



2020 Core Financial Ratios and Composite Financial Index



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Introduction

The financial health of the University of Maine at Machias (UMM) 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 UMM’s overall financial health, hereafter referred to as the **Composite Financial Index (CFI)**.

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

Strategic Financial Analysis for Higher Education

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:

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

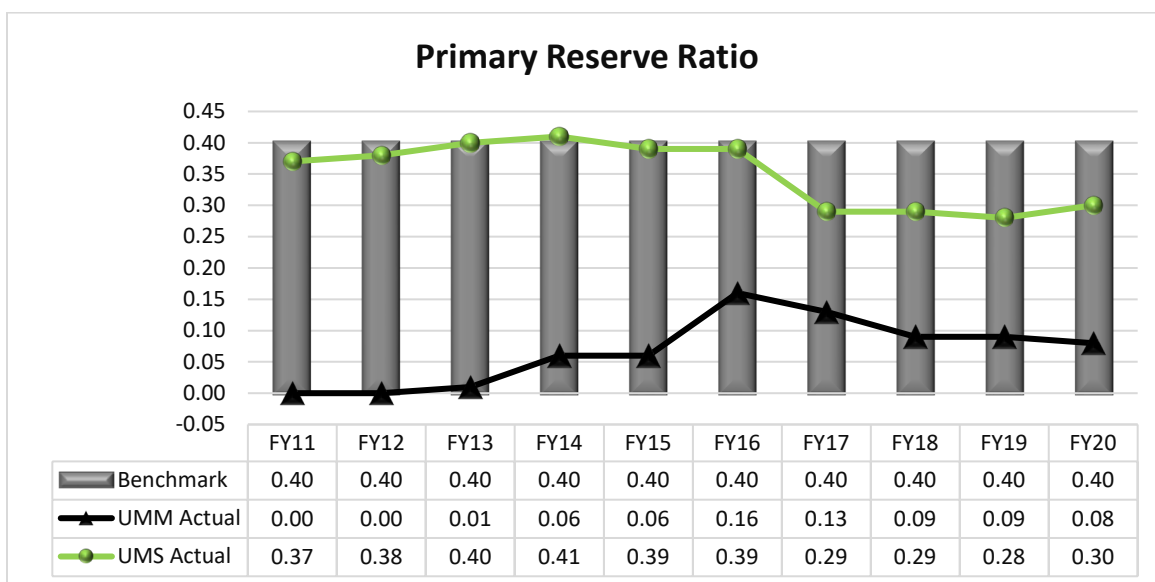
*Excluding net position restricted for capital investments

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 FY20, UMM’s Primary Reserve Ratio fell slightly to 0.08x, which provides about 1 month of expense coverage.



Primary Reserve 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	(\$815)	(\$693)	(\$767)	(\$290)	(\$590)	\$371	\$603	(\$187)	(\$365)	(\$282)
Restricted expendable net position	\$859	\$724	\$921	\$1,076	\$1,354	\$1,602	\$1,067	\$1,360	\$1,482	\$1,301
Total expendable net position	\$44	\$31	\$154	\$786	\$764	\$1,973	\$1,670	\$1,173	\$1,117	\$1,019
Total expenses	\$13,322	\$13,537	\$13,438	\$13,573	\$12,799	\$12,621	\$12,866	\$12,490	\$12,337	\$12,348

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

A decrease in total expendable net position and relatively constant expenses resulted in a Primary Reserve Ratio of .08x for the FY20 compared to 0.9x in FY19. The increase in unrestricted expendable net position from FY19 to FY20 was primarily due to the following items:

- Receipt of \$123 thousand from UMS Governance and University Services (UMSGUS) near the end of the fiscal year to be used over the summer to enable web conferencing in nine classrooms, less
- \$98 thousand used for roof repairs to various buildings, plus
- A nearly \$66 thousand dollar decrease in the deficit balance in UMM's 'implementation of GASB 75 for OPEB' reserve. This deficit reduction was made possible through the benefit rate assessed by UMSGUS which included a component assessed to slowly decrease the GASB 75 reserve deficit at each campus within the UMS.

The decrease in UMM's restricted expendable net position for the same period, is primarily related to the expenditure of Maine Economic Improvement Fund monies that had remained unspent at June 30, 2019.

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:

