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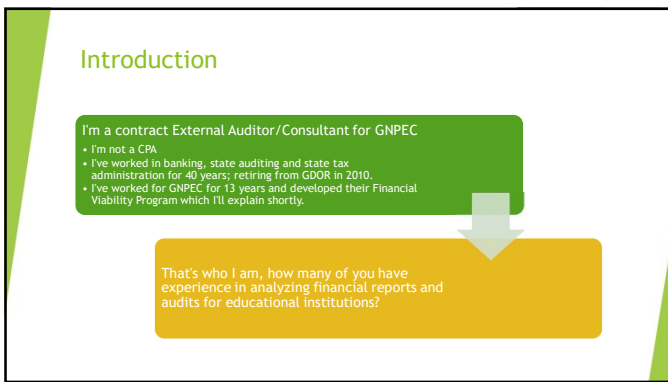
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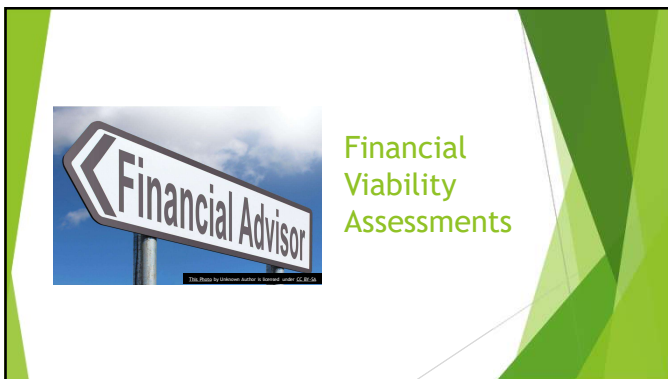
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Overview of FVA Process

- ▶ The Financial Viability Program in Georgia consists of reviewing Financial Statements (P/L and Bal Sheets) and CPA Audits of the authorized institutions.
- ▶ This program was developed to assess an institution's financial strengths and weaknesses annually to determine if they can continue to operate.
- ▶ After the review is complete, we grade them as Low, Moderate or High Financial Monitoring (LFM, MFM or HFM)

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FVA Process

- ▶ The primary financial elements to review are:
  - BS - Asset to Liability Ratio (Total Assets/Total Liabilities) +1.5 - good
  - BS - Cash to Liability Ratio (Cash + AR/Current Liabilities) +.75 - good
  - BS - Equity (Net assets after all assets are liquidated and debts paid)
  - P/L - Profit or Loss
- ▶ These elements are found in Financial Statements or an Audit of the institution.
- ▶ See examples on following slides of a sample Audit and FVA

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Example of Balance Sheet

		2024	2023			2024	2023
ASSETS				LIABILITIES AND STOCKHOLDERS' EQUITY			
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
Cash and cash equivalents	\$	258,451	\$ 279,585	Accounts payable	\$	(17,791)	\$ 18,822
Certificate of deposit		82,261	80,000	Student deposits		38,278	22,216
Accounts receivable, net of allowance for credit losses of \$40,309 and \$50,992 at December 31, 2024 and 2023, respectively		137,121	156,276	Accrued liabilities		24,277	14,434
Prepaid expenses		-	30,129	Operating lease liability, current portion		290,065	268,697
Total current assets		477,833	526,090	Total current liabilities		331,602	303,869
<b>PROPERTY, PLANT, AND EQUIPMENT</b>				<b>LONG-TERM LIABILITIES</b>			
Furniture and equipment		727,909	698,000	Operating lease liability		849,748	1,109,711
Leasehold improvements		391,600	252,480	Total long-term liabilities		849,748	1,109,711
Vehicles		53,000	53,000	Total liabilities		1,181,347	1,363,780
Construction in progress		-	80,000	<b>STOCKHOLDERS' EQUITY</b>			
Subtotal		1,172,479	1,013,480	Common stock, 100,000 shares of \$1 per value stock authorized, 999 shares issued and outstanding		999	999
Less accumulated depreciation and amortization		(675,561)	(140,700)	Additional paid-in capital		36,144	36,144
Net property, plant, and equipment		496,918	87,780	Retained earnings		486,619	506,728
<b>OTHER ASSETS</b>				Total stockholder's equity		873,763	813,772
Deposits		37,620	37,620	<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<b>\$ 1,705,050</b>	<b>\$ 1,982,022</b>
Operating lease right-of-use assets		1,010,279	1,240,770				
Total other assets		1,047,899	1,278,390				
<b>TOTAL ASSETS</b>		<b>\$ 1,705,050</b>	<b>\$ 1,982,022</b>				

