§ 668.166  Excess cash.

(a) General. The Secretary considers excess cash to be any amount of title IV, HEA program funds, other than Federal Perkins Loan program funds, that an institution does not disburse to students by the end of the third business day following the date the institution—

(1) Received those funds from the Secretary; or

(2) Deposited or transferred to its depository account previously disbursed title IV, HEA program funds, such as those resulting from award adjustments, recoveries, or cancellations.

(b) Excess cash tolerance. An institution may maintain for up to seven days an amount of excess cash that does not exceed one percent of the total amount of funds the institution drew down in the prior award year. The institution must return immediately to the Secretary any amount of excess cash over the one-percent tolerance and any amount of excess cash remaining in its account after the seven-day tolerance period.

(c) Consequences for maintaining excess cash. Upon a finding that an institution maintained excess cash for any amount or time over that allowed in the tolerance provisions in paragraph (b) of this section, the actions the Secretary may take include, but are not limited to—

(1) Requiring the institution to reimburse the Secretary for the costs the Federal government incurred in providing that excess cash to the institution; and

(2) Providing funds to the institution under the reimbursement payment method or heightened cash monitoring payment method described in § 668.162(c) and (d), respectively.

§ 668.167  Severability.

If any provision of this subpart or its application to any person, act, or practice is held invalid, the remainder of the section or the application of its provisions to any person, act, or practice shall not be affected thereby.
(1) The institution’s Equity, Primary Reserve, and Net Income ratios yield a composite score of at least 1.5, as provided under §668.172 and appendices A and B to this subpart;

(2) The institution has sufficient cash reserves to make required returns of unearned title IV HEA program funds, as provided under §668.173;

(3) The institution is current in its debt payments. An institution is not current in its debt payments if—

(i) It is in violation of any existing loan agreement at its fiscal year end, as disclosed in a note to its audited financial statements or audit opinion; or

(ii) It fails to make a payment in accordance with existing debt obligations for more than 120 days, and at least one creditor has filed suit to recover funds under those obligations; and

(4) The institution is meeting all of its financial obligations, including but not limited to—

(i) Refunds that it is required to make under its refund policy, including the return of title IV, HEA program funds for which it is responsible under §668.22; and

(ii) Repayments to the Secretary for debts and liabilities arising from the institution’s participation in the title IV, HEA programs.

(c) Public institutions. (1) The Secretary considers a domestic public institution to be financially responsible if the institution—

(i)(A) Notifies the Secretary that it is designated as a public institution by the State, local, or municipal government entity, tribal authority, or other government entity that has the legal authority to make that designation; and

(B) Provides a letter from an official of that State or other government entity confirming that the institution is a public institution; and

(ii) Provides documentation from an official of that country or other government entity confirming that the institution is a public institution and is backed by the full faith and credit of the country or other government entity; and

(ii) Is not in violation of any past performance requirement under §668.174.

(d) Audit opinions and past performance provisions. Even if an institution satisfies all of the general standards of financial responsibility under paragraph (b) of this section, the Secretary does not consider the institution to be financially responsible if—

(1) In the institution’s audited financial statements, the opinion expressed by the auditor was an adverse, qualified, or disclaimed opinion, or the auditor expressed doubt about the continued existence of the institution as a going concern, unless the Secretary determines that a qualified or disclaimed opinion does not have a significant bearing on the institution’s financial condition; or

(2) As provided under the past performance provisions in §668.174 (a) and (b)(1), the institution violated a title IV, HEA program requirement, or the persons or entities affiliated with the institution owe a liability for a violation of a title IV, HEA program requirement.

(e) Administrative actions. If the Secretary determines that an institution is not financially responsible under the standards and provisions of this section or under an alternative standard in §668.175, or the institution does not submit its financial and compliance audits by the date permitted and in the manner required under §668.23, the Secretary may—

(1) Initiate an action under subpart G of this part to fine the institution, or limit, suspend, or terminate the institution’s participation in the title IV, HEA programs; or

(2) For an institution that is provisionally certified, take an action
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against the institution under the procedures established in §668.13(d).

(Approved by the Office of Management and Budget under control number 1840–0537)


EFFECTIVE DATE NOTE: At 81 FR 76072, Nov. 1, 2016, §668.171 was revised, however, this amendment was delayed indefinitely at 82 FR 27621, June 16, 2017. For the convenience of the user, the revised text is set forth as follows:

§ 668.171 General.

