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Appendix B: Ratio Methodology for Private Non-Profit Institutions

SECTION 1: Ratio and Ratio Terms

Primary Reserve Ratio	$\frac{\text{Expendable Net Assets}}{\text{Total Expenses without Donor Restrictions and Losses without Donor Restrictions}}$
Equity Ratio	$\frac{\text{Modified Net Assets}}{\text{Modified Assets}}$
Net Income Ratio	$\frac{\text{Change in Net Assets without Donor Restrictions}}{\text{Total Revenue without Donor Restrictions and Gains without Donor Restrictions}}$

Definitions:

Expendable Net Assets = (total net assets) - (net assets with donor restrictions: restricted in perpetuity)* - (annuities, term endowments and life income funds with donor restrictions)** - (intangible assets) - (net property, plant and equipment)*** + (post-employment and defined benefit pension plan liabilities) + (all long-term debt obtained for long-term purposes, not to exceed total net property, plant and equipment)**** - (unsecured related party transactions)*****

Total Expenses without Donor Restrictions and Losses without Donor Restrictions = All expenses and losses without donor restrictions from the Statement of Activities less any losses without donor restrictions on investments, post-employment and defined benefit pension plans, and annuities. (For institutions that have defined benefit pension and other post-employment plans, total expenses include the nonservice component of net periodic pension and other post-employment plan expenses, and these expenses will be classified as non-operating. Consequently such expenses will be labeled non-operating or included with “other changes –nonoperating changes—in net assets without donor restrictions” when the Statement of Activities includes an operating measure).

Modified Net Assets = (net assets without donor restrictions) + (net assets with donor restrictions) - (intangible assets) - (unsecured related party receivables)

Modified Assets = (total assets) - (intangible assets) - (unsecured related party receivables)

Change in net assets without donor restrictions is taken directly from the audited financial statements

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Total Revenue without Donor Restriction and Gains without Donor Restrictions = total revenue (including amounts released from restriction) plus total gains. Investment returns are reported as a net amount (interest, dividends, unrealized and realized gains and losses net of external and direct internal investment expense). Institutions that separately report investment spending as operating revenue (e.g. spending from funds functioning as endowment) and remaining net investment return as a non-operating item, will need to aggregate these two amounts to determine if there is a net investment gain or a net investment loss. (net investment gains are included with total gains).

* Net assets with donor restrictions: restricted in perpetuity is subtracted from total net assets. The amount of net assets with donor restrictions: restricted in perpetuity is disclosed as a line item, part of line item, in a note, or part of a note in the financial statements. When the amount is zero, the institution should identify the source as NA (Not Applicable) in the supplemental schedule.

**_Annuities, term endowments, and life income funds with donor restrictions is subtracted from total net assets. The amount of annuities, term endowments, and life income funds with donor restrictions is disclosed in as a line item, part of line item, in a note, or part of a note in the financial statements. When the amount is zero, the institution should identify the source as NA (Not Applicable) in the supplemental schedule.

***The value of property, plant and equipment includes construction in progress and lease right-of-use assets, and is net of accumulated depreciation/amortization.

**** All Debt obtained for long-term purposes , not to exceed total net property, plant and equipment includes lease liabilities for lease right-of-use assets and the short-term portion of the debt, up to the amount of net property, plant and equipment. If an institution wishes to include the debt obtained through long term lines of credit in total debt obtained for long term purposes, the institution must include a disclosure in the financial statements that the lines of credit exceed twelve months and were used to fund capitalized assets (i.e. property, plant and equipment or capitalized expenditures per Generally Accepted Accounting Principles). The disclosure must include the issue date, term, nature of capitalized amounts and amounts capitalized. Institutions that do not include long term lines of credit in total debt obtained for long term purposes do not need to provide the additional disclosure. The debt obtained for long-term purposes will be limited to only those amounts disclosed in the financial statements that were used to fund capitalized assets. Any amount from long term lines of credit used to fund operations must be excluded from debt obtained for long-term purposes.

*** **Unsecured related party receivables as required at 34 C.F.R 668.23(d)