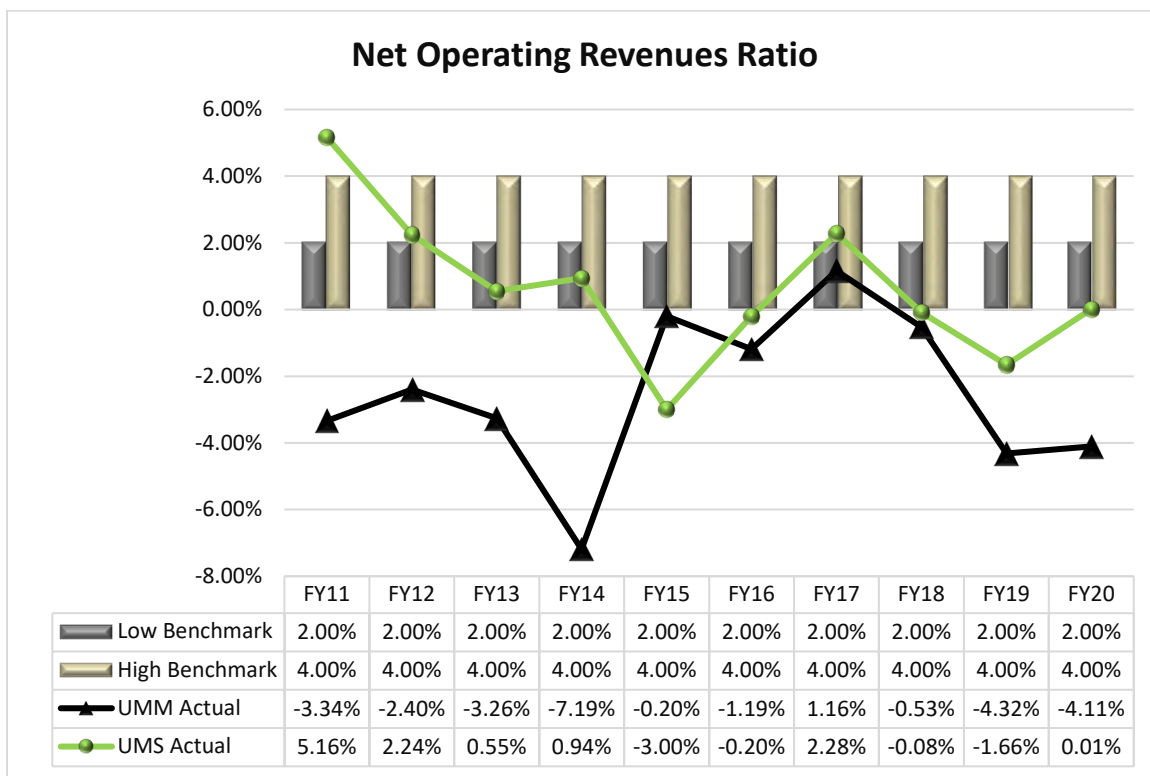
$$\frac{\text{Operating Income (Loss) plus Net Non-Operating Revenues (Expenses)}}{\text{Operating Revenues plus Non-Operating Revenues}}$$

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

UMM’s Net Operating Revenues Ratio was -4.11% in FY20. This ratio has been negative for all but one of the ten years presented in the below graph.



Net Operating Revenues Ratio Components
\$ in thousands

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Operating revenues	\$8,146	\$8,055	\$7,815	\$7,032	\$6,897	\$6,593	\$6,691	\$6,132	\$5,396	\$4,960
Operating expenses	(\$13,135)	(\$13,375)	(\$13,321)	(\$13,480)	(\$12,700)	(\$12,496)	(\$12,741)	(\$12,336)	(\$12,192)	(\$12,210)
Operating loss	(\$4,990)	(\$5,320)	(\$5,506)	(\$6,448)	(\$5,803)	(\$5,903)	(\$6,050)	(\$6,204)	(\$6,796)	(\$7,249)
Net nonoperating revenues	\$4,560	\$5,003	\$5,082	\$5,537	\$5,778	\$5,756	\$6,201	\$6,138	\$6,285	\$6,762
Operating income (loss) plus net non-operating revenues (expenses)	(\$429)	(\$317)	(\$424)	(\$911)	(\$25)	(\$148)	\$151	(\$66)	(\$511)	(\$487)
Operating revenues plus non-operating revenues	\$12,893	\$13,220	\$13,014	\$12,662	\$12,774	\$12,474	\$13,017	\$12,424	\$11,826	\$11,860

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

A global pandemic occurred during the last quarter of FY20 and UMM 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.

The primary factors in the \$436 thousand or 8.1% decrease in operating revenues included the following:

- \$258 thousand in room and board refunds were issued to the students sent home early in response to the above mentioned pandemic. Without the refunds, residence and dining fees revenue would have increased \$86 thousand over the FY19 total.
- Revenues from grants and contracts and the related recovery of indirect costs decreased \$202 thousand.

Although net nonoperating revenues increased \$477 thousand from FY19 to FY20, the increase was not enough to offset the previously mentioned decrease in operating revenues and the slight increase in operating expenses for the same period. The increase in net nonoperating revenues is attributable to \$487 in federal CARES Act funding to address the pandemic (used for scholarships and refunds).

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:

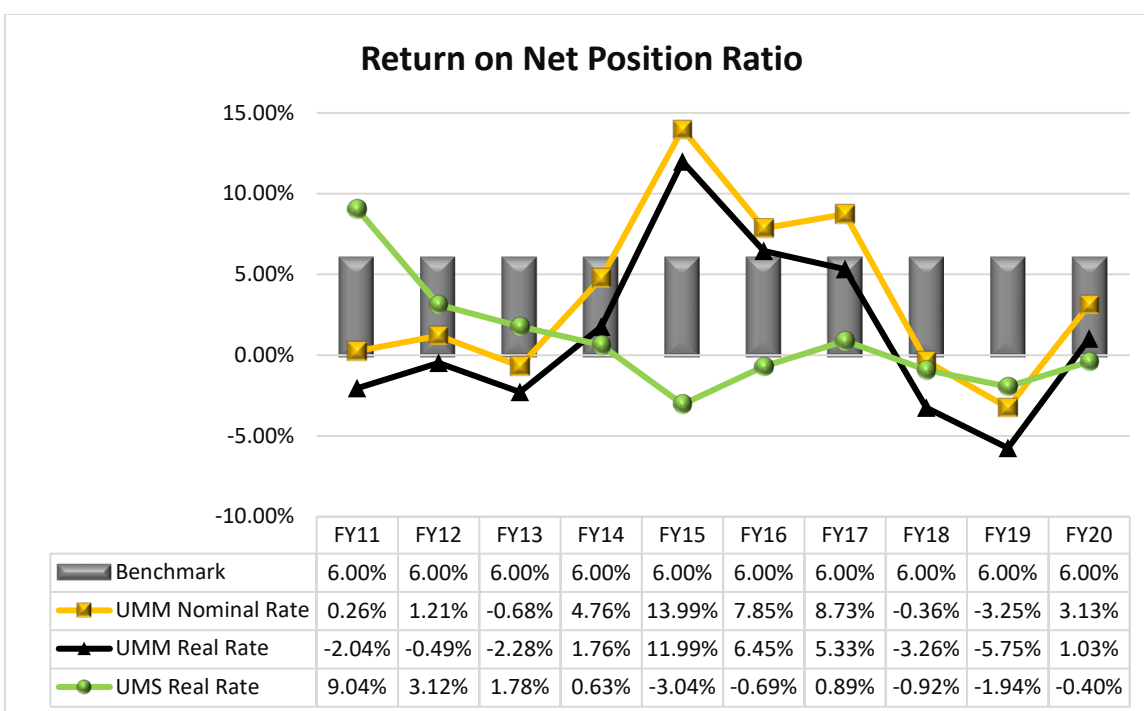
$$\frac{\text{Change in Net Position}}{\text{Total Beginning of the Year Net Position}}$$

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.