(a) Purpose. To begin and to continue to participate in any title IV, HEA program, an institution must demonstrate to the Secretary that it is financially responsible under the standards established in this subpart. As provided under section 486(c)(1) of the HEA, the Secretary determines whether an institution is financially responsible based on the institution’s ability to—

(1) Provide the services described in its official publications and statements;

(2) Meet all of its financial obligations; and

(3) Provide the administrative resources necessary to comply with title IV, HEA program requirements.

(b) General standards of financial responsibility. Except as provided under paragraphs (e) and (f) of this section, the Secretary considers an institution to be financially responsible if the Secretary determines that—

(1) The institution’s Equity, Primary Reserve, and Net Income ratios yield a composite score of at least 1.5, as provided under §668.172 and appendices A and B to this subpart;

(2) The institution has sufficient cash reserves to make required returns of unearned title IV, HEA program funds, as provided under §668.173;

(3) The institution is able to meet all of its financial obligations and otherwise provide the administrative resources necessary to comply with title IV, HEA program requirements. An institution may not be able to meet its financial or administrative obligations if it is subject to an action or event described in paragraph (c), (d), (e), (f), or (g) of this section. The Secretary considers those actions or events in determining whether the institution is financially responsible only if they occur on or after July 1, 2017; and

(4) The institution or persons affiliated with the institution are not subject to a condition of past performance under §668.174(a) or (b).

(c) Debts, liabilities, and losses. (1) Except as provided under paragraph (b)(3) of this section, an institution is not able to meet its financial or administrative obligations under paragraph (b)(3) of this section if, after the end of the fiscal year for which the Secretary has most recently calculated an institution’s composite score, the institution is subject to one or more of the following actions or triggering events, and as a result of the actual or potential debts, liabilities, or losses that have stemmed or may stem from those actions or events, the institution’s recalculated composite score is less than 1.0, as determined by the Secretary under paragraph (c)(2) of this section:

(i) Debts and borrower defense-related lawsuits. (A) The institution is required to pay any debt or incur any liability arising from a final judgment in a judicial proceeding or from an administrative proceeding or determination, or from a settlement; or

(B) The institution is being sued in an action brought on or after July 1, 2017 by a Federal or State authority for financial relief on claims related to the making of the Direct Loan for enrollment at the school or the provision of educational services and the suit has been pending for 120 days.

(ii) Other litigation. The institution is being sued in an action brought on or after July 1, 2017 that is not described in paragraph (c)(1)(i)(B) of this section and—

(A) The institution has filed a motion for summary judgment or summary disposition and that motion has been denied or the court has issued an order preserving judgment on the motion;

(B) The institution has not filed a motion for summary judgment or summary disposition by the deadline set for such motions by the court or agreement of the parties; or

(C) If the court did not set a deadline for filing a motion for summary judgment and the institution did not file such a motion, the court has set a pretrial conference date or trial date and the case is pending on the earlier of those two dates.

(iii) Accrediting agency actions. The institution was required by its accrediting agency to submit a teach-out plan, for a reason described in §602.24(c)(1), that covers the closing of the institution or any of its branches or additional locations.

(iv) Gainful employment. As determined annually by the Secretary, the institution has gainful employment programs that, under §688.403, could become ineligible based on their D/E rates for the next award year.

(v) Withdrawal of owner’s equity. For a proprietary institution whose composite score is less than 1.5, any withdrawal of owner’s equity from the institution by any means, including by declaring a dividend, unless the transfer is to an entity included in the affiliated entity group on whose basis the institution’s composite score was calculated.
(2) Recalculating the composite score—(i) General. Unless the institution demonstrates to the satisfaction of the Secretary that the event or condition has had or will have no effect on the institution's financial or administrative obligations under paragraph (g)(3)(iv) of this section, as specified in Appendix C of this subpart, the Secretary recognizes and accounts for the actual or potential losses associated with the actions or events under paragraph (c)(1) of this section and, based on that accounting, recalculates the institution's most recent composite score. The recalculation will occur regularly after associated actions or events are reported to the Secretary. The Secretary recalculates the composite score under this paragraph using the financial statements on which the institution's composite score has been calculated under §668.172.

(ii) Calculation of potential loss—debts and borrower defense-related lawsuits. For a debt or a suit described in paragraph (c)(1)(i) of this section, the amount of loss is—

(A) The amount of debt;

(B) For a suit, the amount set by a court ruling, or, in the absence of a court ruling—

(1) The amount of relief claimed in the complaint;

(2) If the complaint demands no specific amount of relief, the amount stated in any final written demand issued by the agency to the institution prior to the suit or a lesser amount that the agency offers to accept in settlement of any financial demand in the suit; or

(C) If the agency stated no specific demand in the complaint, in a pre-filing demand, or in a written offer of settlement, the amount of tuition and fees received by the institution prior to the suit;

(D) If the agency stated no specific demand in the complaint, in a pre-filing demand, or in a written offer of settlement, the amount due date under 17 CFR 240.12b–25.

