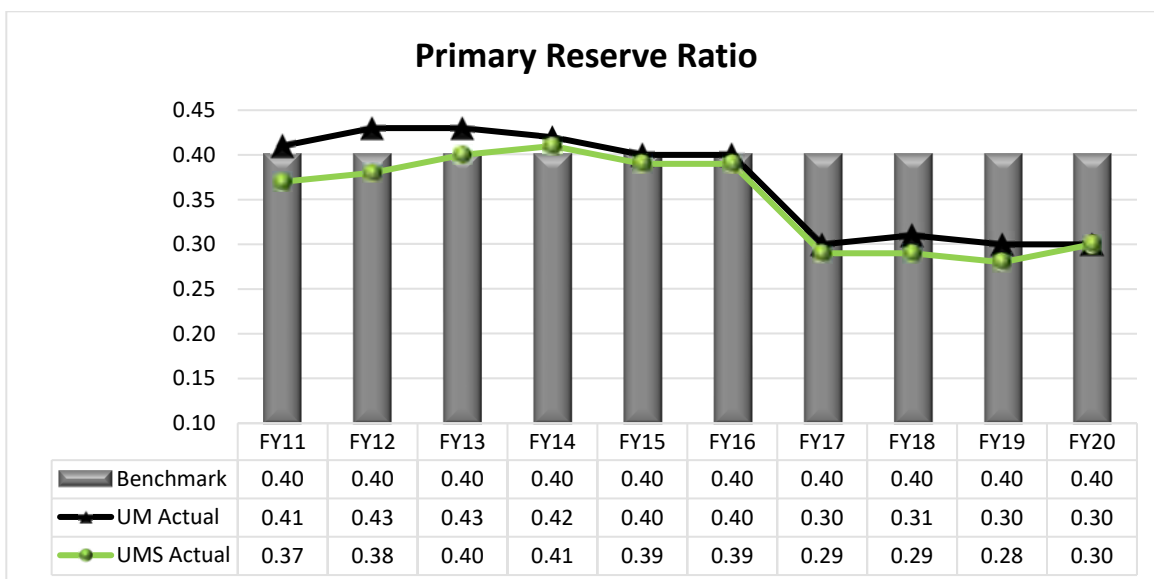
* Excluding net position restricted for capital investments

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.

UM’s Primary Reserve Ratio remained constant at .30x for FY20 and provides approximately 3 and a half months of expense coverage.



Primary Reserve Ratio Components										
\$ in thousands										
	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Unrestricted expendable net position	\$79,472	\$89,548	\$88,590	\$83,595	\$76,578	\$77,229	\$42,931	\$47,198	\$49,719	\$48,730
Restricted expendable net position	\$55,781	\$52,009	\$55,926	\$63,767	\$61,846	\$62,402	\$65,290	\$66,065	\$64,808	\$66,248
Total expendable net position	\$135,253	\$141,557	\$144,516	\$147,362	\$138,424	\$139,631	\$108,221	\$113,263	\$114,527	\$114,978
Total expenses	\$332,510	\$331,014	\$335,241	\$347,105	\$344,550	\$349,271	\$361,202	\$369,497	\$386,093	\$384,644

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

UM's ratio did not change from the prior year as total expendable net position increased just \$451 thousand and expenses decreased \$1.45 million or 0.4%. Total expendable net position increased because operating results (operating revenues – operating expenses + nonoperating revenues – nonoperating expenses + depreciation) were more than enough to offset UM's FY20 investment in capital assets of \$5.5 million and repayment of debt totaling \$5.1 million. See page 3 for a discussion of FY20 operating expenses which are part of the calculation of the Net Operating Revenue Ratio.

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:

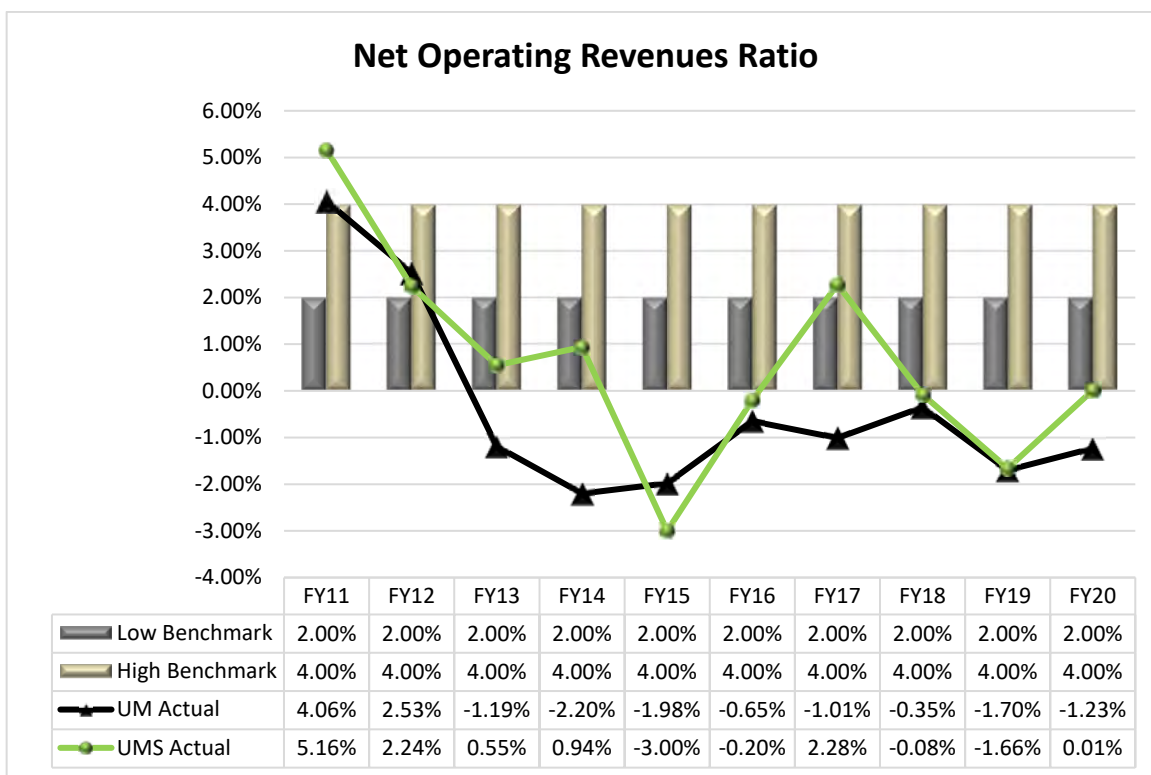
$$\frac{\text{Operating Income (Loss) plus Net Non-Operating Revenues (Expenses)}}{\text{Operating Revenues plus Non-Operating Revenues}}$$

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

UM has experienced negative Net Operating Revenues Ratios since FY13. The FY20 ratio was -1.23%, improved from the -1.70% for FY19.