In FY20 UMM's Return on Net Position kept surpassed inflation and the institution experienced a positive real rate of return for the first time since FY17.



Return on Net Position 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>
Operating income (loss) plus net non-operating revenues (expenses)	(\$429)	(\$317)	(\$424)	(\$911)	(\$25)	(\$148)	\$151	(\$66)	(\$511)	(\$487)
Other changes in net position	\$455	\$439	\$354	\$1,392	\$1,507	\$1,096	\$862	\$22	\$103	\$867
Change in total net position	\$26	\$122	(\$70)	\$481	\$1,482	\$948	\$1,012	(\$45)	(\$408)	\$380
Total net position (beginning of year)	\$10,079	\$10,105	\$10,227	\$10,109	\$10,591	\$12,073	\$11,587	\$12,599	\$12,554	\$12,145

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

As can be seen in the above table, other changes in net position is usually the source of any positive returns on net position that UMM has experience during the past ten years. In FY20, other changes in net position were more than sufficient to offset the loss from operations and UMM experienced a \$380 thousand increase in net position. State of Maine capital appropriations of \$881 thousand was the primary component of other changes in net position for FY20 as UMM expended funds approved by Maine voters in prior fiscal years.

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:

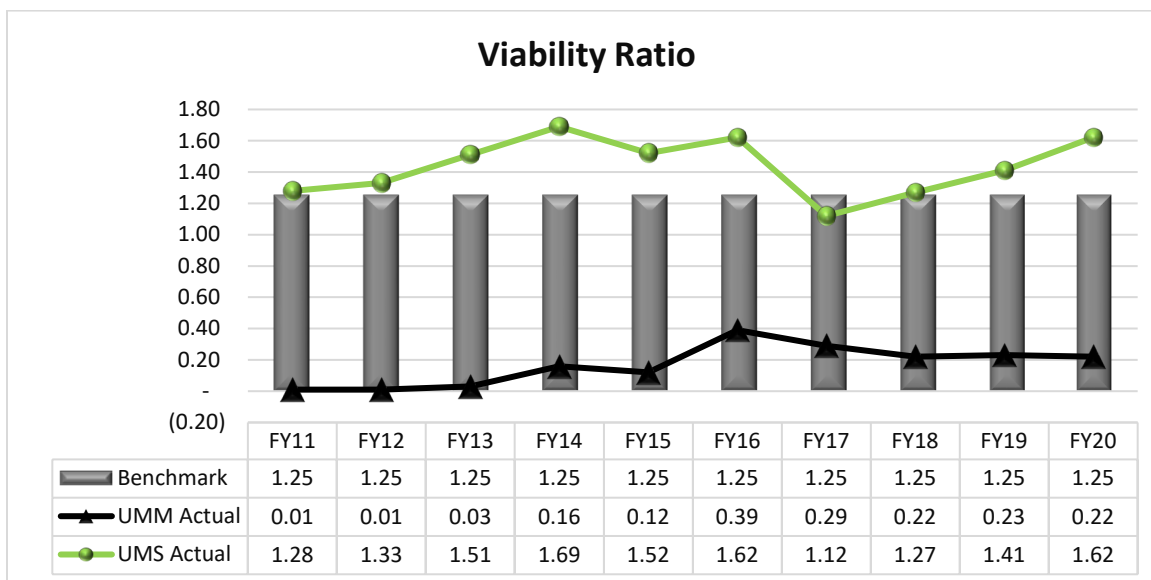
- principal payments on debt
- use of unrestricted net position to fund capital construction projects
- operating results (operating revenues – operating expenses + nonoperating revenues – nonoperating expenses + depreciation)
- endowment returns

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.

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In FY20, UMM’s Viability Ratio decreased marginally from the previous year to 0.22x.



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	(\$815)	(\$693)	(\$767)	(\$290)	(\$590)	\$371	\$603	(\$187)	(\$365)	(\$282)
Restricted expendable net position	\$859	\$724	\$921	\$1,076	\$1,354	\$1,602	\$1,067	\$1,360	\$1,482	\$1,301
Total expendable net position	\$44	\$31	\$154	\$786	\$764	\$1,973	\$1,670	\$1,173	\$1,117	\$1,019
Long-term debt	\$5,729	\$5,320	\$5,143	\$4,935	\$6,441	\$5,083	\$5,730	\$5,303	\$4,951	\$4,632

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 the Primary Reserve Ratio on pages 2 and 3 for items impacting expendable net position. UMM’s outstanding debt continued to decrease in FY20 as UMM made scheduled debt service payments.