(iii) Calculation of potential loss—other litigation. For any suit described in paragraph (c)(1)(ii) of this section, the amount of loss is—

(A) The amount of relief claimed in the complaint;

(B) If the complaint demands no specific amount of relief, the amount stated in any final written demand by the claimant to the institution prior to the suit or a lesser amount that the plaintiff offers to accept in settlement of any financial demand in the suit; or

(C) If the claimant stated no specific demand in the complaint, in a pre-filing demand, or in a written offer of settlement, the amount of the claim as stated in a response to a discovery request, including an expert witness report.

(iv) Calculation of potential loss—other events. (A) For a closed location or institution, or the potential loss of eligibility for gainful employment programs, as described in paragraph (c)(1)(iii) or (iv), the amount of loss is the amount of title IV, HEA program funds the institution received in its most recently completed fiscal year for that location or institution, or for those GB programs.

(B) For the withdrawal of owner's equity, described in paragraph (c)(1)(v) of this section, the amount of loss is the amount transferred to any entity other than the institution.

(d) Non-title IV revenue. Except as provided under paragraph (b)(3) of this section, a proprietary institution is not able to meet its financial or administrative obligations under paragraph (b)(3) of this section if, for its most recently completed fiscal year, the institution did not derive at least 10 percent of its revenue from sources other than title IV, HEA program funds, as provided under §688.28(c).

(e) Publicly traded institutions. Except as provided under paragraph (b)(3) of this section, a publicly traded institution is not able to meet its financial or administrative obligations under paragraph (b)(3) of this section if the institution is currently subject to one or more of the following actions or events:

(1) SEC actions. The SEC warns the institution that it may suspend trading on the institution’s stock.

(2) SEC reports. The institution failed to file a required annual or quarterly report with the SEC within the time period prescribed for that report or by any extended due date under 17 CFR 240.12b–25.

(3) Exchange actions. The exchange on which the institution’s stock is traded notifies the institution that it is not in compliance with exchange requirements, or its stock is delisted.

(f) Cohort default rates. Except as provided under paragraph (b)(3) of this section, an institution is not able to meet its financial or administrative obligations under paragraph (b)(3) of this section if the institution’s two most recent official cohort default rates are 30 percent or greater, as determined under subpart N of this part, unless—

(1) The institution files a challenge, request for adjustment, or appeal under that subpart with respect to its rates for one or both of those fiscal years; and

(2) That challenge, request, or appeal remains pending, results in reducing below 30 percent the official cohort default rate for either or both years, or precludes the rates from either or both years from resulting in a loss or eligibility or provisional certification.

(g) Discretionary factors or events. Except as provided under paragraph (b)(3) of this section, an institution is not able to meet its financial or administrative obligations under paragraph (b)(3) of this section if the Secretary demonstrates that there is an event or condition that is reasonably likely to
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have a material adverse effect on the financial condition, business, or results of operations of the institution, including but not limited to whether—

1. There is a significant fluctuation between consecutive award years, or a period of award years, in the amount of Direct Loan or Pell Grant funds, or a combination of those funds, received by the institution that cannot be accounted for by changes in those programs;

2. The institution is cited by a State licensing or authorizing agency for failing State or agency requirements;

3. The institution fails a financial stress test developed or adopted by the Secretary to evaluate whether the institution has sufficient capital to absorb losses that may be incurred as a result of adverse conditions and continue to meet its financial obligations to the Secretary and students;

4. As calculated by the Secretary, the institution has high annual dropout rates;

5. The institution is or was placed on probation or issued a show-cause order, or placed on an accreditation status that poses an equivalent or greater risk to its accreditation, by its accrediting agency for failing to meet one or more of the agency's standards;

6. (i) The institution violated a provision or requirement in a loan agreement; and

(ii) As provided under the terms of a security or loan agreement between the institution and the creditor, a monetary or nonmonetary default or delinquency event occurs, or other events occur, that trigger, or enable the creditor to require or impose on the institution, an increase in collateral, a change in contractual obligations, an increase in interest rates or payments, or other sanctions, penalties, or fees;

7. The institution has pending claims for borrower relief discharge under §685.206 or §685.222; or

8. The Secretary expects to receive a significant number of claims for borrower relief discharge under §685.206 or §685.222 as a result of a lawsuit, settlement, judgement, or finding from a State or Federal administrative proceeding.