Net Operating Revenues Ratio (\$ in thousands)										
	<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>	<u>FY20</u>
Operating revenues	\$234,972	\$229,661	\$223,532	\$230,336	\$227,597	\$234,918	\$244,559	\$252,738	\$263,242	\$252,821
Operating expenses	(\$328,216)	(\$327,065)	(\$331,572)	(\$344,163)	(\$341,964)	(\$346,996)	(\$359,044)	(\$367,574)	(\$384,219)	(\$382,825)
Operating loss	(\$93,244)	(\$97,404)	(\$108,041)	(\$113,827)	(\$114,367)	(\$112,079)	(\$114,486)	(\$114,837)	(\$120,977)	(\$130,003)
Net nonoperating revenues	\$107,331	\$106,012	\$104,085	\$106,369	\$107,684	\$109,826	\$110,858	\$113,540	\$114,507	\$125,315
Operating income (loss) plus net nonoperating revenues (expenses)	\$14,088	\$8,608	(\$3,956)	(\$7,458)	(\$6,683)	(\$2,253)	(\$3,628)	(\$1,297)	(\$6,470)	(\$4,688)
Operating revenues plus nonoperating revenues	\$346,597	\$339,622	\$331,286	\$339,647	\$337,867	\$347,019	\$357,575	\$368,201	\$379,623	\$379,955

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

A global pandemic occurred during the last quarter of FY20 and UM and the other campuses within the UMS sent students home in mid-March and moved classes to online delivery for the remainder of the semester. Campuses remained closed through the end of the fiscal year, resulting in the cancellation of services and programs that are key in supporting the universities' operating budgets.

Although total operating revenues plus nonoperating revenues were at a ten-year high in FY20, these two revenue categories experienced very different variances from the prior year: operating revenues decreased \$10.4 million or 4% and nonoperating revenues increased \$10.8 million or 9%.

- A primary factor in the decrease in operating revenues was \$7.6 million in room and board refunds to the students sent home early in response to the pandemic. Educational sales and services revenues and other auxiliary enterprises revenues also decreased. Revenue lines that experienced increases include tuition and fees, grants and contracts, and recovery of indirect costs.
- The increase in nonoperating revenues is primarily due to \$7 million in federal CARES Act funding received to address the pandemic (used for scholarships and room and board refunds). UM also received an additional \$2.2 million in noncapital transfers from UMSGUS/other campuses.

Total operating expenses decreased just .4%; however, there was wide variation in the individual functional expense categories. Within the net decrease was a \$3.2 million or 24.4% increase in student aid as UM used \$3.5 million of the CARES Act monies it received to make emergency aid awards to students impacted by the pandemic. The most significant decreases occurred in the public service, operation and maintenance of plant, and auxiliary expense categories.

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:

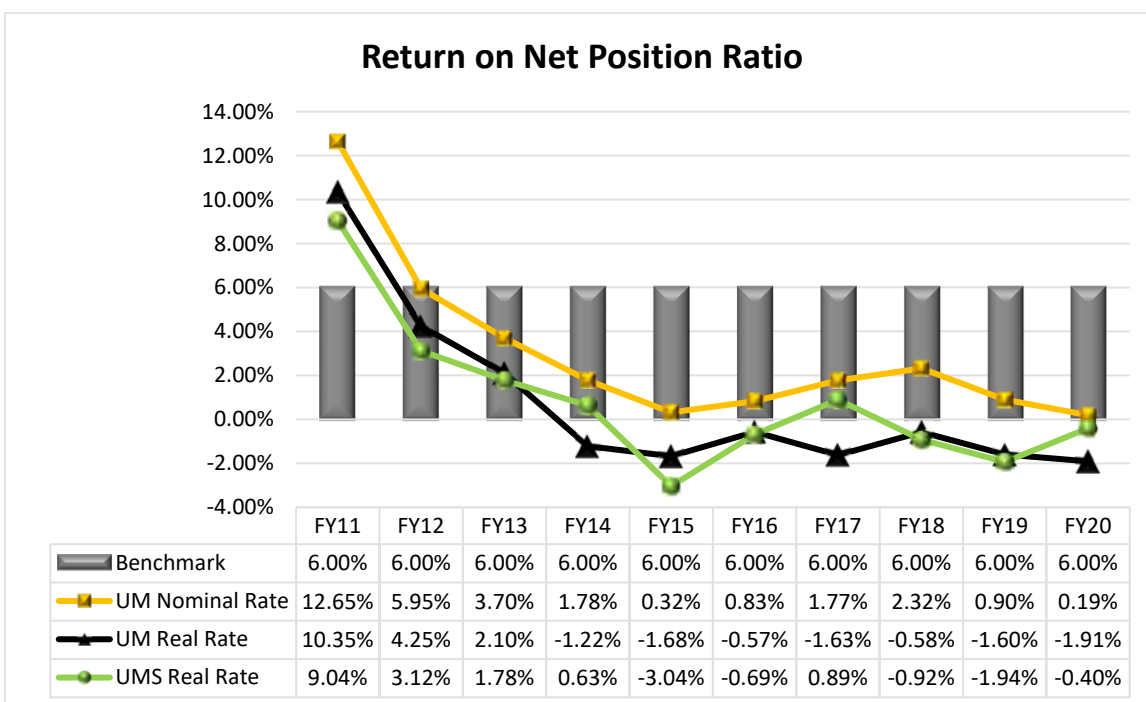
$$\frac{\text{Change in Net Position}}{\text{Total Beginning of the Year Net Position}}$$

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 (HEPI). Publishers of the HEPI sometimes revise data for prior years as new information becomes available. The real rates presented below reflect the HEPI inflation factors published for August 31, 2020 and may differ from rates presented in previous years' reports.

UM's nominal rate of return on net position has been positive for each of the ten years presented; however, inflation has outpaced UM's nominal rate since FY14, resulting in negative real rates of return.



