



# 2020 Core Financial Ratios and Composite Financial Index



**This page intentionally left blank.**

# Table of Contents

- Introduction.....1
- Primary Reserve Ratio .....2
- Net Operating Revenues Ratio .....4
- Return on Net Position Ratio.....6
- Viability Ratio.....8
- Composite Financial Index..... 10
- Graphic Financial Profiles ..... 13
  - USM Graphic Financial Profiles FY19 and FY20 ..... 13
  - USM Graphic Financial Profiles FY11 to FY18..... 14
- USM Financial Highlights FY11 to FY19 ..... 16
  - Prior Adoption of New Accounting Standard- Impact on FY17 Results ..... 16
  - Primary Reserve Ratio ..... 16
  - Net Operating Revenues Ratio ..... 17
  - Return on Net Position Ratio..... 17
  - Viability Ratio..... 18
- Statements of Revenues, Expenses and Changes in Net Position..... 19

## Introduction

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

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

*Strategic Financial Analysis for Higher Education*

## Reporting Entity

Although in recent years the University of Maine School of Law (the “School of Law”) has been segregated from USM for annual budgeting and management purposes, it continues to be part of USM for reporting to the Integrated Postsecondary Education Data System (IPEDS). Reporting to IPEDS includes the financial ratios presented in this report; therefore, for consistency we have included data for the School of Law in the calculation of USM’s ratios.

## 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:

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

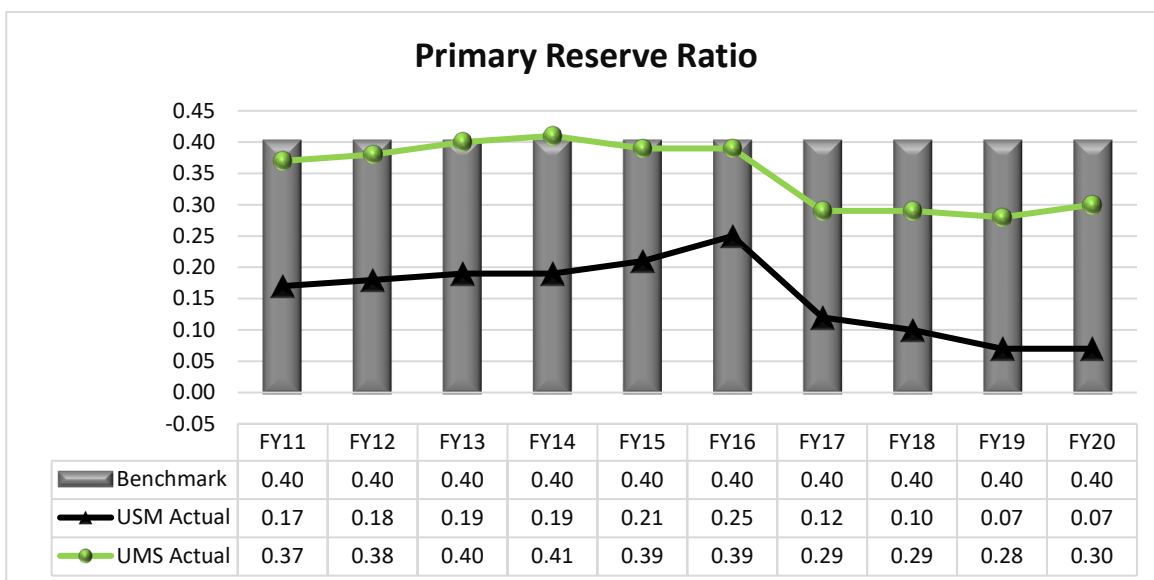
\* Excluding net position restricted for capital investments

### 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.

At .07x, USM’s FY20 Primary Reserve Ratio remained unchanged from the prior year and provides just under 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<br>expendable<br>net position   | \$16,943         | \$18,202         | \$18,266         | \$13,760         | \$15,096         | \$18,745         | (\$1,154)        | (\$1,813)        | (\$6,313)        | (\$6,234)        |
| Restricted<br>expendable<br>net position     | \$14,724         | \$14,108         | \$15,740         | \$18,593         | \$19,541         | \$19,549         | \$19,926         | \$17,966         | \$18,411         | \$17,809         |
| <b>Total<br/>expendable<br/>net position</b> | <b>\$31,667</b>  | <b>\$32,310</b>  | <b>\$34,006</b>  | <b>\$32,353</b>  | <b>\$34,637</b>  | <b>\$38,294</b>  | <b>\$18,772</b>  | <b>\$16,153</b>  | <b>\$12,098</b>  | <b>\$11,575</b>  |
| <b>Total<br/>expenses</b>                    | <b>\$183,875</b> | <b>\$181,740</b> | <b>\$178,356</b> | <b>\$171,332</b> | <b>\$166,824</b> | <b>\$153,176</b> | <b>\$161,124</b> | <b>\$166,742</b> | <b>\$169,885</b> | <b>\$171,632</b> |

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

Although USM experienced a positive return from operations (operating revenues – operating expenses + net nonoperating revenues + depreciation) in FY20, total expendable net position decreased \$523 thousand from the prior year. Unrestricted net position increased \$79 thousand, net of \$4.9 million used to fund construction activities including projects such as the new residence hall planned for Portland and renovations to Brooks Dining Hall. Although it has no impact on the Primary Reserve Ratio, USM also utilized \$4.3 million of expendable net position restricted specifically for capital investments.