(h) Reporting requirements. (1) In accordance with procedures established by the Secretary, an institution must notify the Secretary of any of the following actions or events identified in paragraphs (c) through (g) of this section no later than—

(i) For lawsuits and for other actions or events described in paragraph (c)(1)(i) of this section—

(A) Ten days after the institution is served with the complaint; and

(B) For debts arising from lawsuits and for other actions or events, 10 days after a payment was required or a liability was incurred.

(ii) For lawsuits described in paragraph (c)(1)(ii) of this section—

(A) Ten days after the institution is served with the complaint;

(B) Ten days after the court sets the dates for the earliest of the events described in paragraph (c)(1)(ii) of this section, provided that, if the deadline is set by procedural rules, notice of the applicable deadline must be included with notice of the service of the complaint; and

(C) Ten days after the earliest of the applicable events occurs;

(iii) For an accrediting agency action described in paragraph (c)(1)(iii) of this section, 10 days after the institution is notified by its accrediting agency that it must submit a teach-out plan;

(iv) For a withdrawal of owner’s equity described in paragraph (c)(1)(v) of this section, 10 days after the withdrawal is made;

(v) For the non-title IV revenue provision in paragraph (d) of this section, 45 days after the end of the institution’s fiscal year, as provided in §688.28(c)(3);

(vi) For the SEC and stock exchange provisions for publicly traded institutions in paragraph (e), 10 days after the SEC or exchange warns, notifies, or takes an action against the institution, or 10 days after any extension granted by the SEC;

(vii) For State or agency actions in paragraph (g)(2) of this section, 10 days after the institution is cited for violating a State or agency requirement;

(viii) For probation or show cause actions under paragraph (g)(5) of this section, 10 days after the institution’s accrediting agency places the institution on that status; and

(ix) For the loan agreement provisions in paragraph (g)(6) of this section, 10 days after a loan violation occurs, the creditor waives the violation, or the creditor imposes sanctions or penalties in exchange or as a result of the waiver.

(2) The Secretary may take an administrative action under paragraph (k) of this section against the institution if it fails to provide timely notice under this paragraph (h).

(3) In its notice to the Secretary, the institution may demonstrate that—

(i) For a suit by a Federal or State agency described in paragraph (c)(1)(i)(B) of this section, the amount claimed in the complaint or determined under paragraph (c)(2)(i) of this section exceeds the potential recovery because the allegations in the complaint, if accepted as true, and the claims asserted, if fully successful, cannot produce relief in the amount claimed or, if no amount was claimed, the amount deemed under paragraph (c)(2)(ii) because they pertain to a period, program, or location for which the full recovery possible is a lesser amount;
(ii) The reported withdrawal of owner's equity under paragraph (c)(1)(v) of this section was used exclusively to meet tax liabilities of the institution or its owners for income derived from the institution;

(iii) The reported violation of a provision or requirement in a loan agreement under paragraph (g)(6) of this section was waived by the creditor. However, if the creditor imposes additional constraints or requirements as a condition of waiving the violation, or imposes penalties or requirements under paragraph (g)(6)(ii) of this section, the institution must identify and describe those penalties, constraints, or requirements and may demonstrate that complying with those actions will not adversely affect the institution's ability to meet its current and future financial obligations; or

(iv) The action or event reported under this paragraph (b) no longer exists or has been resolved or the institution has insurance that will cover part or all of the debts and liabilities that arise at any time from that action or event.

(1) Public institutions. (1) The Secretary considers a domestic public institution to be financially responsible if the institution—

(i) Is designated as a public institution by the State, local, or municipal government entity, tribal authority, or other government entity that has the legal authority to make that designation; and

(ii) Provides a letter from an official of that State or other government entity confirming that the institution is a public institution; and

(ii) Is not subject to a condition of past performance under §668.174.

(2) The Secretary considers a foreign public institution to be financially responsible if the institution—

(i) Is designated as a public institution by the country or other government entity that has the legal authority to make that designation; and

(ii) Provides documentation from an official of that country or other government entity confirming that the institution is a public institution and is backed by the full faith and credit of the country or other government entity; and

(ii) Is not subject to a condition of past performance under §668.174.

