Fiscal Analysis Including the Composite Financial Index: A Tale of Two Universities

Presented By:
Mary H. Loomis, CPA, MPA
Vice President for Business & Finance

Why use ratios?

Ratios are important for those who do not know how to interpret and analyze higher education financial statements (i.e., boards, foundations, faculty, students, administrators, etc.)

Interested parties can use ratios to gain

financial health, particularly if developed over time.

Why use ratios? (continued)

- Reduces the complexity of GAAP-basis financial statements.
- Facilitates peer assessment.
- Shifts focus to a global level.
- Enables strategic decision making.
- Supports a long-term institutional goal.
- Assists with the assessment of :
  - Creditworthiness.
  - Relative liquidity, financial viability, and leverage of resources.
  - Financial assets performance.

Principles of Ratio Analysis

Focus on summary information to address key questions.

Present in simple terms (such as $1 of cash and marketable to securities to every XX$ of current liabilities).

Focus on trends in ratios.

Use internal assessment with financial analysis. Never rely just on the ratios look at the underlying information that is causing the ratios.

When looking at the CFI (Composite Financial Index), consider each variable separately and never make decisions based on comparison of institutional CFIs. Conduct further analysis.

Composite Financial Index

Calculation found in the seventh edition of *Strategic Financial Analysis for Higher Education* released in 2010 combines four primary ratios:

- **Primary Reserve Ratio**
- **Viability Ratio**
- **Return on Net Assets Ratio**
- **Net Operating Revenues Ratio**

Primary Reserve Ratio-35%

Indicates the sufficiency of resources and their flexibility:

- **Expendable Net Assets/Position**
- **Total Expenses (Operating & Nonoperating)**

Note: Expendable net assets/position does not include those restricted for plant purposes nor does it include the pension obligation or compensated absences. (See URNA calculated for purposes of SACS.)

Viability Ratio-35%

Indicates the capacity to repay total debt through reserves:

- **Expendable Net Assets/Position**
- **Long-Term Debt**

Return on Net Assets - 20%

Net Operating/Unrestricted Revenues - 10%

Why these four ratios?

The CFI measure is established by first answering the four key specific questions concerning financial health of an institution that address whether an institution is financially healthy:

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

Primary Reserve Ratio -2015

Indicates the sufficiency of resources and their flexibility: Expendable Net Position/Total Expenses Goal of .10 (10%) or 1.2 months of reserves is desirable for State Universities.

SSU: 8%

0.08

7,410,147
91,864,146

FVSU: 1.3%

0.013

Are resources sufficient and flexible enough to support the mission?

Viability Ratio-2015

Indicates the capacity to repay total debt through reserves: Expendable Net Position/Long-Term Debt (includes current portion but not comp. abs. or pension obl.) Goal of .08 (8%) is desirable for State Universities.

SSU: 7% **0.07**

7,410,147
106,047,893

FVSU: 1.2% **0.012**

1,008,339

80,828,481

Are debt resources managed strategically to advance the mission?

Return on Net Assets - 2015

Indicates whether the institution is better off financially this year than last year: Change in Net Position/Beginning Net Position - annual return target of 3-4% is desirable for State Universities but a major issue is negative returns which affect cash & reserves.

SSU: -9%

(0.09)

(5,350,682)

60,946,799

FVSU: -2%

(0.02)

(1,584,976)

74,182,336

Does asset performance and management support the strategic direction?

Net Unrestricted Revenues - 2015

Indicates whether the institution is living within available resources:
Income (Loss) Before Other /Operating & Non-Operating Revenues - explains how the surplus generated from activities affects the behavior of other ratios as the net surplus or deficit directly affects the amount added to or deducted from net position **Positive or surplus target (deficits should not have to be covered by cash and reserves).**

SSU: -6.216% **-6.216%**

(5,701,503)

91,721,560

FVSU: -8.681% **-8.681%**

(6,156,651)