Composite Financial Index

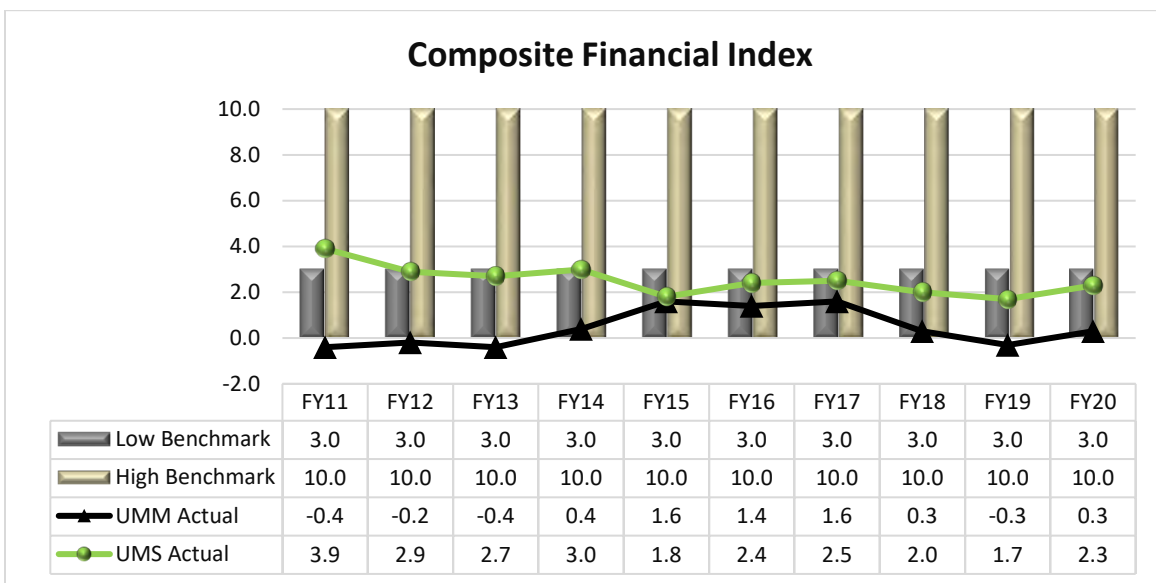
The Composite Financial Index (CFI) creates one overall financial measurement of the institution’s health based on the four core ratios: Primary Reserve Ratio, Net Operating Revenues Ratio, Return on Net Position Ratio, and Viability Ratio. By blending these four key measures of financial health into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

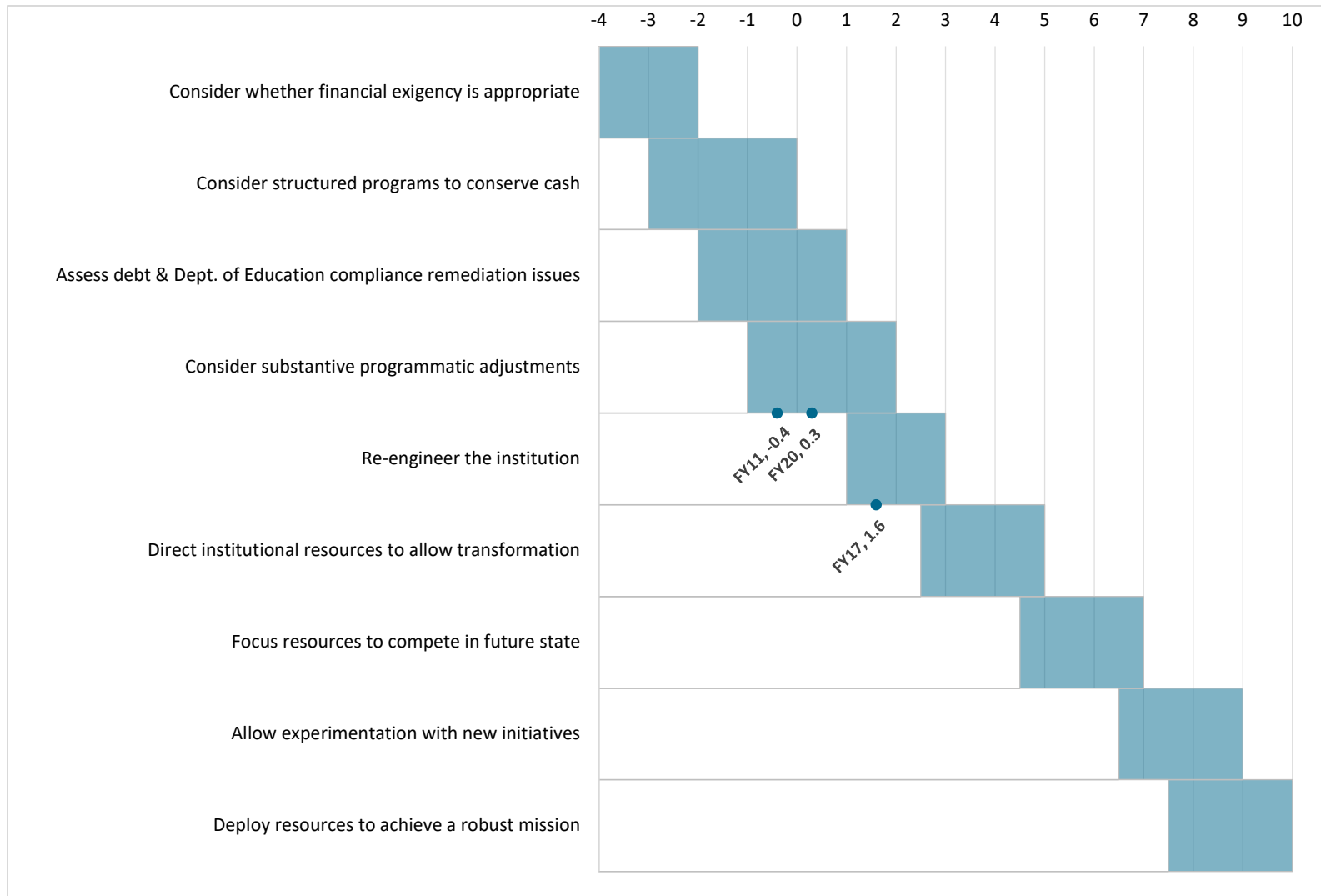
A score of 1.0 indicates very little financial health; 3, the low benchmark, represents a relatively stronger financial position; and 10 is the top of the scale.

