

University of Maine System Governance and University Services

2020 Core Financial Ratios and Composite Financial Index



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Introduction

The financial health of the University of Maine System Governance and University Services (UMSGUS) 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 UMSGUS’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

Reporting Entity

The reporting entity known as UMSGUS includes the following cost and income pools operated for the benefit of the entire UMS:

- Benefit cost pool
- Risk management cost pool
- Investment income pool

UMSGUS’ management does not consider the net position associated with the above operations to be readily available to fund UMSGUS’ operations. **Therefore, in this report we have presented each ratio at two levels:**

- UMSGUS-Op – UMSGUS’ activities and net position excluding the above noted cost and income pools and
- UMSGUS - All activities of, and net position held by, UMSGUS including the above noted cost and income pools.

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

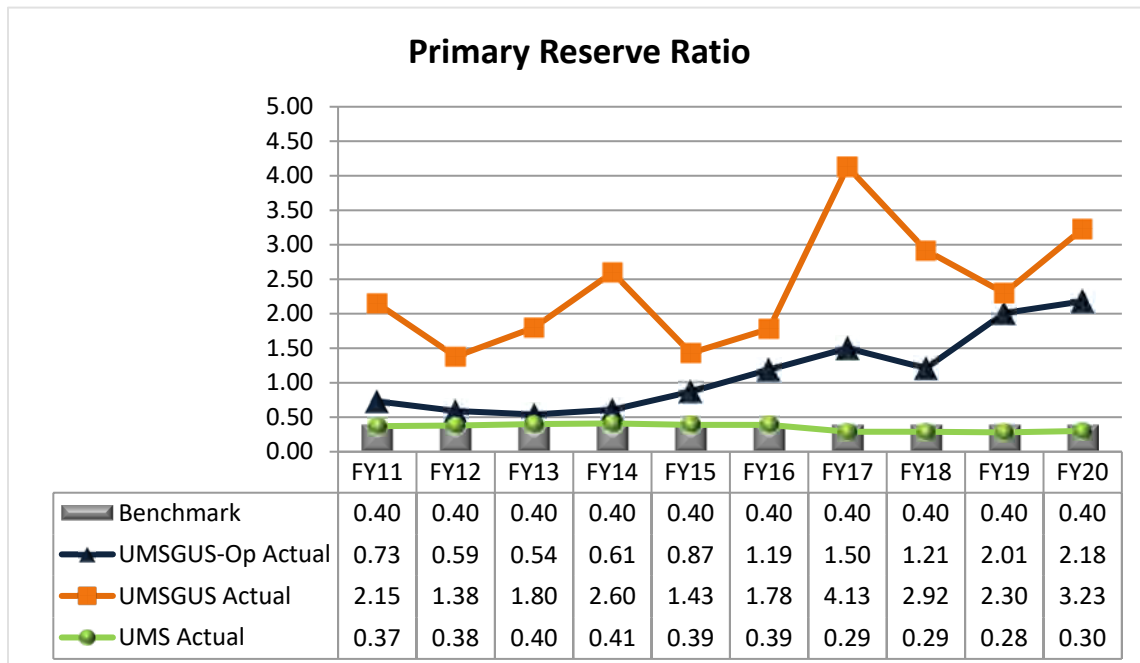
Key items that can impact expendable net position:

- 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.

UMSGUS-Op’s reserves cover not only its expenses, but also serve as emergency funds for campuses without adequate reserves.

UMSGUS’ ratio is significantly higher than that for UMSGUS-Op due to the net position associated with the cost and income pools, primarily the benefit pool and the investment income pool.



UMSGUS-Op 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	\$14,953	\$13,377	\$11,224	\$10,172	\$16,059	\$17,300	\$17,186	\$15,189	\$27,951	\$31,940
Restricted expendable net position	\$3,334	\$3,177	\$4,528	\$6,529	\$7,341	\$7,653	\$8,670	\$9,495	\$9,949	\$9,201
Total expendable net position	\$18,287	\$16,554	\$15,752	\$16,701	\$23,400	\$24,953	\$25,856	\$24,684	\$37,900	\$41,141
Total expenses	\$25,073	\$27,987	\$28,947	\$27,279	\$26,916	\$20,945	\$17,277	\$20,339	\$18,834	\$18,863

UMSGUS 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	\$47,138	\$43,857	\$49,823	\$51,184	\$44,528	\$40,888	\$41,065	\$46,229	\$55,680	\$66,068
Restricted expendable net position	\$3,334	\$3,177	\$4,528	\$6,529	\$7,341	\$7,653	\$8,670	\$9,495	\$9,949	\$9,201
Total expendable net position	\$50,472	\$47,034	\$54,351	\$57,713	\$51,869	\$48,541	\$49,735	\$55,724	\$65,629	\$75,269
Total expenses	\$23,449	\$34,134	\$30,247	\$22,224	\$36,363	\$27,263	\$12,044	\$19,072	\$28,558	\$23,291

Note: The above totals have not been adjusted for rounding

UMSGUS-Op: Notable items in the nearly \$4 million increase in unrestricted expendable net position include:

- Net close out of \$10.6 million to unrestricted reserves from FY20 E&G activity
- \$1.7 million spent transferred from the Strategic Investment Fund for various initiatives throughout the UMS
- \$3.7 million of capital planning reserve used to fund various construction projects, including \$2.6 million to enable web conferencing in classrooms throughout the UMS

UMSGUS: Notable items in the \$10.4 million increase in unrestricted net include:

- The items noted above to UMSGUS-Op
- \$7.4 million from the benefit pool operated by UMSGUS as the benefit rate assessed to the campuses and UMSGUS-Op during FY20 was higher than actual benefits incurred in the benefit pool

See discussion of the Net Operating Revenues Ratio for an explanation of the decrease in expenses.

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:

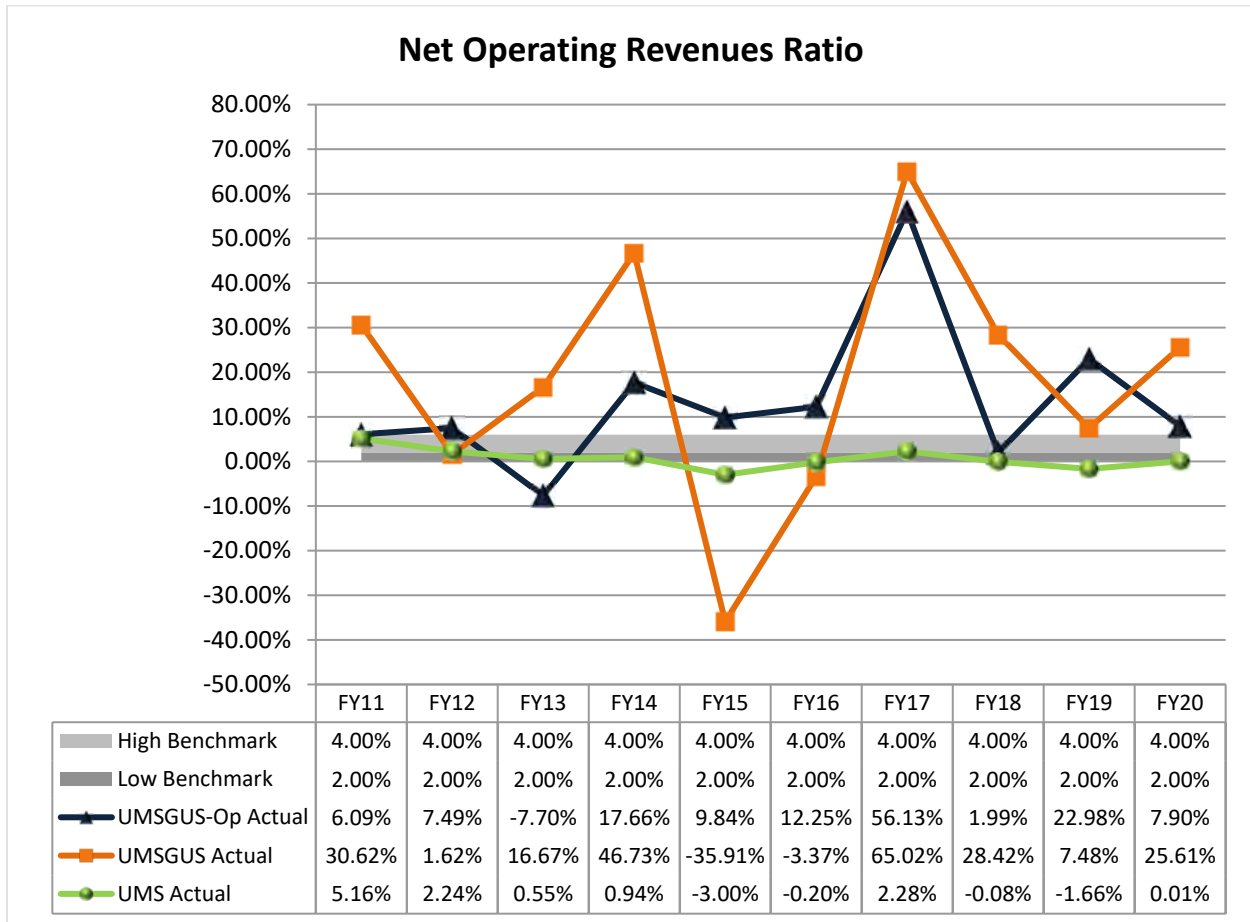
$$\frac{\text{Operating Income (Loss) plus Net Non-Operating Revenues (Expenses)}}{\text{Operating Revenues plus Non-Operating Revenues}}$$

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

Operating investments are UMSGUS’ primary asset and UMSGUS operates a benefit pool for the entire UMS. Consequently, UMSGUS’ operating returns have been quite volatile as investment markets and benefit costs have fluctuated over the years.