Return on Net Position Components										
\$ in thousands										
	<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>	<u>FY20</u>
Operating income (loss) plus net non-operating revenues (expenses)	\$14,088	\$8,608	(\$3,956)	(\$7,458)	(\$6,683)	(\$2,253)	(\$3,628)	(\$1,297)	(\$6,470)	(\$4,688)
Other changes in net position	\$31,477	\$15,547	\$19,846	\$15,379	\$8,122	\$6,005	\$10,986	\$11,098	\$10,347	\$5,515
Change in total net position	\$45,565	\$24,155	\$15,890	\$7,921	\$1,439	\$3,752	\$7,358	\$9,802	\$3,877	\$826
Total net position (beginning of year)	\$360,109	\$405,673	\$429,829	\$444,313	\$452,234	\$453,672	\$415,936	\$423,294	\$433,095	\$436,972

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

As can be seen in the above table, other changes in net position has been the sole source of UM's positive return on net position since FY13. By nature, the revenue lines that comprise other changes in net position can fluctuate significantly from year to year. The FY20 total for other changes in net position fell \$4.8 million or 47% from the previous year with the following items representing the more notable revenue changes:

- capital appropriations from the State of Maine increased \$3.4 million;
- endowment returns, net of amount used for operations decreased \$1.3 million; and
- endowment gifts decreased \$6.1 million.

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:

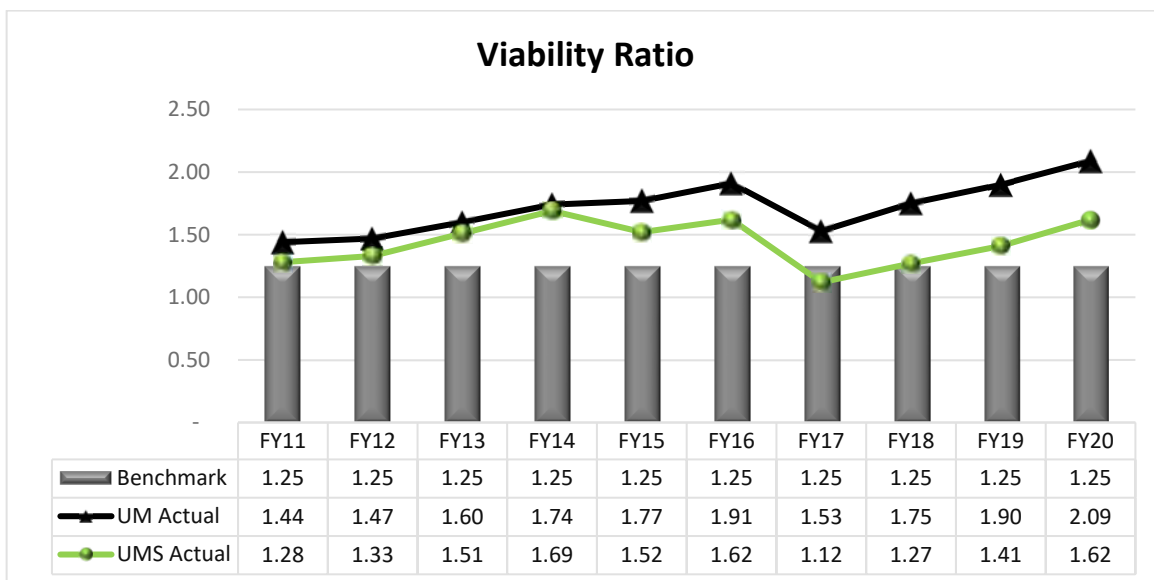
- principal payments on debt
- use of unrestricted net position to fund capital construction projects
- operating results (operating revenues – operating expenses + nonoperating revenues – nonoperating expenses + depreciation)
- endowment returns

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

UM’s Viability Ratio has consistently been above the industry benchmark of 1.25x and reached a ten-year high of 2.09x in FY20.



Viability Ratio Components (\$ in thousands)										
	<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>	<u>FY20</u>
Unrestricted expendable net position	\$79,472	\$89,548	\$88,590	\$83,595	\$76,578	\$77,229	\$42,931	\$47,198	\$49,719	\$48,730
Restricted expendable net position	\$55,781	\$52,009	\$55,926	\$63,767	\$61,846	\$62,402	\$65,290	\$66,065	\$64,808	\$66,248
Total expendable net position	\$135,253	\$141,557	\$144,516	\$147,362	\$138,424	\$139,631	\$108,221	\$113,263	\$114,527	\$114,978
Long-term debt	\$93,943	\$96,118	\$90,602	\$84,583	\$78,081	\$73,038	\$70,529	\$64,588	\$60,321	\$55,117

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

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 2 and 3 for items impacting expendable net position. The last time UM acquired significant debt was in FY17 when UMS revenue bonds were issued to fund classroom technology upgrades.

Composite Financial Index

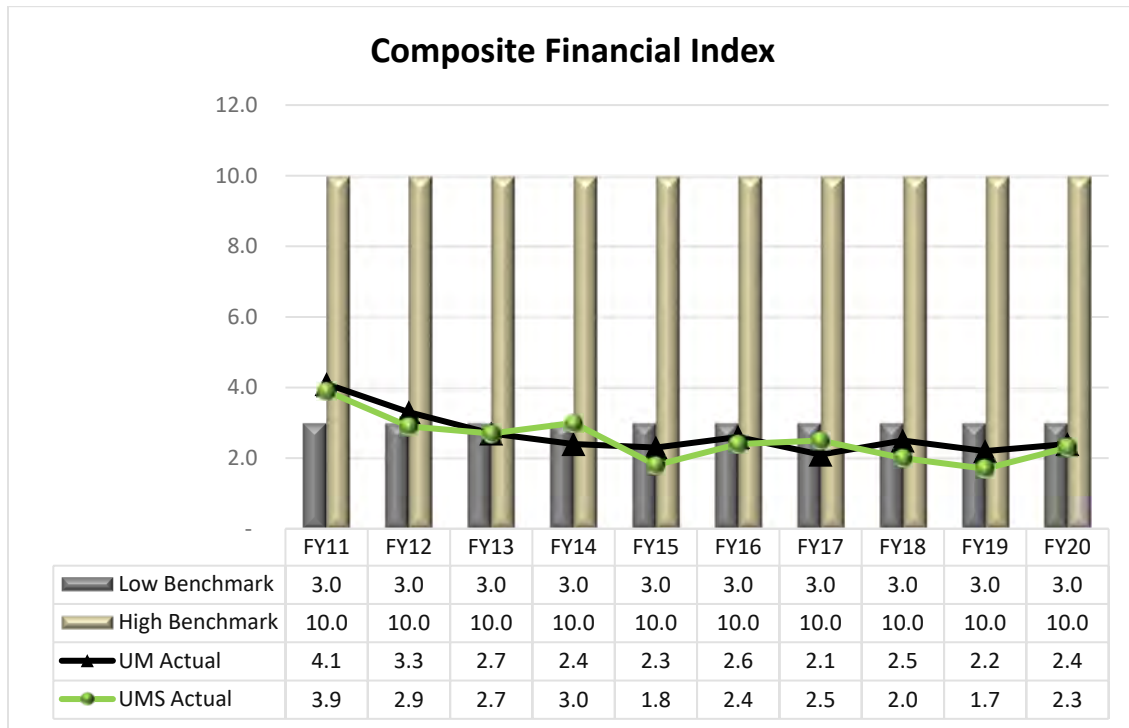
The Composite Financial Index (CFI) creates one overall financial measurement of the institution’s health based on the four core ratios: Primary Reserve Ratio, Net Operating Revenues Ratio, Return on Net Position Ratio, and Viability Ratio. By blending these four key measures of financial health into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

