Financial Soundness Review Glossary	
Form	**Definition**
Prepared Financial Statement(s)	A document or collection of documents identifying an institution's financial standing. This typically includes a balance sheet, an income statement, and a cash flow statement.
Balance Sheet	A balance sheet demonstrates an institution's value in the form of assets, liabilities, and equity. If this document is included in the Prepared Financial Statement, please make note of the page number it is on in the Notes/Comments column.
Income Statement	An income statement demonstrates granular detail of an institution's revenue and expenses over a defined reporting period. If this document is included in the Prepared Financial Statement, please make note of the page number it is on in the Notes/Comments column.
Cash Flow Statement	A cash flow demonstrates an institution's liquidity by reporting cash inflow and outflow for operating, investing, and financing, over the defined reporting period. If this document is included in the Prepared Financial Statement, please make note of the page number it is on in the Notes/Comments column.
Compiled Financial Statement(s)	A compiled financial statement or compilation differs from a prepared financial statement in that a licensed, typically third party, Certified Public Accountant (CPA) prepared the compilation, verified that the prepared financial statement provided by the institution is in an appropriate format, and that the documentation is free from obvious misstatements. A compiled financial statement differs from a financial review or an audit, in that there is no assurance provided by the CPA. Another substantial difference is cost. A prepared financial statement is typically inexpensive, as the institution prepares all of the documents itself. A compilation has a cost starting at about $1000. A prepared financial report will typically start at several thousand dollars with costs increasing based on time required. A financial audit will range from $20-50,000.
90/10 Documentation	A for-profit school may derive no more than 90% of its revenues from the Title IV federal student aid programs as calculated using cash basis accounting. The 90/10 calculation is reported in annual audited financial statements and disclosed as a percentage of revenues derived from Title IV in a footnote using the format set out at 34 CFR 668 Part B Appendix C.
IRS Form 990	Tax-exempt organizations, nonexempt charitable trusts, and section 527 political organizations file Form 990 to provide the IRS with the information required by section 6033.
Other Submitted Federal and/or State Tax Forms	[Optional] Any other tax documentation submitted to federal or state agencies in the past year (examples of IRS business forms are available here).
Current assets	All the assets that the institution can expect to be sold, consumed, used, or exhausted through standard operations within one year. Current assets are reported in the balance sheet found in prepared financial statements.
Cash and cash equivalents	Assets that are held in a bank account or can be converted to cash quickly. This includes marketable securities, but generally does not include longer term assets like stocks.
Accounts receivable, net	Money owed to a school by students or customers that is expected to be collected within the relevant year. This could include federal aid or private scholarships a school expects to receive.
Pledges receivable	Promised future donations for the upcoming year that have not yet been received by the institution.
Lines of credit	Existing credit lines available to help meet short-term cash flow needs.
Capital assets, net	The purchase price of fixed assets (e.g., buildings, vehicles and equipment, etc.) minus the depreciation in value of those assets over time.
Other noncurrent assets	Any other non-capital assets whose value will not be realized in the current fiscal year.
Current liabilities	Debts and liabilities due to be paid within the current year.
Noncurrent liabilities	Long-term financial obligations not due within the current year.
Total operating revenues	All revenue generated from primary business activities in the current year.
Total operating expenses	All expenses incurred to support primary activities in the current year.
Salaries and wages	All expenses incurred related to staff salaries and wages.
Fringe benefits	All benefits paid to employees.
Services and supplies	All expenses for services or capital and/or staff supplies in the current year.
Utilities	Expenses related to utility bills (e.g., water, electric, sewer, broadband, etc.)
Scholarships and fellowships	The value of all scholarship and fellowship awards provided by the institution in the current year.
Depreciation expense	The portion of fixed assets that have declined in value or been used in the current year.
Financial Responsibility Composite Score	The raw number reported in Column J of the U.S. Department of Education's Financial Responsibility Scores spreadsheet for the two most recent fiscal years (data files available here). Scores range from -1.0 to 3.0.

