

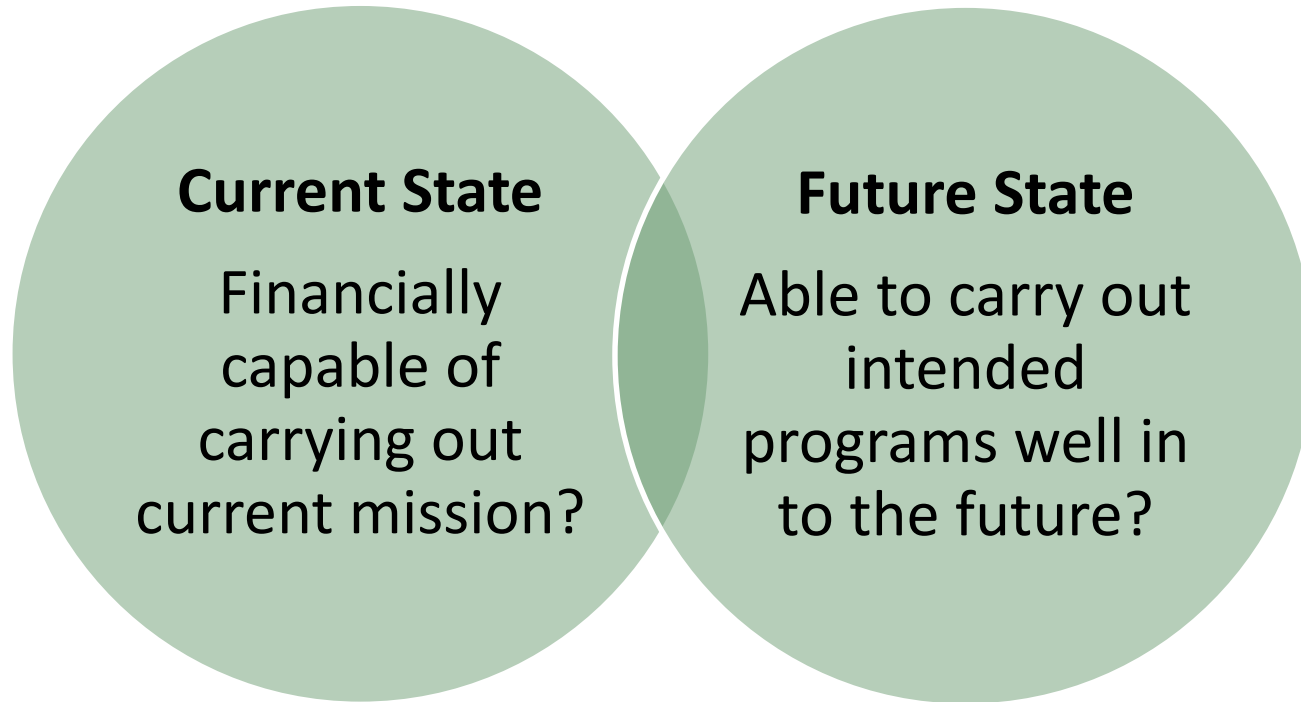


Financial Condition Analysis

The Composite Financial Index Model

February 2022

Finance Follows Mission



Four Key Financial Questions

Primary Reserve Ratio

Are resources sufficient and flexible enough to support the mission?

Viability Ratio

Are debt resources managed strategically to advance the mission?

Net Operating Revenues Ratio

Do operating results indicate the institution is living within its means?

Return on Net Assets Ratio

Does asset performance support the strategic direction?

Why Use Financial Ratios?