## Net Operating Revenues Ratio

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

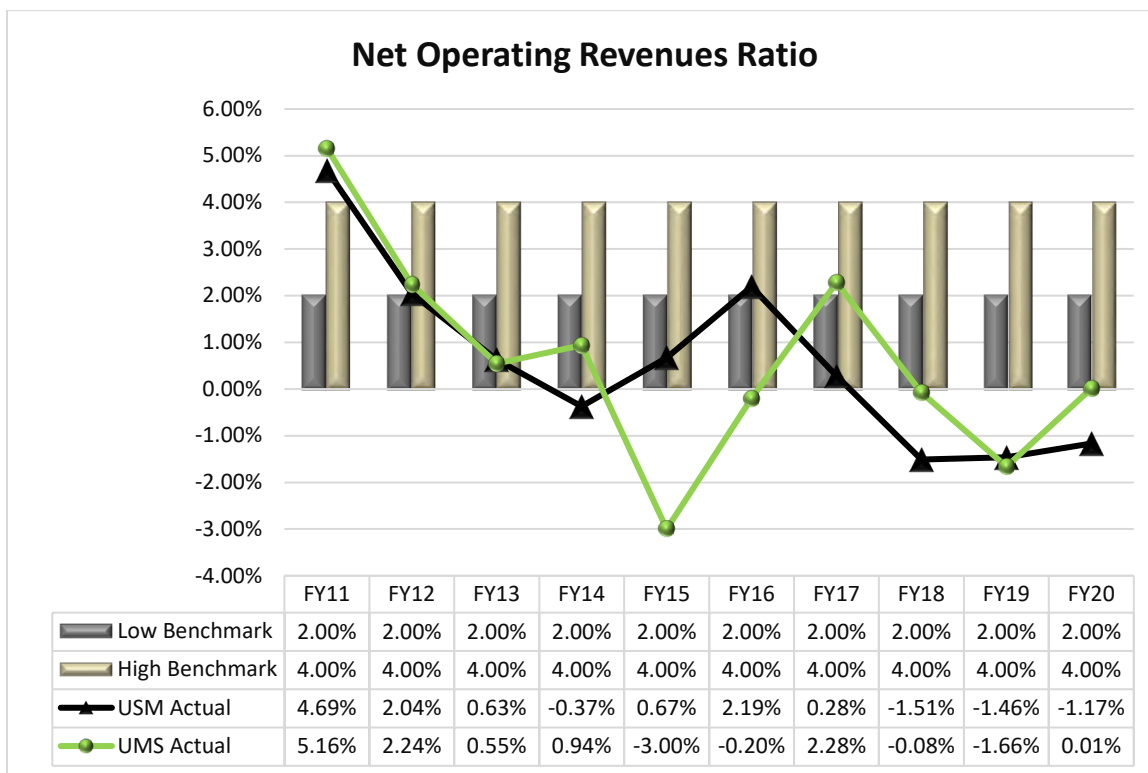
$$\frac{\text{Operating Income (Loss) plus Net Non-Operating Revenues (Expenses)}}{\text{Operating Revenues plus Non-Operating Revenues}}$$

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

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

*Strategic Financial Analysis for Higher Education*

At -1.17%, USM’s FY20 Net Operating Revenues Ratio continues its recovery from the ten-year low experienced in FY18.



| Net Operating Revenues 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 revenues   | \$144,374        | \$138,380        | \$131,544        | \$122,084        | \$113,576        | \$105,253        | \$105,845        | \$108,285        | \$109,973        | \$107,200        |
| Operating expenses   | (\$180,918)      | (\$178,867)      | (\$175,818)      | (\$169,316)      | (\$165,021)      | (\$151,579)      | (\$159,548)      | (\$165,327)      | (\$168,486)      | (\$170,389)      |
| Operating loss   | (\$36,544)       | (\$40,487)       | (\$44,274)       | (\$47,233)       | (\$51,445)       | (\$46,325)       | (\$53,703)       | (\$57,042)       | (\$58,513)       | (\$63,189)       |
| Net nonoperating revenues  | \$45,587         | \$44,267         | \$45,412         | \$46,604         | \$52,563         | \$49,750         | \$54,153         | \$54,569         | \$56,069         | \$61,201         |
| <b>Operating income (loss) plus net nonoperating revenues (expenses)</b> | <b>\$9,043</b>   | <b>\$3,780</b>   | <b>\$1,138</b>   | <b>(\$629)</b>   | <b>\$1,119</b>   | <b>\$3,425</b>   | <b>\$450</b>     | <b>(\$2,473)</b> | <b>(\$2,444)</b> | <b>(\$1,988)</b> |
| <b>Operating revenues plus nonoperating revenues</b>                     | <b>\$192,918</b> | <b>\$185,520</b> | <b>\$179,494</b> | <b>\$170,704</b> | <b>\$167,942</b> | <b>\$156,600</b> | <b>\$161,574</b> | <b>\$164,269</b> | <b>\$167,441</b> | <b>\$169,644</b> |

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

A global pandemic occurred during the last quarter of FY20 and USM 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 factor in the \$2.8 million or 2.5% decrease in operating revenues from FY19 to FY20, was \$2.7 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 and grants and contracts.

The \$5.1 million or 9% increase in nonoperating revenues is primarily due to \$4.1 million in federal CARES Act funding received to address the pandemic (used for scholarships and refunds). USM also received an additional \$944 thousand in noncapital transfers from UMSGUS/other campuses.

The \$1.9 million increase in operating expenses from FY19 to FY20 is net of combined decreases of \$1.2 million for the research, academic support, and auxiliary functional 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:

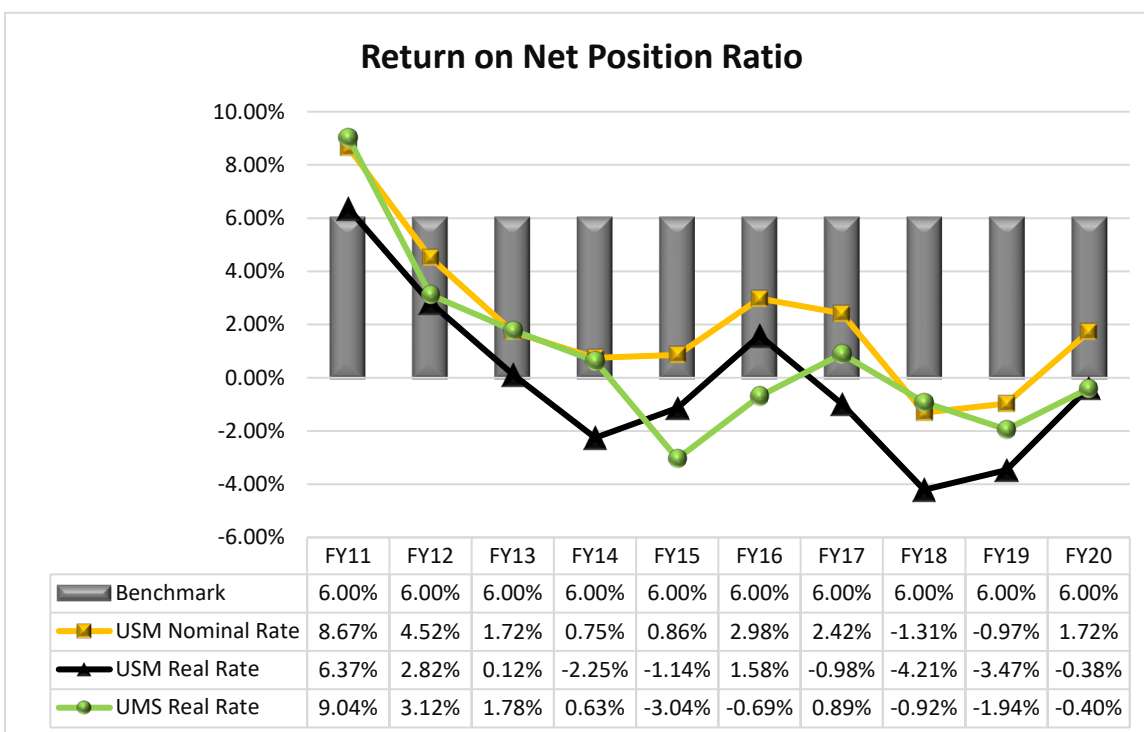
$$\frac{\text{Change in Net Position}}{\text{Total Beginning of the Year Net Position}}$$

