UTSA THE UNIVERSITY OF TEXAS AT SAN ANTONIO

Overall Financial Health - The Composite Financial Index

Integrating the CFI into the Strategic Plan

The CFI is best used as a component of financial goals in the institution's strategic plan. The institution is best served if the CFI is calculated over an established time period, for example , the past three years, and the next five. This gives a more accurate picture of overall financial health.

Routine financial statement modeling to determine the CFI gives the opportunity for constant functional assessment and continued awareness of institutional performance.

The CFI is established by first creating the value of the four core ratios:

Primary Reserve Ratio	
Net Income Ratio	**(Annual Operating Margin)**
Viability Ratio	**(Expendable Resources to Debt)**
Return on Net Assets Ratio	

These ratios compare the institution's operating commitments (Primary Reserve Ratio) and its outstanding long-term obligations (Viability Ratio) against its expendable wealth. They measure the ability of the institution on a short-term basis to live within its means (Net Income Ratio) and the ability of the institution to generate overall return against all net resources (Return on Net Assets Ratio).

These four ratios, properly weighted and scored on a common scale, can create a single score of institutional financial health. The use of a single score is superior to individual measurement of each ratio because a single score allows a weakness in a particular ratio to be offset by strength in another ratio.

The CFI is intended to assist institutions in understanding the affordability of their strategies and to monitor the financial results of the implementation of strategic initiatives. The time horizon for effective ratio analysis is necessarily long term. [1]

(1) "Ratio Analysis in Higher Education-Measuring Past Performance to Chart Future Direction", 1999, Fourth Edition, KPMG LLP and Prager, McCarthy & Sealy, LLC, pages 10-11, 29.