PimaCommunityCollege
Administration

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 Governmental Accounting Standards Board (GASB) Statement No. 68 and Statement No. 75 (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 Statement No. 68 and Statement No. 75, 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 combined impact of GASB Statement No. 68 and Statement No. 75.

Additionally, although the college did issue revenue bonds in fiscal year 2019, in the previous fiscal years 2014 through 2018 the College did not carry any long-term debt and ironically the lack of debt impacted the financial ratios negatively, specifically the Viability Ratio and the Composite Financial Indicator (CFI).

GASB Statement No. 68 and GASB Statement No. 75

The College implemented the Governmental Accounting Standards Board (GASB), Statement No. 68, *Accounting and Financial Reporting for Pensions,* effective fiscal year 2015, and implemented Governmental Accounting Standards Board (GASB), Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017,* effective fiscal year 2018. GASB Statement No. 68 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). GASB Statement No. 75 established standards for measuring and recognizing net assets or liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to other postemployment benefits (OPEB) provided through defined benefit OPEB plans.

The College's accounting policies conform with standards set forth by the GASB, the independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments. All government entities, including the College, must report their net pension and OPEB liability. This accounting change may be identified on the College's *Statement of Net Position* as 'Deferred Outflows Related to Pensions and Other Postemployment Benefits', 'Net Pension and Other Postemployment Benefits Liability', and 'Deferred Inflows Related to Pensions and Other Postemployment Benefits'. For fiscal year 2023, this required accounting change negatively impacted the College's financial reporting, and subsequently the College's financial ratios, by about $88.9 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 2023, this ratio continues to remain stable and falls within the benchmarks when the impacts of GASB 68 and 75 are not included, and falls slightly below the benchmarks when GASB 68 and 75 are included.

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 year 2023, this ratio returned to below the benchmarks with and without the impacts of GASB 68 and 75 included due to planned use of assets for capital projects.

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 2023, with the College’s employee salary adjustments and planned use of resources for capital projects this ratio declined below the benchmarks with and without the impacts of GASB 68 and 75 included.

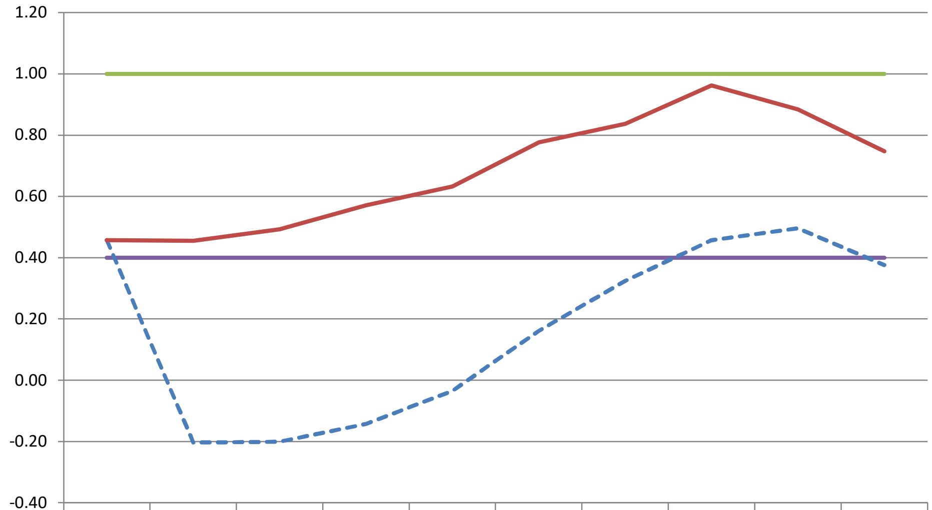
Viability Ratio

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 2014-2018, this ratio fell below the benchmark due to the College not having any long term debt. Excluding the impact of GASB 68 and 75, 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 2014-2018. For fiscal year 2023, with the previous issuance of debt for some capital projects in 2019 this ratio improved and falls within the benchmarks when the impacts of GASB 68 and 75 are included.

Composite Financial Index (CFI)

