



FORT VALLEY STATE UNIVERSITY
A State and Land-Grant Institution • University System of Georgia

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

Presented By:

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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 an understanding of the institution's 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%

- **Indicates whether the institution is better off financially this year than last year:**
 - » **Change in Net Assets/Position**
 - » **Beginning Net Assets/Position**

Net Operating/Unrestricted Revenues - 10%

- **Indicates whether the institution is living within available resources:**
 - » **Operating Surplus or Deficit (#)**
 - » **Operating Revenues(#)**

#NOTE: As a public institution and keeping in mind you are trying to get to what was once the net income ratio, non-operating revenues and expense are a significant part of the University's business and bottom-line. Therefore, these type entities should use the following calculation:

Net Unrestricted Revenues:

**Income (Loss) Before Other
Operating and Nonoperating Revenues**

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**

1,008,339
77,070,347

- *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

CFI SCORING SHEET

FISCAL YEAR 6/30/15

RATIO	VALUE	STRENGTH: Divide Value by These Factors	WEIGHT: Multiply Strength by These Factors	CFI SCORE (Note 1)
Primary Reserve	0.081	0.133	0.35	0.21
Viability	0.070	0.417	0.35	0.06
Return on Net Assets	(0.088)	2.00%	0.20	(0.88)
Net Operating Revenues (or Net Unrestricted Revenues)*	(0.062)	1.30%	0.10	(0.48)
CFI SCORE - sum last column				(1.09)

Note 1: Maximum score for the ratios is 3.5 for primary reserve and viability, 2 for return on net assets, and 1 for net operating revenues/net unrestricted revenues. If score exceeds these amounts, **enter the maximum value in appropriate cell.**

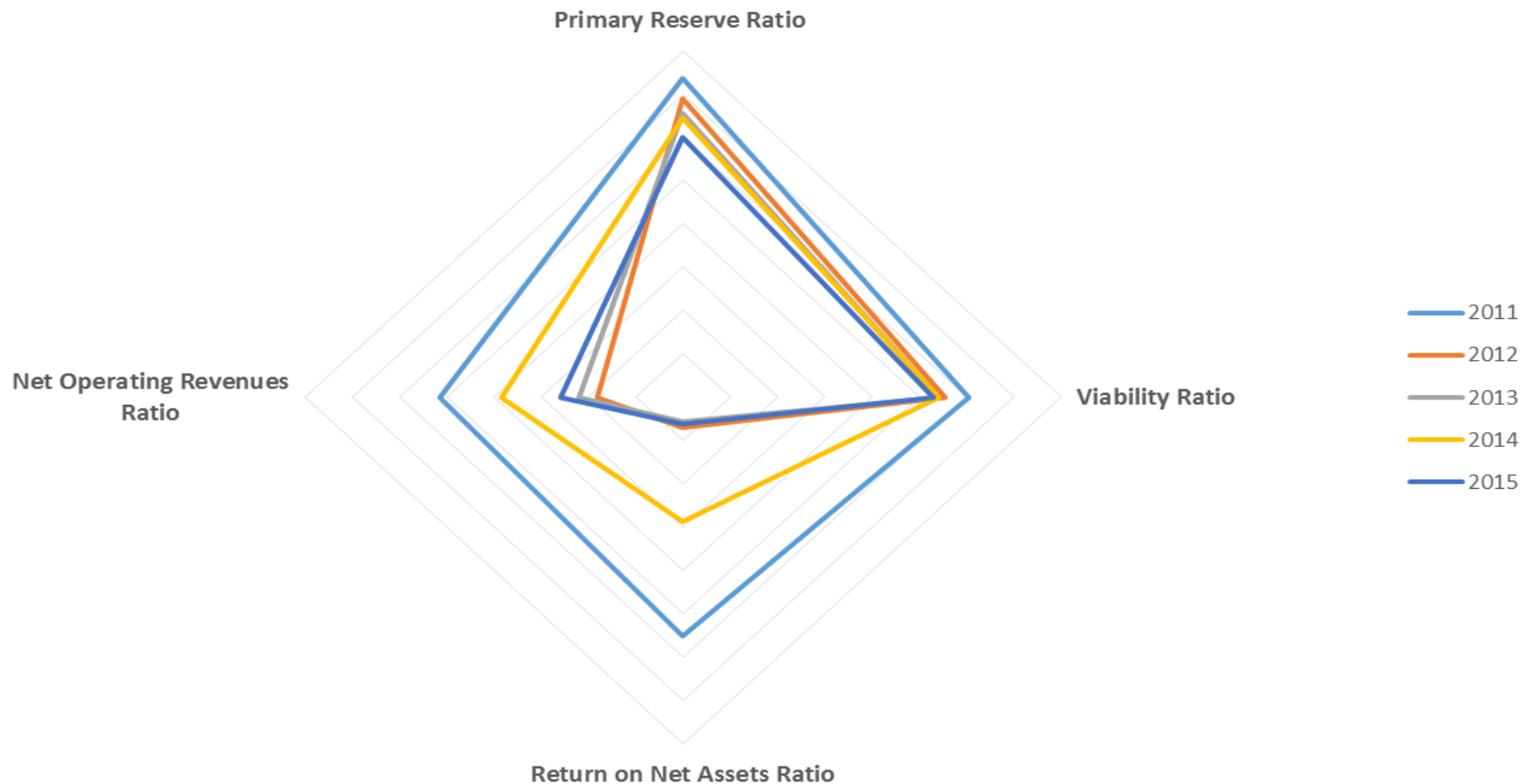
Note 2: If no long-term debt is reported, the weights change as follows: viability ratio is ignored, primary reserve weight becomes .55, return on net assets weight becomes .30, net operating revenues/net unrestricted revenues weight becomes .15. Maximum scores become 5.5 for primary reserve, 3 for return on net assets, and 1.5 for net operating revenues/net unrestricted revenues.

