

Financial Ratios and Composite Financial Index

Pima Community College's accreditor, the [Higher Learning Commission](#) (HLC), reviews accredited institutions' financial information to determine whether an institution operates with integrity in its financial functions (see [Criterion Two, Core Component 2.A.](#)). Each year, the College provides financial data to the HLC through the Institutional Update and the HLC's Financial Indicator Process. The financial data submitted in the Institutional Update generate a Composite Financial Index (CFI). For public institutions like the College, the HLC relies on the financial ratios and benchmarks recommended in *Strategic Financial Analysis for Higher Education (Seventh Edition and Update)*, by KPMG LLP; Prager, Sealy & Co., LLC; Attain LLC.

Financial Ratio Benchmarks

Each financial ratio has a high and low benchmark with the goal that calculated ratios should fall within these high / low benchmarks. However, these benchmarks have not been updated to reflect the impact of GASB 68 (see below) on institutions of higher education like Pima Community College, and consequently, the benchmarks do not necessarily provide the financial guidance that they are intended to communicate. Consequently, until new benchmarks are provided, and in order to provide the ability to compare the College's financial results year over year, the College has chosen to show these ratios both with and without the financial impact of GASB 68, and the attached charts reflect this. In addition, the HLC requires the College to provide this financial data and ratios both with and without the impact of GASB 68.

Additionally, starting in fiscal year 2014, the College no longer carries any long term debt and ironically, this lack of debt impacts the financial ratios negatively, specifically the Viability Ratio and the Composite Financial Indicator (CFI).

GASB Statement No. 68

The College implemented the Governmental Accounting Standards Board (GASB), 'Statement No. 68, Accounting and Financial Reporting for Pensions' effective fiscal year 2015. This accounting change impacts the way the College accounts for its share of pension liability for the two defined benefit retirement plans that the College contributes to the Arizona State Retirement System (ASRS) and the Public Safety Personnel Retirement System (PSPRS).

The College's accounting policies conform with standards set forth by the Governmental Accounting Standards Board (GASB), the independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments, and this accounting change is summarized in GASB's 'Statement No. 68, Accounting and Financial Reporting for Pensions'. According to GASB, "The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities."

All government entities, including the College, must report their net pension liability which is the difference in the total pension liability and the fair value of the pension plan assets. This accounting change may be identified on the College's *Statement of Net Position* as 'Deferred Outflows Related to Pensions', 'Net Pension Liability', and 'Deferred Inflows Related to Pensions'. For fiscal year 2017, this required accounting change negatively impacted the College's financial reporting, and subsequently the College's financial ratios, by about \$129.7 million.

Primary Reserve Ratio

Measures the financial strength of the institution by indicating how long the institution could function using its expendable reserves to cover operations should additional net assets not be available. A positive ratio and an increasing amount over time, generally reflects strength. The numerator for this ratio is net assets and the denominator is expenses. This ratio is intended to answer the question: “Are resources sufficient and flexible enough to support the mission?” For fiscal year 2017, this ratio continues to fall within the benchmarks when the impact of GASB 68 is excluded.

Return on Net Assets Ratio

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. The numerator for this ratio is change in net assets and the denominator is total net assets. This ratio is intended to answer the question: “Does asset performance and management support the strategic direction?” For fiscal years 2012-2016, this ratio fell below the benchmarks due to the deliberate financial decision to use fund balance to help pay for some capital projects. For fiscal year 2017, this ratio improved.

Net Operating Revenue Ratio

Measures whether the institution is living within available resources. A positive ratio and an increasing amount over time, generally reflects strength. The numerator for this ratio is operating income (loss) + net non-operating revenues and the denominator is operating revenue + non-operating revenue. This ratio is intended to answer the question: “Do operating results indicate the institution is living within available resources?” For fiscal years 2012-2016, this ratio fell below the benchmark due to falling revenue as a result of decreases in enrollment revenue, decreases and the elimination of state appropriations, and the College’s deliberate financial decision to use fund balance to help pay for some capital projects. For fiscal year 2017, this ratio improved.