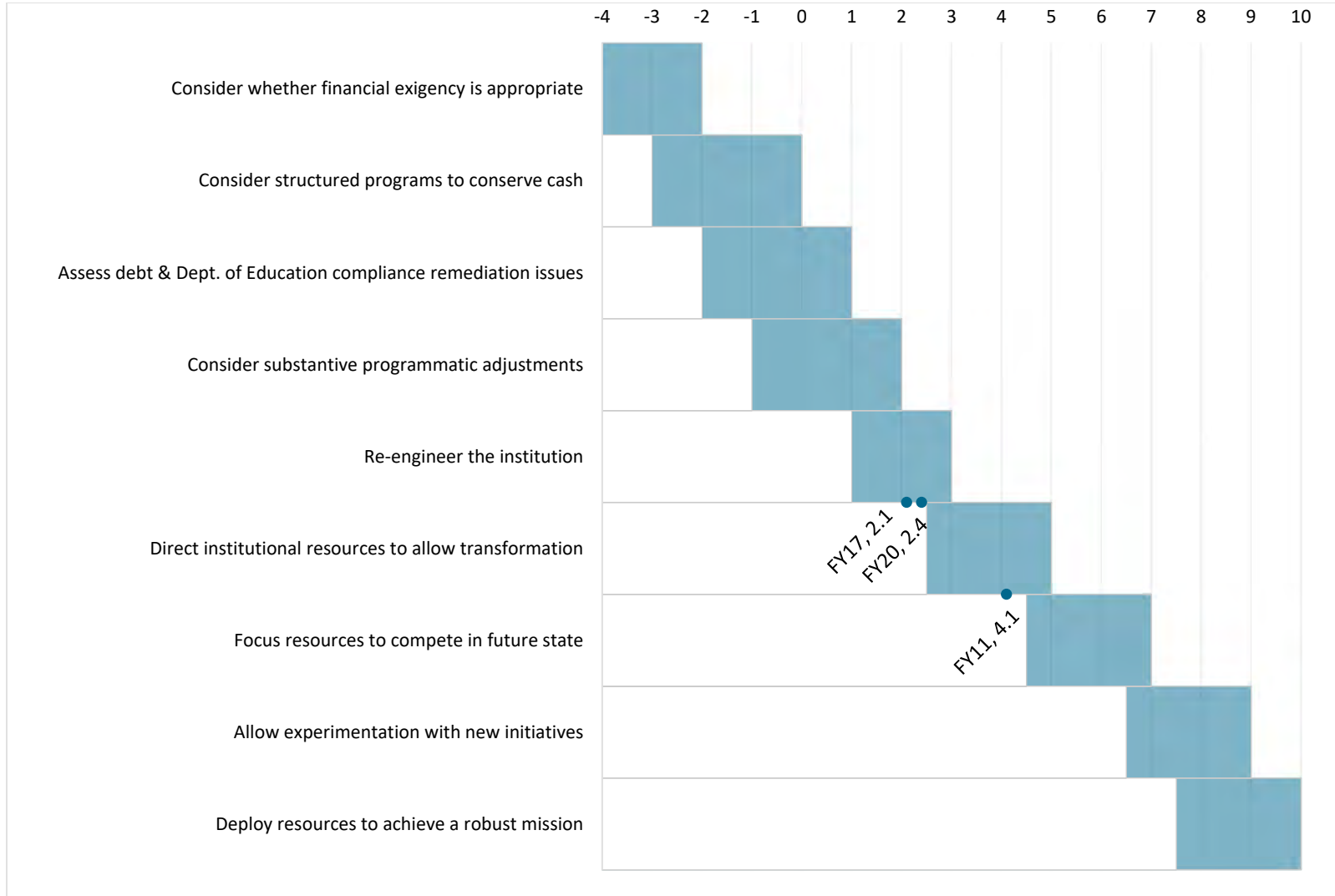
A score of 1.0 indicates very little financial health; 3, the low benchmark, represents a relatively stronger financial position; and 10 is the top of the scale.

Although UM’s CFI has been under the low industry benchmark of 3.0 since FY13, it has been at or above the University of Maine System’s CFI for six of those years.



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



CFI Calculation										
Fiscal Year	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
+ Primary Reserve Ratio	0.41	0.43	0.43	0.42	0.40	0.40	0.30	0.31	0.30	0.30
/ 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 **	3.08	3.23	3.23	3.16	3.01	3.01	2.26	2.33	2.26	2.26
X Weighting Factor ***	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Ratio Score	1.08	1.13	1.13	1.11	1.05	1.05	0.79	0.82	0.79	0.79
+ Net Operating Revenues Ratio	4.06%	2.53%	-1.19%	-2.20%	-1.98%	-0.65%	-1.01%	-0.35%	-1.70%	-1.23%
/ 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 **	5.80	3.61	-1.70	-3.14	-2.83	-0.93	-1.44	-0.50	-2.43	-1.76
X Weighting Factor ***	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Ratio Score	0.58	0.36	-0.17	-0.31	-0.28	-0.09	-0.14	-0.05	-0.24	-0.18
+ Return on Net Position Ratio	12.65%	5.95%	3.70%	1.78%	0.32%	0.83%	1.77%	2.32%	0.90%	0.19%
/ 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 **	6.33	2.98	1.85	0.89	0.16	0.42	0.89	1.16	0.45	0.10
X Weighting Factor ***	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Ratio Score	1.27	0.60	0.37	0.18	0.03	0.08	0.18	0.23	0.09	0.02
+ Viability Ratio	1.44	1.47	1.60	1.74	1.77	1.91	1.53	1.75	1.90	2.09
/ 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 **	3.45	3.53	3.84	4.17	4.24	4.58	3.67	4.20	4.56	5.01
X Weighting Factor ***	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Ratio Score	1.21	1.24	1.34	1.46	1.48	1.60	1.28	1.47	1.60	1.75
Composite Financial Index	4.1	3.3	2.7	2.4	2.3	2.6	2.1	2.5	2.2	2.4

* = The common scale value is derived from the scoring scale defined by the authors of *Strategic Financial Analysis for Higher Education*, Seventh Edition for public institutions with an endowment spending rate.