Note 3: Assumes use of operating measure; if change in unrestricted net assets is used, the strength factor is 1.3% versus 0.7%.



SSU CFI GRAPH

SSU Composite Financial Index FY2011-2015



FVSU – CFI CALC - 2015

CFI SCORING SHEET

FISCAL YEAR 6/30/15

RATIO	VALUE	STRENGTH: Divide Value by These Factors	WEIGHT: Multiply Strength by These Factors	CFI SCORE (Note 1)
Primary Reserve	0.013	0.133	0.35	0.034
Viability	0.012	0.417	0.35	0.010
Return on Net Assets	(0.021)	2.00%	0.20	(0.214)
Net Operating Revenues (or Net Unrestricted Revenues)*	(0.087)	1.30%	0.10	(0.668)
CFI SCORE - sum last column				(0.837)

Note 1: Maximum score for the ratios is 3.5 for primary reserve and viability, 2 for return on net assets, and 1 for net operating revenues/net unrestricted revenues. If score exceeds these amounts, **enter the maximum value in appropriate cell.**

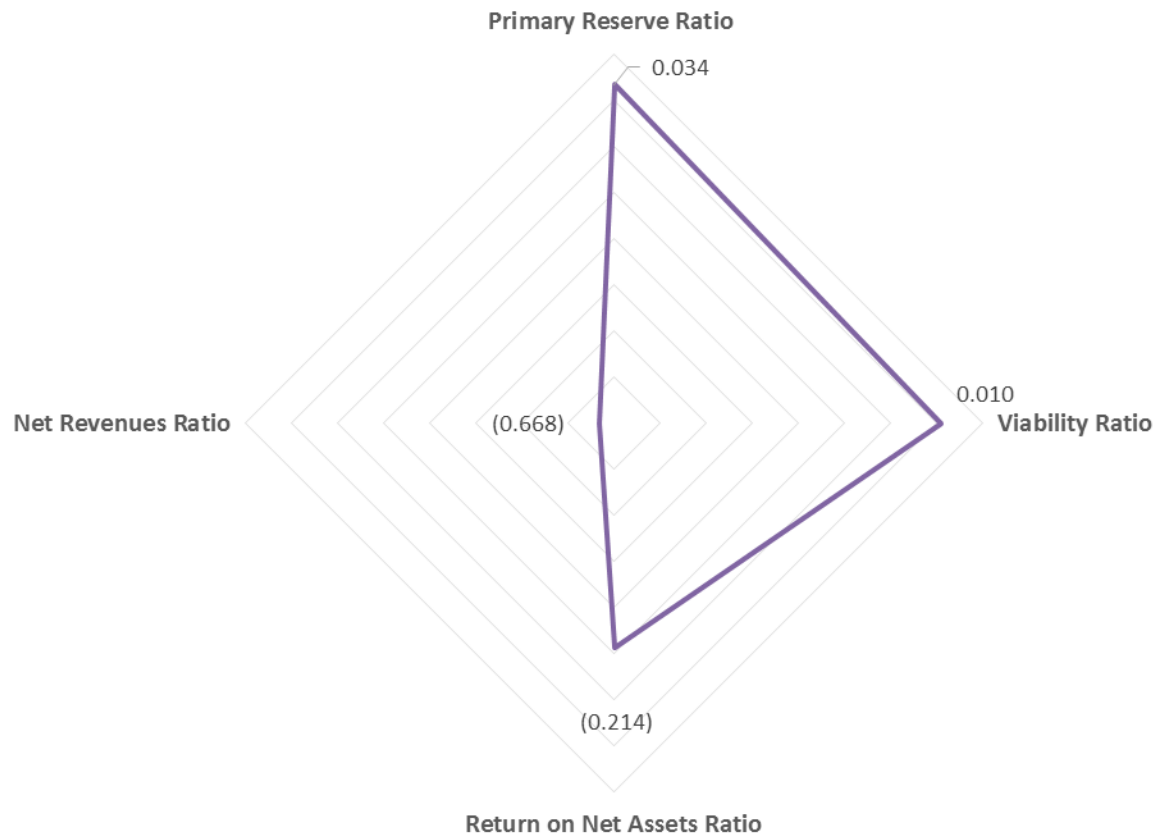
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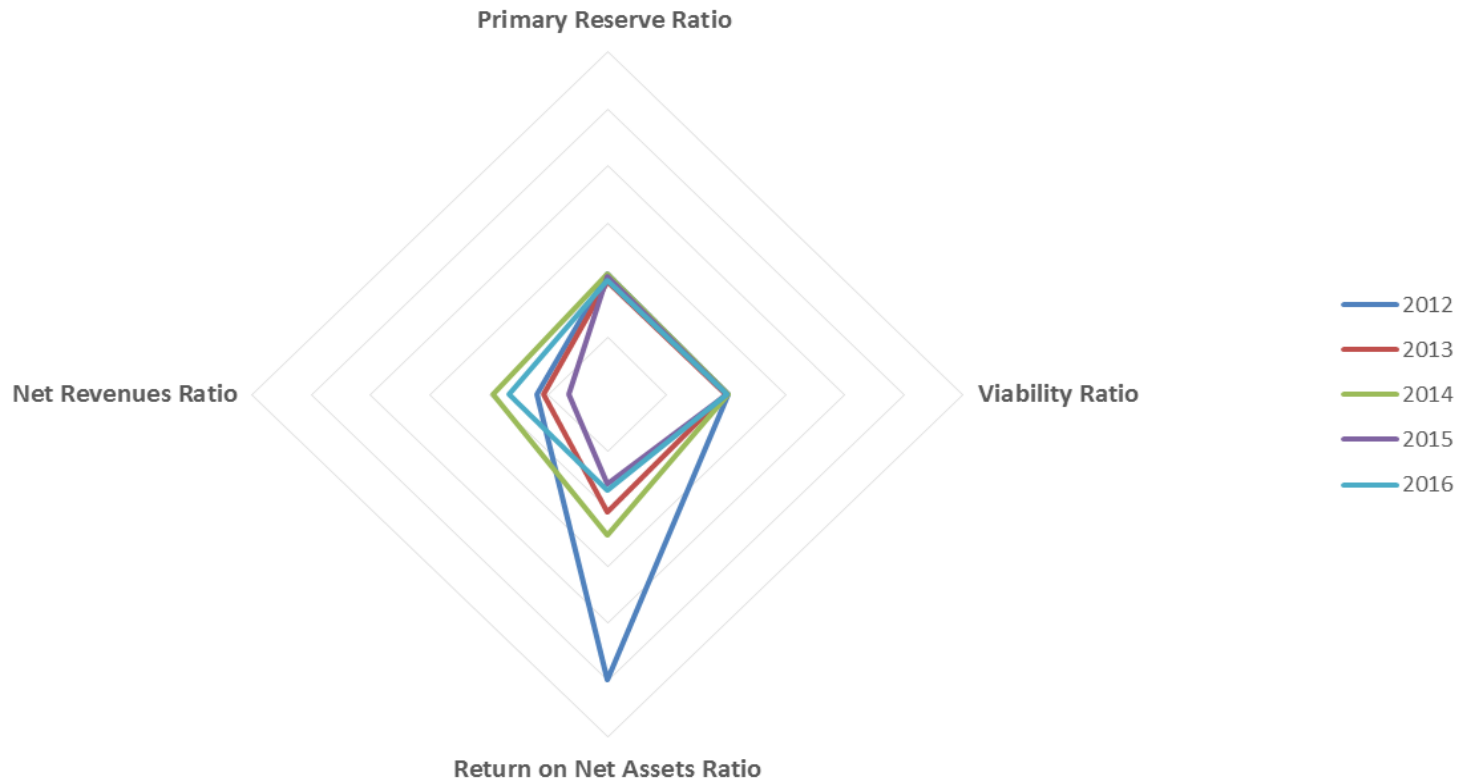
FVSU – CFI – 2015 GRAPH

FVSU Graphic Financial Profile FY2015



FVSU – CFI GRAPH

FVSU Composite Financial Index FY2012-2016



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.
- ❑ Understand your institution's initiatives and strategies 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.
 - ❑ USG System Office/Board of Regents.
 - ❑ Rating, State, Grant agencies when required.



Finally . . .

With limited resources:

- Look at strategic resource initiatives.
- Tie financial initiatives to student success; involve senior leadership.
- Transparency and trustworthiness.
- Communicate, communicate, communicate.

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