UMSGUS-Op
Net Operating Revenues Ratio Components
\$ in thousands

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Operating revenues	\$7,028	\$10,062	\$10,069	\$10,384	\$6,669	\$6,898	\$10,574	\$10,861	\$9,853	\$8,963
Operating expenses	(\$24,926)	(\$26,776)	(\$27,316)	(\$27,070)	(\$26,727)	(\$19,892)	(\$17,129)	(\$19,729)	(\$18,636)	(\$18,668)
Operating income (loss)	(\$17,898)	(\$16,714)	(\$17,246)	(\$16,686)	(\$20,058)	(\$12,995)	(\$6,555)	(\$8,868)	(\$8,783)	(\$9,705)
Net nonoperating revenues	\$19,523	\$18,980	\$15,177	\$22,536	\$22,997	\$15,919	\$28,656	\$9,281	\$14,403	\$11,324
Operating income (loss) plus net non-operating revenues (expenses)	\$1,625	\$2,266	(\$2,069)	\$5,850	\$2,939	\$2,925	\$22,102	\$414	\$5,620	\$1,619
Operating revenues plus non-operating revenues	\$26,698	\$30,253	\$26,877	\$33,129	\$29,855	\$23,870	\$39,378	\$20,752	\$24,454	\$20,482

UMSGUS
Net Operating Revenues Ratio Components
\$ in thousands

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Operating revenues	\$7,124	\$10,142	\$10,077	\$10,386	\$6,994	\$6,923	\$10,605	\$10,894	\$9,916	\$8,964
Operating expenses	(\$21,311)	(\$28,469)	(\$24,093)	(\$17,837)	(\$23,605)	(\$19,548)	(\$4,975)	(\$13,145)	(\$21,895)	(\$11,159)
Operating income (loss)	(\$14,187)	(\$18,327)	(\$14,015)	(\$7,451)	(\$16,611)	(\$12,626)	\$5,630	(\$2,251)	(\$11,979)	(\$2,195)
Net nonoperating revenues	\$24,538	\$18,888	\$20,065	\$26,948	\$7,004	\$11,737	\$16,762	\$9,825	\$14,288	\$10,213
Operating income (loss) plus net non-operating revenues (expenses)	\$10,351	\$561	\$6,050	\$19,497	(\$9,607)	(\$888)	\$22,392	\$7,574	\$2,309	\$8,018
Operating revenues plus non-operating revenues	\$33,800	\$34,695	\$36,296	\$41,721	\$26,756	\$26,375	\$34,436	\$26,646	\$30,867	\$31,309

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

UMSGUS-Op: Total operating and non-operating revenues decreased \$1.2 million from FY19 to FY20. The decrease is primarily the net of the following:

- \$3.8 million increase in State of Maine noncapital appropriation revenue;
- Nearly \$4 million dollar decrease in noncapital transfers, following the FY19 transfer of \$4.4 million in excess investment income from the investment pool held by UMGUS to a capital planning reserve held by UMSGUS-Op; and
- \$884 thousand decrease in total grants and contracts and educational sales and services revenues.

UMSGUS: Total operating and non-operating revenues increased just \$442 thousand from FY19 to FY20; however, the increase is primarily the net of the following significant fluctuations:

- \$3.8 million increase in noncapital State of Maine appropriations income,
- \$2.4 million decrease in investment income, and
- \$884 thousand decrease in total grants and contracts and educational sales and services revenues.

An \$11.4 million decrease in the cost of active employee health claims is the primary driver behind the \$10.7 million decrease in operating expenses from FY19 to FY20.

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:

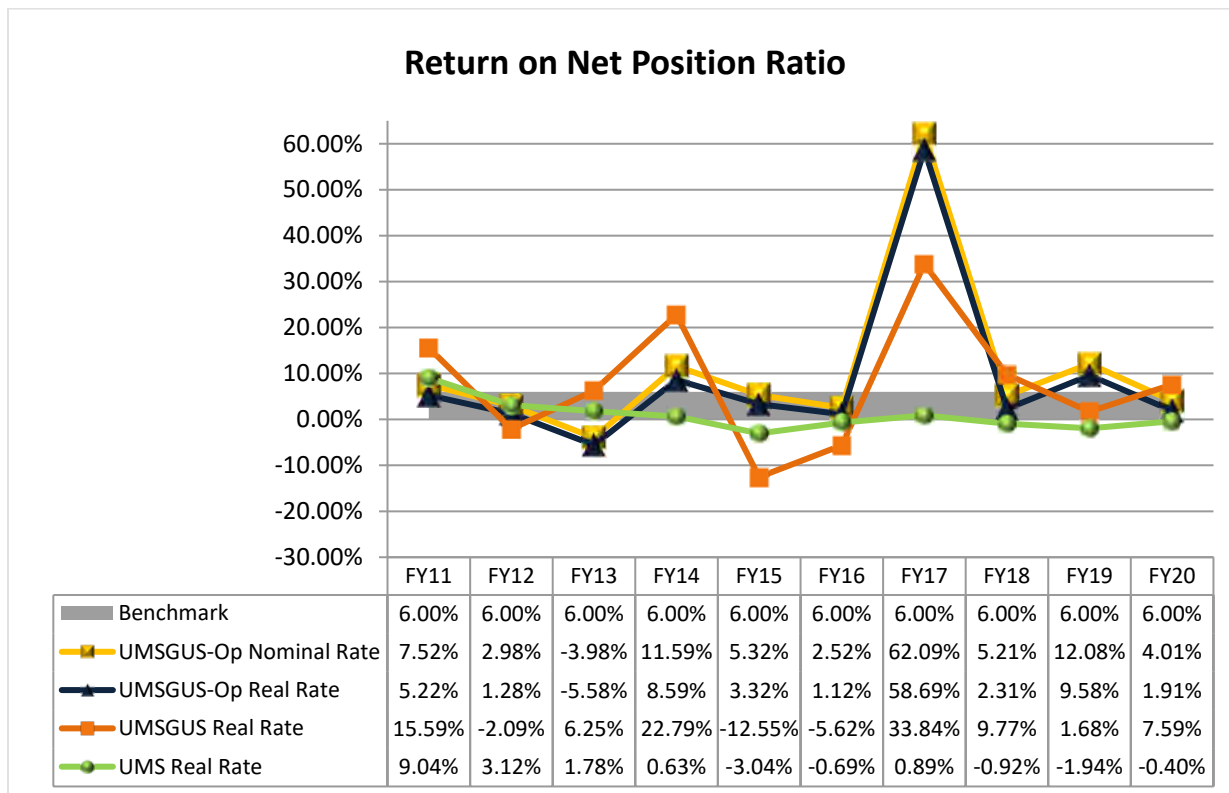
$$\frac{\text{Change in Net Position}}{\text{Total Beginning of the Year Net Position}}$$

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.

The trend of UMSGUS-Op's and UMSGUS' return on net position is quite similar to the trend of their return on operations as neither entity receives significant revenues for capital purposes.



UMSGUS-Op 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)	\$1,625	\$2,266	(\$2,069)	\$5,850	\$2,939	\$2,925	\$22,102	\$414	\$5,620	\$1,619
Other changes in net position	\$1,661	(\$866)	\$143	(\$474)	(\$183)	(\$1,549)	(\$887)	\$2,471	\$1,420	\$1,000
Change in total net position	\$3,286	\$1,400	(\$1,926)	\$5,376	\$2,756	\$1,376	\$21,215	\$2,884	\$7,041	\$2,619
Total net position (beginning of year)	\$43,688	\$46,974	\$48,374	\$46,390	\$51,762	\$54,520	\$34,166	\$55,381	\$58,265	\$65,306

UMSGUS 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)	\$10,351	\$561	\$6,050	\$19,497	(\$9,607)	(\$888)	\$22,392	\$7,574	\$2,309	\$8,018
Other changes in net position	\$1,661	(\$866)	\$143	(\$474)	(\$183)	(\$2,617)	(\$887)	\$2,471	\$1,420	\$1,000
Change in total net position	\$12,012	(\$305)	\$6,193	\$19,023	(\$9,790)	(\$3,505)	\$21,506	\$10,045	\$3,730	\$9,018
Total net position (beginning of year)	\$67,147	\$79,159	\$78,854	\$73,756	\$92,778	\$82,989	\$57,754	\$79,260	\$89,305	\$93,035

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

Operating returns are the primary driver for the change in net position from FY19 to FY20 for both UMSGUS-Op and UMSGUS. See the earlier discussion of the Net Operating Revenues Ratio for more information.