Provides quantifiable measures

Allows for benchmarking and analysis

Communicates financial health of institutions

Accepted practice – 40 year history; used by rating agencies and others

Rating Agency Approach

Focus on the Long Term

“You against yourself” analysis most useful

Level and predictability of resource flow

Reasonably adverse scenarios

Sector specific and peer analysis

Forward
Looking

Subjective

Numerous
Factors

Emphasis on
the qualitative

Moody's

S&P

Fitch

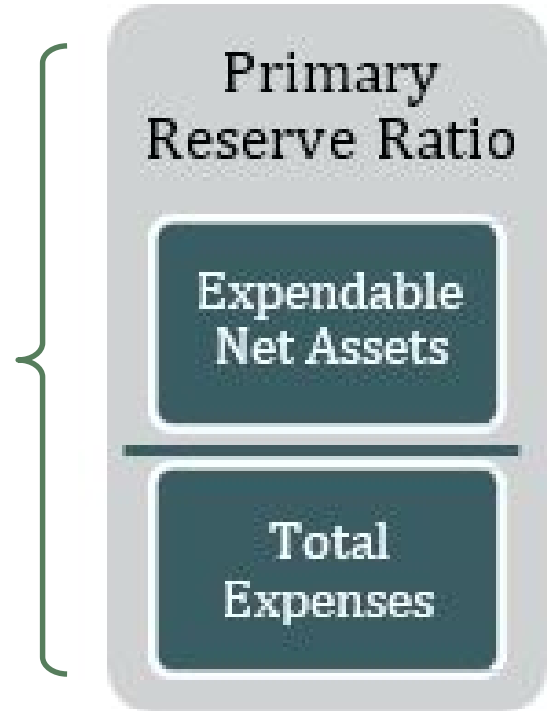
Primary Reserve Ratio

Not all assets have the same availability

Focuses on available liquid assets (some may have restrictions)

Tells you what period of time that expenses could be covered without additional resources

Measures sufficiency and flexibility of resources



★ Decreasing ratio may indicate a weakening financial condition

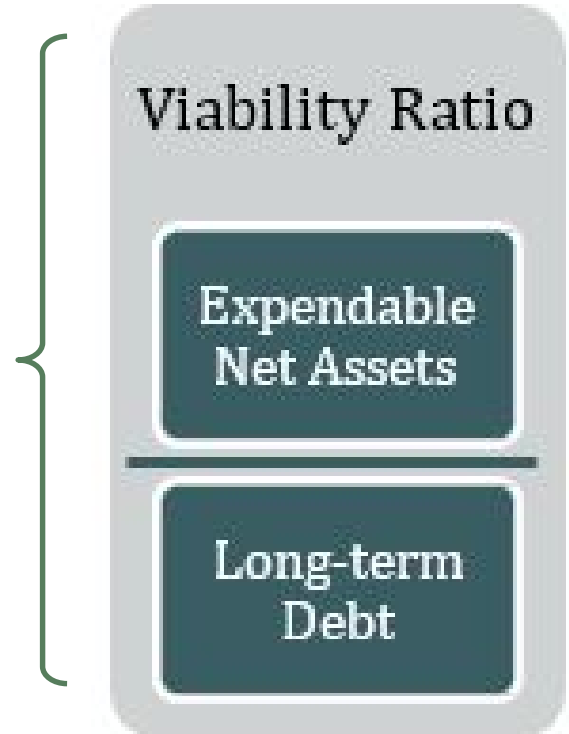
Viability Ratio

Not dependent on current, short-term operating results

Institutional debt policy should balance financial and programmatic objectives

Tells you the availability of expendable net assets to cover long term debt

Measures whether debt resources are managed strategically



★ Decreasing ratio may indicate a weakening financial condition

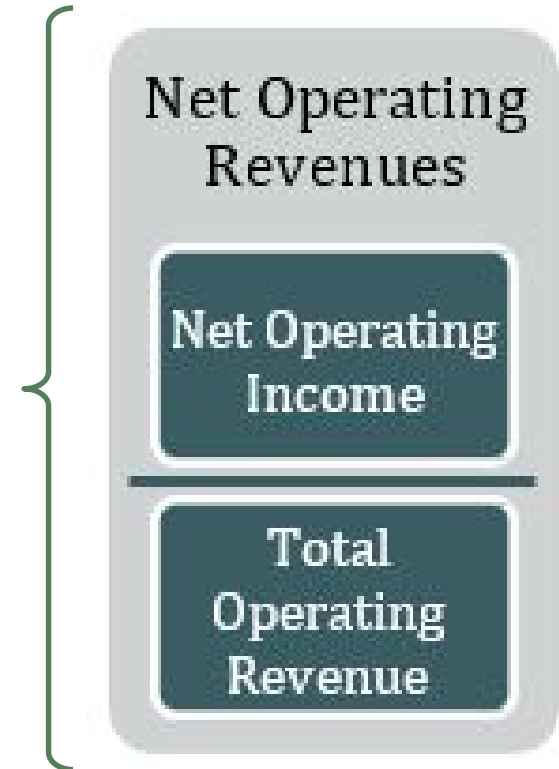
Net Operating Revenues Ratio

Operations producing a surplus or deficit (like a net income ratio)