### 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.

At 1.72%, USM's FY20 nominal rate of return on net position is positive for the first time since FY17; however, the rate did not keep pace with inflation and USM experienced a real rate of return of -0.38%.



| 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) | \$9,043          | \$3,780          | \$1,138          | (\$629)          | \$1,119          | \$3,425          | \$450            | (\$2,473)        | (\$2,444)        | (\$1,988)        |
| Other changes in net position                                      | \$3,415          | \$3,282          | \$1,662          | \$1,862          | \$317            | \$1,583          | \$3,255          | \$421            | \$943            | \$4,627          |
| <b>Change in total net position</b>                                | <b>\$12,458</b>  | <b>\$7,062</b>   | <b>\$2,800</b>   | <b>\$1,233</b>   | <b>\$1,436</b>   | <b>\$5,008</b>   | <b>\$3,705</b>   | <b>(\$2,052)</b> | <b>(\$1,502)</b> | <b>\$2,640</b>   |
| <b>Total net position (beginning of year)</b>                      | <b>\$143,655</b> | <b>\$156,113</b> | <b>\$163,174</b> | <b>\$165,115</b> | <b>\$166,347</b> | <b>\$167,784</b> | <b>\$152,899</b> | <b>\$156,604</b> | <b>\$154,551</b> | <b>\$153,050</b> |

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

FY20 other changes in net position was more than sufficient to offset the negative return from operations and USM was able to show a positive change in total net position for the first time since FY17. The increase from FY19 to FY20 in other changes in net position is due in large part to a \$3.3 million increase in State of Maine capital appropriations to support investment and improvements in the infrastructure at USM.

## 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:

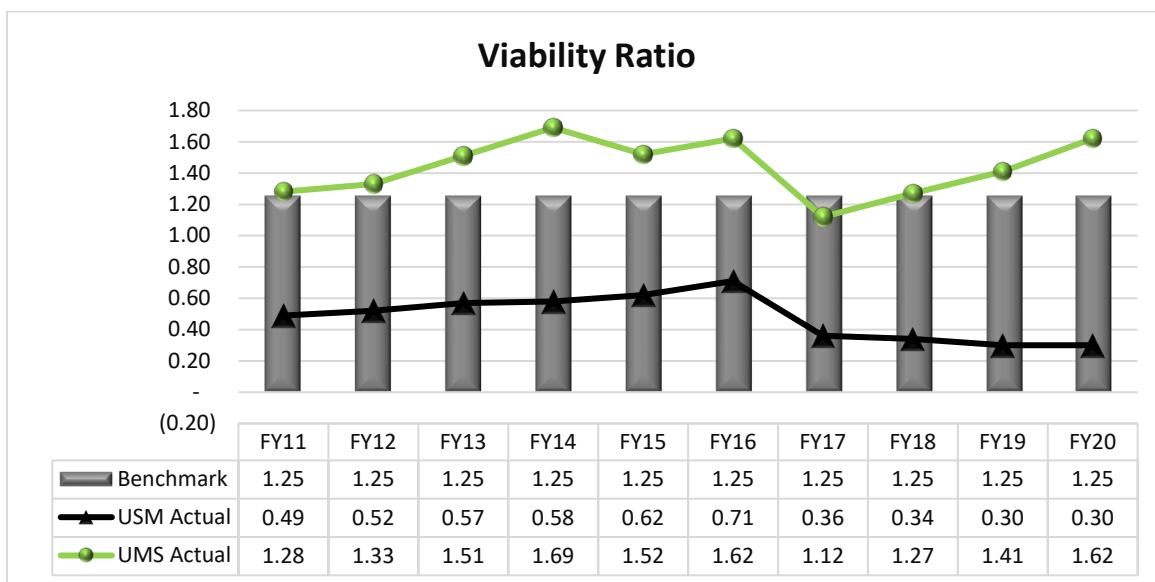
- principal payments on debt
- use of unrestricted net position to fund capital construction projects
- operating results (operating revenues – operating expenses + nonoperating revenues – nonoperating expenses + depreciation)
- endowment returns

**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*

In FY20, USM’s Viability Ratio remained flat at 0.30x.



| 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<br>expendable net<br>position | \$16,943        | \$18,202        | \$18,266        | \$13,760        | \$15,096        | \$18,745        | (\$1,154)       | (\$1,813)       | (\$6,313)       | (\$6,234)       |
| Restricted<br>expendable net<br>position   | \$14,724        | \$14,108        | \$15,740        | \$18,593        | \$19,541        | \$19,549        | \$19,926        | \$17,966        | \$18,411        | \$17,809        |
| <b>Total expendable net<br/>position</b>   | <b>\$31,667</b> | <b>\$32,310</b> | <b>\$34,006</b> | <b>\$32,353</b> | <b>\$34,637</b> | <b>\$38,294</b> | <b>\$18,772</b> | <b>\$16,153</b> | <b>\$12,098</b> | <b>\$11,575</b> |
| <b>Long-term debt</b>                      | <b>\$64,728</b> | <b>\$61,986</b> | <b>\$59,252</b> | <b>\$56,031</b> | <b>\$55,853</b> | <b>\$54,190</b> | <b>\$52,287</b> | <b>\$47,871</b> | <b>\$40,999</b> | <b>\$38,307</b> |

*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. There was a large reduction in long-term debt in FY19 due to early payoffs. There were no such payoffs in FY20; however, USM did obtain an additional \$990 thousand in debt primarily for energy upgrades in Anderson Hall and Bailey Hall.

## Composite Financial Index

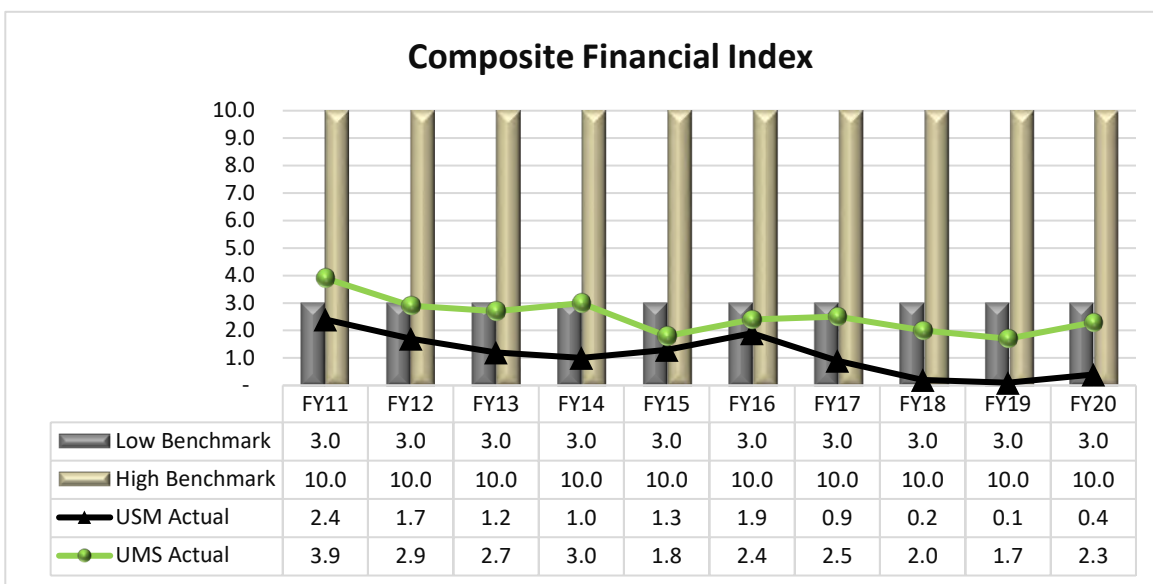
The Composite Financial Index (CFI) creates one overall financial measurement of the institution’s health based on the four core ratios: Primary Reserve Ratio, Net Operating Revenues Ratio, Return on Net Position Ratio, and Viability Ratio. By blending these four key measures of financial health into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