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:

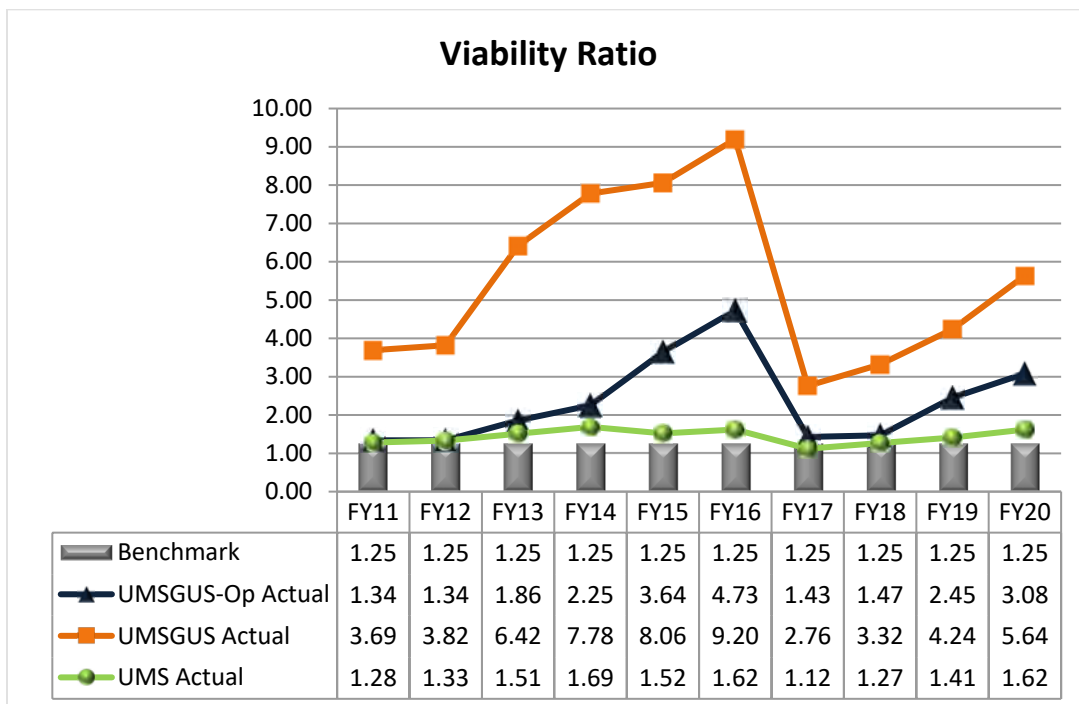
- principal payments on debt
- use of unrestricted net position to fund capital construction projects
- operating results (operating revenues – operating expenses + nonoperating revenues – nonoperating expenses + depreciation)
- endowment returns

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

Reserves related to the benefit and risk management pools and the budget stabilization fund cause UMSGUS’ ratio to be higher than that of UMSGUS-Op.



UMSGUS-Op 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	\$14,953	\$13,377	\$11,224	\$10,172	\$16,059	\$17,300	\$17,186	\$15,189	\$27,951	\$31,940
Restricted expendable net position	\$3,334	\$3,177	\$4,528	\$6,529	\$7,341	\$7,653	\$8,670	\$9,495	\$9,949	\$9,201
Total expendable net position	\$18,287	\$16,554	\$15,752	\$16,701	\$23,400	\$24,953	\$25,856	\$24,684	\$37,900	\$41,141
Long-term debt	\$13,668	\$12,324	\$8,462	\$7,414	\$6,433	\$5,277	\$18,045	\$16,806	\$15,476	\$13,346

UMSGUS 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	\$47,138	\$43,857	\$49,823	\$51,184	\$44,528	\$40,888	\$41,065	\$46,229	\$55,680	\$66,068
Restricted expendable net position	\$3,334	\$3,177	\$4,528	\$6,529	\$7,341	\$7,653	\$8,670	\$9,495	\$9,949	\$9,201
Total expendable net position	\$50,472	\$47,034	\$54,351	\$57,713	\$51,869	\$48,541	\$49,735	\$55,724	\$65,629	\$75,269
Long-term debt	\$13,668	\$12,324	\$8,462	\$7,414	\$6,433	\$5,277	\$18,045	\$16,806	\$15,476	\$13,346

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

Throughout the ten years presented in this report, UMSGUS-Op has held outstanding University Revenue Bonds for certain system-wide projects:

- Digital library project – debt issued in 1998 and still outstanding at June 30, 2020
- Required debt service reserve related to the 2000A UMS revenue bonds – reserve liquidated and related debt retired in FY13
- PeopleSoft implementation project – debt issued in 2002 and matured in FY18
- WiFi upgrades throughout the UMS - \$11.4 million in new debt issued in FY17 and the State of Maine is providing restricted appropriation dollars to pay the debt service on the debt – debt is still outstanding at June 30, 2020

Composite Financial Index

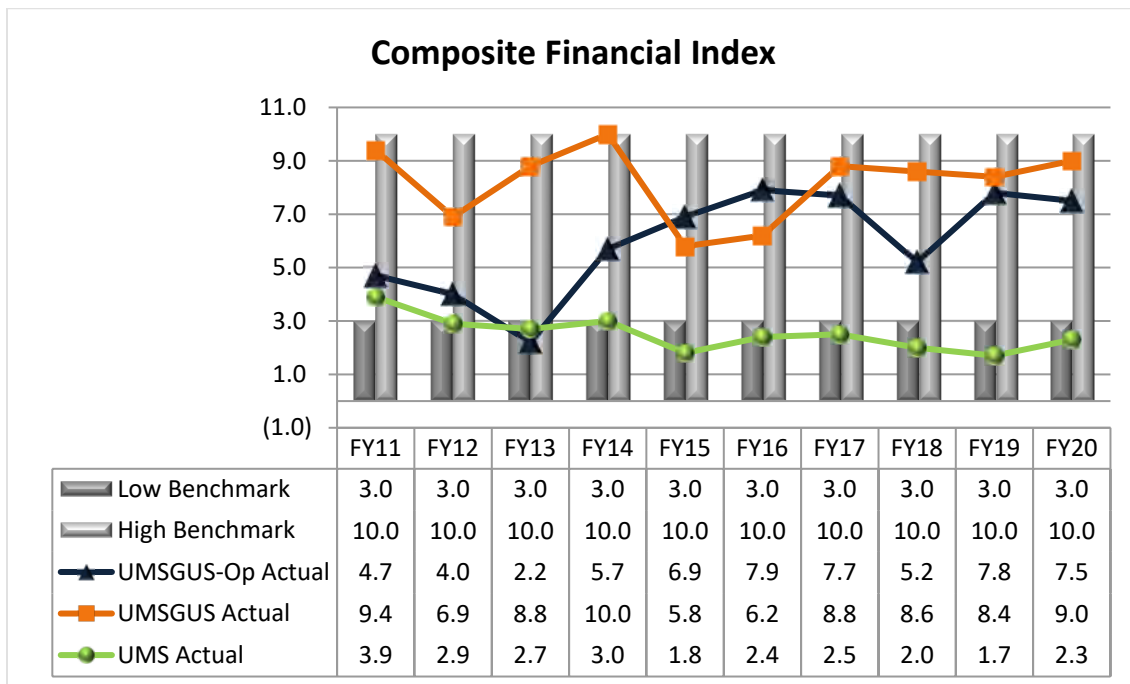
The Composite Financial Index (CFI) creates one overall financial measurement of the institution’s health based on the four core ratios: Primary Reserve Ratio, Net Operating Revenues Ratio, Return on Net Position Ratio, and Viability Ratio. By blending these four key measures of financial health into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

In comparing the CFI scores for UMSGUS and UMSGUS-Op, we see the impact of the benefit, risk management, and investment income pools on the financial health of UMSGUS.