** = The strength factor is the result of dividing the ratio value by the common scale value to determine a comparable value (strength) for each ratio that can be analyzed on a common scale of -4 to 10.

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

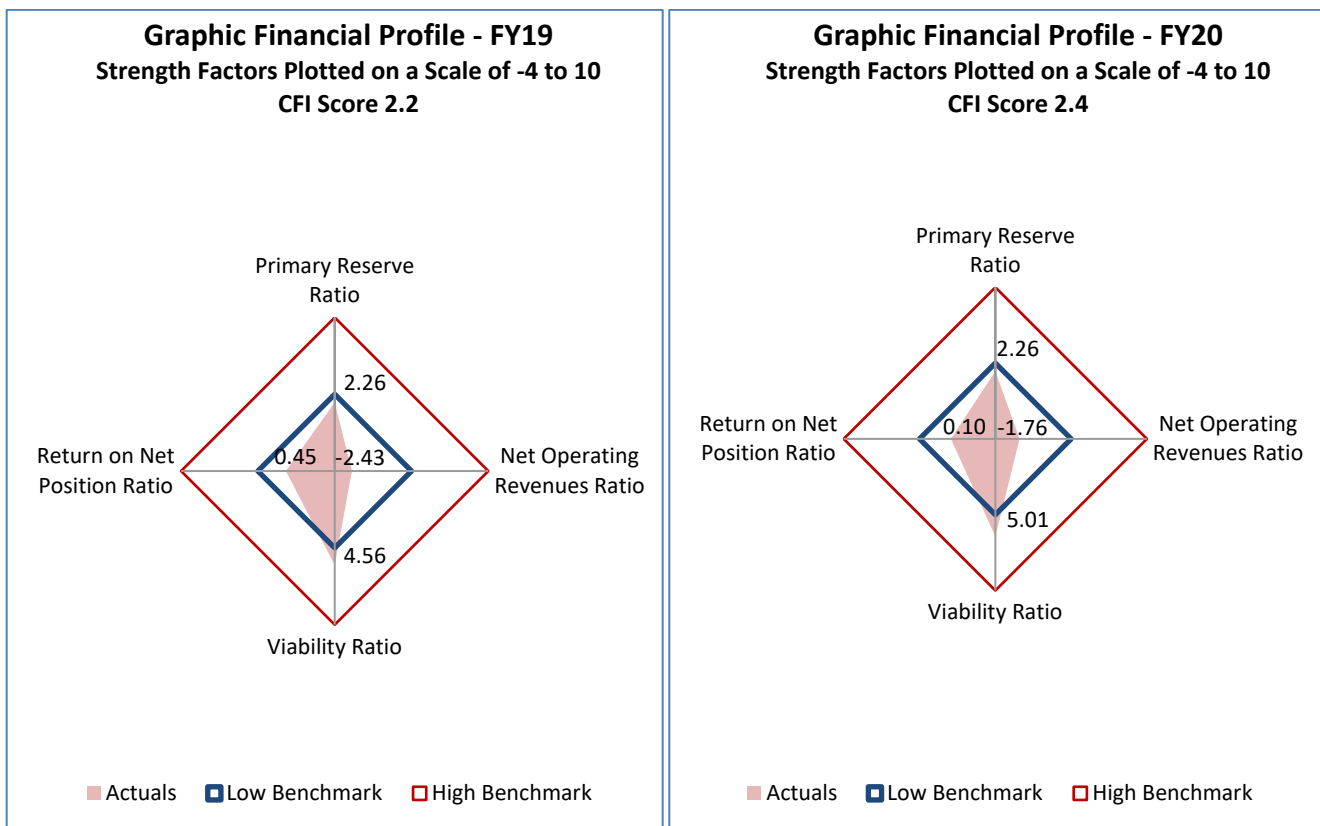
Graphic Financial Profile

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

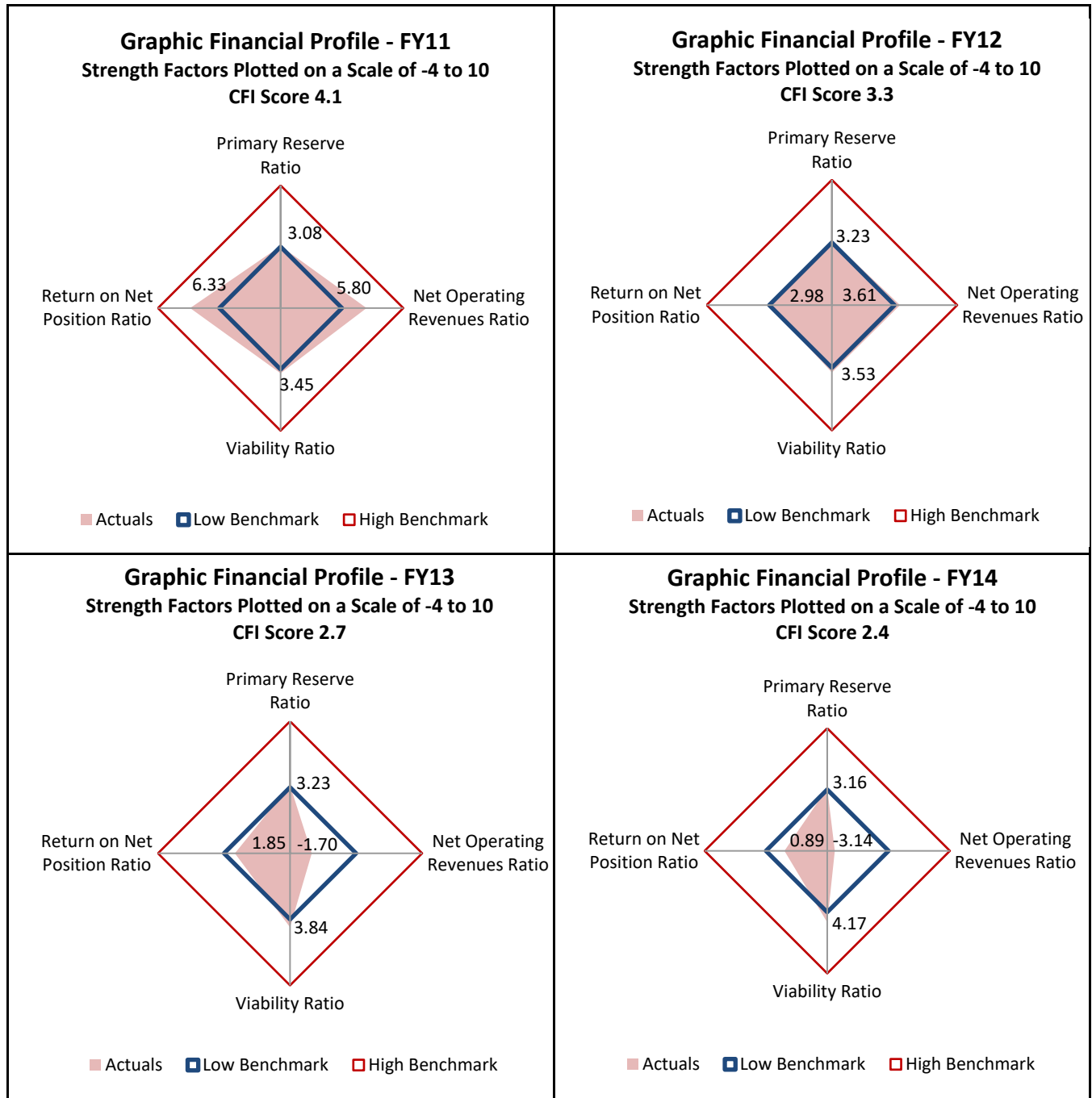
UM Graphic Financial Profiles FY19 and FY20