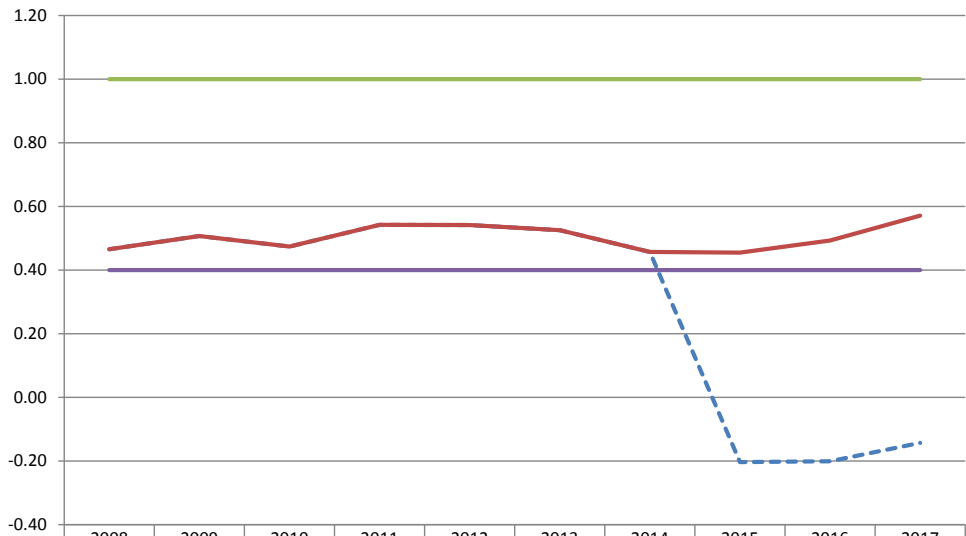
Viability Ratio

Measures the ability of the institution to cover its debt as of the statement of net position date, should the institution need to do so. A positive ratio of greater than 1:1 generally denotes strength. The Viability Ratio is capped at 10. The numerator for this ratio is expendable net assets and the denominator is long-term debt. However, when an institution is debt free the denominator becomes zero, the Viability Ratio also becomes zero. This can adversely impact both the Viability Ratio and the CFI of the institution. This ratio is intended to answer the question: “Are debt resources managed strategically to advance the mission?” For fiscal years 2014-2017, this ratio fell below the benchmark due to the College not having any long term debt. Excluding the impact of GASB 68, and if PCC had just \$1.00 of long term debt, the denominator of this ratio would change from zero to one and the viability ratio would change from zero to 10.00 for fiscal years 2014-2017.

Composite Financial Index (CFI)

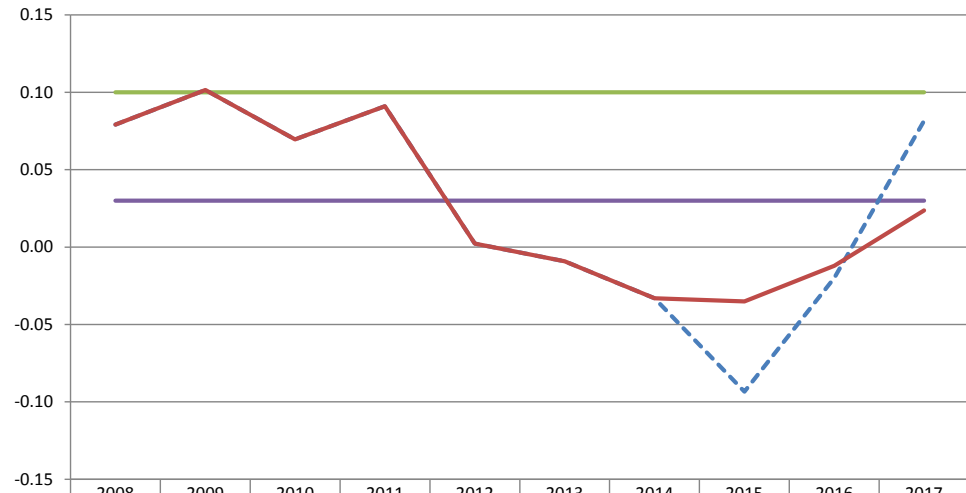
The Composite Financial Index (CFI) provides a more complex picture of the financial health of the institution at a point in time than is possible by simply comparing multiple indicators. Examining the trend of an institution’s CFI score over an extended period offers a more stable long-term view of an institution’s financial performance, given fluctuations in institutional conditions, and external circumstances, such as market performance. The above four ratios are converted to strength factors and then are weighted and summed to compute the single CFI. For fiscal year 2017, the CFI continues to fall within the benchmarks even with the impacts of GASB 68 and the College’s lack of long-term debt.