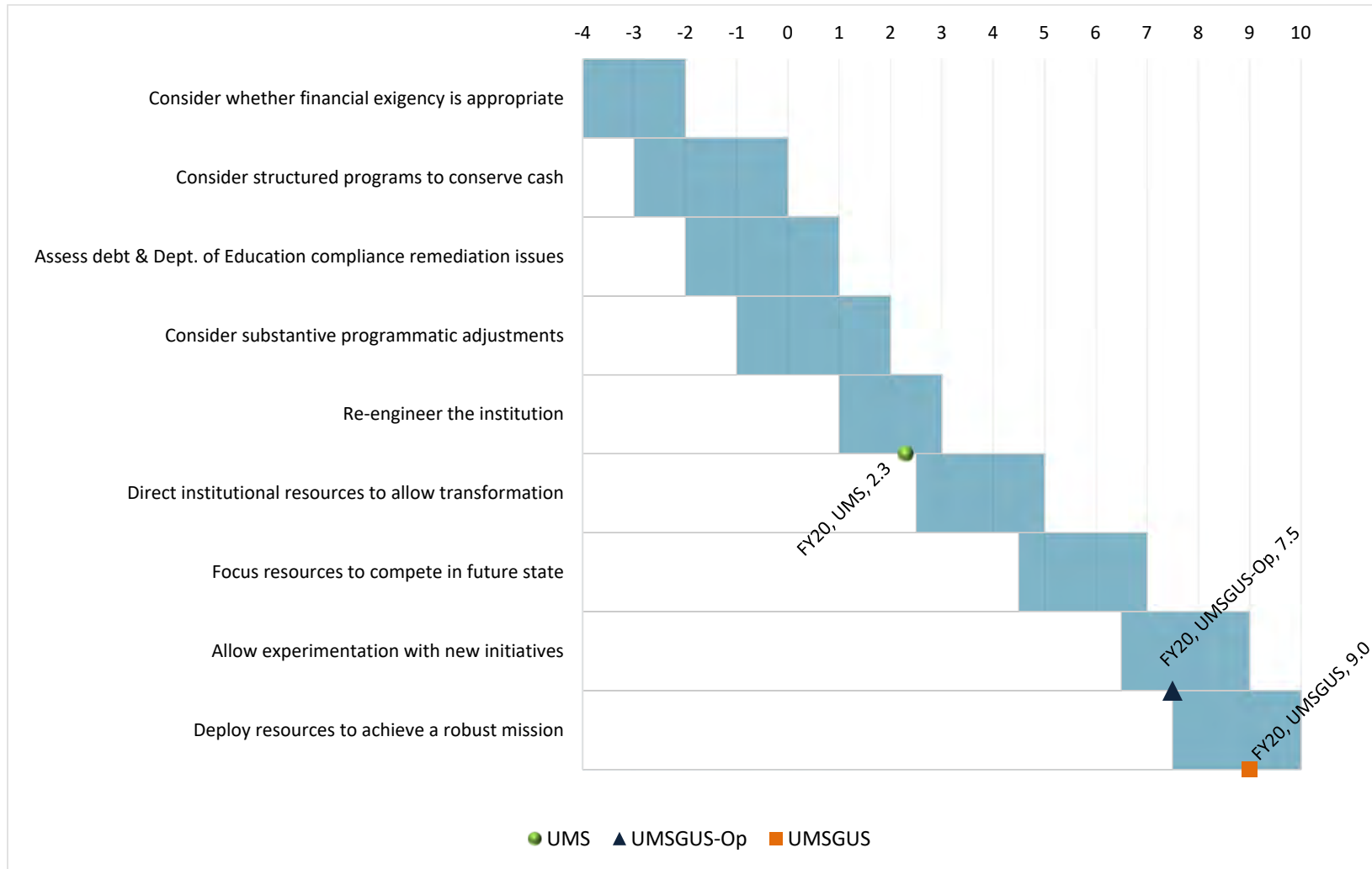
To improve the significantly lower CFI score for the UMS, management is investing UMSGUS resources in projects to aid the campuses in transforming while at the same time ensuring that resources are available to address the following:

- The UMS’ health insurance plan for active employees is self-insured. Consequently, the UMS needs to ensure that it has reasonable reserves available to address a catastrophic event. Management has been working with its actuary in defining a reasonable level of reserves.

- Maintaining reserves and ratios sufficient to satisfy bond rating agencies and maintain or improve the UMS' current ratings. Currently, the UMS has \$134 million in outstanding bonds and notes payable, lease-purchase agreements, and capital lease obligations.

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 the FY20 CFI scores for the UMS, UMSGUS-Op, and UMSGUS.



UMSGUS-Op CFI Calculation										
Fiscal Year	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
+ Primary Reserve Ratio	0.73	0.59	0.54	0.61	0.87	1.19	1.50	1.21	2.01	2.18
/ 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 **	5.49	4.44	4.06	4.59	6.54	8.95	10.00	9.10	10.00	10.00
X Weighting Factor ***	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Ratio Score	1.92	1.55	1.42	1.61	2.29	3.13	3.50	3.19	3.50	3.50
+ Net Operating Revenues Ratio	6.09%	7.49%	-7.70%	17.66%	9.84%	12.25%	56.13%	1.99%	22.98%	7.90%
/ 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 **	8.70	10.00	-4.00	10.00	10.00	10.00	10.00	2.84	10.00	10.00
X Weighting Factor ***	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Ratio Score	0.87	1.00	-0.40	1.00	1.00	1.00	1.00	0.28	1.00	1.00
+ Return on Net Position Ratio	7.52%	2.98%	-3.98%	11.59%	5.32%	2.52%	62.09%	5.21%	12.08%	4.01%
/ 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 **	3.76	1.49	-1.99	5.80	2.66	1.26	10.00	2.61	6.04	2.01
X Weighting Factor ***	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Ratio Score	0.75	0.30	-0.40	1.16	0.53	0.25	2.00	0.52	1.21	0.40
+ Viability Ratio	1.34	1.34	1.86	2.25	3.64	4.73	1.43	1.47	2.45	3.08
/ 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 **	3.21	3.21	4.46	5.40	8.73	10.00	3.43	3.53	5.88	7.39
X Weighting Factor ***	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Ratio Score	1.12	1.12	1.56	1.89	3.06	3.50	1.20	1.24	2.06	2.59
Composite Financial Index	4.7	4.0	2.2	5.7	6.9	7.9	7.7	5.2	7.8	7.5

* = 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.

UMSGUS CFI Calculation										
Fiscal Year	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
+ Primary Reserve Ratio	2.15	1.38	1.80	2.60	1.43	1.78	4.13	2.92	2.30	3.23
/ 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 **	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
X Weighting Factor ***	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Ratio Score	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
+ Net Operating Revenues Ratio	30.62%	1.62%	16.67%	46.73%	-35.91%	-3.37%	65.02%	28.42%	7.48%	25.61%
/ 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 **	10.00	2.31	10.00	10.00	-4.00	-4.00	10.00	10.00	10.00	10.00
X Weighting Factor ***	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Ratio Score	1.00	0.23	1.00	1.00	-0.40	-0.40	1.00	1.00	1.00	1.00
+ Return on Net Position Ratio	17.89%	-0.39%	7.85%	25.79%	-10.55%	-4.22%	37.24%	12.67%	4.18%	9.69%
/ 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 **	8.95	-0.20	3.93	10.00	-4.00	-2.11	10.00	6.34	2.09	4.85
X Weighting Factor ***	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Ratio Score	1.79	-0.04	0.79	2.00	-0.80	-0.42	2.00	1.27	0.42	0.97
+ Viability Ratio	3.69	3.82	6.42	7.78	8.06	9.20	2.76	3.32	4.24	5.64
/ 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 **	8.85	9.16	10.00	10.00	10.00	10.00	6.62	7.96	10.00	10.00
X Weighting Factor ***	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Ratio Score	3.10	3.21	3.50	3.50	3.50	3.50	2.32	2.79	3.50	3.50
Composite Financial Index	9.4	6.9	8.8	10.0	5.8	6.2	8.8	8.6	8.4	9.0

* = 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.

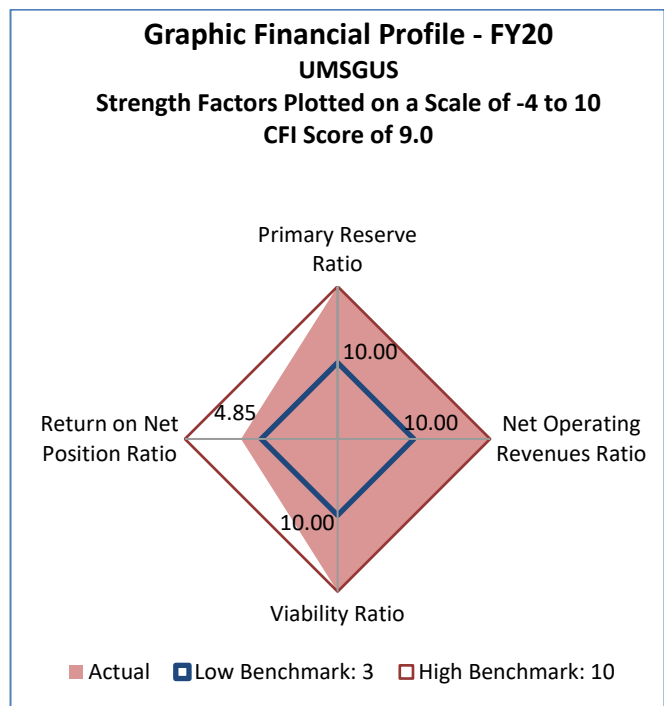
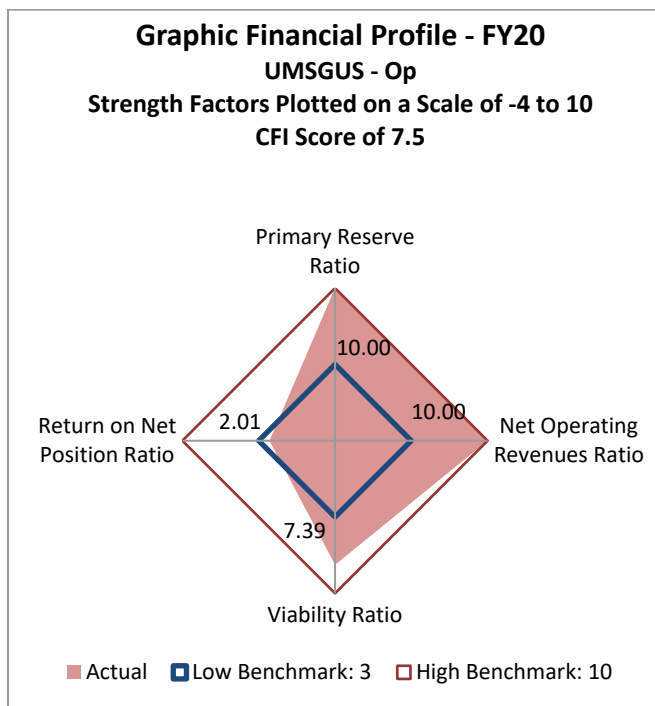
*** = The weighting factor is derived from the weighting schema defined by the authors of *Strategic Financial Analysis for Higher Education*, Seventh Edition for institutions with long-term debt.