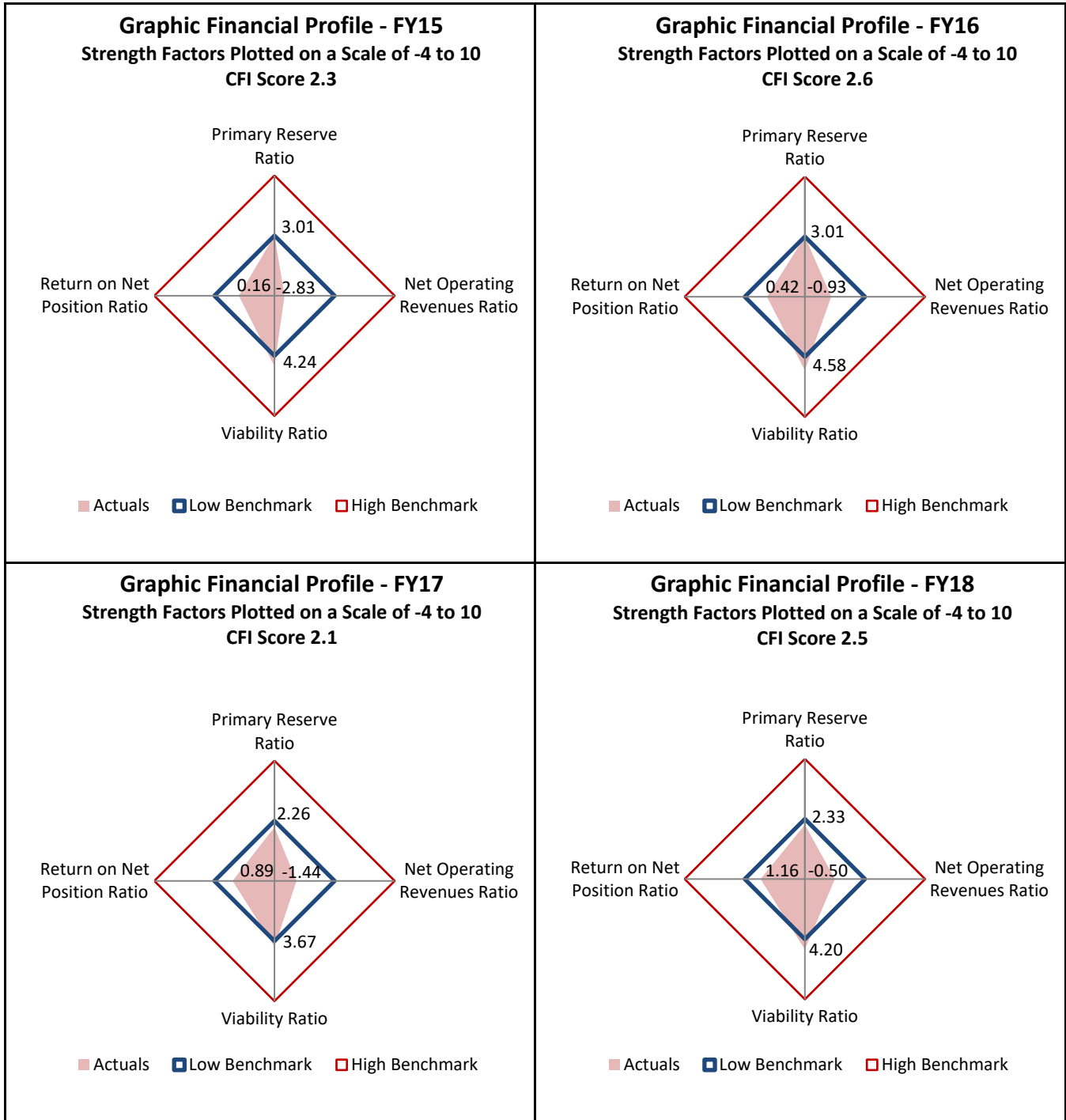
In FY20, the shape of the UM’s graphic financial profile has shifted slightly to the right, as UM experienced an improvement in its return from operations and decline in its return on net position.



UM Graphic Financial Profiles FY11 to FY18

Changes in the shape of UM’s graphic financial for FY11 thru FY18 can be seen below and on the next page.





UM Financial Highlights FY11 – FY19

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

Prior Adoption of New Accounting Standard – Impact on FY17 Results

As required by generally accepted accounting principles, in FY18 the 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 UM's originally reported FY17 revenues and expenses; however, the restatement did include a \$41.5 million decrease in UM's originally reported FY17 beginning of year expendable net position; thus, significantly impacting UM'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

FY11: Fiscal Stabilization revenues helped to offset reduced State of Maine appropriation revenues.

FY12: UM's Primary Reserve Ratio reached its highest point in the five-year period then ended, despite challenges such as a decrease in operating grants and contracts revenue to FY10 levels, the loss of State Fiscal Stabilization revenues, and negative endowment returns.

FY13: Expendable net position increased as positive operating returns before depreciation expense and positive endowment returns more than offset the impact of increased expenses and use of \$8 million of unrestricted expendable net position for capital construction.

FY14: Expendable net position increased as positive operating returns before depreciation expense (depreciation expense impacts net position invested in capital assets) and positive endowment returns more than offset the impact of increased expenses and use of \$7.1 million of unrestricted expendable net position for capital construction.

FY15: UM's expenses decreased from the prior year; however, so did expendable net position, causing UM's ratio to decrease in FY15. UM's FY15 operating results were not enough to offset \$3.7 million of negative endowment returns, net of amount

used for operations and \$8 million of unrestricted net position used for construction projects.

