Key Financial Performance Indicators
Fiscal Year 2014

Prepared by the Office of the Treasurer
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 examines 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.
Strategic Financial Management

Reserves Strategy

Do you have enough resources to support your mission?

Operating Performance

What is the overall level of TCNJ’s fiscal health?

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

Debt & Investment Strategy

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

Return on Resources

Does your financial assets support your strategic direction?

All resource decisions driven by mission
Expendable Resources – Measures the financial strength and flexibility of the College by indicating how long TCNJ could exist using expendable reserves without relying on additional net assets generated by operations.

- Expendable Resources can be quickly accessed to satisfy short-term obligations.

- As of 6/30/14, TCNJ had the flexibility to cover over 8 months (72% of 12 months) of operating expenses solely from reserves.

- This ratio exceeded its A2-rated peers (by Moody’s) and the minimum benchmark of (50% or 6 months) approved by the Board of Trustees in the reserves policy.
Reserves Strategy
Expendable Resources to Operations (Primary Reserve Ratio)

- FY2014 = 0.71
- Key Drivers
  - Expendable Resources
  - Operating Expenses

Benchmark = 0.50
Operating Margin measures the College's profitability or ability to operate within its means. Continued gains or losses measured by the ratio will impact all the other fundamental elements of financial health over time.

TCNJ’s greatest financial strength has been its ability to consistently produce solid operating surpluses despite unstable and declining net state support.

- TCNJ surpluses are used to build financial reserves and to provide future flexibility for investments in strategic initiatives.
- Over the past four years, TCNJ’s operating margins compared favorably with the results of Moody’s Aaa-rated public higher education institutions.
Operating Performance

Operating Margin (Net Income Ratio)

- FY2014 = 4.2%

- Key Drivers:
  - Enrollment
  - Tuition & Fees
  - State Support
  - Debt Service
  - Collective Bargaining
  - Investment Returns

Benchmark = 4.0%
Return on Net Assets: Indicates the direction and degree to which an institution has improved its total resource base.

- TCNJ’s improved financial position is reflected in the consistent increase to net assets.

- The increases were directly related to the positive operating performance, investment in facilities, and growth of our investment portfolio.

- TCNJ averaged 3.3% return on net assets over the past four fiscal years.
Return on Financial Resources
(Return on Net Asset Ratio)

- FY2014 = 3.2%

- Key Drivers:
  - Investment Returns
  - Operating Results
  - Investment in Plant

Benchmark = 3.0%
Debt Management

Expendable Resources to Debt (Viability Ratio)

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

Expendable Resources to Debt: Measures an institution’s coverage of direct debt by financial resources that are ultimately expendable.

- TCNJ’s expendable resources have grown commensurate with increases in debt and operating expenses since 2010.
- TCNJ has a conservative debt structure with no variable rate or derivative (interest rate swaps) exposure.
- TCNJ uses internal cash reserves to finance asset renewal projects, minimizing increases in the amount of outstanding debt.

<table>
<thead>
<tr>
<th>Bond Rating and Outlook</th>
<th>Fitch</th>
<th>Moody's Investors Service</th>
<th>Standard &amp; Poor's</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long term rating</td>
<td>AA</td>
<td>A2</td>
<td>A</td>
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<tr>
<td>Rating outlook</td>
<td>Stable</td>
<td>Stable</td>
<td>Stable</td>
</tr>
</tbody>
</table>
Debt Management

Expendable Resources to Debt (Viability Ratio)

- **FY2014 = 0.40**

- **Key Drivers**
  - Operating surpluses
  - Use of cash reserves to fund asset renewal projects instead of new debt

**Benchmark = 0.40**
TCNJ’s portfolio has a highly liquid investment allocation in cash and cash equivalents and fixed income.

The portfolio is invested conservatively with a market value of $107.5 million @ 6/30/14 and with the following allocation:

- Working Capital (*NJ Cash Management Fund – Daily Liquidity*) = $18.5M
- Contingency Cash (*NJ Cash Management Fund – Daily Liquidity*) = $32.5M
- Short-Duration Fixed Income (*Minimum Rating A or Better*) = $25.8M
- Multi-Asset Class (*70% Equity & 30% Fixed Income*) = $30.7M
Investment Management

(Investment Allocation as of June 30, 2014)

**Multi-Asset Class**

<table>
<thead>
<tr>
<th>Multi-Asset Class</th>
<th>6/30/2014 (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large Cap Domestic</td>
<td>$ 2,450</td>
</tr>
<tr>
<td>Mid Cap</td>
<td>2,423</td>
</tr>
<tr>
<td>Small Cap</td>
<td>772</td>
</tr>
<tr>
<td>Domestic Blend</td>
<td>11,020</td>
</tr>
<tr>
<td>Developed International</td>
<td>6,442</td>
</tr>
<tr>
<td>Core Fixed Income</td>
<td>6,409</td>
</tr>
<tr>
<td>Corporate Fixed income</td>
<td>1,128</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$ 30,645</strong></td>
</tr>
</tbody>
</table>