Graphic Financial Profiles

The strength factors 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.

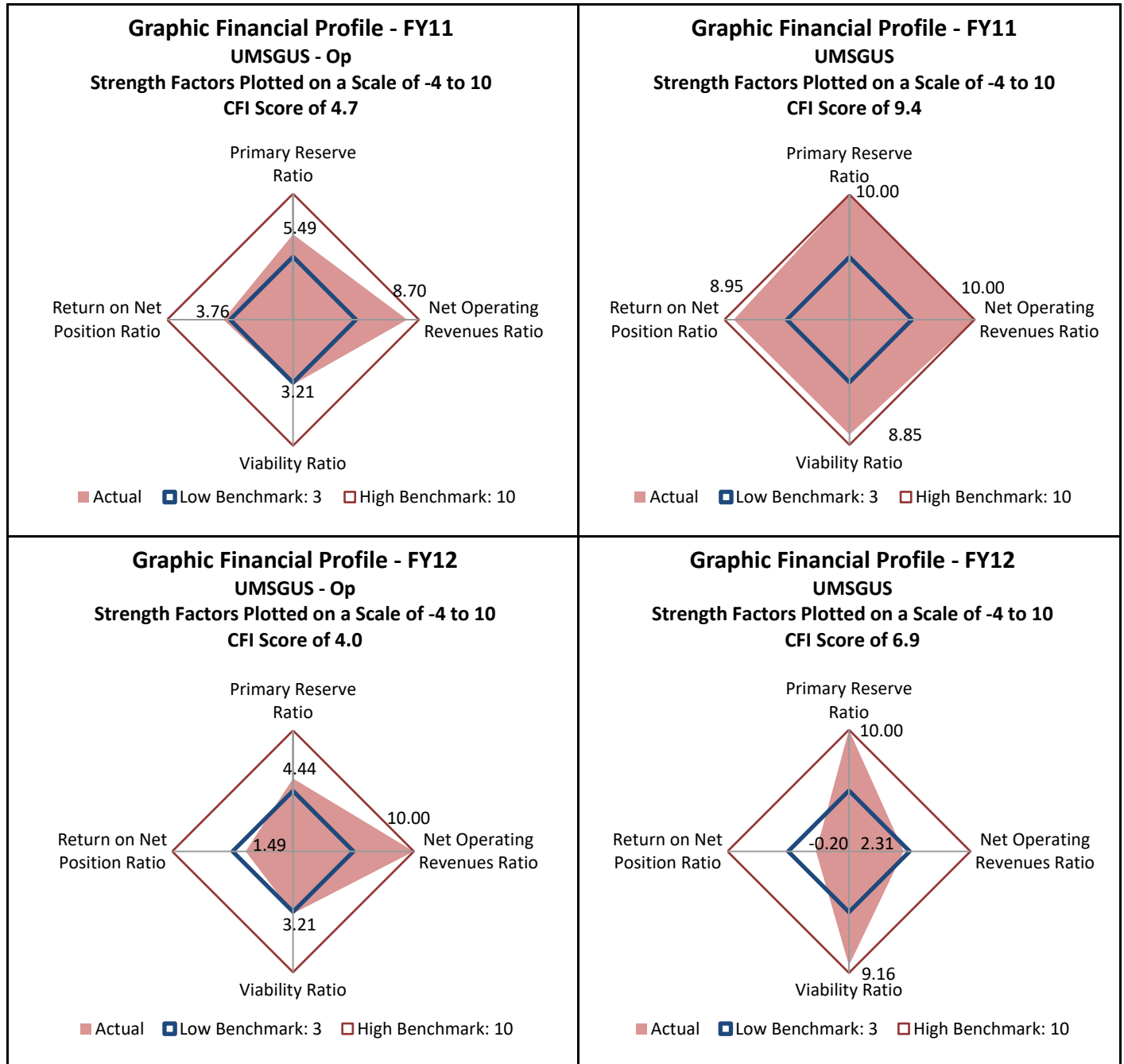
- The center point of the graphic financial profiles is -4, the lowest possible score on the scale.
- The smaller, heavily lined diamond in the graphs represents the low industry benchmark of 3.
- The outer, lightly lined diamond represents the high industry benchmark of 10 and the highest possible score on the scale for each ratio.
- The actual values of UMSGUS-Op’s and UMSGUS’ ratio strength factors are plotted and shaded to show how their health compares with the low (3) and high (10) industry benchmarks.

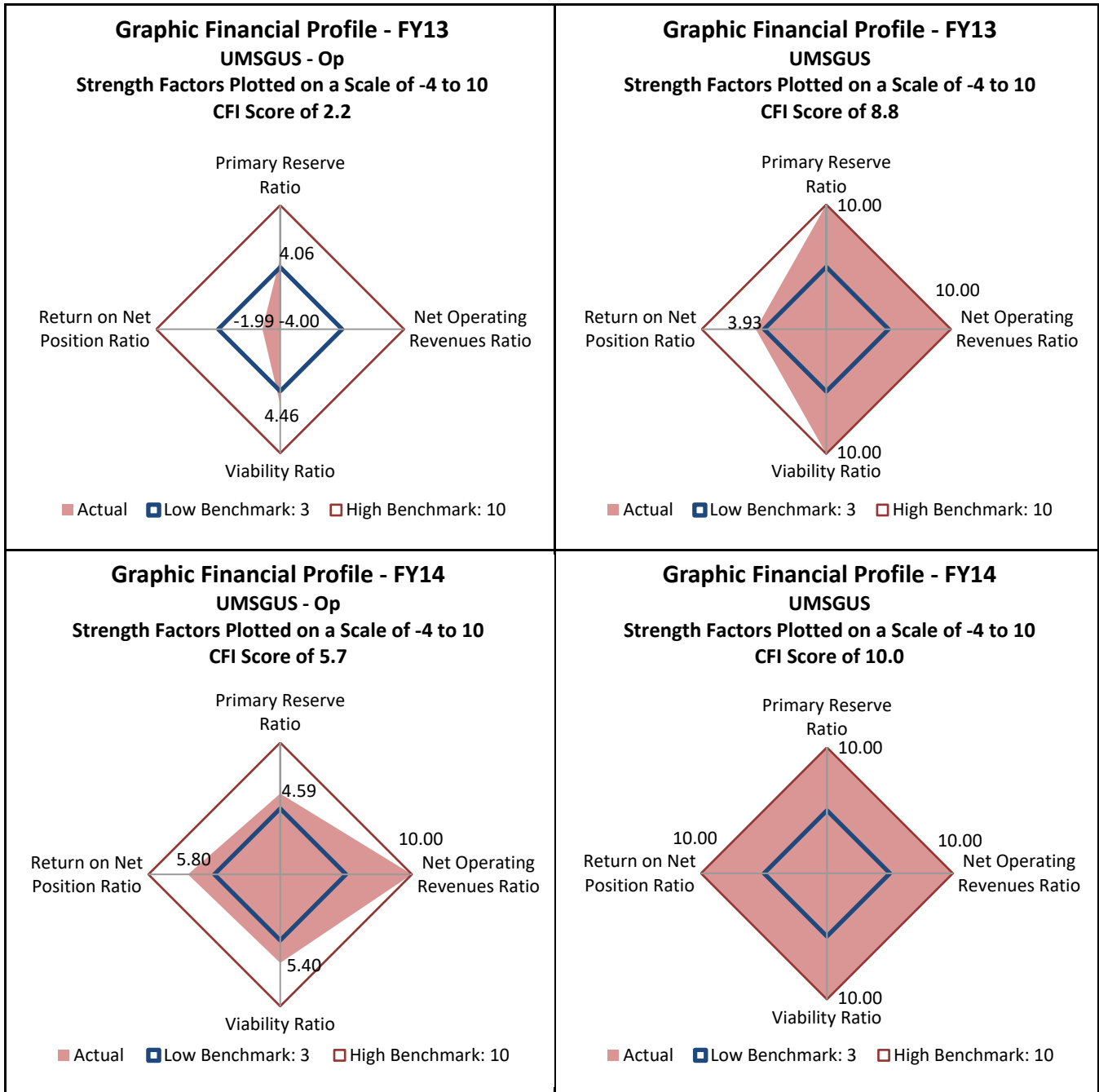
UMSGUS-Op and UMSGUS Graphic Financial Profiles FY20