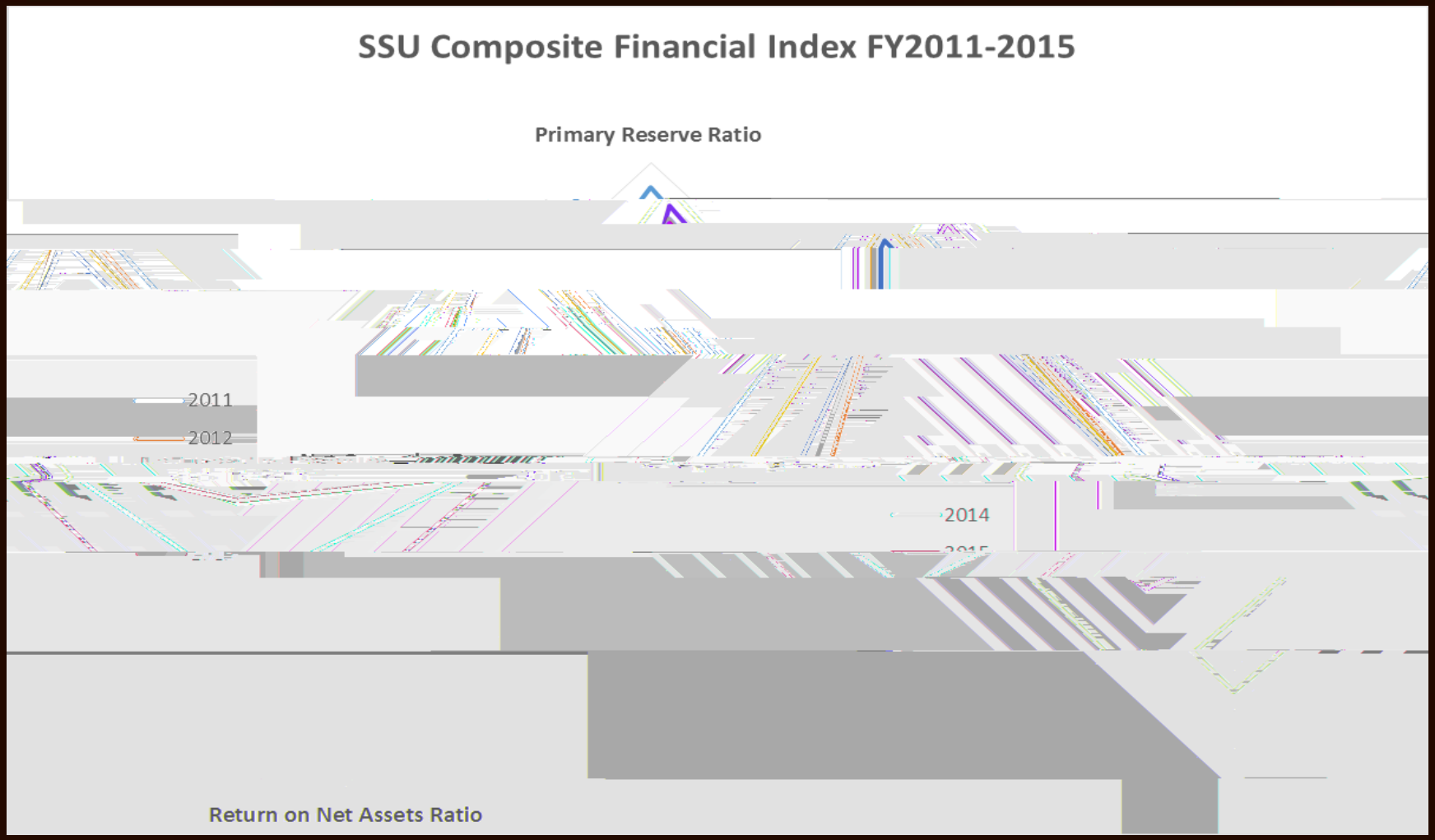
70,917,560

Do results indicate the institution is living within available resources?