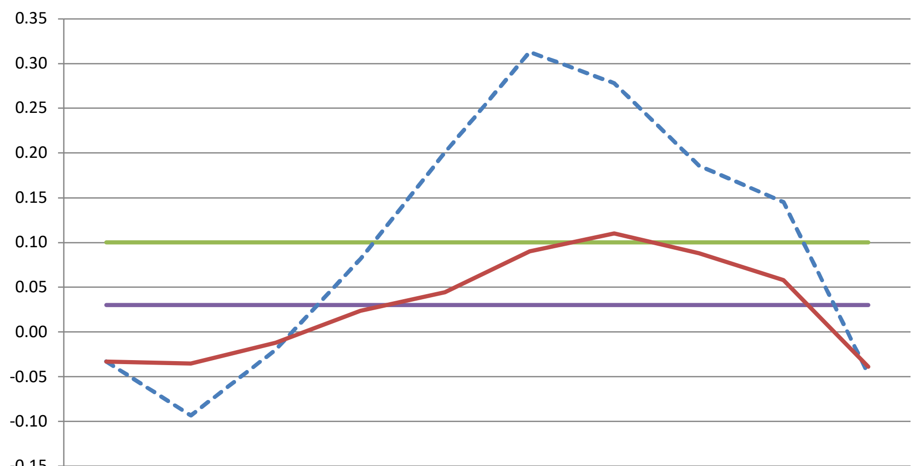
The Composite Financial Index (CFI) provides a more complex picture of the financial health of the institution at a point in time than is possible by simply comparing multiple indicators. Examining the trend of an institution’s CFI score over an extended period offers a more stable long-term view of 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 2023, the CFI continues to fall within the benchmarks even with the impact of GASB 68 and 75 and the College’s lack of long-term debt.

PCC Primary Reserve Ratio



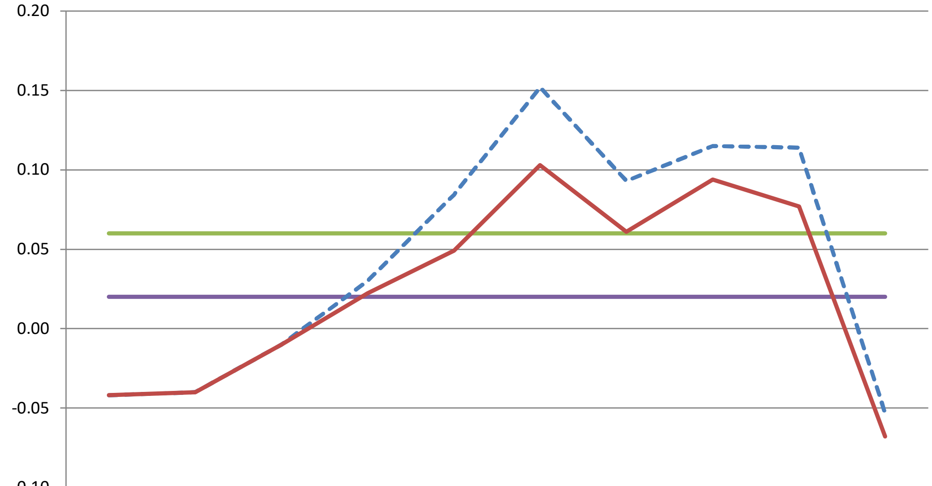
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
High Benchmark	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Low Benchmark	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Primary Reserve Ratio - with GASB 68+75	0.46	-0.20	-0.20	-0.14	-0.03	0.16	0.32	0.46	0.50	0.38
Primary Reserve Ratio - without GASB 68+75	0.46	0.45	0.49	0.57	0.63	0.78	0.84	0.96	0.88	0.75

PCC Return on Net Assets Ratio



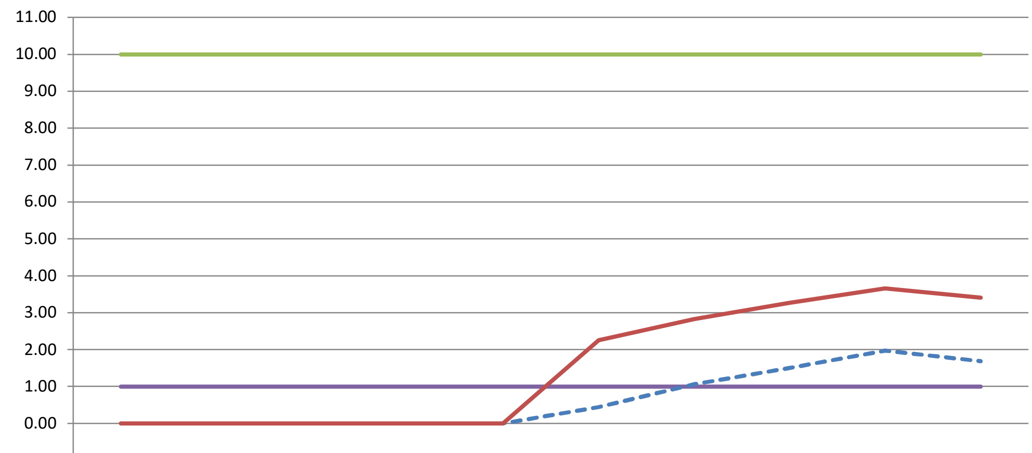
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
High Benchmark	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Low Benchmark	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03
Return on Net Assets Ratio - with GASB 68+75	-0.03	-0.09	-0.02	0.08	0.20	0.31	0.28	0.19	0.15	-0.05
Return on Net Assets Ratio - without GASB 68+75	-0.03	-0.04	-0.01	0.02	0.04	0.09	0.11	0.09	0.06	-0.04