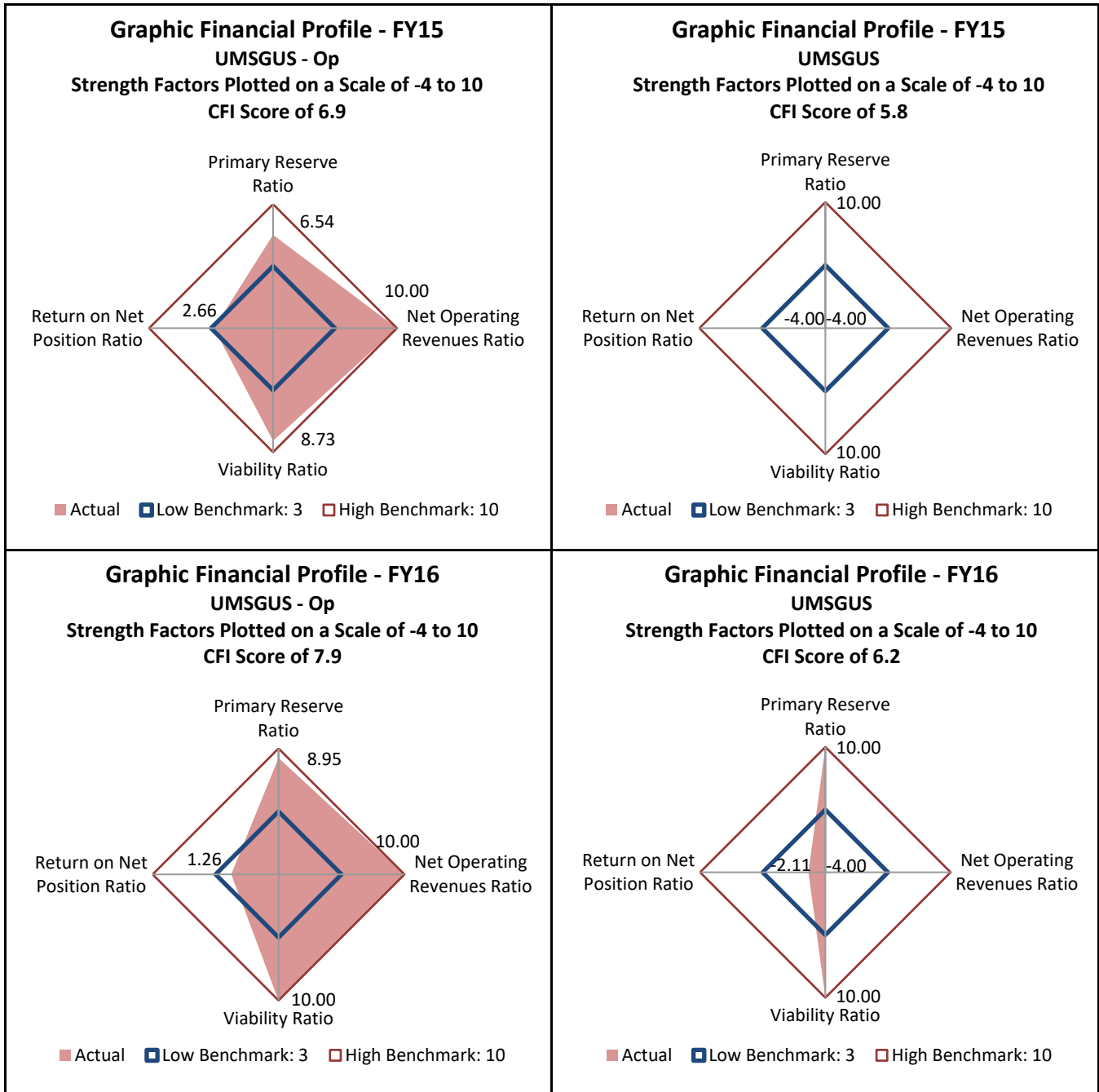


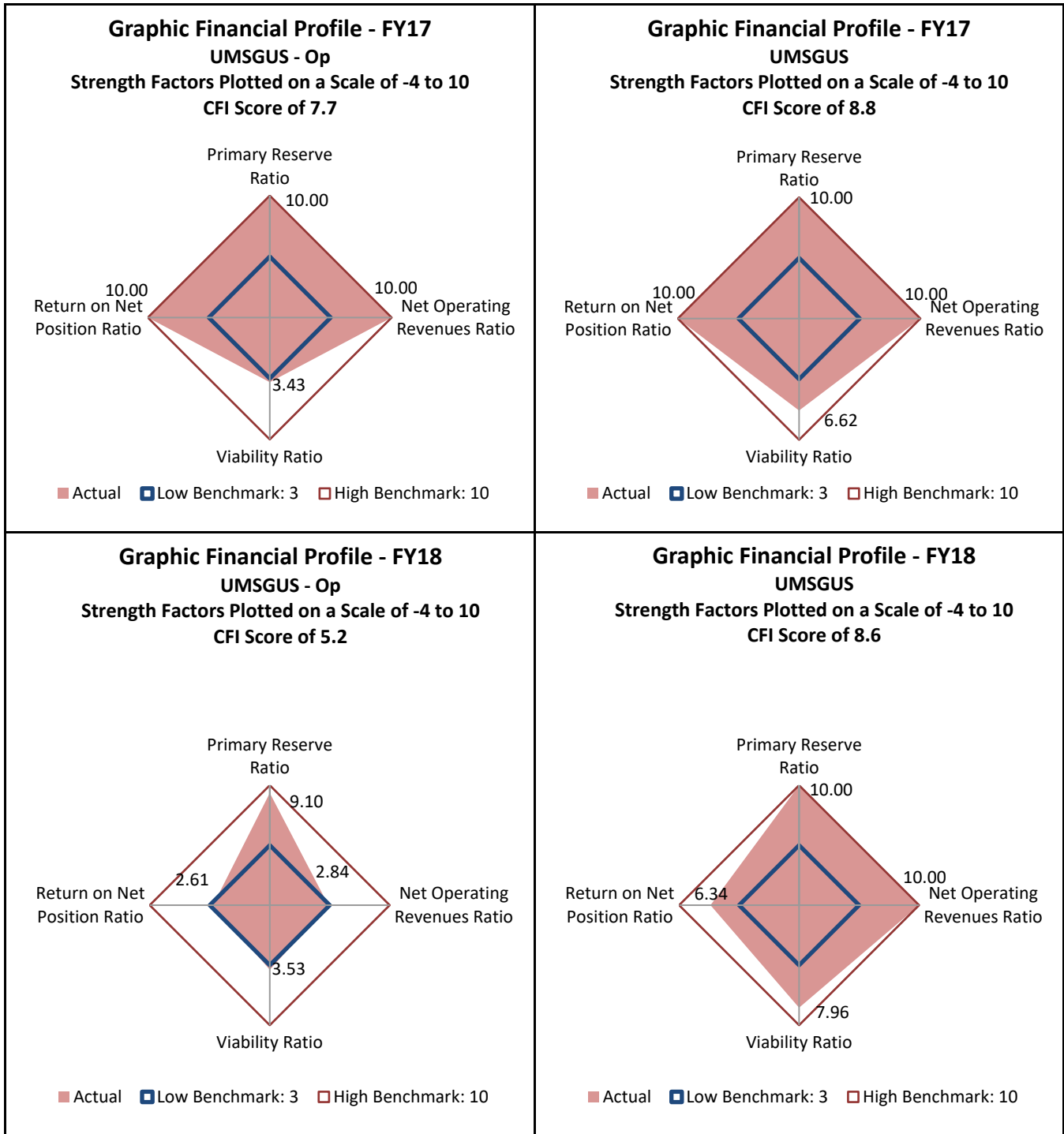
UMSGUS-Op and UMSGUS Graphic Financial Profiles FY11 to FY19

Changes in the shape of the graphic financial profile for UMSGUS-Op and UMSGUS for FY11 thru FY19 can be seen below and on the subsequent pages.

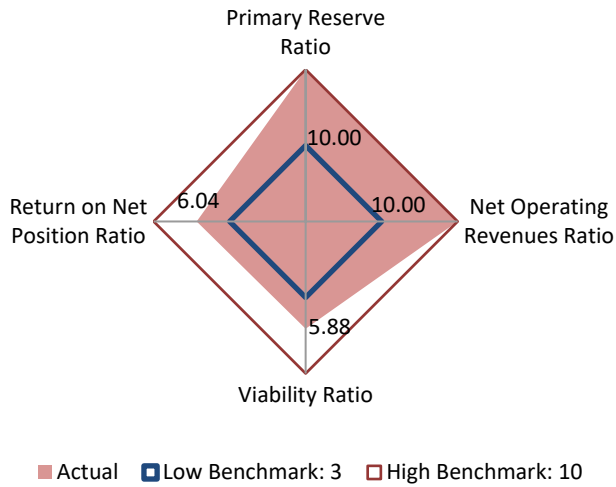




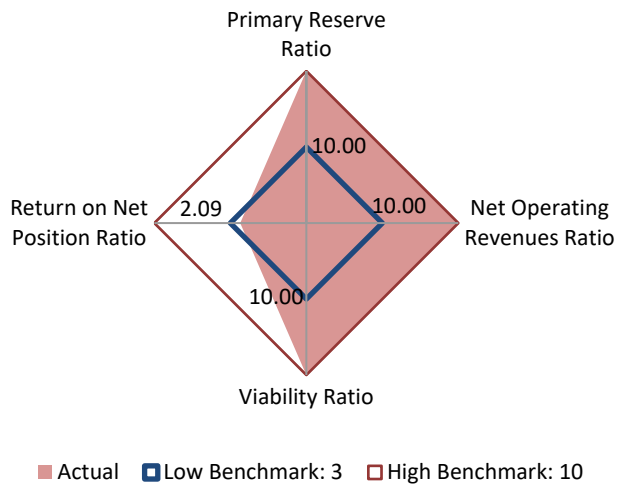




Graphic Financial Profile - FY19
UMSGUS - Op
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of 7.8



Graphic Financial Profile - FY19
UMSGUS
Strength Factors Plotted on a Scale of -4 to 10
CFI Score of 8.4



UMSGUS Financial Highlights FY11 to FY19

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

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 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. UMSGUS' FY17 financial statements were impacted as follows:

- Beginning of year expendable net position decreased by \$21.6 million as UMSGUS recognized its share of the funding obligation related to the \$102 million Unfunded Actuarial Accrued Liability recorded by the UMS as of July 1, 2016.
- Operating expenses were decreased by \$12 million as FY17 OPEB expense was lower under the new accounting standard.