(j) Audit opinions. Even if an institution satisfies all of the general standards of financial responsibility under paragraph (b) of this section, the Secretary does not consider the institution to be financially responsible if, in the institution's audited financial statements, the opinion expressed by the auditor was an adverse, qualified, or disclaimed opinion, or the auditor expressed doubt about the continued existence of the institution as a going concern, unless the Secretary determines that a qualified or disclaimed opinion does not significantly bear on the institution's financial condition.

(k) Administrative actions. If the Secretary determines that an institution is not financially responsible under the standards and provisions of this section or under an alternative standard in §668.175, or the institution does not submit its financial and compliance audits by the date and in the manner required under §668.23, the Secretary may—

(1) Initiate an action under subpart G of this part to fine the institution, or limit, suspend, or terminate the institution's participation in the title IV, HEA programs; or

(2) For an institution that is provisionally certified, take an action against the institution under the procedures established in §668.13(d).

Primary Reserve ratio = \frac{Adjusted~Equity}{Total~Expenses}
Equity ratio = \frac{Modified~Equity}{Modified~Assets}
Net Income ratio = \frac{Income~Before~Taxes}{Total~Revenues}

(2) The ratios for private non-profit institutions are:

Primary Reserve ratio = \frac{Expendable~Net~Assets}{Total~Expenses}
Equity Ratio = \frac{Modified~Net~Assets}{Modified~Assets}
Net Income ratio = \frac{Change~in~Unrestricted~Net~Assets}{Total~Unrestricted~Revenues}

(c) Excluded items. In calculating an institution’s ratios, the Secretary—
(1) Generally excludes extraordinary gains or losses, income or losses from discontinued operations, prior period adjustments, the cumulative effect of changes in accounting principles, and the effect of changes in accounting estimates;
(2) May include or exclude the effects of questionable accounting treatments, such as excessive capitalization of marketing costs;
(3) Excludes all unsecured or uncollateralized related-party receivables;
(4) Excludes all intangible assets defined as intangible in accordance with generally accepted accounting principles; and
(5) Excludes from the ratio calculations Federal funds provided to an institution by the Secretary under program authorized by the HEA only if—
(i) In the notes to the institution’s audited financial statement, or as a separate attestation, the auditor discloses by name and CFDA number, the amount of HEA program funds reported as expenses in the Statement of Activities for the fiscal year covered by that audit or attestation; and
( ii ) The institution’s composite score, as determined by the Secretary, is less than 1.5 before the reported expenses arising from those HEA funds are excluded from the ratio calculations.

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§ 668.173 Refund reserve standards.
(a) General. The Secretary considers that an institution has sufficient cash reserves, as required under § 668.171(b)(2), if the institution—
(1) Satisfies the requirements for a public institution under § 668.171(c)(1);
(2) Is located in a State that has a tuition recovery fund approved by the Secretary and the institution contributes to that fund; or
(3) Returns, in a timely manner as described in paragraph (b) of this section, unearned title IV, HEA program funds that it is responsible for returning under the provisions of § 668.22 for a student that withdrew from the institution.
(b) **Timely return of title IV, HEA program funds.** In accordance with procedures established by the Secretary or FFEL Program lender, an institution returns unearned title IV, HEA program funds timely if—

1. The institution deposits or transfers the funds into the bank account it maintains under §668.163 no later than 45 days after the date it determines that the student withdrew;
2. The institution initiates an electronic funds transfer (EFT) no later than 45 days after the date it determines that the student withdrew;
3. The institution initiates an electronic transaction, no later than 45 days after the date it determines that the student withdrew, that informs a FFEL lender to adjust the borrower’s loan account for the amount returned; or
4. The institution issues a check no later than 45 days after the date it determines that the student withdrew. An institution does not satisfy this requirement if—
   1. The institution’s records show that the check was issued more than 45 days after the date the institution determined that the student withdrew; or
   2. The date on the cancelled check shows that the bank used by the Secretary or FFEL Program lender endorsed that check more than 60 days after the date the institution determined that the student withdrew.

(c) **Compliance thresholds.** (1) An institution does not comply with the reserve standard under §668.173(a)(3) if, in a compliance audit conducted under §668.23, an audit conducted by the Office of the Inspector General, or a program review conducted by the Department or guaranty agency, the auditor or reviewer finds—

   1. In the sample of student records audited or reviewed that the institution did not return unearned title IV, HEA program funds within the timeframes described in paragraph (b) of this section for 5% or more of the students in the sample. (For purposes of determining this percentage, the sample includes only students for whom the institution was required to return unearned funds during its most recently completed fiscal year.); or
   2. A material weakness or reportable condition in the institution’s report on internal controls relating to the return of unearned title IV, HEA program funds.