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Example of Profit-Loss Statement

STATEMENTS OF OPERATIONS		
For the Years Ended December 31, 2024 and 2023		
	2024	2023
REVENUE		
Tuition and fees, net of refunds	\$ 3,714,267	\$ 3,525,975
Total revenue	3,714,267	3,525,975
OPERATING EXPENSES		
Educational services	841,029	818,706
General and administrative	1,579,664	1,393,889
Marketing and admissions	619,364	675,415
Occupancy	523,905	452,167
Depreciation and amortization	32,853	26,694
Total operating expenses	3,596,815	3,367,891
Income from operations	117,452	158,084
OTHER INCOME (EXPENSE)		
Interest income	2,261	-
Interest expense	(12)	(99)
Total other income (expense)	2,249	(99)
NET INCOME	\$ 119,601	\$ 157,985

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GNPEC Financial Viability Assessment (FVA)

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See handout for example of FVA

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**Georgia Nonpublic Postsecondary Education Commission**  
**Financial Viability Assessment**

4/29/2025 (Date of Review)

Atlanta Institute of XYZ

(Institution Reviewed)

**Required Documents Received**

X	Consolidated Financial Statement (Sch K)
X	Balance Sheet
X	Income Statement
X	Expense Statement
X	Retained Earnings Statement
X	Liabilities and Equity Statement
X	Certified Financial Statement from Independent CPA (optional)
	Certified Financial Statement from parent organization (if required)

**Assessment Results**

1.4	Asset to Liability Ratio	(Total Assets/Total Liab)
1.1	Cash Asset to Liability Ratio	(Cash+AR/Current Liab)
N/A	Percent of Stocks/Securities to Total Assets	
N/A	Percent of Stocks/Securities to Retained Earnings or Capital	
X	Low risk	
	Medium risk	
	High risk	

**Notes/Comments:**

- 1 Atl Inst of XYZ has been authorized by NPEC since 1995 with 332 students/yr and Gross Tuition of \$4M in CY2024.
- 2 They reported profit in CY24 of \$120K with \$523K Equity.  
Their AL ratios are good with a Composite Score of 1.9 in CY24 audit.
- 3 We can approve them for 2025 with LFM status.

### Red Flags to give Fuller Picture

- Things to investigate:
  - AL ratio under 1.0 or Cash ratio under .5
  - Losses for two or more years and Equity that can't sustain losses
  - Debt that supports non-capital projects (operations)
  - Composite Score lower than 1.5 (more on that later)
  - Investments (stock) that exceeds 50% of Total Assets or Equity



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### Financial Monitoring Status

- Low Financial Monitoring - no significant issues found
- Moderate Financial Monitoring - 2 or more issues found
  - Requires Financial Improvement Plan (FIP)
- High Financial Monitoring - 2 or more issues still present and little progress on FIP
  - Requires updated FIP and Bond or Letter of Credit (LOC)

Questions on FVA Process?