The CFI is calculated by completing the following steps:

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

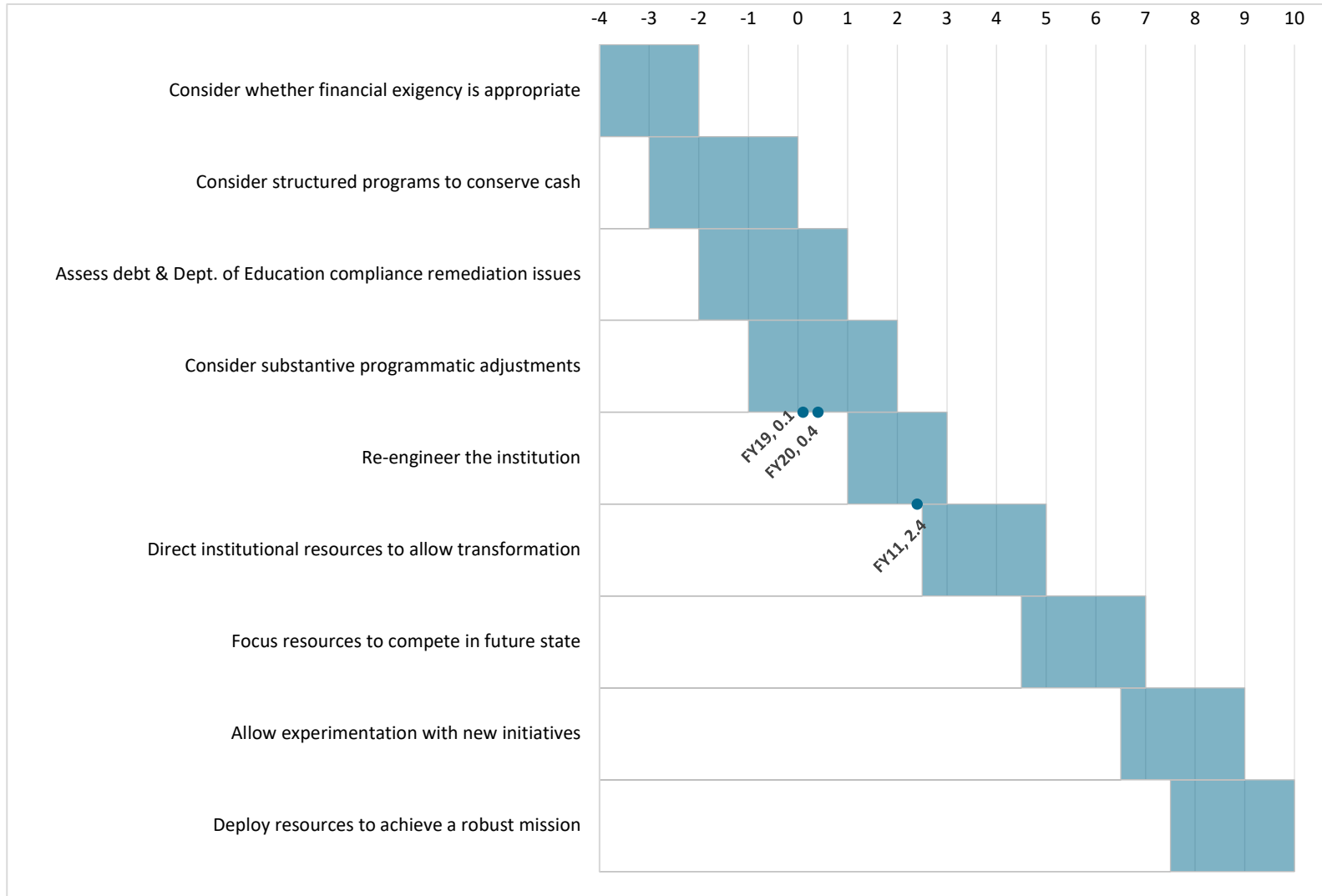
**A score of 1.0 indicates very little financial health; 3, the low benchmark, represents a relatively stronger financial position; and 10 is the top of the scale.**

USM’s FY20 CFI score of 0.4 is the highest since FY17. The increase from the previous year is the result of improved return on net position and net operating revenue ratios.



Performance of the CFI score can be evaluated on a scale of -4 to 10 as shown on the following page. These scores do not have absolute precision. They are indicators of ranges of financial health that can be indicators of overall institutional well-being, when combined with nonfinancial indicators. This would be consistent with the fact that there are a large number of variables that can impact an institution and influence the results of these ratios. However, the ranges do have enough precision to be indicators of the institutional financial health, and the CFI as well as its trend line, over a period of time, can be the single most important measure of the financial health for the institution.

The overlapping blocks of color represent the ranges of measurement that an institution may find useful in assessing itself. We have overlaid the scale with USM’s highest (FY11), lowest (FY19), and most recent CFI scores to assist in evaluating USM’S performance.