SSU CFI CALC - 2015

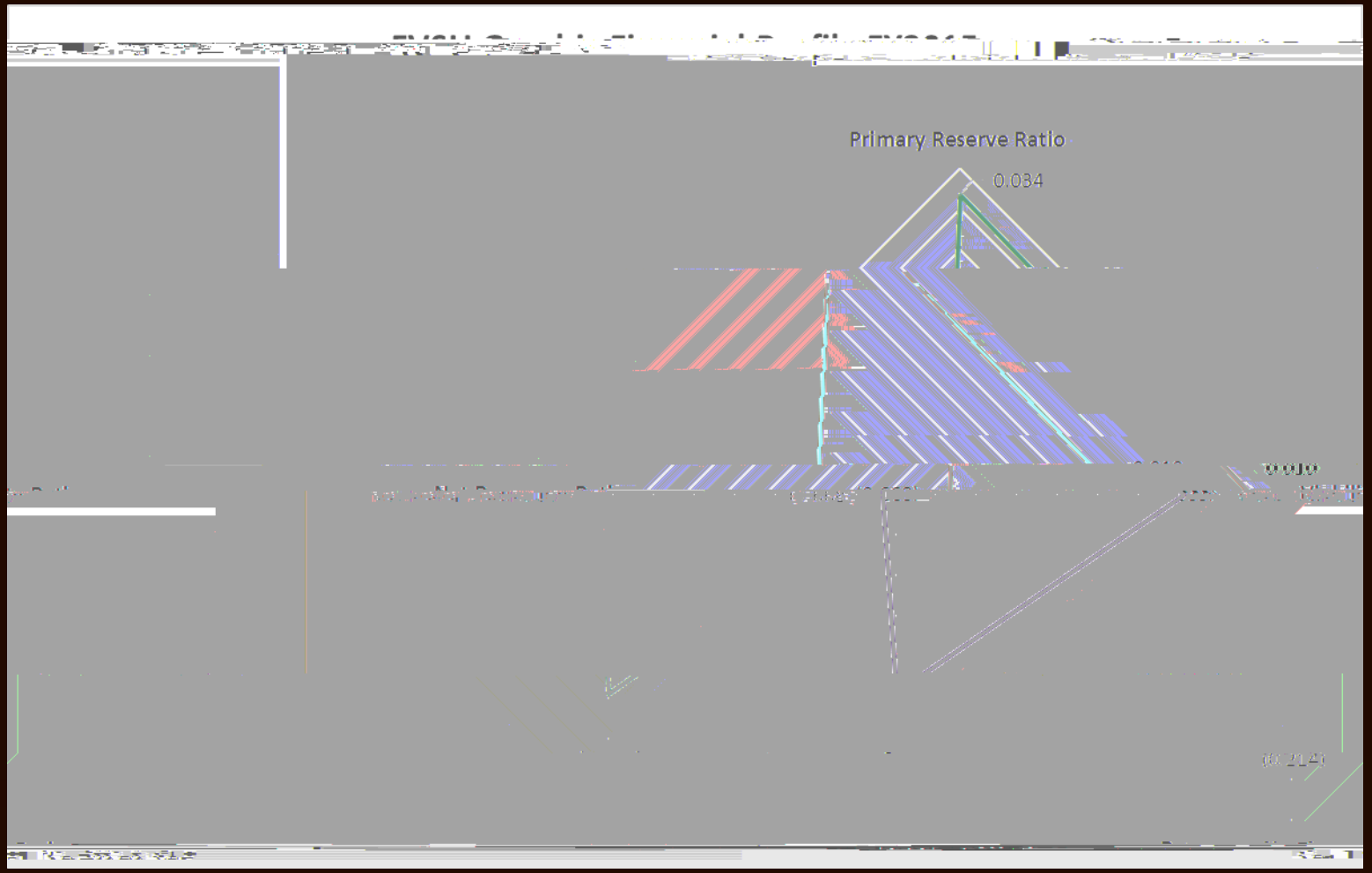
	VALUE	STRENGTH: Divide Value by These Factors	WEIGHT: Multiply Strength by These Factors