At 0.3 for FY20, UMM’s CFI score recovered from being below zero in the previous year.



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



CFI Calculation										
Fiscal Year	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
+ Primary Reserve Ratio	0.00	0.00	0.01	0.06	0.06	0.16	0.13	0.09	0.09	0.08
/ 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 **	0.00	0.00	0.08	0.45	0.45	1.20	0.98	0.68	0.68	0.60
X Weighting Factor ***	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Ratio Score	0.00	0.00	0.03	0.16	0.16	0.42	0.34	0.24	0.24	0.21
+ Net Operating Revenues Ratio	-3.34%	-2.40%	-3.26%	-7.19%	-0.20%	-1.19%	1.16%	-0.53%	-4.32%	-4.11%
/ 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 **	-4.00	-3.43	-4.00	-4.00	-0.29	-1.70	1.66	-0.76	-4.00	-4.00
X Weighting Factor ***	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Ratio Score	-0.40	-0.34	-0.40	-0.40	-0.03	-0.17	0.17	-0.08	-0.40	-0.40
+ Return on Net Position Ratio	0.26%	1.21%	-0.68%	4.76%	13.99%	7.85%	8.73%	-0.36%	-3.25%	3.13%
/ Common Scale Value *	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
= Strength Factor **	0.13	0.61	-0.34	2.38	7.00	3.93	4.37	-0.18	-1.63	1.57
X Weighting Factor ***	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Ratio Score	0.03	0.12	-0.07	0.48	1.40	0.79	0.87	-0.04	-0.33	0.31
+ Viability Ratio	0.01	0.01	0.03	0.16	0.12	0.39	0.29	0.22	0.23	0.22
/ Common Scale Value *	0.417	0.417	0.417	0.417	0.417	0.417	0.417	0.417	0.417	0.417
= Strength Factor **	0.02	0.02	0.07	0.38	0.29	0.94	0.70	0.53	0.55	0.53
X Weighting Factor ***	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Ratio Score	0.01	0.01	0.03	0.13	0.10	0.33	0.25	0.19	0.19	0.19
Composite Financial Index	-0.4	-0.2	-0.4	0.4	1.6	1.4	1.6	0.3	-0.3	0.3