| CFI Calculation                       |             |             |             |              |             |             |             |              |              |              |
|---------------------------------------|-------------|-------------|-------------|--------------|-------------|-------------|-------------|--------------|--------------|--------------|
| Fiscal Year                           | FY11        | FY12        | FY13        | FY14         | FY15        | FY16        | FY17        | FY18         | FY19         | FY20         |
| <b>+ Primary Reserve Ratio</b>        | 0.17        | 0.18        | 0.19        | 0.19         | 0.21        | 0.25        | 0.12        | 0.10         | 0.07         | 0.07         |
| / Common Scale Value *                | 0.133       | 0.133       | 0.133       | 0.133        | 0.133       | 0.133       | 0.133       | 0.133        | 0.133        | 0.133        |
| <b>= Strength Factor **</b>           | <b>1.28</b> | <b>1.35</b> | <b>1.43</b> | <b>1.43</b>  | <b>1.58</b> | <b>1.88</b> | <b>0.90</b> | <b>0.75</b>  | <b>0.53</b>  | <b>0.53</b>  |
| X Weighting Factor ***                | 35%         | 35%         | 35%         | 35%          | 35%         | 35%         | 35%         | 35%          | 35%          | 35%          |
| <b>Ratio Score</b>                    | <b>0.45</b> | <b>0.47</b> | <b>0.50</b> | <b>0.50</b>  | <b>0.55</b> | <b>0.66</b> | <b>0.32</b> | <b>0.26</b>  | <b>0.19</b>  | <b>0.19</b>  |
| <b>+ Net Operating Revenues Ratio</b> | 4.69%       | 2.04%       | 0.63%       | -0.37%       | 0.67%       | 2.19%       | 0.28%       | -1.51%       | -1.46%       | -1.17%       |
| / Common Scale Value *                | 0.7%        | 0.7%        | 0.7%        | 0.7%         | 0.7%        | 0.7%        | 0.7%        | 0.7%         | 0.7%         | 0.7%         |
| <b>= Strength Factor **</b>           | <b>6.70</b> | <b>2.91</b> | <b>0.90</b> | <b>-0.53</b> | <b>0.96</b> | <b>3.13</b> | <b>0.40</b> | <b>-2.16</b> | <b>-2.09</b> | <b>-1.67</b> |
| X Weighting Factor ***                | 10%         | 10%         | 10%         | 10%          | 10%         | 10%         | 10%         | 10%          | 10%          | 10%          |
| <b>Ratio Score</b>                    | <b>0.67</b> | <b>0.29</b> | <b>0.09</b> | <b>-0.05</b> | <b>0.10</b> | <b>0.31</b> | <b>0.04</b> | <b>-0.22</b> | <b>-0.21</b> | <b>-0.17</b> |
| <b>+ Return on Net Position Ratio</b> | 8.67%       | 4.52%       | 1.72%       | 0.75%        | 0.86%       | 2.98%       | 2.42%       | -1.31%       | -0.97%       | 1.72%        |
| / Common Scale Value *                | 2.0%        | 2.0%        | 2.0%        | 2.0%         | 2.0%        | 2.0%        | 2.0%        | 2.0%         | 2.0%         | 2.0%         |
| <b>= Strength Factor **</b>           | <b>4.34</b> | <b>2.26</b> | <b>0.86</b> | <b>0.38</b>  | <b>0.43</b> | <b>1.49</b> | <b>1.21</b> | <b>-0.66</b> | <b>-0.49</b> | <b>0.86</b>  |
| X Weighting Factor ***                | 20%         | 20%         | 20%         | 20%          | 20%         | 20%         | 20%         | 20%          | 20%          | 20%          |
| <b>Ratio Score</b>                    | <b>0.87</b> | <b>0.45</b> | <b>0.17</b> | <b>0.08</b>  | <b>0.09</b> | <b>0.30</b> | <b>0.24</b> | <b>-0.13</b> | <b>-0.10</b> | <b>0.17</b>  |
| <b>+ Viability Ratio</b>              | 0.49        | 0.52        | 0.57        | 0.58         | 0.62        | 0.71        | 0.36        | 0.34         | 0.30         | 0.30         |
| / Common Scale Value *                | 0.417       | 0.417       | 0.417       | 0.417        | 0.417       | 0.417       | 0.417       | 0.417        | 0.417        | 0.417        |
| <b>= Strength Factor **</b>           | <b>1.18</b> | <b>1.25</b> | <b>1.37</b> | <b>1.39</b>  | <b>1.49</b> | <b>1.70</b> | <b>0.86</b> | <b>0.82</b>  | <b>0.72</b>  | <b>0.72</b>  |
| X Weighting Factor ***                | 35%         | 35%         | 35%         | 35%          | 35%         | 35%         | 35%         | 35%          | 35%          | 35%          |
| <b>Ratio Score</b>                    | <b>0.41</b> | <b>0.44</b> | <b>0.48</b> | <b>0.49</b>  | <b>0.52</b> | <b>0.60</b> | <b>0.30</b> | <b>0.29</b>  | <b>0.25</b>  | <b>0.25</b>  |
| <b>Composite Financial Index</b>      | <b>2.4</b>  | <b>1.7</b>  | <b>1.2</b>  | <b>1.0</b>   | <b>1.3</b>  | <b>1.9</b>  | <b>0.9</b>  | <b>0.2</b>   | <b>0.1</b>   | <b>0.4</b>   |

\* = 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.