(2) The Secretary does not consider an institution to be out of compliance with the reserve standard under §668.173(a)(3) if the institution is cited in any audit or review report because it did not return unearned funds in a timely manner for one or two students, or for less than 5% of the students in the sample referred to in paragraph (c)(1)(i) of this section.

(d) **Letter of credit.** (1) Except as provided under paragraph (e)(1) of this section, an institution that can satisfy the reserve standard only under paragraph (a)(3) of this section, must submit an irrevocable letter of credit acceptable and payable to the Secretary if a finding in an audit or review shows that the institution exceeded the compliance thresholds in paragraph (c) of this section for either of its two most recently completed fiscal years.

(2) The amount of the letter of credit required under paragraph (d)(1) of this section is 25 percent of the total amount of unearned title IV, HEA program funds that the institution was required to return under §668.22 during the institution’s most recently completed fiscal year.

(3) An institution that is subject to paragraph (d)(1) of this section must submit to the Secretary a letter of credit no later than 30 days after the earlier of the date that—

   1. The institution is required to submit its compliance audit;
   2. The Office of the Inspector General issues a final audit report;
   3. The designated department official issues a final program review determination;
   4. The Department issues a preliminary program review report or draft audit report, or a guaranty agency issues a preliminary report showing that the institution did not return unearned funds for more than 10% of the sampled students; or
   5. The Secretary sends a written notice to the institution requesting the letter of credit that explains why the institution has failed to return unearned funds in a timely manner.
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(e) Exceptions. With regard to the letter of credit described in paragraph (d) of this section—

(1) An institution does not have to submit the letter of credit if the amount calculated under paragraph (d)(2) of this section is less than $5,000 and the institution can demonstrate that it has cash reserves of at least $5,000 available at all times.

(2) An institution may delay submitting the letter of credit and request the Secretary to reconsider a finding made in its most recent audit or review report that it failed to return unearned title IV, HEA program funds in a timely manner if—

(i)(A) The institution submits documents showing that the unearned title IV, HEA program funds were not returned in a timely manner solely because of exceptional circumstances beyond the institution's control and that the institution would not have exceeded the compliance thresholds under paragraph (c)(1) of this section had it not been for these exceptional circumstances; or

(B) The institution submits documents showing that it did not fail to make timely refunds as provided under paragraphs (b) and (c) of this section; and

(ii) The institution's request, along with the documents described in paragraph (e)(2)(i) of this section, is submitted to the Secretary no later than the date it would otherwise be required to submit a letter of credit under paragraph (d)(3).

(3) If the Secretary denies the institution's request under paragraph (e)(2) of this section, the Secretary notifies the institution of the date it must submit the letter of credit.

(f) State tuition recovery funds. In determining whether to approve a State's tuition recovery fund, the Secretary considers the extent to which that fund—

(1) Provides refunds to both in-State and out-of-State students;

(2) Allocates all refunds in accordance with the order required under §668.22; and

(3) Provides a reliable mechanism for the State to replenish the fund should any claims arise that deplete the fund's assets.