What You Need to Know About Liquidity

Liquidity	An entity's ability to pay its bills using the various easy-to-access resources it has at its disposal. The availability of an institution's financial resources to meet cash needs for expenses within one year, whether that means money in a checking account, lines of credit that can be accessed, or assets that can be quickly and easily sold to produce cash. In higher education, elements of liquidity include: 1. Cash, usually in a bank account, that can be accessed almost immediately to cover general operating expenses; 2. Marketable securities, such as stocks, bonds, and certificates of deposit, that can be exchanged for cash within the year. At nonprofit schools, a portion of endowments (typically 5 percent, often invested in stocks and bonds), is frequently committed to spending within any given fiscal year. Further, although endowments typically include restrictions placed by donors on the use of such funds, there are usually portions of an endowment that can be made available, if needed. 3. Accounts receivable. Money owed to a school by students and other customers, and likely to be collected within the year. This amount of these accounts receivable reflects not simply the anticipated or hoped-for future customers, but amounts actually owed for services or products provided. For example, this item may include the anticipated receipt of federal aid and private scholarships for enrolled students. 4. Pledges receivable. Donations that have been promised for the coming year but have not yet been made. Like accounts receivable, these pledges are vulnerable to disruption, since a donor may no longer have the funds or assets they planned to contribute. 5. Lines of credit. To meet cash flow needs, schools frequently have a flexible line of credit from a bank (or another entity) that they can tap when needed.
The Current Ratio	The first ratio of liquidity included in this analysis, the Current Ratio measures an organization's ability to pay off its short-term obligations. **A good current ratio generally exceeds 1.5, and a bad one falls below 1.** *Calculation* : Current Assets / Current Liabilities
The Quick Ratio	The quick ratio (also known as the 'acid test ratio') only accounts for current assets that could be reasonably liquidated (i.e., turned into cash) within 90 days. It is generally seen as more conservative than the current ratio because it accounts for fewer line items in a budget, excluding things a facility's inventory or 'other liquid assets' that are more difficult to sell. **Any quick ratio below 1 should be considered a financial risk.** *Calculation* : (Cash and Cash Equivalents + Accounts Receivable) / Current Liabilities
1:1 Liquidity Ratio	A facility showing a value below 1 on either the current or quick ratio has at least some level of financial risk related to its ability to pay its near-term obligations. For schools that fail either of these ratios, SAAs should pay particular attention to enrollment trends over at least the past two years, as **poor measures of liquidity *and* rapid declines in enrollment can often signal significant risk of closure.**
Days of Cash on Hand	This ratio measures a facility's ability to pays its operating expenses with the cash it has on hand at a point in time. This ratio is standardized using days (365) and months (12) in a year as a mechanism for analyzing how long the institution could continue to operate if revenue declined substantially or stopped altogether. The standard of 6 months of cash on hand should be viewed as the minimum for indicating positive financial health, and anything less than 6 months poses risk to students. SAAs should consider requesting Student Protection Plans for schools with less than 6 months of cash on hand. Even if these schools do not close, it is helpful to have plans in place to consider: (1) the number and percentage of currently enrolled students who could complete their degrees before cash runs out, (2) the budget needed to support records management and transfer processes, and (3) that federal aid is used solely for the benefit of students at these schools. Schools with less than 3 months of cash on hand are at greatest risk, and may not be able to close operations in an orderly way if they are forced to do so, even if they have a Student Protection Plan in place.

What You Need to Know About Net Worth	
Net Worth	The amount by which assets exceed liabilities, or what an entity has versus what they need to pay off. The dollar amount of your assets minus all your debts. Although it is certainly important for a facility to display a positive net worth, the primray focus for SAAs in this analysis is the percent change over the past two financial years in total net worth, as well as in total assets and total liabilities. A significnat increase or decrease in net worth should prompt the SAA to consider whether a school has recently merged with or acquired another institution, expanded its student enrollment substantially, opened new programs, or ramped up its advertising practices for recruitment purposes. Within each of these buckets comes some level of risk that SAAs should seek to clarify with the school. *Calculation of Net Worth* : Total Assets - Total Liabilities *Calculation of Percent Change* : (Current Value - Prior Year's Value) / Prior Year's Value
Debt to Assets	This ratio examines the total amount of debt owed by a facility against its total assets owned. For Debt to Assets, a higher number is indicative of greater financial risk, suggesting that debt takes up most (if less than one but still significant) or all (if greater than 1) of the total value of the institution. High Debt to Assets ratio can signal greater likelihood of defaulting on debts, and can be particularly problematic if enrollment declines substantially. SAAs should consider implications this may have for advertising and recruitment practices, especially with regard to those using GI Bill benefits. *Calculation* : Total Debt / Total Assets
Solvency	The solvency ratio measures an institution’s ability to meet its long-term financial obligations. Lower solvency ratios signal financial risk of defaulting on debts or bankruptcy. Solvency ratios higher than 20% (or 0.20) represent financially solid organizations. *Calculation* : (Net Income + Depreciation) / Total Debt

FINANCIAL SOUNDNESS EXAMPLE

Basic Institutional Information

Institution Name:	Sample College
Point of Contact Name:	Person 1
Email:	email@samplecollege.edu
Phone:	555-555-1234

Form Submission Checklist - Check each box below to verify that you have submitted all requested financial documents. Relevant definitions and sources can be found in the Glossary tab.