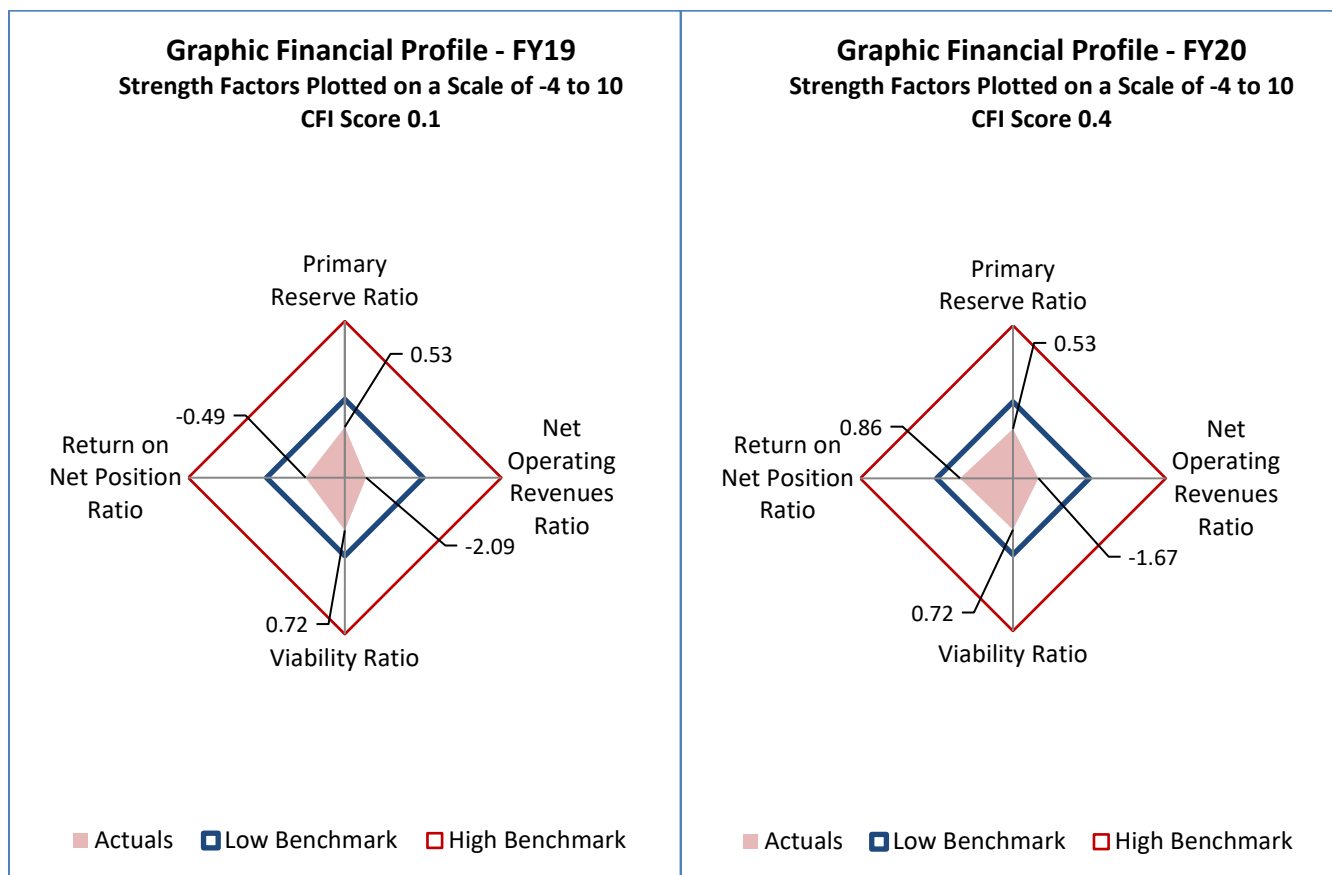
## Graphic Financial Profiles

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

### USM Graphic Financial Profiles FY19 and FY20

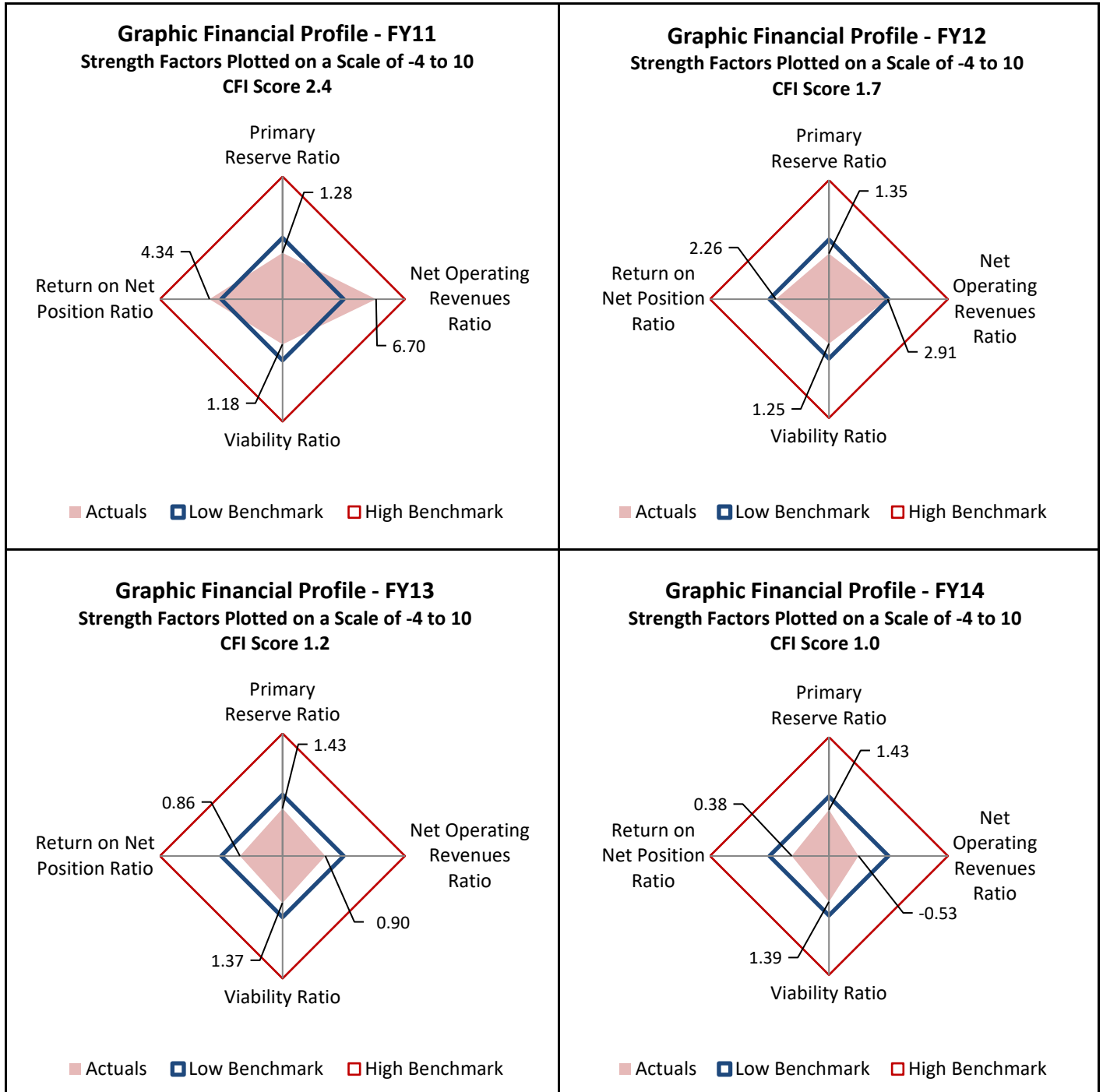
In FY20, the shape of the USM’s graphic financial profile widened as USM experienced improved Return on Net Position and Net Operating Revenues ratios.