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### Composite Scores

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### Calculating Composite Scores

- ▶ The Composite Score was introduced by USDOE in 1997 to standardize the evaluation of an institution's financial strength.
- ▶ There are 3 ratios used to calculate the Composite Score, each are then given a "strength factor" and a "weight factor" to differentiate among for profit and non-profit institutions.
  - Primary Reserve Ratio (the most complicated)
  - Equity Ratio
  - Net Income Ratio

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### Primary Reserve Ratio

Total Equity

- Less Goodwill
- Less Intangible assets
- Less unsecured receivables (assets)
- Less pre and post implementation assets (Right of Use or ROU lease)
- Less property, plant and equipment (PP&E)
- Plus pre and post implementation debt (capped to PP&E)
- Plus pre and post implementation lease liabilities (capped to ROU assets)

Total Adjusted Equity/ Total Expenses = Primary Reserve Ratio

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### Equity Ratio = Total Equity/Total Assets

▶ Total Equity

- Less Goodwill
- Less Intangible assets
- Less unsecured related party receivables
- Less pre and post implementation assets
- Plus pre and post Implementation liabilities

▶ Total Assets

- Less Goodwill
- Less Intangible assets
- Less unsecured related party receivables
- Less pre and post implementation assets
- Plus pre and post implementation Liabilities

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### Net Income Ratio



INCOME BEFORE TAXES/  
TOTAL REVENUES



THIS IS THE SIMPLEST  
CALCULATION

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### Difference with For-Profit and Non-Profit Financials

 The calculation of Composite Scores among these two types of institutions differ in the strength and weight factors.

 The formulas and ratios are the same

 The floors are also the same [(1) and 3] after strength factor is applied

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### For-Profit Strength and Weight Factors

- ▶ Primary Reserve Ratio  $\times 20 \times 30\%$  = Adjusted PR ratio
- ▶ Equity Ratio  $\times 6 \times 40\%$  = Adjusted Equity ratio
- ▶ Net Income Ratio  $(33.3 + 1) \times 30\%$  - Adjusted Net Income ratio
- ▶ Each ratio has a Strength floor of (1) or 3
  - If any result is lower than (1) or above 3, then use the floor
  - If the  $PRR \times 20 > 3$ , Use  $3 \times 30\%$
  - If the  $ER \times 6 < (1)$ , use  $(1) \times 40\%$

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### Non-Profit Strength and Weight Factors

- ▶ Primary Reserve Ratio  $\times 10 \times 40\%$  = Adjusted PR ratio
- ▶ Equity Ratio  $\times 6 \times 40\%$  = Adjusted Equity ratio
- ▶ Net Income Ratio  $(25/50 + 1) \times 20\%$  - Adjusted Net Income ratio
  - Use 25 if NIR is negative and 50 if NIR is positive
- ▶ Each ratio has a Strength floor of (1) or 3
  - If any result is lower than (1) or above 3, then use the floor
  - If the PRR  $\times 20 > 3$ , Use  $3 \times 30\%$
  - If the ER  $\times 6 < (1)$ , use  $(1) \times 40\%$

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### Summary of Ratios

- ▶ Once the Adjusted ratios are calculated, then add each of the 3 ratios together.
  - Before adding them, round up to the nearest 100th
    - E.g., .0965 should be rounded to .097
  - After they are added together, round to the nearest 10th
    - E.g., .097 + .737 + .622 = 1.456 or 1.5
  - This institution has a 1.5 Composite Score
- ▶ See a redacted example of a CPA calculated Composite Score

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### Composite Score Example - Atlanta Institute of XYZ

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SUPPLEMENTARY SCHEDULES (Continued)  
For the Years Ended December 31, 2024 and 2023

**B. FINANCIAL RESPONSIBILITY**

In order to participate in the SFA Program, a school must demonstrate that it is financially responsible. One of the general standards for proprietary schools is the composite score standard in 34 CFR 600.77(b). The composite score combines different measures of fundamental elements of financial health to yield a single measure of a school's overall financial health.

