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Appendix B: Ratio Methodology for Private Non-Profit Institutions

SECTION 3: Example Financial Statements and Composite Score Calculations

**STATEMENT OF FINANCIAL POSITION**

Line		
1	Cash and cash equivalents	1,720,000
2	Accounts receivable, net	6,000,000
3	Prepaid expenses	1,900,000
4	Related party receivable	100,000
5	Contributions receivable, net	2,000,000
6	Student loans receivable, net	8,000,000
7	Investments	6,000,000
8	Property, plant and equipment, net	40,000,000
9	Lease right-of-use asset, net	10,000,000
10	Goodwill	500,000
11	Deposits	20,000
12	<b>Total Assets</b>	<b>76,240,000</b>
13	Line of credit - short term	300,000
14	Accounts payable	1,000,000
15	Accrued expenses	3,500,000
16	Deferred revenue	650,000
17	Post-employment and pension liability	6,600,000
18	Line of credit - operating	200,000
19	Other liabilities	1,000,000
20	Notes payable	24,000,000
21	Lease right-of-use asset liability	10,000,000
22	Line of credit for long term purposes	2,000,000
23	<b>Total Liabilities</b>	<b>49,250,000</b>
24	<b>Net Assets without Donor Restrictions</b>	<b>15,190,000</b>
	<b>Net Assets with Donor Restrictions</b>	
25	Annuities	300,000
26	Term endowments	50,000
27	Life income funds	150,000
28	Other restricted by purpose and time	2,500,000
29	Restricted in perpetuity	8,800,000
30	<b>Total Net Assets with Donor Restrictions</b>	<b>11,800,000</b>
31	<b>Total Net Assets</b>	<b>26,990,000</b>
32	<b>Total Liabilities and Net Assets</b>	<b>76,240,000</b>

**STATEMENT OF ACTIVITIES**

Line		
	<b>Changes in Net Assets Without Donor Restrictions</b>	
	<b>Operating Revenue and Other Additions:</b>	
33	Tuition and fees, net	43,200,000
34	Contributions	1,200,000
35	Investment return appropriated for spending	200,000
36	Auxiliary enterprises	7,000,000
37	Net assets released from restriction	500,000
38	<b>Total Operating Revenue and Other Additions</b>	<b>52,100,000</b>
	<b>Operating Expenses and Other Deductions:</b>	
39	Education and research expenses	38,000,000
40	Depreciation and Amortization	5,000,000
41	Interest expense	2,880,000
42	Auxiliary enterprises	5,200,000
43	<b>Total Operating Expenses</b>	<b>51,080,000</b>
44	<b>Change in Net Assets from Operations</b>	<b>1,020,000</b>
	<b>Non-Operating Changes</b>	
45	Investments, net of annual spending, gain (loss)	(600,000)
46	Other components of net periodic pension costs	(1,000,000)
47	Pension-related changes other than net periodic pensio	(350,000)
48	Change in value of split-interest agreements	(80,000)
49	Other gains (losses)	(70,000)
50	Sale of fixed assets, gains (losses)	1,000,000
	<b>Total Non-Operating Changes</b>	<b>(1,100,000)</b>
51	<b>Change in Net Assets Without Donor Restrictions</b>	<b>(80,000)</b>
	<b>Change in Net Assets With Donor Restrictions</b>	
52	Contributions	400,000
53	Net assets released from restriction	(500,000)
54	<b>Change in Net Assets With Donor Restrictions</b>	<b>(100,000)</b>
55	<b>Change in Net Assets</b>	<b>(180,000)</b>
56	<b>Net Assets, Beginning of Year</b>	<b>27,170,000</b>
31	<b>Net Assets, End of Year</b>	<b>26,990,000</b>

**Calculating the Composite Score**

Lines				
Primary Reserve Ratio = Expendable Net Assets	31-29-(25+26+27)- 10-(8+9)+17 +(20+21+22) -4	9,690,000		<b>0.1855</b>
/ Total expenses and Losses Without Donor Restrictions	43 +46 +48 +49	52,230,000		

Equity Ratio = Modified Net Assets	24 +30 -10 -4	26,340,000		<b>0.3485</b>
/ Modified assets	12 -10 -4	75,590,000		

Net Income Ratio = Change in Net Assets without Donor Restrictions	51	(80,000)		<b>(0.0015)</b>
Total Revenue and Gains Without Donor Restrictions	38 -35 +50	52,900,000		

**Step 1:** Calculate the strength factor score for each ratio by using the following algorithms:

Primary Reserve strength factor score = 10 x the primary reserve ratio result

Equity strength factor score = 6 x the equity ratio result

Negative net income ratio result:

Net Income strength factor = 1 + (25 x net income ratio result)

Positive net income ratio result:

Net income strength factor = 1 + (50 x net income ratio result)

Zero result for net income ratio:

Net income strength factor = 1

If the strength factor score for any ratio is greater than or equal to 3, the strength factor score for the ratio is 3.

If the strength factor score for any ratio is less than or equal to -1, the strength factor score for the ratio is -1.

**Step 2:** Calculate the weighted score for each ratio and calculate the composite score by adding the three weighted scores

Primary Reserve weighted score = 40% x the primary reserve strength factor score

Equity weighted score = 40% x the equity strength factor score

Net Income weighted score = 20% x the net income strength factor score

Composite Score = the sum of all weighted scores

Round the composite score to one digit after the decimal point to determine the final score

<b>RATIO</b>	<b>Ratio</b>	<b>Factor</b>	<b>Weight</b>	<b>Composite Scores</b>
<b>Primary Reserve Ratio</b>	0.1855	1.8553	40%	0.7421
<b>Equity Ratio</b>	0.3485	2.0908	40%	0.8363
<b>Net Income Ratio</b>	(0.0015)	0.9622	20%	<u>0.1924</u>
				1.7708
<b>TOTAL Composite Score - Rounded</b>				<b>1.8</b>

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