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(A) Exercises or exercised substantial control over another institution or a third-party servicer that owes a liability for a violation of a title IV, HEA program requirement; or
(B) Owes a liability for a violation of a title IV, HEA program requirement; and
(ii) That person, family member, institution, or servicer does not demonstrate that the liability is being repaid in accordance with an agreement with the Secretary.
(2) The Secretary may determine that an institution is financially responsible, even if the institution is not otherwise financially responsible under paragraph (b)(1) of this section, if—
(i) The institution notifies the Secretary, within the time permitted and in the manner provided under 34 CFR 668.174, that the person referenced in paragraph (b)(1) of this section exercises substantial control over the institution; and
(ii) The person referenced in paragraph (b)(1) of this section repaid to the Secretary a portion of the applicable liability, and the portion repaid equals or exceeds the greater of—
(A) The total percentage of the ownership interest held in the institution or third-party servicer that owes the liability by that person or any member or members of that person’s family, either alone or in combination with one another; or
(B) The total percentage of the ownership interest held in the institution or servicer that owes the liability that the person or any member or members of the person’s family, either alone or in combination with one another, represents or represented under a voting trust, power of attorney, proxy, or similar agreement; or
(C) Twenty-five percent, if the person or any member of the person’s family is or was a member of the board of directors, chief executive officer, or other executive officer of the institution or servicer that owes the liability, or of an entity holding at least a 25 percent ownership interest in the institution that owes the liability; or
(iii) The applicable liability described in paragraph (b)(1) of this section is currently being repaid in accordance with a written agreement with the Secretary; or
(iv) The institution demonstrates to the satisfaction of the Secretary why—
(A) The person who exercises substantial control over the institution should nevertheless be considered to lack that control; or
(B) The person who exercises substantial control over the institution and each member of that person’s family nevertheless does not or did not exercise substantial control over the institution or servicer that owes the liability.
(c) Ownership interest. (1) An ownership interest is a share of the legal or beneficial ownership or control of, or a right to share in the proceeds of the operation of, an institution, an institution’s parent corporation, a third-party servicer, or a third-party servicer’s parent corporation. The term “ownership interest” includes, but is not limited to—
(i) An interest as tenant in common, joint tenant, or tenant by the entireties; or
(ii) A partnership; and
(iii) An interest in a trust.
(2) The term “ownership interest” does not include any share of the ownership or control of, or any right to share in the proceeds of the operation of a profit-sharing plan, provided that all employees are covered by the plan.
(3) The Secretary generally considers a person to exercise substantial control over an institution or third-party servicer if the person—
(i) Directly or indirectly holds at least a 25 percent ownership interest in the institution or servicer;
(ii) Holds, together with other members of his or her family, at least a 25 percent ownership interest in the institution or servicer;
(iii) Represents, either alone or together with other persons under a voting trust, power of attorney, proxy, or similar agreement, one or more persons who hold, either individually or in combination with the other persons represented or the person representing them, at least a 25 percent ownership in the institution or servicer; or
§ 668.175 Alternative standards and requirements.

(a) General. An institution that is not financially responsible under the general standards and provisions in §668.171, may begin or continue to participate in the title IV, HEA programs by qualifying under an alternate standard set forth in this section.

(b) Letter of credit alternative for new institutions. A new institution that is not financially responsible solely because the Secretary determines that its composite score is less than 1.5, qualifies as a financially responsible institution by submitting an irrevocable letter of credit, that is acceptable and payable to the Secretary, for an amount equal to at least one-half of the amount of title IV, HEA program funds that the Secretary determines the institution will receive during its initial year of participation. A new institution is an institution that seeks to participate for the first time in the title IV, HEA programs.

(c) Letter of credit alternative for participating institutions. A participating institution that is not financially responsible either because it does not satisfy one or more of the standards of financial responsibility under §668.171(b), or because of an audit opinion described under §668.171(d), qualifies as a financially responsible institution by submitting an irrevocable letter of credit, that is acceptable and payable to the Secretary, for an amount determined by the Secretary that is not less than one-half of the title IV, HEA program funds received by the institution during its most recently completed fiscal year.

(d) Zone alternative. (1) A participating institution that is not financially responsible solely because the Secretary determines that its composite score is less than 1.5 may participate in the title IV, HEA programs as a financially responsible institution for no more than three consecutive years, beginning with the year in which the Secretary determines that the institution qualifies under this alternative. (i)(A) An institution qualifies initially under this alternative if, based on the institution’s audited financial statement for its most recently completed fiscal year, the Secretary determines that its composite score is in the range from 1.0 to 1.4; and

(B) An institution continues to qualify under this alternative if, based on the institution’s audited financial statement for each of its subsequent two fiscal years, the Secretary determines that the institution’s composite score is in the range from 1.0 to 1.4.

(ii) An institution that qualified under this alternative for three consecutive years or for one of those years, may not seek to qualify again under this alternative until the year after the institution achieves a composite score of at least 1.5, as determined by the Secretary.

(2) Under this zone alternative, the Secretary—

(i) Requires the institution to make disbursements to eligible students and parents under either the cash monitoring or reimbursement payment method described in §668.162;

(ii) Requires the institution to provide timely information regarding any of the following oversight and financial events—

(A) Any adverse action, including a probation or similar action, taken against the institution by its accrediting agency;

(B) Any event that causes the institution, or related entity as defined in the Statement of Financial Accounting Standards (SFAS) 57, to realize any liability that was noted as a contingent liability in the institution’s or related entity’s most recent audited financial statement;
(C) Any violation by the institution of any loan agreement;

(D) Any failure of the institution to make a payment in accordance with its debt obligations that results in a creditor filing suit to recover funds under those obligations;

(E) Any withdrawal of owner’s equity from the institution by any means, including by declaring a dividend; or

(F) Any extraordinary losses, as defined in accordance with Accounting Principles Board (APB) Opinion No. 30.

(iii) May require the institution to submit its financial statement and compliance audits earlier than the time specified under §668.23(a)(4); and

(iv) May require the institution to provide information about its current operations and future plans.