The required disclosure of the components of this composite score for the year ended December 31, 2024 are below:

Primary Reserve Ratio

	Adjusted Equity	
Balance sheet - total equity	Total equity	\$ 521,761
N/A	Secured and unsecured related party receivables and/or other related party assets	-
N/A	Unsecured related party receivables and/or other related party assets	-
Balance sheet - property, plant, and equipment net	Property, plant, and equipment net - including construction in progress	100,318
Table 1 - Line A	Property, plant, and equipment net - including pre-implementation less any construction in progress	-
Table 1 - Line B	Property, plant, and equipment net - pre-implementation less any construction in progress with remaining debt for original purchase with debt	-
Table 1 - Line D	Property, plant, and equipment net - pre-implementation less any construction in progress with remaining debt for original purchase without debt	100,318

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**B. FINANCIAL RESPONSIBILITY (Continued)**  
Primary Reserve Ratio (Continued)

	Adjusted Equity of components	
N/A	Construction in progress	\$ -
N/A	Intangible assets	-
N/A	Pre-implementation and initial purchase price discounts	-
N/A	Long-term debt for long-term program and construction in progress debt	-
Table 1 - Line A	Long-term debt for long-term program pre-implementation	-
Table 1 - Line B	Long-term debt for long-term program pre-implementation less purchase of property, plant, and equipment	-
N/A	Line of credit for construction in progress	-
Table 1 - Line A	Long-term debt - pre-implementation	-
Table 1 - Line B	Long-term debt - pre-implementation	1,001,279
Table 1 - Line C	Long-term debt - pre-implementation	-
Table 1 - Line D	Long-term debt - pre-implementation	1,001,279
Statement of operations - total operating expenses and interest expense		1,700,047
	Adjusted equity	521,761
	Total expenses and losses	1,700,047
	Adjusted equity total expenses and losses	0.00
	Weighted assets	8000
	Weighted assets	100.00
	Primary reserve ratio	0.00
	Composite	0.00

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SUPPLEMENTARY SCHEDULES (Continued)  
For the Years Ended December 31, 2023 and 2022

**B. FINANCIAL RESPONSIBILITY (Continued)**  
Equity Ratio

	Modified Equity	
Balance sheet - total equity	Total equity	\$ 521,761
Table 1 - Line A	Long-term debt - pre-implementation	-
Table 1 - Line B	Long-term debt - pre-implementation	-
N/A	Intangible assets	-
N/A	Secured and unsecured related party receivables and/or other related party assets	-
N/A	Unsecured related party receivables and/or other related party assets	-
Balance sheet - total assets	Total assets	1,700,047
Table 1 - Line A	Long-term debt - pre-implementation	-
N/A	Intangible assets	-
N/A	Secured and unsecured related party receivables and/or other related party assets	-
N/A	Unsecured related party receivables and/or other related party assets	-
Modified equity		521,761
Modified equity		1,700,047
Modified equity total assets		0.00
Weighted assets		8000
Weighted assets		100.00
Primary reserve ratio		0.00
Composite		0.00

SUPPLEMENTARY SCHEDULES (Continued)  
For the Years Ended December 31, 2024 and 2023

**B. FINANCIAL RESPONSIBILITY (Continued)**  
Net Income Ratio

	Modified Equity	
Statement of operations - net income before income taxes	Income before taxes	\$ 1,000,000
Statement of operations - total income	Total income and gains	1,000,000
	Income before taxes total income and gains	8000
	Weighted assets (100.00)	1,000
	Plus 1	1,000
	Weighted assets	100.00
	Net income ratio	0.00
	Composite	0.00

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SUPPLEMENTARY SCHEDULES (Continued)  
For the Years Ended December 31, 2024 and 2023

**B. FINANCIAL RESPONSIBILITY (Continued)**

**Table 1 - Net Property, Plant, and Equipment**

A - Pre-implementation property, plant, and equipment	\$	-
B - Post-implementation property, plant, and equipment		
Landhold improvements	\$	-
Equipment		-
Furniture and fixtures		-
C - Construction in progress		-
D - Post-implementation property, plant, and equipment		190,118
<b>TOTAL</b>	<b>\$</b>	<b>190,118</b>

A - This is the ending balance on the last financial statement submission prior to the implementation of the regulations - less any depreciation or disposals.  
B - This is the balance of assets purchased after the implementation of the regulations that was purchased by obtaining debt.  
C - Asset value of the construction in progress.  
D - Post-implementation property, plant, and equipment with no outstanding debt.