The FY17 ratios included in this report are based upon data from the restated FY17 financial statements.

Primary Reserve Ratio

UMSGUS operates a benefit pool by assessing a benefit rate to the campuses based on projected costs for a given year and accumulating the actual costs in a benefit cost pool. Due to volatility in benefit costs, the rate assessed to the campuses and UMSGUS-Op may be higher or lower than actual experience. The resulting over or under recovery impacts UMSGUS' Primary Reserve Ratio. Benefit pool performance and how UMSGUS addressed the over or under recovery are as follows:

FY11: \$3.4 million cost over recovery was transferred to the benefit pool reserve.

FY12: \$2.0 million under recovery was funded by a transfer from the benefit pool reserve.

FY13: \$2.9 million cost over recovery was transferred to the benefit pool reserve.

FY14: \$4.4 million cost over recovery was transferred to the benefit pool reserve to continue to build the reserve to a level recommended by the UMS' actuary.

FY15: \$6.4 million under recovery was funded by a transfer from the benefit pool reserve. Special retirement

incentives and severance packages were significant factors in the under recovery.

FY16: \$30 thousand under recovery was funded by a transfer from the benefit pool reserve.

FY17: \$670 thousand under recovery was funded by a transfer from the benefit pool reserve.

FY18: \$5.8 million over recovery was transferred to the benefit pool reserve.

FY19: \$3.5 million under recovery was funded by a transfer from the benefit pool reserve.

Significant factors that have impacted both UMSGUS-Op's and UMSGUS' Primary Reserve Ratio over the years include the following:

- Increased grant activity and increased strategic investment fund awards caused operating expenses to increase from FY11 to **FY12**. Expendable net position decreased as management utilized \$4.2 million of expendable net position for the data center remediation project and other projects.
- During **FY13**, management utilized \$1.4 million of expendable net position for various capital projects including data center remediation, the data warehouse, and the integrated workplace management system.
- The \$949 thousand increase in UMSGUS-Op's net position from FY13 to **FY14** is the net of positive operating activity, positive endowment investment returns, and reclassification of net position from expendable to net investment in capital assets pursuant to the issuance of \$5.3 million in new internal loans to the campuses to replace revenue bonds that UMSGUS-Op had early refunded from its reserves to obtain interest savings for the campuses.

The increase in UMSGUS' expendable net position is primarily the result of strong operating investment returns which were \$10.3 million above the amount budgeted. The decrease in expenses is primarily the result of an over recovery of costs in the benefit pool.

- From FY14 to **FY15**, expendable net position for UMSGUS-Op increased \$7 million. \$6 million of the increase stems from \$3 million in administrative savings related to the Information Technology and Strategic Procurement operations and \$3 million from a reclassification of net position from invested in capital assets to unrestricted expendable as the campuses partially repaid internal loans UMSGUS-Op had made to them in prior years for construction projects.

The \$7 million decrease in expendable net position for UMSGUS is net of the increase for UMSGUS-Op. Significant items that offset the UMSGUS-Op increase were the previously mentioned \$6.4 million under recovery of benefit pool expenses, and the utilization

of \$5.8 million from the Budget Stabilization reserve to address negative investment returns and campus operating losses.

- UMSGUS' expendable net position decreased again in **FY16** as the Budget Stabilization Reserve was again utilized to address campus operating results and a shortfall in budgeted investment income.
- Prior to the restatement of **FY17** financial results for the implementation of GASB 75, UMSGUS' unrestricted expendable net position increased \$9.9 million. Primary contributors to this increase include the following:
 - ✓ As part of the State of Maine's supplemental budget, the UMS received \$2 million in appropriation revenues for its Early College initiative. The UMS received these monies late in the fiscal year and they remained unspent as of June 30, 2017. UMSGUS management placed the monies in an Early College Reserve held by UMSGUS-Op for future expenditure throughout the UMS.
 - ✓ FY17 operating investment returns were \$6.07 million above budget, enabling UMSGUS to not only increase the Budget Stabilization Reserve by \$1.76 million, but to also make the following increases to reserves held by UMSGUS-Op for the benefit of all campuses: \$270 thousand for the Executive Transition Reserve and \$4.04 million for the Strategic Investment Fund Reserve.
 - ✓ \$1 million of unrestricted net position came from a reclassification from net position invested in capital assets as the campuses partially repaid internal loans UMSGUS-Op had made to them in prior years for construction projects

With the adoption of GASB 75, and the restatement of FY17 financial data, the change in UMSGUS' unrestricted net position from FY16 to FY17 was reduced to \$200 thousand.

- In **FY18** UMSGUS-Op's unrestricted expendable net position decreased by \$2 million. The main reasons behind this decrease include:
 - ✓ Use of \$4 million for various capital projects that benefit the entire UMS, including \$2 million for the regional optical network.
 - ✓ Transfer of \$2 million of operating investment earnings in excess of budget to the budget stabilization reserve.
- Notable items in the \$12.8 million **FY19** increase in UMSGUS-Op's unrestricted expendable net position include:
 - ✓ Reclassification of \$3.8 million from net position invested in capital assets as the campuses repaid their internal loans.

- ✓ Transfer of \$4.4 million of operating investment earnings in excess of budget, to a capital planning reserve.
- ✓ Various other activities for a net increase of \$4.6 million.

In FY10, we removed investment income revenues and related expenses and the new budget stabilization reserve from the definition of 'UMSGUS-Op' as it reduced its reliance on investment income to balance its budget. By the end of FY14, management had transferred \$21 million of unspent investment income to the budget stabilization reserve to benefit all campuses in the event of a State appropriation curtailment or other economic crisis. The reserve balance was reduced during FY15 thru FY17, as \$11.3 million was used to cover campus budget shortfalls. During FY17 and FY18, UMSGUS again contributed to the reserve, transferring \$1.8 million and \$2.0 million, respectively, of investment earnings to the reserve. In FY19 the reserve balance was reduced by \$203 thousand to cover campus budget shortfalls.

Over the course of FY14 thru FY17, the UMS underwent a reorganization to centralize under the University Services portion of UMSGUS-Op, many services (e.g., Procurement, Human Resources, Information Technology, Facilities, and Finance) that had previously existed at each of the campuses and UMSGUS-Op. The costs of University Services were then allocated back out to the 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. This reorganization helps to explain variances in total expenses for UMSGUS along with swings in pooled costs for risk management and benefits.

Net Operating Revenues Ratio

FY11: Contributing to the decrease from FY10 to FY11 for both UMSGUS-Op and UMSGUS was a change in UMSGUS-Op's budget for operating the Maine State Library Network. In prior years UMSGUS-Op received only a portion of the MSLN's budget as a subrecipient. In FY11, UMSGUS-Op began receiving and managing the entire MSLN budget. Because such revenues are recognized only to the extent of expenses, the increased revenue stream increased the denominator of the ratio calculation but did not impact the numerator.

As previously noted in the discussion of the Primary Reserve Ratio, there was an over recovery of costs in the benefit pool in FY11. The over recovery, however, was significantly less than that in FY10; thus, causing the UMSGUS' operating revenues ratio to decrease in FY11.

FY12: The two primary contributors to the sharp decline in UMSGUS' ratio from FY11 to FY12 are a \$6.1 million decrease in investment income due to market conditions and a \$5.4 million increase in operating expenses as a result of the benefit pool experiencing an under recovery in FY12 compared with an over

recovery of expenses in FY11. See discussion of the primary reserve ratio for more information about the benefit pool.

Increases in UMSGUS' operating grants revenue and noncapital State of Maine appropriations revenue helped to offset the decline in investment income and caused the denominator of UMSGUS' ratio calculation to increase. These revenue increases did not, however, have a corresponding impact on the ratio's numerator, as the increase in grants and contracts revenue was completely offset by increased expenses.

UMSGUS-Op's ratio increased slightly from FY11 to FY12 as the above mentioned increases in grant revenue and State of Maine appropriation revenue increased the denominator of the UMSGUS-Op's ratio calculation. The numerator also increased as UMSGUS-Op experienced a decline in operating expenses not associated with grant and contract activity.