FY16: UM's ratio held steady at .40x as operating results were more than sufficient to offset \$4.8 million of negative endowment returns, net of amount used for operations and \$5 million of unrestricted net position used for construction projects.

FY17: Prior to restatement of FY17 data, UM's ratio increased just .01x from the prior year as total expendable net position increased \$10 million and expenses increased \$11.9 million from FY16. Notable items contributing to the originally stated increase in expendable net position include a \$9.1 million increase in net student fees revenue, an \$11.9 million increase in expenses, a \$5.4 million increase in noncapital State of Maine appropriations revenue, and a \$9.4 million increase in endowment return, net of amount used for operations.

As previously noted, the restatement of FY17 data included a \$41.5 million reduction in expendable net position which caused UM's FY17 Primary Reserve Ratio to fall from the originally stated .41x down to .30x.

FY18: UM's ratio increased just .01x from the prior year as total expendable net position increased \$5.0 million and expenses increased \$8.3 million from FY17. Notable items contributing to the increase in expendable net position include an \$8.1 million increase in net student fees revenue which offsets almost all of the \$8.3 million increase in expenses. Although down \$2.7 million from the prior year, FY18 positive endowment investment returns also contributed to the modest increase in UM's FY18 Primary Reserve Ratio.

FY19: UM's ratio decreased just .01x from the prior year as a \$1.2 million increase in total expendable net position was offset by a \$16.6 million increase in expenses. Total expendable net position increased because operating results (operating revenues – operating expenses + nonoperating revenues – nonoperating expenses + depreciation) were more than enough to offset UM's FY19 investments in capital assets and repayment of debt.

Net Operating Revenues Ratio

FY11: As was the case with the prior two fiscal years, FY11 was an economically challenging time in the State of Maine. UM management continued to make tough budget decisions to control expenses and increase the University's financial health. Their success is evident in the increase in operating returns from FY10 to FY11.

FY12: Economic challenges continued as UM experienced its first decline in the five-year period then ended in total operating and nonoperating revenues. Grants and contracts revenue decreased 8.5%, indirect cost recovery revenue decreased 10.7%, and State Fiscal Stabilization revenue was no longer available.

FY13: UM's return from operations decreased \$12.6 million from the prior year and UM experienced its first loss from operations in the six-year period then ended. A freeze of in-state tuition and fee rates and a reduction in state appropriation revenue as a result of Outcomes Based Funding metrics were key factors in the loss from operations. A reduction in grants and contracts revenue also contributed to the loss to the extent that personnel previously paid from grants and contracts were instead paid from E&G during FY13. An increase in depreciation expense as a result of strategic investments in capital improvements during recent years along with current year investments in strategic areas such as enrollment management, student retention efforts, and major maintenance projects also negatively impacted this ratio in FY13.

FY14: During recent years UM management had focused on strategic efforts to increase enrollments after seeing declines in FY12 and FY13. In FY14, those efforts proved successful as enrollments increased and gross student fees increased \$10 million or 6% from FY13 despite a continued freeze on in-state tuition and fee rates. The increase in student fees revenue was, however, more than offset by a \$4 million increase in the amount of institutional funds used for student financial aid costs and a \$10.8 million increase in expenses not related to grants and contracts and not related to financial aid.

FY15: UM's ratio improved slightly from FY14, as UM experienced a smaller loss which was net of a \$2 million or 1.5% increase in net student fees revenue, a \$3 million decrease in grants and contracts revenue and the related recovery of indirect costs revenue, a \$2 million decrease in operating expenses, a \$2 million decrease in noncapital State of Maine appropriations revenue, a \$1 million increase in noncapital transfers from other campuses, and a net \$1 million increase in various other operating and nonoperation revenue sources.

FY16: Although still at a loss, UM's return on operations was significantly improved, going from a loss of \$6.7 million in FY15 to a loss of \$2.3 million in FY16. Operating revenues increased \$7.3 million or 3%, with \$3.5 million of the increase coming from net student fees. Nonoperating revenues increased \$1.8 million with \$1.6 million of the increase occurring from gifts currently expendable. Outpacing these revenue increases was a \$4.7 million increase in expenses.

FY17: At \$357.6 million, UM's operating revenues plus nonoperating revenues was at a ten-year high in FY17. These revenues were not, however; enough to cover total FY17 expenses of \$361.2 million that were also at a ten-year high. Notable variances from the prior year include a \$9.1 million increase in net student fees revenue, a \$12 million increase in operating expenses, a \$5.4 million increase in noncapital State of Maine appropriations, and a \$3.8 million decrease in gifts currently expendable revenue.

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 UM 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: UM's operating revenues plus non-operating revenues reached a ten year high of \$368.2 million in FY18; however, they were not sufficient to cover total FY18 expenses of \$369.5 million. Notable variances from the prior year include an \$8.1 million increase in net student fees revenue as enrollment, tuition rates, and scholarship awards increased; an \$8.5 million increase in operating expenses, a \$1.2 million increase in revenue from gifts currently expendable and a net \$1.5 million increase in various other non-operating revenues.

FY19: UM's operating revenues plus nonoperating revenues reached a ten-year high of \$379.6 million in FY19; however, the revenues were not sufficient to cover total FY19 expenses (operating expenses + interest expense) which were also at a ten-year high of \$386.1 million. Notable variances in revenues from the prior year include a \$5.0 million increase in net student fees revenue and a \$3.4 million increase in grants and contracts revenue. All categories of expense increased except interest expense, which had a small decrease.

Return on Net Position Ratio

UM's 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 UM's Return on Net Position Ratio every year; however, the impact has fluctuated significantly over the years with changes in market returns.

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

FY11	\$8.6	FY16	(\$4.8)
FY12	(\$4.0)	FY17	\$4.5
FY13	\$5.0	FY18	\$1.9
FY14	\$8.5	FY19	(\$1.1)
FY15	(\$3.7)	FY20	(\$2.5)

- State of Maine capital appropriations revenue fluctuates with the availability of voter approved

bond proceeds and the timing of UM's expenditure of those proceeds. Over the past ten years, UM has received as much as \$8.2 million in a single year (FY16) and as little as \$1.8 million (FY14).

- Capital grants and gifts have been a constant source of revenue over the years; however, the level of such funding has been influenced by a variety of things, including the types of projects being undertaken and the availability of external funding for the projects. These revenues were particularly high in FY11 when UM received a total of \$20 million, primarily due to the offshore wind energy research being conducted by UM. In FY12, capital grants and gifts revenue remained high at \$16 million; however, the revenue was received for more varied purposes than in FY11.