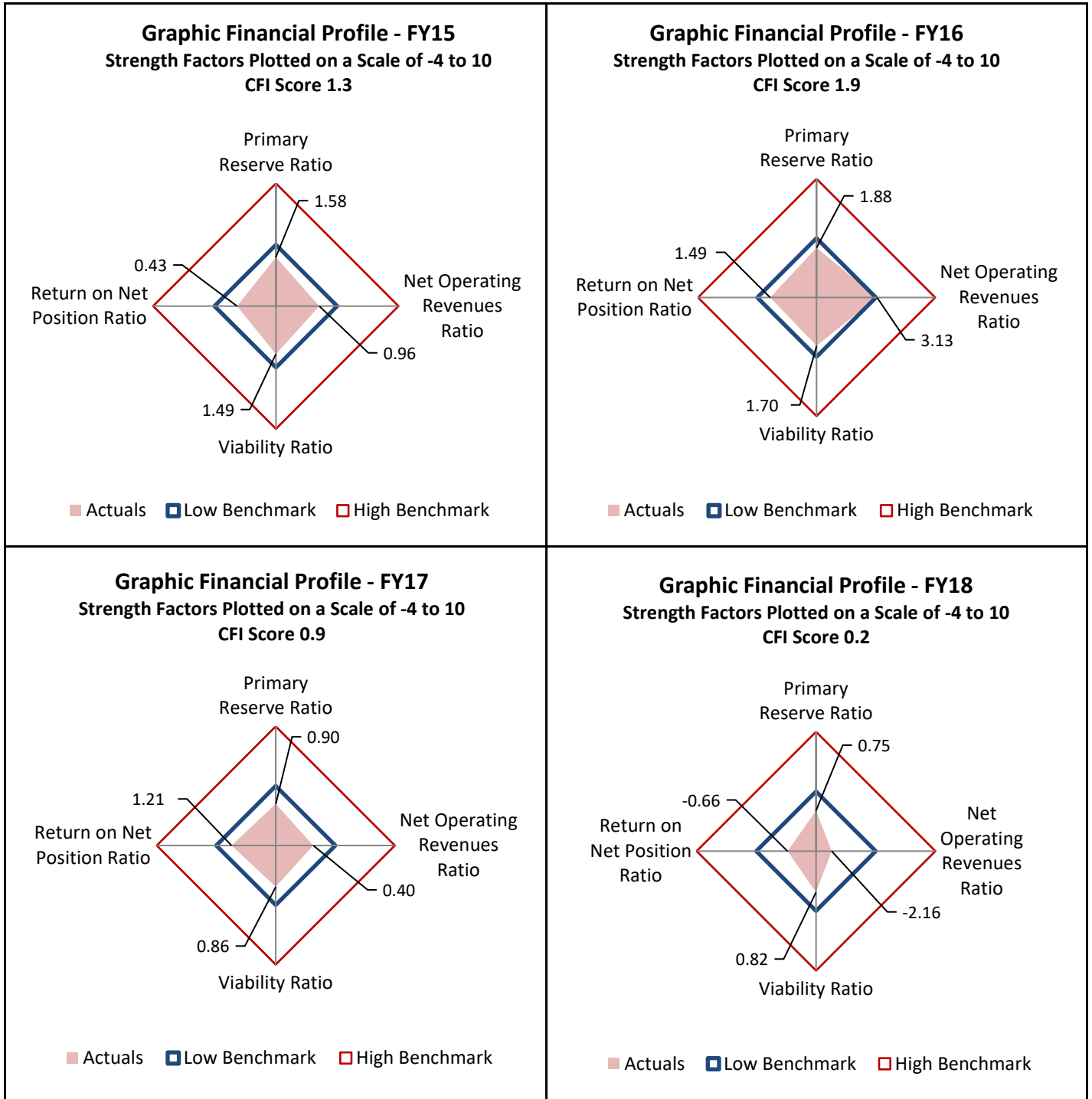




USM Graphic Financial Profiles FY11 to FY18

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





## USM Financial Highlights FY11 to FY19

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

### 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 USM's originally reported FY17 revenues and expenses; however, the restatement did include a \$19.9 million decrease in USM's originally reported FY17 beginning of year expendable net position; thus, significantly impacting USM's Primary Reserve and Viability ratios. The FY17 ratios included in this report are based upon data from the restated FY17 financial statements.

### Primary Reserve Ratio

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

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

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

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

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

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

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

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

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

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

### Net Operating Revenues Ratio

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

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

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

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

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

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

**FY17:** Total operating and nonoperating revenues increased \$5 million from FY16 to FY17, the first increase USM has experienced since FY11. \$3.9 million of the increase was in USM’s allocation of noncapital State of Maine appropriation. Offsetting this increase in revenue was an \$8 million increase in

total expenses. \$4 million of the increase in expenses was in a combination of instruction, research, and public service expenses.

**FY15/FY16/FY17:** Although the exact impact on this ratio is not readily determinable, it should be noted that during this three-year time span, the UMS underwent a reorganization to centralize under the University Services portion of UMSGUS, many services (e.g., Procurement, Human Resources, Information Technology, Facilities, and Finance) that had previously existed at each of the campuses and UMSGUS. The costs of University Services were then allocated back out to USM and the other campuses within the UMS along with an additional allocation of noncapital State of Maine appropriation revenues to help cover the costs of the centralized services. This reorganization occurred in a staggered approach with all University Services costs being allocated to the campuses by FY17.

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

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

### Return on Net Position Ratio

The Return on Net Position Ratio has been impacted over the years by the same items that impacted the Net Operating Revenues Ratio and the following items that are included in other changes in net position and directly impact capital and endowment assets:

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

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

|             |         |             |         |
|-------------|---------|-------------|---------|
| <b>FY11</b> | \$1.9   | <b>FY16</b> | (\$1.0) |
| <b>FY12</b> | (\$0.9) | <b>FY17</b> | \$0.9   |
| <b>FY13</b> | \$1.0   | <b>FY18</b> | \$0.3   |
| <b>FY14</b> | \$1.7   | <b>FY19</b> | (\$0.3) |
| <b>FY15</b> | (\$0.8) | <b>FY20</b> | (\$0.5) |

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

bond proceeds and the timing of USM's expenditure of those proceeds. Over the past ten years, USM has received as much as \$3.8 million in a single year (FY20) and as little as zero (FY14).

- Capital grants and gifts have been a relatively constant source of revenue over the last 10 years; however, the level of such funding has fluctuated. These revenues have been as high as \$2.0 million in FY12 and as low as zero in FY18.

## Viability Ratio

---

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

USM's long-term debt has decreased \$26 million since FY11. Reducing the level of outstanding debt has been intentional and has involved both the early pay off of debt and decisions in the earlier years to not undertake projects that require financing. Over the past ten years, USM has borrowed significant additional money only a couple of times:

- \$3 million internal loan from UMSGUS in **FY15** to fund improvement to the Portland central heat plant
- \$1.6 million internal loan from UMSGUS in **FY16** to fund WiFi upgrades in the residence halls.
- \$1.7 million in UMS Revenue Bonds in **FY17** to finance classroom technology upgrades. The State of Maine is providing appropriation dollars restricted to pay the debt service on these new bonds.

