

# An Update of Financial Indicators

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WILLIAM & MARY

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# Why are financial ratios used in higher education?

- Intended to provide a high level assessment to assist boards and leaders in interpreting financial statements and overall financial strength.
  - Use has evolved over the last 30 years; still a mix of “art and science” in the assessment.
  - Four key ratios benchmarked to industry standards and combined into a weighted Composite Financial Index
  - Industry best practice is to include foundations

# What do the ratios tell you?

1. **Primary Reserve Ratio (35%)** - Are resources sufficient and flexible enough to support the mission?
2. **Viability Ratio (35%)** - Are financial resources, including debt, managed strategically to advance the mission?
3. **Return on Net Position (20%)** - Does asset performance and management support the strategic direction?
4. **Net Operating Ratio (10%)** - Do operating results indicate the institution is living within available resources?

**Composite Financial Index (CFI)** – weighted average of the four ratios

# The Primary Reserve Ratio is buoyed by the strength of the foundations.

- Ratio of expendable net position to total expenses.
- Indicates the length of time the university could continue operations without additional revenue or support.
- Provides a snapshot of the university's financial flexibility.
- Aids in understanding the amount of wealth the university needs to realize strategic objectives.

	Accepted Benchmark *	<u>William &amp; Mary</u>			
		FY 2019	FY 2018	FY 2017	FY 2016
Primary Reserve	0.400	0.17	0.12	0.15	0.14

	Accepted Benchmark	<u>William &amp; Mary with Affiliated Foundations</u>			
		FY 2019	FY 2018	FY 2017	FY 2016
Primary Reserve	0.400	1.19	1.15	1.01	0.86

\* Strategic Financial Analysis in Higher Education, 7th Ed.

Excludes VIMS, RBC and related foundations. Also excludes pension liability.

# The Viability Ratio, with foundations included, exceeds benchmark

- Ratio of expendable net position to long-term debt.
- Assesses the strategic management of resources, including debt, to advance the university's mission.
- Measurement of the availability of resources (expendable net position) to settle debt.

	Accepted Benchmark*	<u>William &amp; Mary</u>			
		FY 2019	FY 2018	FY 2017	FY 2016
Viability	1-1.25	0.26	0.23	0.27	0.23

	Accepted Benchmark	<u>William &amp; Mary with Affiliated Foundations</u>			
		FY 2019	FY 2018	FY 2017	FY 2016
Viability	1-1.25	1.66	1.69	1.56	1.27

\*

APA recommends 1%. NACUBO benchmarks at 1.25% (McGladrey, LLP., 2013)

# Return on Net Position Ratio exceeds industry benchmark

- Ratio of the change in net position to beginning total net position.
- Evaluates whether asset management and performance supports the strategic mission of the university.
- Aids in determining the financial performance of net assets owned by the university.

	Accepted	<u>William &amp; Mary</u>			
	Benchmark*	FY 2019	FY 2018	FY 2017	FY 2016
Return on Net Position	> 0	0.04	0.02	0.06	0.09

	Accepted	<u>William &amp; Mary with Affiliated Foundations</u>			
	Benchmark	FY 2019	FY 2018	FY 2017	FY 2016
Return on Net Position	> 0	0.06	0.06	0.08	0.03

\* The APA indicates there is generally no specific benchmark, but the ratio should be positive (ie., greater than zero).

# Net Operating Revenues Ratio indicates that the enterprise is operating beyond its means

- Ratio of net income excluding capital revenues to the sum of total noncapital revenues.
- Assesses if the university is operating within its means.
- Helps to understand the balance needed between annual returns and achievement of the university's mission.

	Accepted	<u>William &amp; Mary</u>			
	Benchmark*	FY 2019	FY 2018	FY 2017	FY 2016
Net Operating Revenues	2% - 4%	0.00	-0.02	0.00	-0.04

	Accepted	<u>William &amp; Mary with Affiliated Foundations</u>			
	Benchmark	FY 2019	FY 2018	FY 2017	FY 2016
Net Operating Revenues	2% - 4%	0.08	0.08	0.13	-0.06

\* NACUBO 2013 Planning and Budgeting Forum PowerPoint presentation  
by McGladrey, LLP

# The financial strength of foundations underpins CFI assessment

- Indicates the strength of the institution.
- Combination of the four core ratios with assigned weights.

	Accepted	<u>William &amp; Mary</u>			
	Benchmark	FY 2019	FY 2018	FY 2017	FY 2016
Composite Financial Index (CFI)	3.00	1.11	0.69	1.19	1.41

	Accepted	<u>William &amp; Mary with Affiliated Foundations</u>			
	Benchmark	FY 2019	FY 2018	FY 2017	FY 2016
Composite Financial Index (CFI)	3.00	6.09	6.02	5.75	3.59

Strategic Financial Analysis in Higher Education, 7th Ed.