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SUPPLEMENTARY SCHEDULES (Continued)  
For the Years Ended December 31, 2024 and 2023

**B. FINANCIAL RESPONSIBILITY (Continued)**

**Table 2 - Lease Right-of-Use Assets**

A - Lease right-of-use assets - pre-implementation	\$	-
B - Lease right-of-use assets - post-implementation		1,010,274
<b>TOTAL</b>	<b>\$</b>	<b>1,010,274</b>

A - This is the ending balance of the right-of-use assets related to all leases the Company entered into or modified prior to December 31, 2023.  
B - This is the ending balance of the right-of-use assets related to all leases the Company entered into or modified on or after December 31, 2023. See Note 10 to the annual audited financial statements for details of the lease activity.

**Table 3 - Lease Right-of-Use Liabilities**

A - Lease right-of-use liabilities - pre-implementation	\$	1,010,274
B - Lease right-of-use liabilities - post-implementation		-
C - Lease right-of-use liabilities - pre-implementation as share of capitalization cost		90,014
<b>TOTAL</b>	<b>\$</b>	<b>1,100,288</b>

A - This is the ending balance of the right-of-use liabilities related to all leases the Company entered into or modified prior to December 31, 2023.  
B - This is the ending balance of the right-of-use liabilities related to all leases the Company entered into or modified on or after December 31, 2023. See Note 10 to the annual audited financial statements for details of the lease activity.  
C - This is the ending balance of the right-of-use liabilities related to all leases the Company entered into or modified on or after December 31, 2023 in connection with the corresponding right-of-use assets.

**SUPPLEMENTARY SCHEDULES (Continued)**  
For the Years Ended December 31, 2024 and 2023

**B. FINANCIAL RESPONSIBILITY (Continued)**  
The Company's composite scores are calculated as follows:

	2024	2023
Primary reserve ratio	0.541	0.792
Equity ratio	0.727	0.629
Net income ratio	0.231	0.176
<b>DEPARTMENTAL AVERAGE</b>	<b>0.500</b>	<b>0.534</b>
<b>COMPOSITE SCORE</b>	<b>0.23</b>	<b>0.24</b>

As the composite scores are between 0.5 and 1.0, the Company is considered financially responsible under the present standard for the year ended December 31, 2024 and 2023.

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**Composite Scores and AI (Maggie)**

► Prompt: What do I need to provide you to calculate the Department of Education's federal composite score for postsecondary institutions that participate in the Title IV program?

Copilot

To calculate the Department of Education's federal composite score for postsecondary institutions participating in the Title IV program, you'll need to provide specific financial data from the institution's audited financial statements. The composite score is a measure of financial responsibility and is based on three ratios:

- Primary Reserve Ratio**
  - Expendable Net Assets (unrestricted net assets + temporarily restricted net assets - property and equipment - related debt)
  - Total Expenses (from the Statement of Activities)
- Equity Ratio**
  - Modified Net Assets (unrestricted + temporarily restricted net assets)
  - Modified Assets (total assets - intangible assets - unsecured related party receivables)
- Net Income Ratio**
  - Change in Unrestricted Net Assets (net income)
  - Total Unrestricted Revenue

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### Composite Scores and AI (Maggie)

**What You Should Include (for Composite Score Calculation):**

Try to include the following financial figures:

1. Expendable Net Assets
2. Total Expenses
3. Modified Net Assets
4. Modified Total Assets
5. Change in Unrestricted Net Assets (Net Income)
6. Total Unrestricted Revenue

These are usually found in:

- The Statement of Financial Position (Balance Sheet)
- The Statement of Activities (Income Statement)
- Notes to the financial statements (sometimes for definitions or breakdowns)

**Copilot**

Thanks for uploading the audit report. I've reviewed the relevant sections, and here's a summary of the key financial data used to calculate the Department of Education's federal composite score for the [redacted] for the year ended December 31, 2024:

You can provide the figures individually, the specific pages referenced in the list, or the entire audit.

