



**The College of New Jersey**  
**Key Financial Performance Indicators**  
**As of June 30, 2012**

# Overview of Financial Performance

TCNJ's leadership emphasizes long-term fiscal sustainability in its operational and resource allocation decisions. In analyzing and measuring the overall fiscal health of the College, the leadership consistently examine the results of a number of mission critical questions. The schematic shown on the next slide depicts these questions and emphasizes the concept that all financial decisions should be driven by the College's mission. The highlights below provide a summary of fiscal year 2012 financial results and key performance indicators:

## **Financial Highlights**

- ❖ Student demand remains solid and modest enrollment growth generated an increase of \$5.2 million or 5.3% in tuition and fees revenue.
- ❖ Affordability/ Access – increased funding for institutional scholarship of \$1.04M or 8.2% over the prior year total of \$12.7 million.
- ❖ Solid operating margin of 5.6% (operating surplus) despite unstable and declining state appropriations.
- ❖ Balance sheet remains leveraged and debt service burden represents 11% of operating expenses.
- ❖ State appropriations declined as a percentage of operations to 26.6% while net student revenues rose to 59.6%.
- ❖ Strengthening liquidity – TCNJ's average cash and investments balance of \$112.3 million for FY2012 provides adequate liquidity – cover approximately six months of operating expenses. Cash and investments totaled \$95.4 million at fiscal year end.

# Strategic Financial Management

## *Revenue growth and mix*

Do you have enough resources to support your mission?

## *Cost Containment*

Does your operating results indicate the institution is living within its available means?

*What is the overall level of fiscal health?*

Do you manage your debt and investments to help advance your mission?

## *Investment strategy*

Does your financial assets support your strategic direction?

## *Asset utilization*

All resource decisions should be driven by mission.

# Key Financial Performance Measures

## 1. Does your financial assets support your strategic direction?

The College's long-term success is dependent on its ability to enhance its reserves and prudently manage its financial resources. Management uses the ***Return on Net Asset Ratio*** to address this question. The increase in net assets is one indicator that the College's financial health continues to improve, reflecting sound and careful fiscal management across the institution. Over the years, the increases in net assets were directly related to the College's continued investment in strategic initiatives and increasing the level of reserves.

## 2. Does your operating results indicate the institution is living within its available means?

Management has a disciplined approach to budgeting and a proven track record of successfully dealing with past financial difficulties in order to balance the operating budgets. Over the years prudent budgetary practices have led to robust ***operating margins***, yielding an average of **6.5%** over the last three fiscal years. These surpluses are used to build financial reserves to cushion debt service coverage and provide future operational flexibility for investments in strategic initiatives.

## 3. Do you manage your debt and investments to help advance your mission?

The management of debt and the liquidity of its investments been key components in the College's transformation into a selective institution with state of the arts facilities. A primary goal of the College is to maintain highly liquid investments plus investment grade bond ratings that will allow us to issue debt in order to finance mission critical facilities. The ***Viability Ratio*** which measures an institution's expendable resources over its long-term debt is used by the College to address this question. TCNJ also designates a portion of its reserves to protect future years debt service needs.

# Key Financial Performance Measures

## 4. Do you have enough resources to support your mission?

The *Primary Reserve Ratio (Expendable Financial Resources to Operations)* provides a snapshot of the College's financial strength and flexibility. It is an indicator of how long the College could exist using expendable net assets, without relying on additional resources. For the past three years, the value of this ratio indicates that the College has the flexibility to cover approximately nine months of expenses without relying on additional revenues generated by operations.

## 5. What's the overall level of fiscal health?

The College's overall level of fiscal health is good, as evidenced by its strong bond ratings, student demand, solid annual operating performances and the condition of the facilities. Management also uses the *Composite Financial Index (CFI)* as another key indicator when assessing the overall level of TCNJ's fiscal health. The CFI is designed to increase financial accountability by creating one overall financial measurement of a public institution's fiscal health over time based on the following four core ratios: Return on Net Assets, Operating Margin, Viability Ratio and Primary Reserve Ratio (*see slide 7 for the CFI results*).

# Core Financial Ratios Addressing Fiscal Sustainability

Fiscal Year Ended June 30,	2010	2011	2012	CFI weight*
Does your financial assets support your strategic direction?				
Return on Net Assets	3.1%	3.6%	2.7%	20%
change in net assets / average total net assets				
Return on net assets measures total economic return. While an increasing trend reflects strength, a decline may be appropriate and even warranted if it represents a strategy on the part of the institution to fulfill its mission. An improving trend indicates increased net assets and future financial flexibility.				
Does your operating results indicate the institution is living within its available means?				
Operating Margin	6.5%	7.5%	5.6%	10%
operating surplus / operating revenue				
Operating margin measures overall financial performance as a result of the year's activities. The larger the surplus, the stronger the institution's financial performance. This ratio should fall in the range of 2 – 4%. A single year deficit is not necessarily a problem, but multi-year deficits may indicate fiscal trouble.				

*\*Composite Financial Index (CFI) weighted value assigned to each core ratio. See slide 7 for CFI calculation.*

# Core Financial Ratios Addressing Fiscal Sustainability

Fiscal Year Ended June 30,	2010	2011	2012	CFI weight*
Do you manage your debt and investments to help advance your mission?				
Viability Ratio	0.37	0.38	0.39	35%
expendable net assets / long term debt				
TCNJ's expendable resources provide a narrow cushion to debt but is consistent with its rating category (Moody's A2 median = 0.35 times). A ratio of one or greater indicates that the institution has sufficient expendable net assets to satisfy its debt. TCNJ's healthy operating margins serve to offset this ratio and each fiscal year, a portion of the reserves is designated to protect future years debt service.				
Do you have enough resources to support your mission?				
Primary Reserve Ratio	0.75	0.75	0.71	35%
expendable net assets / total expenses				
Expendable resources are those that TCNJ can access quickly in order to satisfy short-term obligations. This ratio shows that over the last 3 years, TCNJ has the flexibility to cover about 9 months of expenses without relying on revenues.				

\*Composite Financial Index (CFI) weighted value assigned to each core ratio. See slide 7 for CFI calculation.

# Composite Financial Index (CFI)

The CFI is a single financial metric that takes the relative strengths and weaknesses of four core ratios and combine them into a single weighted score. This combination allows a weakness or strength in a specific ratio to be offset by another ratio, thereby providing a more holistic approach to understanding the overall financial health of an institution. Using the same measurement over a period of time gives management an opportunity to track financial progress.

TCNJ's Strength Factors for Fiscal Year Ended June 30,	2010	2011	2012
Return on Net Assets	1.55	1.79	1.36
Operating Margin	5.03	5.75	4.32
Viability Ratio	0.88	0.92	0.92
Primary Reserve Ratio	5.67	5.56	5.37
<b>TCNJ's CFI (weighted average)</b>	<b>3.10</b>	<b>3.20</b>	<b>2.91</b>

**Strength Factors** are measured on a scale from (negative) -4 to 10 with 10 being the best. The three-year average CFI score of **3.1** indicates that the College is fiscally sound. The College's moderate Return on Net Assets and Viability Ratio were offset by the healthy Operating Margin and Primary Reserve Ratio.