FY13: UMSGUS-Op experienced a loss from operations as noncapital appropriation revenue declined \$3.4 million from FY12.

UMSGUS experienced a 16.67% return from operations as significantly increased investment returns and an over recovery on benefit pool costs more than offset the loss of appropriation revenue experienced by UMSGUS-Op.

FY14: UMSGUS-Op experienced a positive return from operations primarily due to the following changes from the prior fiscal year: noncapital State of Maine appropriation revenue increased \$1.1 million; transfers from the investment income pool for both operations and reserves increased \$1.3 million, transfers to the campuses decreased as no transfer was made in FY14 for tuition remediation (\$1 million in FY13) and no strategic investment fund awards were made (\$2.6 million in FY13).

The increase in noncapital State of Maine appropriation revenue also contributed to the positive operating return that UMSGUS experienced in FY14. Other items that impacted UMSGUS' FY14 return include a \$3.5 million increase in investment income from FY13 and a \$1.5 million increase in over recovered benefit costs.

FY15: UMSGUS' return from operations decreased \$29 million from the prior year and was negative as investment returns decreased \$13 million, net noncapital transfers from UMSGUS to the campuses increased \$8 million, grants and contracts revenue decreased \$4 million, noncapital State of Maine appropriation revenues increased \$2 million, and expenses increased \$6 million.

FY16: Although still negative, UMSGUS' return from operations was significantly improved from the prior year as investment returns were once again positive and \$3 million higher than the prior year, net noncapital transfers to the campuses decreased \$5 million, expenses decreased \$4 million, and noncapital State of Maine appropriation revenues decreased \$3 million.

FY17: The \$23 million increase in UMSGUS' return from operations from FY16 to FY17 is attributable to both an increase in revenues and a decrease in expenses. Notable variances include the following:

- \$4 million increase in grant revenue for UMSGUS-Op related to NetworkMaine's contract with the Public Utilities Commission
- \$3 million decrease in noncapital State of Maine appropriation revenues for UMSGUS-Op,
- \$7 million increase in investment income
- \$12 million reduction in previously reported operating expenses (OPEB expense) pursuant to the implementation of GASB 75
- \$3 million decrease in other operating expenses
- Implementation of GASB 75 resulted in a restatement and \$12 reduction of the originally reported FY17 operating expenses.

FY18: Total UMSGUS-Op operating and non-operating revenues decreased from FY17 to FY18 and operating expenses increased \$2.6 million. Notable items in the revenue decrease include:

- Loss of FY17 one-time revenue of \$12 million as the savings from restating OPEB expenses were transferred from the benefit pool operating by UMSGUS, to a new GASB 75 (OPEB) implementation reserve held by UMSGUS-Op.
- A \$4.8 million decrease in noncapital State of Maine appropriation revenues as a greater portion of the total State appropriation received by the UMS was allocated to the campuses.

The \$7.8 million decrease in UMSGUS's total operating plus non-operating revenues is primarily comprised of the same \$4.8 million decrease in noncapital State of Maine appropriation revenue that impacted UMSGUS-Op, and a \$3.3 million decrease in investment income as investment markets decline. A \$7 million increase in OPEB expense accounts for 85% of the \$8.2 million increase in UMSGUS' operating expenses.

FY19: Total UMSGUS-Op operating and non-operating revenues increased \$5.2 million from FY18 to FY19. The increase is primarily related to a \$4.4 million transfer of excess investment income from the investment pool held by UMSGUS to a capital planning reserve held by UMSGUS-Op. Operating expenses increased just \$690 thousand or 3.5%.

An increase in investment income is behind the \$4.2 million increase in UMSGUS total operating and non-operating revenues from FY18 to FY19. An increase in benefit costs is the primary driver of the \$8.8 million increase in operating expenses from FY18 to FY19.

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 endowments assets:

- Undistributed endowment returns impact UMSGUS' Return on Net Position ratio every year; however, the impact has fluctuated significantly over the years with changes in investment market returns:

\$ in thousands			
FY11	\$1,082	FY16	(\$488)
FY12	(\$434)	FY17	\$438
FY13	\$505	FY18	\$177
FY14	\$865	FY19	(\$129)
FY15	(\$387)	FY20	(\$245)

- State of Maine capital appropriation revenue has not been a significant factor for UMSGUS until recently; receiving \$350 thousand in FY17, \$2.9 million in FY18, \$1.4 million in FY19 and \$1.7 million in FY20.
- In FY16, \$1.1 million of investment income was used to cover forgiveness of the working capital loan advanced by UMSGUS to the University of Maine at Machias in FY08/FY09.
- UMSGUS capital transfers (to) from the campuses has fluctuated over the years:

\$ in thousands			
FY11	\$579	FY16	(\$1,061)
FY12	(\$417)	FY17	(\$1,674)
FY13	(\$362)	FY18	(\$562)
FY14	(\$1,339)	FY19	\$142
FY15	\$213	FY20	(\$503)

Viability Ratio

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

UMS Governance and University Services

Statements 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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residence and dining fees:	-	-	-	-	-	-	-	-	-	-
Less: scholarship allowances:	-	-	-	-	-	-	-	-	-	-
Net student fees	-	-	-	-	-	-	-	-	-	-
Federal, state, and private grants and contracts	6,169	8,802	8,913	8,817	4,891	5,001	8,780	8,484	6,899	6,598
Recovery of indirect costs	15	17	15	9	7	8	8	7	8	3
Educational sales and service	940	1,322	1,150	1,560	2,095	1,914	1,817	2,403	3,009	2,364
Other auxiliary enterprises	-	-	-	-	-	-	-	-	-	-
Interest income on loans	-	-	-	-	-	-	-	-	-	-
Total Operating Revenues	7,124	10,142	10,077	10,386	6,994	6,923	10,605	10,894	9,916	8,964
OPERATING EXPENSES										
Instruction	-	-	-	-	-	-	-	-	-	-
Research	-	-	8	26	74	32	38	16	102	34
Public service	339	388	312	173	161	156	164	170	190	197
Academic support	11,865	13,823	14,274	14,010	10,538	4,978	8,462	9,248	7,333	7,154
Student services	579	599	740	324	504	789	423	578	939	970
Institutional support	4,161	9,220	4,553	(1,514)	5,987	8,034	(8,611)	(1,429)	8,968	(2,092)
Operation and maintenance of plant	555	489	270	788	1,552	693	(300)	(497)	(860)	(188)
Depreciation and amortization	3,464	3,703	3,746	3,785	4,493	4,513	4,488	4,752	4,994	4,835
Student aid	348	247	190	246	297	354	310	306	228	248
Auxiliary	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	21,311	28,469	24,093	17,837	23,605	19,548	4,975	13,145	21,895	11,159
Operating Income (Loss)	(14,187)	(18,327)	(14,015)	(7,451)	(16,611)	(12,626)	5,630	(2,251)	(11,979)	(2,159)
NONOPERATING REVENUES (EXPENSE)										
Noncapital State of Maine appropriations	15,765	19,687	16,327	17,412	19,937	16,608	14,133	9,333	9,782	13,617
Gifts currently expendable	31	50	49	568	21	33	21	16	18	16
Endowment income distributed for operations	290	283	293	277	303	323	335	327	321	316
Investment income	10,589	4,533	9,549	13,078	(498)	2,488	9,341	6,076	10,831	8,396
Interest expense	(174)	(238)	(219)	(209)	(189)	(166)	(148)	(211)	(198)	(195)
Noncapital transfers	(1,964)	(5,427)	(5,935)	(4,178)	(12,569)	(7,549)	(6,921)	(5,716)	(6,465)	(11,937)
Net Nonoperating Revenue (Expense)	24,538	18,888	20,065	26,948	7,004	11,737	16,762	9,825	14,288	10,213
Income (Loss) Before Other Changes in Net Position	10,351	561	6,050	19,496	(9,607)	(888)	22,392	7,574	2,309	8,019
OTHER CHANGES IN NET POSITION										
State of Maine capital appropriations	-	-	-	-	-	-	350	2,863	1,412	1,748
Capital grants and gifts	-	-	-	-	-	-	-	-	-	-
Endowment return, net of amount used for	1,082	(434)	505	865	(387)	(488)	438	177	(129)	(245)
Endowment gifts	1	-	-	-	-	-	-	-	25	-
Gain on disposal of capital assets and other	-	(16)	-	-	(8)	(1,068)	-	(6)	(30)	-
Capital transfers	579	(417)	(362)	(1,339)	213	(1,061)	(1,674)	(562)	142	(503)
Total Other Changes in Net Position	1,662	(867)	144	(474)	(183)	(2,617)	(885)	2,471	1,420	1,000
Increase (Decrease) in Net Position	12,012	(305)	6,193	19,023	(9,790)	(3,505)	21,506	10,045	3,730	9,018
NET POSITION										
Net Position - beginning of year	67,147	79,159	78,854	73,756	92,778	82,989	57,754	79,260	89,305	93,035
Net Position - end of year	\$ 79,159	\$ 78,854	\$ 85,047	\$ 92,778	\$ 82,989	\$ 79,483	\$ 79,260	\$ 89,305	\$ 93,035	\$ 102,053

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