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Appendix A: Ratio Methodology for Proprietary Institutions

SECTION 1: Ratio and Ratio Terms

Primary Reserve Ratio	Adjusted Equity / Total Expenses and Losses
Equity Ratio	Modified Equity / Modified Assets
Net Income Ratio	Income Before Taxes / Total Revenues and Gains

Definitions:

Adjusted Equity = (total owner's equity) - (intangible assets) - (unsecured related-party receivables)* - (net property, plant and equipment)** + (post-employment and defined benefit pension liabilities) + (all debt obtained for long-term purposes, not to exceed total net property, plant and equipment)***

Total Expenses and Losses (excludes income tax, discontinued operations, or change in accounting principle), less any losses on investments****, post-employment and defined benefit pension plans, and annuities. (Total expenses include the nonservice component of net periodic pension and other post-employment plan expenses that are classified as non-operating).

Modified Equity = (total owner's equity) - (intangible assets) - (unsecured related-party receivables)

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

Income Before Taxes is taken directly from the audited financial statement

Total Revenues and Gains = (total operating revenues) + (non-operating revenue and gains). Investment gains should be recorded net of investment losses. Revenues and gains does not include discontinued operations not considered an operating expense for reporting purposes, or change in accounting principle

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

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

*** 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.

****For investments, any loss is the net loss for investments.