

Fiscal Health Analysis

Ratio Analysis Methodology

The Index computes three ratios from which four scores are generated. The original methodology for computing the ratios was modified to recognize the new reporting format required by GASB statements 34 and 35, which became effective in FY 2002. The data and methodology used to conduct the ratio analysis are as follows:

- Expendable net assets: The sum of unrestricted net assets and restricted expendable net assets.
- Plant debt: Total long-term debt (including the current portion thereof), including but not limited to bonds payable, notes payable, and capital lease obligations.
- Total Revenues: Total operating revenues, plus total non-operating revenues, plus capital appropriations, capital grants and gifts, and additions to permanent endowments.
- Total operating expenses: Total operating expenses, plus interest on long-term debt.
- Total non-operating expenses: All expenses reported as non-operating with the exception of interest expenses.
- Change in total net assets: Total revenues (operating and non-operating), less total expenses (operating and non-operating).

The methodology for calculating the three ratios is as follows:

- Viability ratio: Expendable net assets divided by plant debt. (Note: if plant debt is zero, then the viability ratio is not calculated and a viability score of 5 is automatically assigned.)
- Primary reserve ratio: Expendable net assets divided by total operating expenses.
- Net Income Ratio: Change in total net assets divided by total revenues.

Assignment of Scores

Based on the calculations described above, each ratio is assigned a score ranging from zero to five according to the criteria listed in the table below. A score of 5 indicates the highest degree of fiscal strength in each category.

Ratio Scores						
	0	1	2	3	4	5
Viability Ratio	< 0	0 to .29	.30 to .59	.6 to .99	1.0 to 2.5	> 2.5 or N/A
Primary Reserve Ratio	< -.1	-.1 to .049	.05 to .099	.10 to .249	.25 to .49	.5 or greater
Net Income Ratio	< -.05	-.05 to 0	0 to .009	.01 to .029	.03 to .049	.05 or greater

Based on these scores, a summary score termed the composite score is determined, which is the primary indicator of fiscal health. The composite score equals the sum of the assigned viability score multiplied by 30%, the assigned primary reserve score multiplied by 50%, and the assigned net income score multiplied by 20%.

NOTE: A composite score of or below 1.75 for two consecutive years would result in an institution being placed on fiscal watch. The highest composite score possible is 5.00.