Form	2020	2019	Notes/Comments
Prepared Financial Statement(s)			All included in Audited financial statements
Balance Sheet			All included in Audited financial statements
Income Statement			All included in Audited financial statements
Cash Flow Statement			All included in Audited financial statements
Compiled Financial Statement(s)	YES	YES	
90/10 Documentation			N/A - Sample College is not-for-profit
IRS Form 990		YES	
Other Submitted Federal and/or State Tax Forms			

Financial Data and Indicators - Please enter the requested information in each of the highlighted cells below. Relevant definitions can be found in the Glossary tab.

Assets	2020	2019	Notes/Comments
Current assets	$ 1,371,400.00	$ 1,659,700.00	
Cash and cash equivalents	$ 293,325.00	$ 379,375.00	
Accounts receivable, net	$ 413,220.00	$ 626,575.00	
Pledges receivable	$ 138,000.00	$ 151,500.00	
Inventories	$ 130,200.00	$ 131,040.00	
Prepaid expenses	$ 387,730.00	$ 370,290.00	
Lines of credit	$ -	$ -	
Capital assets, net	$ 26,077,855.00	$ 26,247,900.00	
Other noncurrent assets	$ 22,322,180.00	$ 21,508,600.00	
Total assets	**$ 49,771,435.00**	**$ 49,416,200.00**	
Liabilities	**2020**	**2019**	
Current liabilities	$ 5,500,000.00	$ 2,354,440.00	
Noncurrent liabilities	$ 5,835,590.00	$ 5,327,025.00	
Total liabilities	**$ 11,335,590.00**	**$ 7,681,465.00**	
Operating Revenues	**2020**	**2019**	
Total operating revenues	**$ 16,179,590.00**	**$ 15,915,950.00**	
Operating Expenses	**2020**	**2019**	
Salaries and wages	$ 9,482,300.00	$ 8,833,430.00	
Fringe benefits	$ 1,847,620.00	$ 1,712,585.00	
Services and supplies	$ 5,249,890.00	$ 5,439,540.00	
Utilities	$ 1,276,950.00	$ 1,255,135.00	
Scholarships and fellowships	$ 751,705.00	$ 93,525.00	
Depreciation expense	$ 1,460,250.00	$ 1,410,320.00	
Total operating expenses	**$ 20,068,715.00**	**$ 18,744,535.00**	
Financial Responsibility Composite Score	**Score**		
2017-2018	2.8		
2016-2017	2.4		
90/10 Revenue Percentages	**Percentage**		
FY2020	N/A		
FY2019	N/A		

Sample College		
Liquidity Ratios		
	2020	2019
Current Ratio	0.25	0.70
Current Assets	$ 1,371,400.00	$ 1,659,700.00
Current Liabilities	$ 5,500,000.00	$ 2,354,440.00
Quick Ratio	0.13	0.43
Cash & Cash Equivalents	$ 293,325.00	$ 379,375.00
Accounts Receivable	$ 413,220.00	$ 626,575.00
Current Liabilities	$ 5,500,000.00	$ 2,354,440.00
Days of Cash on Hand	5.75	7.99
Months of Cash on Hand	0.19	0.26
Cash & Cash Equivalents	$ 293,325.00	$ 379,375.00
Total Cash Operating Expenses	$ 18,608,465.00	$ 17,334,215.00

Sample College

Net Worth and Solvency Ratios

	2020		2019		Pct Change
Net Worth	$	38,435,845.00	$	41,734,735.00	-7.90%
Total Assets	$	49,771,435.00	$	49,416,200.00	0.72%
Total Liabilities	$	11,335,590.00	$	7,681,465.00	47.57%
Debt to Assets	0.23		0.16		
Total Debt	$	11,335,590.00	$	7,681,465.00	
Total Assets	$	49,771,435.00	$	49,416,200.00	
Solvency	-0.21		-0.18		
Net Income	$	(3,889,125.00)	$	(2,828,585.00)	
Depreciation	$	1,460,250.00	$	1,410,320.00	
Total Debt	$	11,335,590.00	$	7,681,465.00	