SSU CFI GRAPH

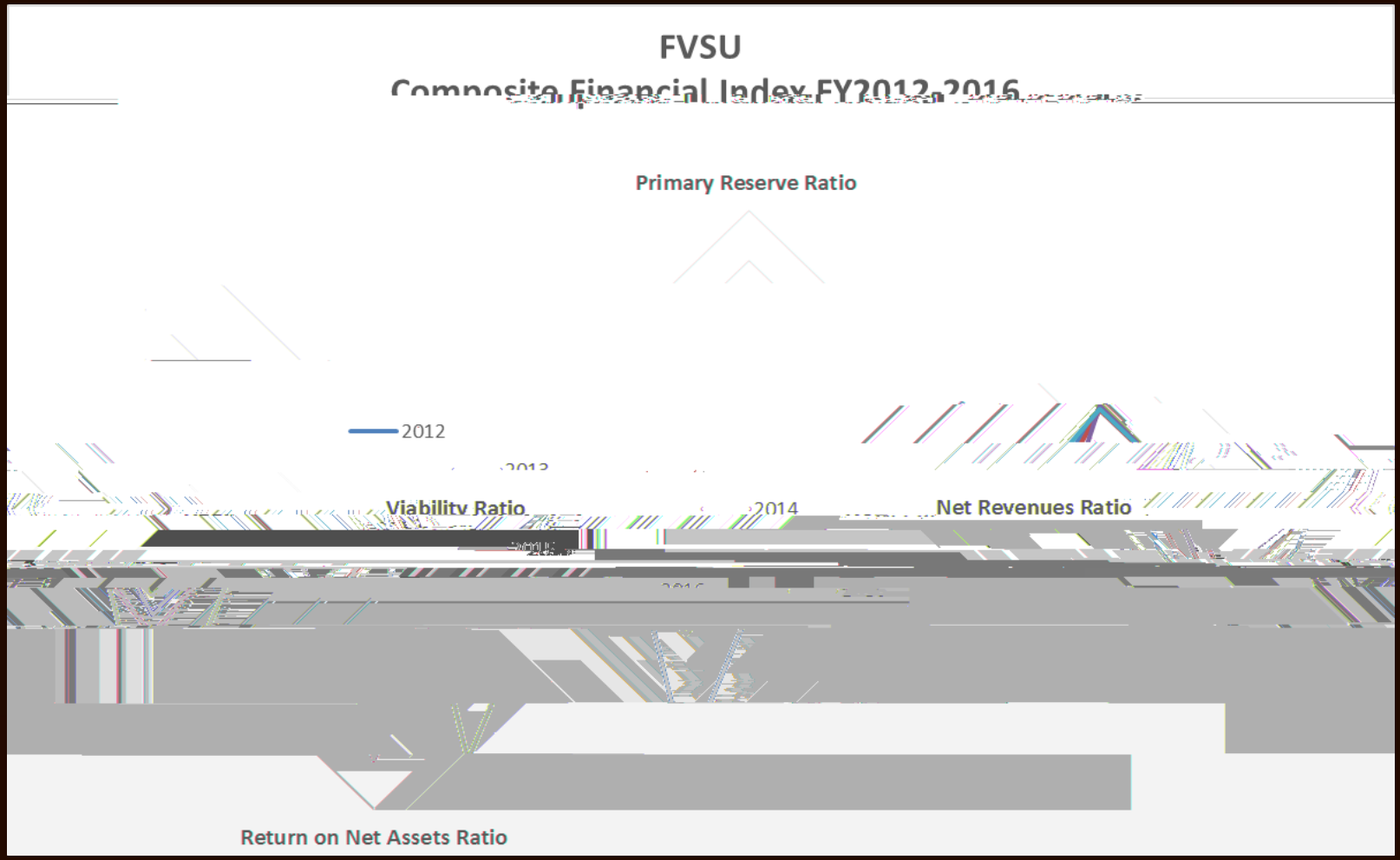


FVSU CFI CALC - 2015

FVSU CFI 2015 GRAPH



FVSU CFI GRAPH



Conclusions

Like all other ratio analysis, the CFI should be considered in light of the underlying financial data. Complete linear and other ratio analysis first.

and how they align with your prior and future fiscal objectives.

- Maintain consistency in reporting ratios.
- Five-year periods are good, ten are better.
- Evaluate within your context and based on your peers

Conclusions

- Understand the impact of changes and explain them to readers.
- Communicate openly and often with your Chief Academic Officer and others to understand your story and plan for the future.
- Communicate, interpret, assess, and do it again!
  - Communicate with:
    - President and Senior Leaders, Directors, internal.