

Committee on Financial Affairs Financial Ratios

Board of Visitors
November 20-22, 2024

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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.
- Four key ratios benchmarked to industry standard and combined into a weighted Composite Financial Index
- Industry best practice is to include foundations

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

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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 & Mary/VIMS</u>				
	Benchmark *	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020
Primary Reserve	0.400	0.39	0.39	0.32	0.28	0.19

	Accepted	<u>William & Mary/VIMS with Affiliated Foundations</u>				
	Benchmark	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020
Primary Reserve	0.400	1.74	1.68	1.47	1.64	1.11

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

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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 & Mary/VIMS</u>				
		FY 2024	FY 2023	FY 2022	FY 2021	FY 2020
Viability	1-1.25	0.66	0.62	0.44	0.39	0.36

	Accepted Benchmark	<u>William & Mary/VIMS with Affiliated Foundations</u>				
		FY 2024	FY 2023	FY 2022	FY 2021	FY 2020
Viability	1-1.25	2.40	2.07	1.83	1.98	1.73

* APA recommends 1%. NACUBO benchmarks at 1.25%

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Return on Net Position Ratio surpasses 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 & Mary/VIMS</u>				
	Benchmark*	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020
Return on Net Position	> 0	0.10	0.14	0.10	0.08	0.05

	Accepted	<u>William & Mary/VIMS with Affiliated Foundations</u>				
	Benchmark	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020
Return on Net Position	> 0	0.11	0.08	0.03	0.19	0.02

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

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Net Operating Revenues Ratio including Foundations increased year over year.

- 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	<u>William & Mary/VIMS</u>				
	Benchmark*	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020
Net Operating Revenues	2% - 4%	1.94%	4.60%	-.18%	5.22%	-1.49%

	Accepted	<u>William & Mary/VIMS with Affiliated Foundations</u>				
	Benchmark	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020
Net Operating Revenues	2% - 4%	10.00%	8.72%	-9.71%	10.00%	-9.10%

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

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The financial strength of foundations bolster CFI assessment

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

	Accepted	<u>William & Mary/VIMS</u>				
	Benchmark	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020
Composite Financial Index (CFI)	3.00	2.58	3.23	2.19	2.67	1.27

	Accepted	<u>William & Mary/VIMS with Affiliated Foundations</u>				
	Benchmark	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020
Composite Financial Index (CFI)	3.00	7.67	6.91	5.35	8.08	4.57

Strategic Financial Analysis in Higher Education, 7th Ed.