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

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

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

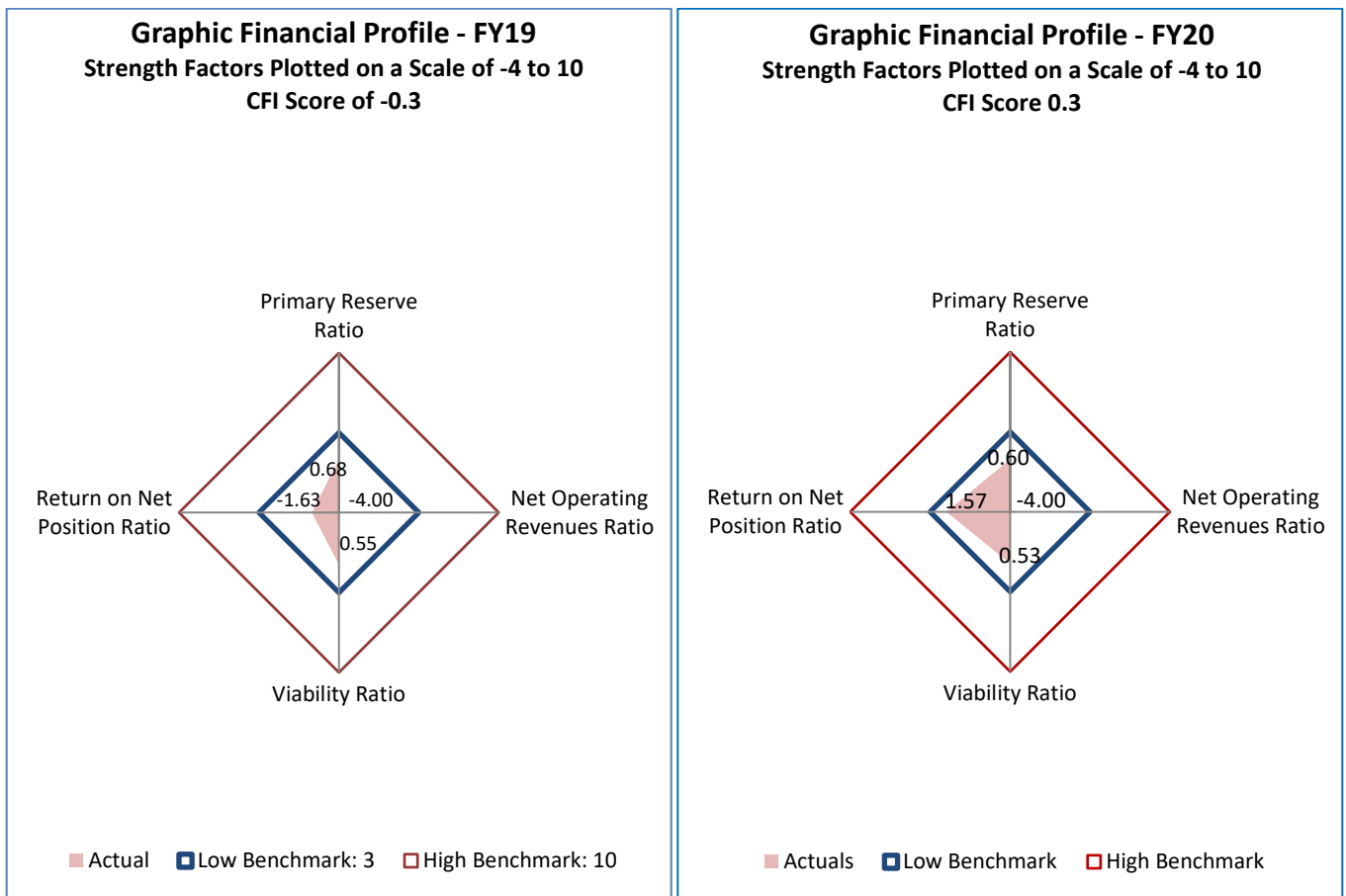
Graphic Financial Profile

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

UMM Graphic Financial Profiles FY19 and FY20

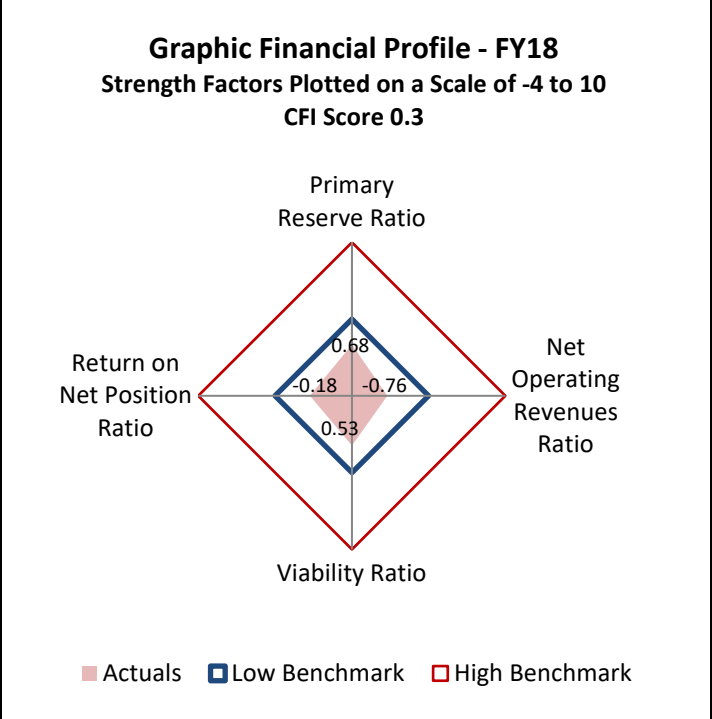
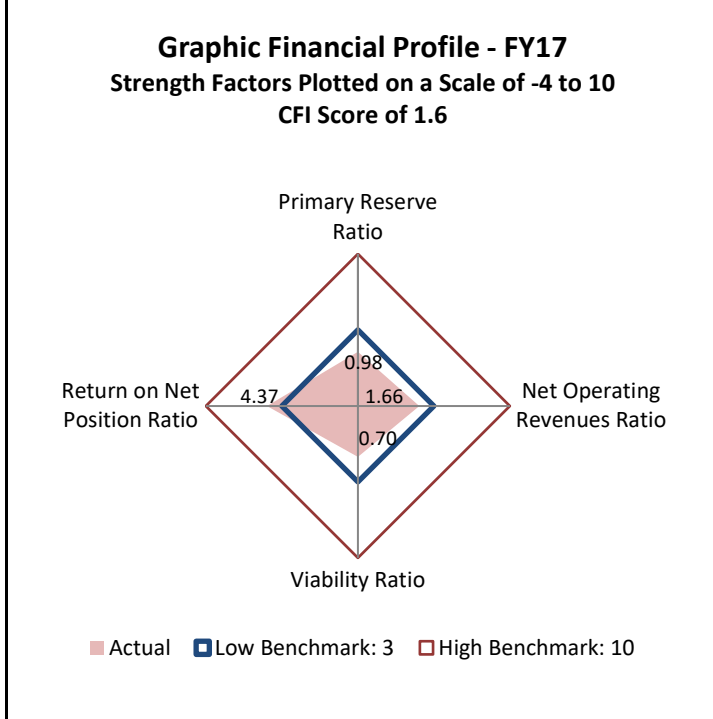
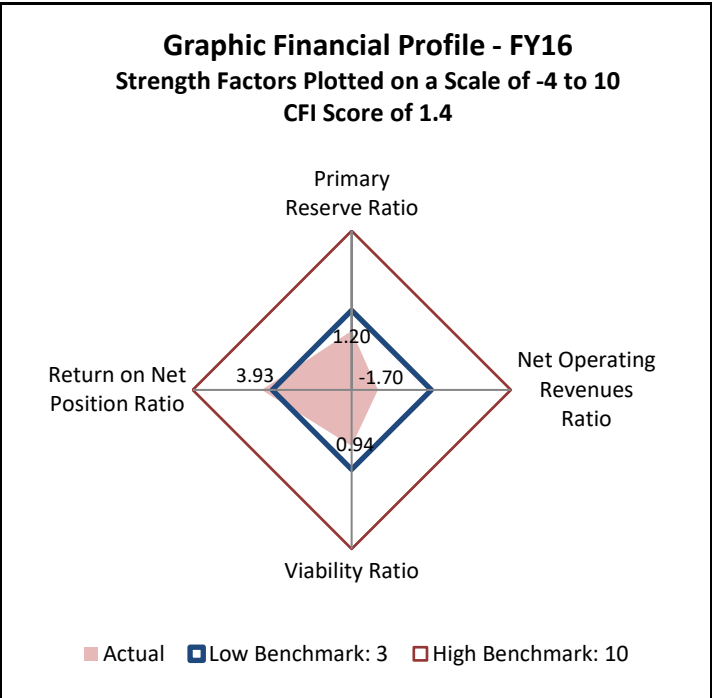
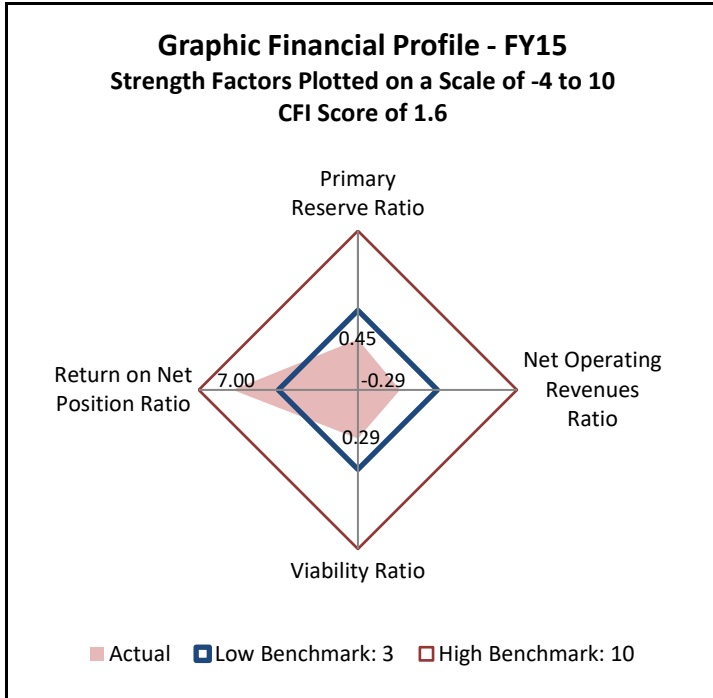
The shape of UMM’s FY20 graphic financial profile has widened to the left as a result of improved return on net position.