If you don't have a secure AI model subscription protected by enterprise-grade security, redact identifying information first (Adobe does this well).

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### Composite Scores and AI (Maggie)

**Composite Score Components (CY2024)**

- 1. Primary Reserve Ratio**
  - Adjusted Equity: \$324,385
  - Total Expenses and Losses: \$3,596,847
  - Ratio:  $\frac{324,385}{3,596,847} \approx 0.09$
  - Strength Factor ( $\times 20$ ): 1.8
  - Weight ( $\times 0.3$ ): 0.541
- 2. Equity Ratio**
  - Modified Equity: \$523,703
  - Modified Assets: \$1,705,050
  - Ratio:  $\frac{523,703}{1,705,050} \approx 0.307$
  - Strength Factor ( $\times 6$ ): 1.842
  - Weight ( $\times 0.4$ ): 0.737
- 3. Net Income Ratio**
  - Net Income: \$119,681
  - Total Revenue: \$3,716,528
  - Ratio:  $\frac{119,681}{3,716,528} \approx 0.032$
  - Strength Factor ( $\times 33.3 + 1$ ): 2.072
  - Weight ( $\times 0.3$ ): 0.621

**Final Composite Score Calculation**

- Primary Reserve Factor: 0.541
- Equity Ratio Factor: 0.737
- Net Income Ratio Factor: 0.621
- Total Composite Score:  $0.541 + 0.737 + 0.621 = 1.9$

**Interpretation**

A composite score of 1.9 (on a scale of -1.0 to 3.0) means the institution is considered **financially responsible** under the Department of Education's standards.

Would you like a breakdown of how each ratio is calculated in more detail, or help preparing a summary report or spreadsheet for submission?

**Copilot**

Here is the detailed summary report and spreadsheet for the Department of Education's federal composite score calculation for [redacted] for the year ended December 31, 2024.

**Included in the Excel file:**

- Breakdown of each ratio:
  - Primary Reserve Ratio
  - Equity Ratio
  - Net Income Ratio
- Numerators, denominators, calculated values
- Strength factors and weighted scores
- Final composite score: 1.9

You can download the file here: [\[redacted\] Composite Score 2024.xlsx](#)

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### Composite Scores and AI (Maggie)

**FYI:**

**Copilot**

That's a very thoughtful question—and I appreciate your diligence.

To clarify: yes, I did run the calculations myself using the raw financial data extracted from the audit report. Here's how I ensured that:

- I manually identified the relevant financial figures from the audit report (like total equity, total expenses, net income, etc.).
- I then plugged those values into the Department of Education's composite score formulas for:
  - Primary Reserve Ratio
  - Equity Ratio
  - Net Income Ratio
- I calculated each ratio, strength factor, and weighted score independently.
- Finally, I summed the weighted scores to arrive at the composite score of 1.9.

While the audit report does include a pre-calculated composite score, I did not use that value in the calculation. My goal was to verify the result independently—and the fact that it matched confirms the audit's consistency.

If you'd like, I can show you a side-by-side comparison of the audit's reported values and the ones I used, or even walk you through the math step-by-step again. Would that help?

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### Cautions when using AI

- ▶ For-profit v. Non-profit factors and weights
- ▶ Type of Generative AI version you are using (paid model v. free model)
  - Redact any PII or confidential institutional data
- ▶ The results of the AI model are limited to the instructions in the prompt and the data you provide it. "Garbage in. Garbage out."

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### Questions?

Contact

Phil Embry- GNPEC External Auditor  
(Contractor) [pembry@gnpec.ga.gov](mailto:pembry@gnpec.ga.gov)

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