Positive number is a surplus while a negative number is a deficit

Tells you whether or not the institution is collecting enough revenue to cover operating expenses

Measures whether the institution is living within existing resources



★ Negative ratio indicates a structural deficit which depletes reserves

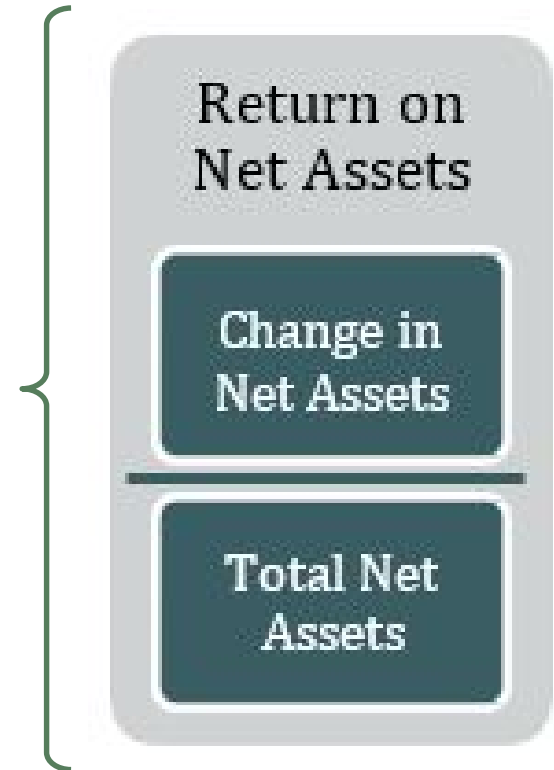
Return on Net Assets

Best measured over time as trending lends needed context

Market (versus operating) performance in a given year will impact the numerator

Tells you the total economic return on all equity (net assets)

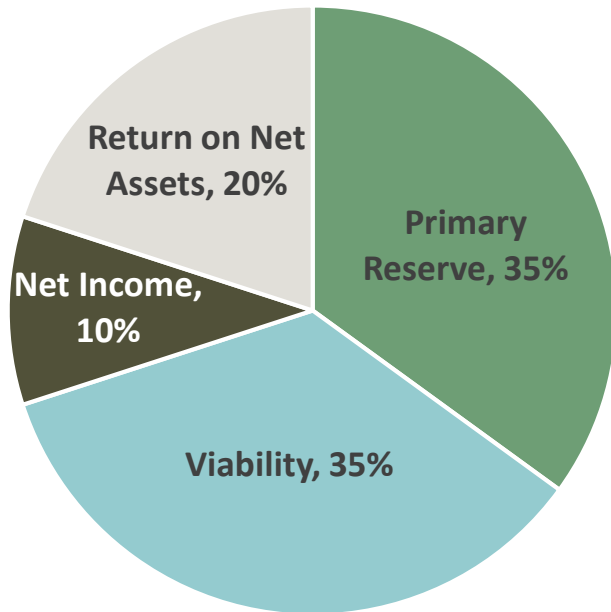
Measures whether asset performance supports strategic direction



★ Improving ratio indicates future financial flexibility

Composite Financial Index (CFI)

Components of the CFI

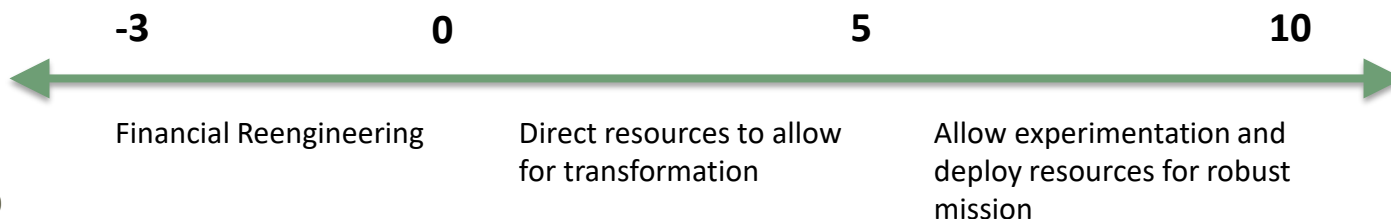


Combines the four core ratios into a single score

Attempts to quantify the overall financial well being of the institution

Score does not have absolute precision; useful if measured over time and in context