**Short-Duration Fixed Income**

<table>
<thead>
<tr>
<th>Short-Duration Fixed Income</th>
<th>6/30/2014 (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AA+</td>
<td>$ 17,916</td>
</tr>
<tr>
<td>AA</td>
<td>1,227</td>
</tr>
<tr>
<td>AA-</td>
<td>277</td>
</tr>
<tr>
<td>A+</td>
<td>2,430</td>
</tr>
<tr>
<td>A</td>
<td>2,134</td>
</tr>
<tr>
<td>A-</td>
<td>1,671</td>
</tr>
<tr>
<td>AAAm</td>
<td>158</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$ 25,814</strong></td>
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</tbody>
</table>
Liquidity Measures

When measuring the adequacy of financial resources, the College calculates three levels of available liquidity:

- **Unrestricted financial resources** – TCNJ’s most liquid funds available for immediate expenditures = TCNJ’s unrestricted net assets.

- **Expendable resources** – Funds that can be access in the intermediate, but not immediate due to temporary restrictions – externally-imposed restrictions. Expendable resources equal TCNJ’s unrestricted net assets plus expendable restricted net assets.

- **Total financial resources** – TCNJ’s entire financial reserve base, including the corpus of its Foundation permanently restricted endowment.
Liquidity Measures

➢ Total financial resources have grown by 9% over the past five years to $159.2 million at 6/30/14

➢ Healthy levels of unrestricted liquidity with cash and investments of $107.5 million covering operating expenses by approximately 208.5 days

<table>
<thead>
<tr>
<th>Dollar Amounts in (&quot;000&quot;)</th>
<th>FY2010</th>
<th>FY2011</th>
<th>FY2012</th>
<th>FY2013</th>
<th>FY2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted Financial Resources</td>
<td>$120,578</td>
<td>$123,567</td>
<td>$124,416</td>
<td>$118,592</td>
<td>$118,140</td>
</tr>
<tr>
<td>Expendable Financial Resources</td>
<td>$138,701</td>
<td>$142,774</td>
<td>$140,486</td>
<td>$137,604</td>
<td>$149,052</td>
</tr>
<tr>
<td>Total Financial Resources</td>
<td>$143,368</td>
<td>$149,671</td>
<td>$148,208</td>
<td>$146,119</td>
<td>$159,165</td>
</tr>
</tbody>
</table>
The College’s overall level of fiscal health is good, as evidenced by its strong bond ratings, healthy student demand, solid operating performances and the condition of its facilities.

Composite Financial Index (CFI) is another key indicator used to assess the overall level of TCNJ’s fiscal health.

The Composite Financial Index (CFI) is a metric designed to increase financial accountability by creating one overall financial measurement of an institution's fiscal health over time based on the following four core ratios:

- Return on Net Assets, Net Income Ratio, Viability Ratio and Primary Reserve Ratio.

*(see next two slides for CFI results)*
What is the Overall Level of TCNJ’s Fiscal Health?

*(Composite Financial index - CFI)*

- 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.

- 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.

- Strength Factors are measured on a scale from (negative) -4 to 10, with 10 being the best.

- The four-year average CFI score of **3.0** indicates that TCNJ is fiscally sound.

<table>
<thead>
<tr>
<th>Ratios</th>
<th>FY2011</th>
<th>FY2012</th>
<th>FY2013</th>
<th>FY2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted Return on Net Assets</td>
<td>0.36</td>
<td>0.32</td>
<td>0.31</td>
<td>0.32</td>
</tr>
<tr>
<td>Weighted Net Operating Revenue Ratio</td>
<td>0.49</td>
<td>0.51</td>
<td>0.37</td>
<td>0.32</td>
</tr>
<tr>
<td>Weighted Primary Reserve Ratio</td>
<td>1.99</td>
<td>1.92</td>
<td>1.82</td>
<td>1.88</td>
</tr>
<tr>
<td>Weighted Viability Ratio</td>
<td>0.32</td>
<td>0.33</td>
<td>0.32</td>
<td>0.33</td>
</tr>
<tr>
<td><strong>Weighted Composite Financial Index</strong></td>
<td><strong>3.2</strong></td>
<td><strong>3.1</strong></td>
<td><strong>2.8</strong></td>
<td><strong>2.9</strong></td>
</tr>
</tbody>
</table>
What is the overall level of TCNJ’s fiscal health?  
(*Composite Financial Index 4 Year Average Benchmark = 3.0*)