PCC Net Operating Revenue Ratio



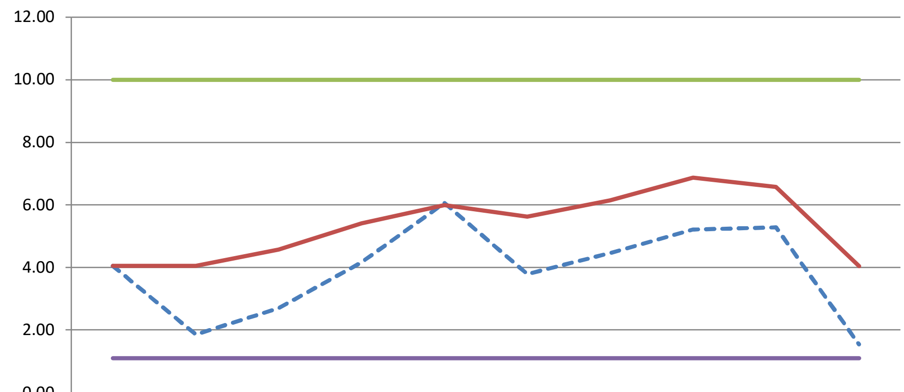
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
High Benchmark	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Low Benchmark	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Net Operating Revenue Ratio-with GASB 68+75	-0.04	-0.04	-0.01	0.03	0.08	0.15	0.09	0.12	0.11	-0.05
Net Operating Revenue Ratio-without GASB 68+75	-0.04	-0.04	-0.01	0.02	0.05	0.10	0.06	0.09	0.08	-0.07

PCC Viability Ratio



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
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+75	0.00	0.00	0.00	0.00	0.00	0.44	1.06	1.50	1.97	1.69
Viability Ratio - without GASB 68+75	0.00	0.00	0.00	0.00	0.00	2.26	2.83	3.28	3.66	3.41

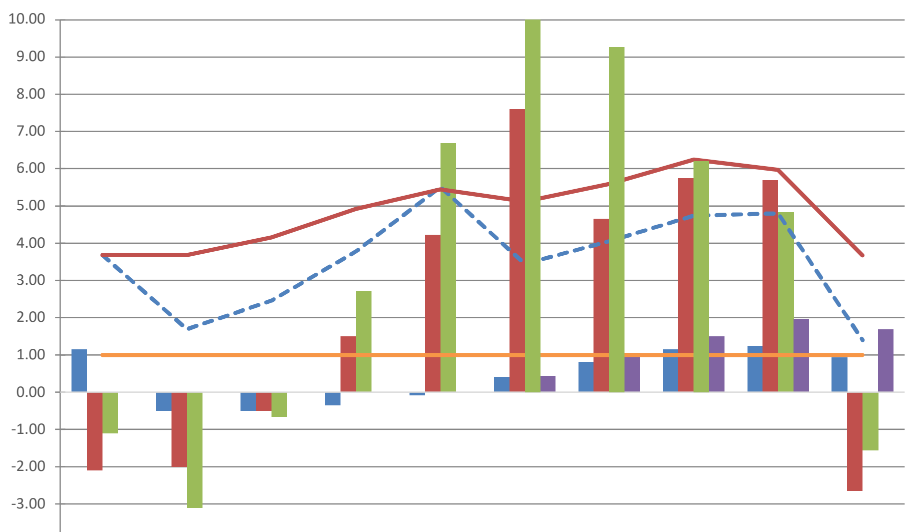
PCC Composite Financial Index (CFI)



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
HLC High Benchmark	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
HLC Low Benchmark	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10
Composite Financial Index - with GASB 68+75	4.05	1.86	2.70	4.16	6.06	3.79	4.46	5.21	5.28	1.54
Composite Financial Index - without GASB 68+75	4.05	4.05	4.57	5.41	5.99	5.63	6.15	6.87	6.57	4.04

PCC Financial Ratios vs. Benchmark Targets

(1.0+ = meeting or exceeding the benchmark)



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Primary Reserve Ratio	1.14	-0.51	-0.50	-0.36	-0.09	0.40	0.81	1.14	1.24	0.94
Net Operating Ratio	-2.10	-2.00	-0.50	1.50	4.22	7.60	4.65	5.75	5.70	-2.65
Return on Net Assets Ratio	-1.10	-3.11	-0.66	2.72	6.69	10.43	9.27	6.20	4.83	-1.57
Viability Ratio	0.00	0.00	0.00	0.00	0.00	0.44	1.06	1.50	1.97	1.69
Composite Financial Index - with GASB 68+75	3.68	1.69	2.45	3.78	5.51	3.45	4.05	4.74	4.80	1.40
Composite Financial Index - without GASB 68+75	3.68	3.68	4.15	4.92	5.45	5.12	5.59	6.25	5.97	3.67
Ratio Benchmark	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00