Scale for CFI Performance



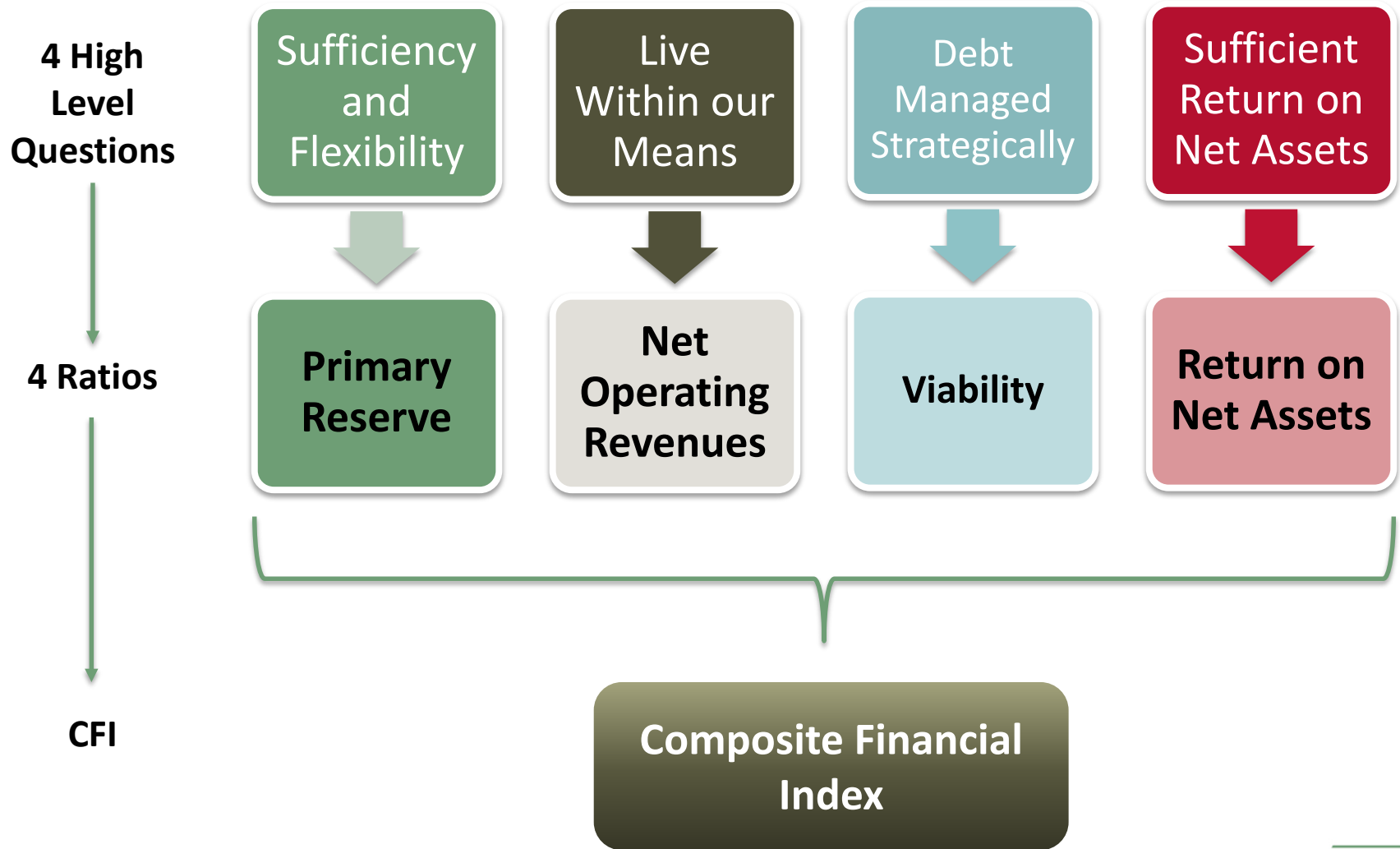
Changes in Accounting Practice

Can have a large impact on ratio calculations and related analysis

Pension and other postemployment benefits accounting has had the biggest impact

- The additional liability is significant; $\sim 1/3^{\text{rd}}$ of total liabilities
- Expendable net assets has been reduced
- Higher pension expense has reduced the net operating revenues
- The discount rate assumption is particularly sensitive; each 1% change = 25-30% change in net liability

