

# Update to Financial Indicators



WILLIAM & MARY

CHARTERED 1693

## 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.
  - 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 strengthened by 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	<u>William &amp; Mary/VIMS</u>				
	Benchmark *	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019
Primary Reserve	0.400	0.39	0.32	0.28	0.19	0.17

	Accepted	<u>William &amp; Mary/VIMS with Affiliated Foundations</u>				
	Benchmark	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019
Primary Reserve	0.400	1.68	1.47	1.64	1.11	1.12

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

Excludes 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.

	<b>Accepted Benchmark*</b>	<b><u>William &amp; Mary/VIMS</u></b>				
		<b>FY 2023</b>	<b>FY 2022</b>	<b>FY 2021</b>	<b>FY 2020</b>	<b>FY 2019</b>
<b>Viability</b>	1-1.25	0.62	0.44	0.39	0.36	0.31

	<b>Accepted Benchmark</b>	<b><u>William &amp; Mary/VIMS with Affiliated Foundations</u></b>				
		<b>FY 2023</b>	<b>FY 2022</b>	<b>FY 2021</b>	<b>FY 2020</b>	<b>FY 2019</b>
<b>Viability</b>	1-1.25	2.07	1.83	1.98	1.73	1.71

\* 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.

	<b>Accepted Benchmark*</b>	<b><u>William &amp; Mary/VIMS</u></b>				
		<b>FY 2023</b>	<b>FY 2022</b>	<b>FY 2021</b>	<b>FY 2020</b>	<b>FY 2019</b>
<b>Return on Net Position</b>	> 0	0.14	0.10	0.08	0.05	0.04

	<b>Accepted Benchmark</b>	<b><u>William &amp; Mary/VIMS with Affiliated Foundations</u></b>				
		<b>FY 2023</b>	<b>FY 2022</b>	<b>FY 2021</b>	<b>FY 2020</b>	<b>FY 2019</b>
<b>Return on Net Position</b>	> 0	0.08	0.03	0.19	0.02	0.06

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

## Net Operating Revenues Ratio increased due to growth in investment income

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

	Accepted Benchmark*	<u>William &amp; Mary/VIMS</u>				
		FY 2023	FY 2022	FY 2021	FY 2020	FY 2019
Net Operating Revenues	2% - 4%	4.60%	-.18%	5.22%	-1.49%	-.20%

	Accepted Benchmark	<u>William &amp; Mary/VIMS with Affiliated Foundations</u>				
		FY 2023	FY 2022	FY 2021	FY 2020	FY 2019
Net Operating Revenues	2% - 4%	8.72%	-9.71%	10.00%	-9.10%	7.01%

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

# The financial strength of foundations bolster CFI assessment

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

	<b>Accepted Benchmark</b>	<b><u>William &amp; Mary/VIMS</u></b>				
	<b>FY 2023</b>	<b>FY 2022</b>	<b>FY 2021</b>	<b>FY 2020</b>	<b>FY 2019</b>	
<b>Composite Financial Index (CFI)</b>	3.00	3.23	2.19	2.67	1.27	1.15

	<b>Accepted Benchmark</b>	<b><u>William &amp; Mary/VIMS with <u>Affiliated Foundations</u></u></b>				
	<b>FY 2023</b>	<b>FY 2022</b>	<b>FY 2021</b>	<b>FY 2020</b>	<b>FY 2019</b>	
<b>Composite Financial Index (CFI)</b>	3.00	6.91	5.35	8.08	4.57	5.93

Strategic Financial Analysis in Higher Education, 7th Ed.