

November 17-18, 2022

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

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The Primary Reserve Ratio is bolstered 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	<u>William & Mary/VIMS</u>				
	Benchmark *	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018
Primary Reserve	0.400	0.32	0.28	0.19	0.17	0.15

	Accepted	<u>William & Mary/VIMS with Affiliated Foundations</u>				
	Benchmark	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018
Primary Reserve	0.400	1.47	1.64	1.11	1.12	1.17

*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.

	Accepted	<u>William & Mary/VIMS</u>				
	Benchmark*	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018
Viability	1-1.25	0.44	0.39	0.36	0.31	0.30

	Accepted	<u>William & Mary/VIMS with Affiliated Foundations</u>				
	Benchmark	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018
Viability	1-1.25	1.83	1.98	1.73	1.71	2.13

* 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 Benchmark*	William & Mary/VIMS				
		FY 2022	FY 2021	FY 2020	FY 2019	FY 2018
Return on Net Position	> 0	0.10	0.08	0.05	0.04	0.04

	Accepted Benchmark	William & Mary/VIMS with Affiliated Foundations				
		FY 2022	FY 2021	FY 2020	FY 2019	FY 2018
Return on Net Position	> 0	0.03	0.19	0.02	0.06	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 decreased due to decline in investment income

- 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 Benchmark*	William & Mary/VIMS				
		FY 2022	FY 2021	FY 2020	FY 2019	FY 2018
Net Operating Revenues	2% - 4%	-0.18%	5.22%	-1.49%	-0.20%	-3.06%

	Accepted Benchmark	William & Mary/VIMS with Affiliated Foundations				
		FY 2022	FY 2021	FY 2020	FY 2019	FY 2018
Net Operating Revenues	2% - 4%	-9.71%	10.00%	-9.10%	7.01%	7.02%

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

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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 & Mary/VIMS</u>				
	Benchmark	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018
Composite Financial Index (CFI)	3.00	2.19	2.67	1.27	1.15	1.00

	Accepted	<u>William & Mary/VIMS with Affiliated Foundations</u>				
	Benchmark	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018
Composite Financial Index (CFI)	3.00	5.35	8.08	4.57	5.93	6.48

Strategic Financial Analysis in Higher Education, 7th Ed.