PCC Primary Reserve Ratio



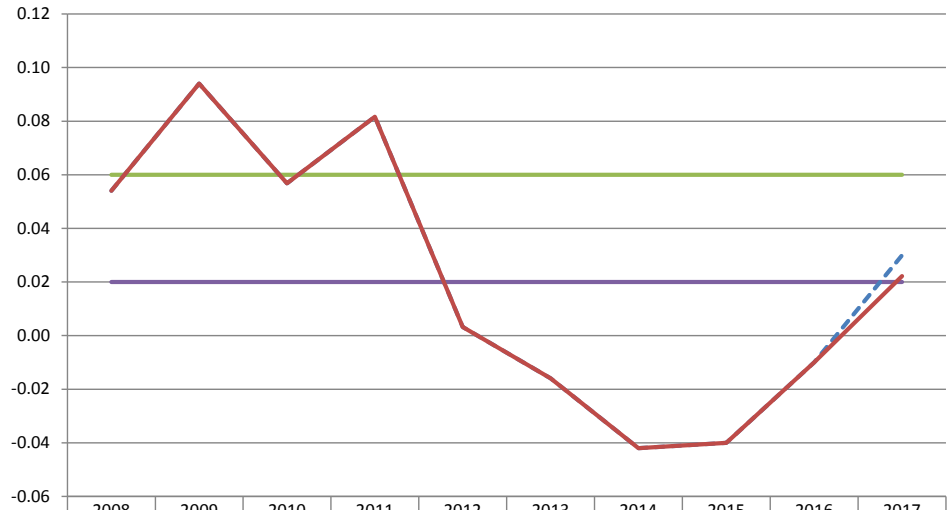
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
High Benchmark	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Low Benchmark	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Primary Reserve Ratio - with GASB 68	0.47	0.51	0.47	0.54	0.54	0.53	0.46	-0.20	-0.20	-0.14
Primary Reserve Ratio - without GASB 68	0.47	0.51	0.47	0.54	0.54	0.53	0.46	0.45	0.49	0.57

PCC Return on Net Assets Ratio



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
High Benchmark	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Low Benchmark	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03
Return on Net Assets Ratio - with GASB 68	0.08	0.10	0.07	0.09	0.00	-0.01	-0.03	-0.09	-0.02	0.08
Return on Net Assets Ratio - without GASB 68	0.08	0.10	0.07	0.09	0.00	-0.01	-0.03	-0.04	-0.01	0.02

PCC Net Operating Revenue Ratio



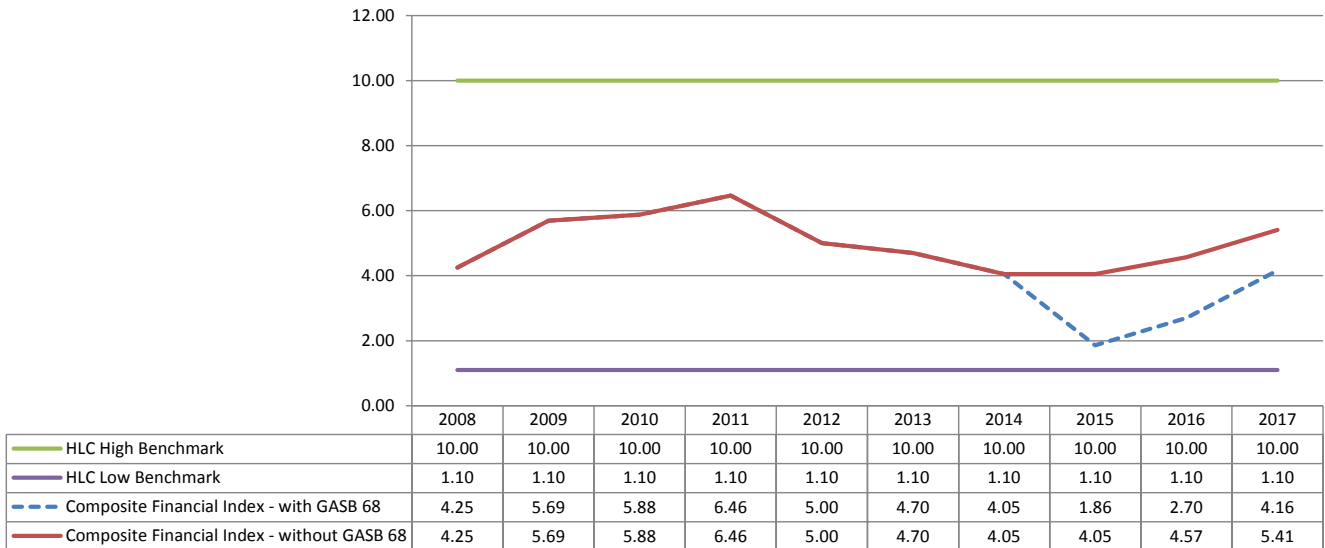
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
High Benchmark	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Low Benchmark	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Net Operating Revenue Ratio - with GASB 68	0.05	0.09	0.06	0.08	0.00	-0.02	-0.04	-0.04	-0.01	0.03
Net Operating Revenue Ratio - without GASB 68	0.05	0.09	0.06	0.08	0.00	-0.02	-0.04	-0.04	-0.01	0.02

PCC Viability Ratio



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
High Benchmark	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Low Benchmark	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Viability Ratio - with GASB 68	1.75	2.79	5.04	10.00	10.00	10.00	0.00	0.00	0.00	0.00
Viability Ratio - without GASB 68	1.75	2.79	5.04	10.00	10.00	10.00	0.00	0.00	0.00	0.00

PCC Composite Financial Index (CFI)



PCC Financial Ratios vs. Benchmark Targets

(1.0+ = meeting or exceeding the benchmark)