UMM Graphic Financial Profiles FY11 to FY18

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





UMM 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 UMM's originally reported FY17 revenues and expenses; however, the restatement did include a \$1.4 million decrease in UMM's previously reported FY17 beginning of year expendable net position; thus, significantly impacting UMM'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 items impacting the Net Operating Revenues Ratio impact this ratio, as total expenses are factored into both ratios and the amount of return on operating revenues excluding depreciation expense closes to expendable net position. Therefore, see the discussion of the Net Operating Revenues Ratio later on the next page.

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

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

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

FY14: The improvement in UMM's unrestricted expendable net position from FY13 is primarily the result of \$556 thousand of unrestricted capital transfers from UMS Governance and University Services (UMSGUS) that remained unspent as of June 30, 2014. These transfers are expected to be spent on the designated construction projects during FY15. Positive

endowment returns account for the FY14 increase in restricted expendable net position.

FY15: At the end of FY15, \$241 thousand of the \$556 thousand of capital transfers received from UMSGUS in FY14 remained unspent as UMM spent just \$315 thousand in FY15 on its Powers Hall Exterior and Masonry Repair project. Restricted expendable net position increased from the prior year despite negative endowment returns, due to a one-time gift of \$375 thousand, restricted for beautification of the campus.

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

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

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

Contributing to unrestricted expendable net position were two large transfers received from UMSGUS:

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

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

FY19: A decrease in expenses helped to offset a decrease in total expendable net position from FY18 to FY19, resulting in an unchanged Primary Reserve Ratio of .09x for FY19. The decrease in unrestricted expendable net position from FY18 to

FY19 is primarily the result of an overall loss from Auxiliary operations. The increase in UMM's restricted expendable net position for the same period, is primarily related to new Maine Economic Improvement Fund monies that remained unspent at June 30, 2019.

Net Operating Revenues Ratio

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

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

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

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

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

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

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

student fees revenue and decreases in several other revenue streams.

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

FY15/16/17: Although the exact impact on this ratio is not readily determinable, it should be noted that during this three-year time span, the UMS underwent a reorganization to centralize under the University Services portion of USMGUS, many services (e.g., Procurement, Human Resources, Information Technology, Facilities, and Finance) that had previously existed at each of the campuses and USMGUS. The costs of University Services were then allocated back out to UMM and the other campuses within the UMS along with an additional allocation of noncapital State of Maine appropriation revenues to help cover the costs of the centralized services. This reorganization occurred in a staggered approach with all University Services costs being allocated to the campuses by FY17.

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

FY19: The decrease in UMM's total expenses from FY18 to FY19 and the increase in nonoperating revenues were not enough to offset the decrease in operating revenues, leaving UMM with a loss of \$511 thousand for FY19. A \$503 thousand (or 15%) decrease in net student fees revenue was the primary driver of the FY19 loss.

Return on Net Position Ratio

The Return on Net Position Ratio has been impacted over the years by the same items that impacted the Net Operating Revenues Ratio and the following items that directly impact capital and endowment assets:

- Undistributed endowment returns impact UMM’s Return on Net Position Ratio every year; however, the impact has fluctuated significantly over the years with changes in the level of endowment returns.

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

FY11	\$242	FY16	(\$136)
FY12	(\$95)	FY17	\$162
FY13	\$144	FY18	\$82
FY14	\$206	FY19	(\$29)
FY15	(\$92)	FY20	(\$65)

- Capital appropriation revenue from the State of Maine fluctuates with the availability of voter approved bond proceeds and the timing of UMM’s expenditure of those proceeds. FY15 was the most notable year with \$1.2 million received followed closely by \$881 thousand in FY20.
- Capital grants and gifts are not a consistent revenue stream for UMM with only \$167 thousand received in FY13.
- Endowment gifts have been a constant, but usually not significant, source of revenue for UMM. FY15 is the exception when UMM received \$427 thousand.
- Over the years UMM received the following transfers from UMSGUS to fund key construction projects:
 - \$225 thousand in **FY12** to fund a scheduled jump in UMM’s debt service on the 2005 University Revenue Bonds.
 - \$1.1 million in **FY14** for several capital projects, including repairs to Powers Hall.
 - \$675 thousand in **FY17** for projects to replace the Kilburn Commons roof and to address ADA issues
- On a one-time basis, in **FY15**, UMSGUS forgave the \$1.1 million working capital loan advanced to UMM in FY08 and FY09.

