

Net-Income Ratio

The net-income indicator answers the question, “Did the co-op earn enough money last year?” An income-statement test, it is intended to identify whether or not, on a current basis, the co-operative is earning sufficient income to allow it to meet all of its operating and debt-service costs and make a reasonable contribution to its replacement reserve.

The indicator is based on a ratio calculated using the following formula:

$$\frac{\text{Adjusted Operating Income}}{\text{Capital Asset Value,}}$$

where

- *Adjusted Operating Income* is the total reported income for the year from all of the co-operative’s CMHC-program properties, less the sum of scheduled debt-service costs, reported operating expenses, and, for ILM co-ops, contributions to the security-of-tenure reserve for those properties (contributions to the replacement reserve and any other transfers to reserves are excluded from expenses for the calculation);
- *Capital Asset Value* is the greater of
 - (a) the guaranteed insured replacement value of the properties operated under CMHC programs, and related furnishings and equipment taken from the co-operative’s property insurance policy;
 - (b) the regional median per-unit guaranteed insured replacement value calculated for all CMHC-program housing co-operatives in the co-op’s region, multiplied by the number of housing units the co-operative operates under CMHC programs.

Four different net income ratings are possible:

- a ratio of 0.25 per cent or less returns a Net-Income Indicator of Poor
- a ratio above 0.25 per cent but less than or equal to 0.75 per cent returns a Net-Income Indicator of Fair
- a ratio above 0.75 per cent but under or equal to 1.00 per cent returns a Net-Income Indicator of Good
- a ratio above 1.00 per cent returns a Net-Income Indicator of Excellent.