Summary of CFI Approach





Appendix – Example Calculations

Primary Reserve Ratio

Source of Data	Line Item	FY XXXX
	Net expendable position	
Statement of Net Position	Total net position	56,488
	Net Investment in Capital Assets	(52,552)
	Restricted, Nonexpendable assets	(554)
	Restricted, Expendable:	
	Expendable for Capital Projects	(77)
Foundation Financials	Net Assets w/o Donor Restrictions	1,106
Statement of Financial Position	With Donor Restrictions, Purpose Restrictions	4,891
	Total Expendable Net Assets	9,302
	Operating expenses	
	University	
SRECNA - stmt of revenue, exp, and changes in net assets	Total Operating Expenses	59,818
	Interest Expense (non-operating)	1,018
	Foundation	
Statement of Activities	Operating expenses	1,761
	Interest expenses	0
	Total Expenses	62,597
	Primary Reserve Ratio	0.15

Viability Ratio

Source of Data	Line Item	FY XXXX
	Net expendable position	
Statement of Net Position	Total net position	56,488
	Net Investment in Capital Assets	(52,552)
	Restricted, Nonexpendable assets	(554)
	Restricted, Expendable:	
	Expendable for Capital Projects	(77)
Foundation Financials	Net Assets w/o Donor Restrictions	1,106
Statement of Financial Position	With Donor Restrictions, Purpose Restrictions	4,891
	Total Expendable Net Assets	9,302
	Long-term debt	
Long-Term Liabilities Note	Total Long-Term Debt	21,112
	Other Noncurrent Liabilities:	
	PERS debt	1,711
	Early Retirement Liability	0
	University Foundation	0
	Total Long-Term Debt	22,823
	Viability Ratio	0.41

Net Operating Revenues

Source of Data	Line Item	FY XXXX
University SRECNA	Operating income (loss)	(30,746)
	Net Non-operating revenues (expenses)	28,595
Foundation	Total change in net assets (w/o donor restrictions)	(171)
Stmnt of Financial Position	Net Operating Income	(2,322)
	University	
University SRENCA	Total Operating revenues	29,072
	Net Non-operating revenues (expenses)	28,595
	Interest Expense	1,018
	Perkins - change in accounting principal*	0
	Foundation	
Foundation	Total Revenues	1,590
Stmnt of Activities	Gains and other support	0
	Total Operating Revenues	60,275
	Return on Net Revenues	-3.9%

Return on Net Assets

Source of Data	Line Item	FY XXXX
	Change in net position	
University SRECNA	Change in Net Position	1,413
	Change in Net assets (University Foundation)*	155
Statement of Activities	Total change in net position	1,568
	Beginning net position	
University SRENCA	Beginning Net Position, University	55,075
	Prior year restatement (if applicable)	0
Statement of Activities	Beginning Net Assets, Foundation	15,802
	Total beginning net position	70,877
	Return on net assets	2.2%

Composite Financial Index (CFI)

	Ratio Calculation	Scoring Scale	Strength Factor	Weighting Factor	Score
Primary Reserve Ratio	0.15	0.133	1.12	35%	0.39
Viability Ratio	0.41	0.417	0.98	35%	0.34
Net Operating Revenues	-3.9%	1.3%	(2.96)	10%	(0.30)
Return on Net Assets	2.2%	2.0%	1.11	20%	<u>0.22</u>
Composite Financial Index (CFI)					0.66

Calculation

Ratio Calculation / Scoring Scale = Strength Factor * Weighting Factor = Score

The sum of the scores for each ratio is the CFI.

Notes

The ratio scores are converted to strength factors along a common scale to make each ratio relatively comparable. The weight factors reflect an assessment of the relative importance of each ratio. The long term factors are weighted at 70% while short term factors are weighted at 30%.

Adjusted CFI Calculations

CFI calculations adjusted for pension and OPEB related liabilities and expenses are calculated by removing both from the individual calculations for each ratio. There are no other changes.