Capital Grants and Gifts Revenue
\$ in millions

FY11	\$19.9	FY16	\$2.7
FY12	\$16.4	FY17	\$1.6
FY13	\$7.5	FY18	\$4.2
FY14	\$4.6	FY19	\$3.2
FY15	\$4.4	FY20	\$2.7

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.

FY12: UM's debt increased slightly from the prior year as additional UMS revenue bonds were issued to finance renovation of UM's Memorial Gym. The State of Maine is providing appropriation dollars restricted to pay the debt service on these new bonds.

FY13: \$3.2 million of the decrease in UM's outstanding debt balance is attributable to the UMS refinancing portions of its previously issued bonds to attain savings.

FY15/FY17: The UMS refinanced debt again in both of these years bringing some savings to UM; however, not nearly as significant as the savings in FY13.

FY17: UM acquired \$2.4 million in new debt to finance classroom technology upgrades. The State of Maine is providing appropriation dollars restricted to pay the debt service on these new bonds.

FY18/FY19: UM's outstanding debt continued to decrease as UM made scheduled debt service payments.

University of Maine
Statement of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2011 to 2020
\$ in thousands

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
							RESTATED			
OPERATING REVENUES										
Tuition and fees	\$116,488	\$119,751	\$122,555	\$129,721	\$136,348	\$141,720	\$151,223	\$164,666	\$172,749	\$176,631
Residence and dining fees	32,862	33,335	33,128	36,028	35,383	36,783	37,645	39,279	39,754	31,394
Less: scholarship allowances	(37,271)	(38,501)	(38,762)	(43,944)	(48,121)	(51,407)	(52,627)	(59,568)	(63,132)	(68,976)
Net student fees	112,078	114,585	116,920	121,805	123,610	127,096	136,241	144,377	149,370	139,049
Federal, state, and private grants and contracts	74,947	68,604	61,247	63,661	61,521	63,727	63,302	64,116	67,536	72,326
Recovery of indirect costs	10,582	9,455	9,134	8,848	7,565	7,363	8,070	8,172	9,620	10,572
Educational sales and service	20,625	21,237	21,601	21,662	21,261	23,601	23,330	22,899	23,055	18,818
Other auxiliary enterprises	16,403	15,446	14,269	14,007	13,286	12,777	13,274	12,789	13,279	11,525
Interest income on loans	336	334	359	353	354	354	342	384	381	531
Total Operating Revenues	234,972	229,661	223,532	230,336	227,597	234,918	244,559	252,738	263,242	252,821
OPERATING EXPENSES										
Instruction	73,863	73,889	75,419	77,797	79,335	77,282	77,842	80,383	83,269	84,313
Research	63,776	59,377	56,732	60,459	56,254	58,108	63,603	65,861	70,589	71,281
Public service	31,345	34,669	34,361	35,820	35,789	35,241	34,300	32,677	33,782	31,858
Academic support	25,692	27,173	27,836	29,135	28,632	31,030	31,994	33,159	33,410	33,469
Student services	20,469	20,906	21,909	22,723	23,483	23,906	23,506	25,257	26,852	26,555
Institutional support	22,743	21,806	23,748	25,194	25,133	26,423	31,372	31,370	32,202	33,293
Operation and maintenance of plant	24,431	22,530	24,299	24,647	24,888	24,951	26,371	25,934	27,828	25,624
Depreciation and amortization	14,797	15,738	16,701	17,820	18,249	19,573	19,909	20,597	21,315	21,965
Student aid	11,133	11,500	11,578	10,288	11,288	12,058	10,779	12,201	12,931	16,087
Auxiliary	39,967	39,477	38,991	40,278	38,914	38,425	39,368	40,135	42,042	38,381
Total Operating Expenses	328,216	327,065	331,572	344,163	341,964	346,996	359,044	367,574	384,219	382,825
Operating Income (Loss)	(93,244)	(97,404)	(108,041)	(113,827)	(114,367)	(112,079)	(114,486)	(114,837)	(120,977)	(130,003)
NONOPERATING REVENUES (EXPENSES)										
Noncapital State of Maine appropriations	95,764	94,923	93,849	94,946	93,139	92,139	97,527	98,051	98,083	98,581
CARES Act funding	-	-	-	-	-	-	-	-	-	7,039
State Fiscal Stabilization Program	3,011	-	-	-	-	-	-	-	-	-
Gifts currently expendable	9,079	10,670	9,233	10,950	12,097	13,693	9,939	11,139	11,782	13,009
Endowment income distributed for operations	2,824	2,645	2,712	2,704	3,036	3,291	3,407	3,356	3,401	3,365
Investment income	57	47	34	8	9	59	115	309	592	422
Interest expense	(4,294)	(3,949)	(3,669)	(2,942)	(2,586)	(2,275)	(2,158)	(1,923)	(1,874)	(1,819)
Other nonoperating expenses	-	-	-	-	-	-	-	-	-	-
Noncapital transfers	890	1,677	1,926	702	1,989	2,919	2,027	2,607	2,525	4,717
Net Nonoperating Revenue (Expense)	107,331	106,012	104,085	106,369	107,684	109,826	110,858	113,540	114,507	125,315
Income Before Other Changes in Net Position	14,088	8,608	(3,956)	(7,458)	(6,683)	(2,253)	(3,628)	(1,297)	(6,470)	(4,689)
OTHER CHANGES IN NET POSITION										
State of Maine capital appropriations	2,047	3,037	5,867	1,780	7,770	8,170	3,962	4,219	2,309	5,731
Capital grants and gifts	19,945	16,411	7,546	4,618	4,373	2,747	1,634	4,176	3,185	2,669
Endowment return, net of amount used for operations	8,642	(4,000)	5,026	8,467	(3,743)	(4,842)	4,519	1,871	(1,136)	(2,472)
Endowment gifts	1,585	1,005	1,289	493	841	678	792	555	6,733	633
Gain on disposal of capital assets and other changes	(53)	(552)	-	-	(767)	(1,358)	1	(14)	4	(33)
Capital transfers	(689)	(353)	117	20	(352)	609	78	292	(749)	(1,013)
Total Other Changes in Net Position	31,477	15,548	19,846	15,379	8,122	6,005	10,986	11,098	10,347	5,515
Increase (Decrease) in Net Position	45,565	24,155	15,890	7,921	1,439	3,752	7,358	9,802	3,877	826
NET POSITION										
Net Position – beginning of year	360,109	405,673	429,829	444,313	452,234	453,672	415,936	423,294	433,095	436,972
Net Position – end of year	\$405,673	\$429,829	\$445,719	\$452,234	\$453,672	\$457,424	\$423,294	\$433,095	\$436,972	\$437,798

The above totals have not been adjusted for rounding.