## University of Southern Maine

### Statements of Revenues, Expenses and Changes in Net Position

#### For the Years Ended June 30, 2011 to 2020

\$ in thousands

|  | 2011      | 2012      | 2013      | 2014      | 2015      | 2016      | RESTATED<br>2017 | 2018      | RESTATED<br>2019 | 2020      |
|--|-----------|-----------|-----------|-----------|-----------|-----------|------------------|-----------|------------------|-----------|
| <b>OPERATING REVENUES</b>                            |           |           |           |           |           |           |                  |           |                  |           |
| Tuition and fees                                     | \$78,380  | \$78,081  | \$78,502  | \$74,446  | \$70,290  | \$67,203  | \$68,650         | \$74,065  | \$78,303         | \$81,308  |
| Residence and dining fees:                           | 12,658    | 10,102    | 10,912    | 10,767    | 10,077    | 10,563    | 10,973           | 11,153    | 12,235           | 9,886     |
| Less: scholarship allowances:                        | (16,507)  | (16,105)  | (16,597)  | (16,375)  | (16,842)  | (18,471)  | (20,126)         | (22,719)  | (25,319)         | (28,190)  |
| Net student fees                                     | 74,530    | 72,078    | 72,816    | 68,837    | 63,525    | 59,294    | 59,497           | 62,499    | 65,219           | 63,005    |
| Federal, state, and private grants and contracts     | 50,513    | 48,703    | 41,713    | 38,462    | 35,928    | 33,822    | 33,828           | 33,574    | 33,344           | 33,998    |
| Recovery of indirect costs                           | 5,646     | 5,610     | 4,859     | 4,211     | 3,739     | 3,424     | 3,580            | 3,425     | 3,358            | 3,471     |
| Educational sales and service                        | 5,830     | 4,814     | 5,484     | 5,282     | 5,163     | 5,213     | 5,219            | 5,267     | 5,215            | 4,426     |
| Other auxiliary enterprises                          | 7,589     | 6,922     | 6,416     | 5,049     | 4,966     | 3,260     | 3,454            | 3,230     | 2,552            | 1,885     |
| Interest income on loans                             | 266       | 253       | 254       | 242       | 254       | 240       | 267              | 289       | 287              | 416       |
| Total Operating Revenues                             | 144,374   | 138,380   | 131,544   | 122,084   | 113,576   | 105,253   | 105,845          | 108,285   | 109,973          | 107,200   |
| <b>OPERATING EXPENSES</b>                            |           |           |           |           |           |           |                  |           |                  |           |
| Instruction  | 60,059    | 60,661    | 59,413    | 57,536    | 55,430    | 44,928    | 46,486           | 46,982    | 49,794           | 50,448    |
| Research   | 13,701    | 12,478    | 10,930    | 10,879    | 7,704     | 6,689     | 8,075            | 8,510     | 7,900            | 7,045     |
| Public service                                       | 23,683    | 22,935    | 20,015    | 18,989    | 19,524    | 18,925    | 20,285           | 19,449    | 19,532           | 20,306    |
| Academic support                                     | 20,341    | 20,585    | 20,044    | 18,718    | 17,714    | 16,544    | 16,740           | 17,109    | 17,649           | 17,514    |
| Student services                                     | 10,729    | 10,514    | 12,204    | 10,162    | 11,554    | 12,698    | 13,356           | 14,041    | 14,874           | 15,163    |
| Institutional support                                | 11,772    | 12,697    | 13,203    | 12,051    | 13,625    | 13,899    | 15,894           | 17,913    | 16,892           | 17,302    |
| Operation and maintenance of plant                   | 11,594    | 11,049    | 12,105    | 12,231    | 11,078    | 10,882    | 11,626           | 12,844    | 11,740           | 12,157    |
| Depreciation and amortization                        | 5,951     | 6,095     | 6,880     | 7,013     | 7,112     | 6,997     | 7,060            | 7,539     | 7,824            | 8,040     |
| Student aid  | 6,419     | 6,263     | 6,455     | 7,281     | 7,571     | 8,299     | 8,625            | 9,737     | 10,851           | 11,206    |
| Auxiliary  | 16,669    | 15,590    | 14,570    | 14,455    | 13,708    | 11,718    | 11,401           | 11,202    | 11,431           | 11,209    |
| Total Operating Expenses                             | 180,918   | 178,867   | 175,818   | 169,316   | 165,021   | 151,579   | 159,548          | 165,327   | 168,486          | 170,389   |
| Operating Income (Loss)                              | (36,544)  | (40,487)  | (44,274)  | (47,233)  | (51,445)  | (46,325)  | (53,703)         | (57,042)  | (58,513)         | (63,189)  |
| <b>NONOPERATING REVENUES (EXPENSE)</b>               |           |           |           |           |           |           |                  |           |                  |           |
| Noncapital State of Maine appropriations             | 44,456    | 44,019    | 44,242    | 44,946    | 44,614    | 47,957    | 51,904           | 51,653    | 51,810           | 52,237    |
| CARES Act funding                                    | -         | -         | -         | -         | -         | -         | -                | -         | -                | 4,118     |
| State Fiscal Stabilization Program                   | 1,511     | -         | -         | -         | -         | -         | -                | -         | -                | -         |
| Gifts currently expendable                           | 1,212     | 1,271     | 1,179     | 1,737     | 1,353     | 1,732     | 1,840            | 1,626     | 3,438            | 2,966     |
| Endowment income distributed for operations          | 1,029     | 1,158     | 1,282     | 1,226     | 1,252     | 1,353     | 1,347            | 1,336     | 693              | 700       |
| Investment income                                    | 14        | 12        | 8         | 2         | 2         | 14        | 30               | 94        | 175              | 129       |
| Interest expense                                     | (2,957)   | (2,873)   | (2,538)   | (2,016)   | (1,803)   | (1,597)   | (1,576)          | (1,415)   | (1,399)          | (1,243)   |
| Noncapital transfers                                 | 322       | 681       | 1,240     | 709       | 7,145     | 292       | 609              | 1,275     | 1,351            | 2,295     |
| Net Nonoperating Revenue (Expense)                   | 45,587    | 44,267    | 45,412    | 46,604    | 52,563    | 49,750    | 54,153           | 54,569    | 56,069           | 61,201    |
| Income (Loss) Before Other Changes in Net Position   | 9,043     | 3,780     | 1,138     | (629)     | 1,119     | 3,425     | 450              | (2,473)   | (2,444)          | (1,988)   |
| <b>OTHER CHANGES IN NET POSITION</b>                 |           |           |           |           |           |           |                  |           |                  |           |
| State of Maine capital appropriations                | 690       | 1,456     | 246       | 0         | 915       | 2,505     | 521              | 203       | 512              | 3,781     |
| Capital grants and gifts                             | 846       | 2,020     | 211       | 59        | 68        | 1         | 1,620            | 0         | 372              | 615       |
| Endowment return, net of amount used for operations  | 1,916     | (857)     | 1,020     | 1,706     | (781)     | (988)     | 867              | 356       | (256)            | (533)     |
| Endowment gifts                                      | 26        | 64        | 42        | 93        | 38        | 41        | 437              | 27        | 483              | 33        |
| Gain on disposal of capital assets and other changes | 0         | 601       | 0         | 0         | 12        | (226)     | 0                | (114)     | (48)             | (478)     |
| Capital transfers                                    | (63)      | (2)       | 143       | 4         | 66        | 250       | (189)            | (50)      | (121)            | 1,209     |
| Total Other Changes in Net Position                  | 3,414     | 3,282     | 1,662     | 1,861     | 318       | 1,583     | 3,255            | 421       | 943              | 4,627     |
| Increase (Decrease) in Net Position                  | 12,458    | 7,062     | 2,800     | 1,233     | 1,436     | 5,008     | 3,705            | (2,052)   | (1,502)          | 2,640     |
| <b>NET POSITION</b>                                  |           |           |           |           |           |           |                  |           |                  |           |
| Net Position - beginning of year                     | 143,655   | 156,112   | 163,174   | 165,115   | 166,347   | 167,784   | 152,899          | 156,604   | 154,551          | 153,050   |
| Net Position - end of year                           | \$156,112 | \$163,174 | \$165,974 | \$166,347 | \$167,784 | \$172,792 | \$156,604        | \$154,551 | \$153,050        | \$155,690 |

The above totals have not been adjusted for rounding.