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

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

Viability Ratio

The same totals for expendable net position are used for this ratio and the Primary Reserve Ratio; therefore, please see discussion of the Primary Reserve Ratio on page 16 for items impacting expendable net position.

University of Maine at Machias
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2010 to 2019
\$ in thousands

	2011	2012	2013	2014	2015	2016	RESTATED 2017	2018	2019	2020
OPERATING REVENUES										
Tuition and fees	\$5,322	\$5,630	\$5,770	\$5,239	\$4,975	\$4,716	\$4,819	\$4,489	\$4,010	\$4,019
Residence and dining fees	1,914	1,949	2,051	1,898	1,851	1,808	1,904	1,534	1,374	1,202
Less: scholarship allowances	(2,988)	(2,953)	(3,347)	(2,966)	(2,866)	(2,901)	(2,807)	(2,693)	(2,555)	(2,574)
Net student fees	4,248	4,627	4,474	4,171	3,960	3,623	3,916	3,331	2,828	2,647
Federal, state, and private grants and contracts	3,359	2,940	2,827	2,382	2,474	2,498	2,339	2,357	2,217	2,031
Recovery of indirect costs	111	123	100	117	84	93	61	85	45	29
Educational sales and service	359	305	341	291	349	350	354	345	259	206
Other auxiliary enterprises	60	49	63	64	23	22	17	5	37	40
Interest income on loans	8	10	10	7	7	7	5	9	10	7
Total Operating Revenues	8,146	8,055	7,815	7,032	6,897	6,593	6,691	6,132	5,396	4,960
OPERATING EXPENSES										
Instruction	3,539	3,530	3,676	3,560	3,533	3,366	3,272	3,348	3,483	3,434
Research	894	356	363	560	616	660	514	706	489	516
Public service	163	121	150	70	104	85	50	59	42	25
Academic support	1,133	1,241	1,163	1,142	987	1,105	1,195	1,201	1,301	1,200
Student services	1,854	2,149	1,811	1,767	1,745	1,599	1,638	1,669	1,747	1,607
Institutional support	1,289	1,238	1,399	1,510	1,454	1,309	1,350	980	810	892
Operation and maintenance of plant	1,069	1,118	1,430	1,916	1,487	1,688	1,743	1,473	1,474	1,365
Depreciation and amortization	572	579	577	575	589	653	715	743	775	789
Student aid	943	1,375	1,056	556	546	552	838	804	763	1,133
Auxiliary	1,680	1,667	1,694	1,825	1,639	1,481	1,426	1,353	1,308	1,249
Total Operating Expenses	13,135	13,375	13,321	13,480	12,700	12,496	12,741	12,336	12,192	12,210
Operating Income (Loss)	(4,990)	(5,320)	(5,506)	(6,448)	(5,803)	(5,903)	(6,050)	(6,204)	(6,796)	(7,249)
NONOPERATING REVENUES (EXPENSES)										
Noncapital State of Maine appropriations	4,375	4,388	4,401	4,455	4,393	5,022	5,181	6,022	6,033	5,889
CARES Act funding	-	-	-	-	-	-	-	-	-	487
State Fiscal Stabilization Program	180	9	-	-	-	-	-	-	-	-
Gifts currently expendable	32	23	23	21	391	32	26	74	31	111
Endowment income distributed for operations	44	62	43	66	76	89	82	82	95	91
Investment income	1	1	-	-	-	2	3	9	18	14
Interest expense	(187)	(162)	(117)	(93)	(99)	(125)	(125)	(154)	(145)	(138)
Other nonoperating expenses	-	-	-	-	-	-	-	-	-	-
Noncapital transfers	115	682	731	1,088	1,017	736	1,033	105	253	308
Net Nonoperating Revenue (Expense)	4,560	5,003	5,082	5,537	5,778	5,756	6,201	6,138	6,285	6,762
Income (Loss) Before Other Changes in Net Position	(429)	(317)	(424)	(911)	(25)	(148)	151	(66)	(511)	(487)
OTHER CHANGES IN NET POSITION										
State of Maine capital appropriations	191	284	-	-	1,166	10	-	176	97	881
Capital grants and gifts	-	-	167	-	-	-	-	-	-	-
Endowment return, net of amount used for operations	242	(95)	144	206	(92)	(136)	162	82	(29)	(65)
Endowment gifts	12	25	1	56	427	42	31	35	10	1
Gain on disposal of capital assets and other changes	-	-	-	-	-	1,068	-	(174)	-	-
Capital transfers	10	225	43	1,130	6	111	667	(97)	25	50
Total Other Changes in Net Position	456	439	355	1,393	1,507	1,096	861	21	102	867
Increase (Decrease) in Net Position	26	122	(70)	481	1,482	948	1,012	(45)	(408)	380
NET POSITION										
Net Position – beginning of year	10,079	10,105	10,227	10,109	10,591	12,073	11,587	12,599	12,554	12,145
Net Position – end of year	\$10,105	\$10,227	\$10,157	\$10,591	\$12,073	\$13,021	\$12,599	\$12,554	\$12,145	\$12,525

The above totals have not been adjusted for rounding.