(3) Under the zone alternative, the institution must—

(i) For any oversight or financial event described under paragraph (d)(2)(ii) of this section for which the institution is required to provide information, provide that information to the Secretary by certified mail or electronic or facsimile transmission no later than 10 days after that event occurs. An institution that provides this information electronically or by facsimile transmission is responsible for confirming that the Secretary received a complete and legible copy of that transmission; and

(ii) As part of its compliance audit, require its auditor to express an opinion on the institution’s compliance with the requirements under the zone alternative, including the institution’s administration of the payment method under which the institution received and disbursed title IV, HEA program funds.

(4) If an institution fails to comply with the requirements under paragraphs (d) (2) or (3) of this section, the Secretary may determine that the institution no longer qualifies under this alternative.

(e) [Reserved]

(f) Provisional certification alternative.

(1) The Secretary may permit an institution that is not financially responsible because it does not satisfy the general standards under §668.171(b) or because of an audit opinion described under §668.171(d); or

(ii) The institution is not financially responsible because of a condition of past performance, as provided under §668.174(a), and the institution demonstrates to the Secretary that it has satisfied or resolved that condition.

(2) Under this alternative, the institution must—

(i) Submit to the Secretary an irrevocable letter of credit that is acceptable and payable to the Secretary, for an amount determined by the Secretary that is not less than 10 percent of the title IV, HEA program funds received by the institution during its most recently completed fiscal year, except that this requirement does not apply to a public institution;

(ii) Demonstrate that it was current on its debt payments and has met all of its financial obligations, as required under §668.171(b)(3) and (b)(4), for its two most recent fiscal years; and

(iii) Comply with the provisions under the zone alternative, as provided under paragraph (d) (2) and (3) of this section.

(3) If at the end of the period for which the Secretary provisionally certified the institution, the institution is still not financially responsible, the Secretary may again permit the institution to participate under a provisional certification, but the Secretary—

(i) May require the institution, or one or more persons or entities that exercise substantial control over the institution, as determined under §668.174(b)(1) and (c), or both, to submit to the Secretary financial guarantees for an amount determined by the Secretary to be sufficient to satisfy any potential liabilities that may arise from the institution’s participation in the title IV, HEA programs; and

(ii) May require one or more of the persons or entities that exercise substantial control over the institution, as determined under §668.174(b)(1) and (c), to be jointly or severally liable for any liabilities that may arise from the institution’s participation in the title IV, HEA programs.
§ 668.175, N.I.

(g) Provisional certification alternative for persons or entities owing liabilities. (1) The Secretary may permit an institution that is not financially responsible because the persons or entities that exercise substantial control over the institution owe a liability for a violation of a title IV, HEA program requirement, to participate in the title IV, HEA programs under a provisional certification only if—

(i) The persons or entities that exercise substantial control, as determined under §668.174(b)(1) and (c), repay or enter into an agreement with the Secretary to repay the applicable portion of that liability, as provided under §668.174(b)(2)(i); or

(B) The institution assumes that liability, and repays or enters into an agreement with the Secretary to repay that liability;

(ii) The institution satisfies the general standards and provisions of financial responsibility under §668.171(b) and (d)(1), except that institution must demonstrate that it was current on its debt payments and has met all of its financial obligations, as required under §668.171 (b)(3) and (b)(4), for its two most recent fiscal years; and

(iii) The institution submits to the Secretary an irrevocable letter of credit that is acceptable and payable to the Secretary, for an amount determined by the Secretary that is not less than 10 percent of the title IV, HEA program funds received by the institution during its most recently completed fiscal year.

(2) Under this alternative, the Secretary—

(i) Requires the institution to comply with the provisions under the zone alternative, as provided under paragraph (d)(2) and (3) of this section;

(ii) May require the institution, or one or more persons or entities that exercise substantial control over the institution, or both, to submit to the Secretary financial guarantees for an amount determined by the Secretary to be sufficient to satisfy any potential liabilities that may arise from the institution's participation in the title IV, HEA programs; and

(iii) May require one or more of the persons or entities that exercise substantial control over the institution to be jointly or severally liable for any liabilities that may arise from the institution's participation in the title IV, HEA programs.

(3) The Secretary may amend the terms of the agreement in order to protect the Secretary's interests.

(4) Effective Date Note: At 81 FR 76075, Nov. 1, 2016, §668.175 was amended by revising paragraphs (c), (d), (f) and the authority citation, removing and reserving paragraph (e) and adding paragraph (b). However, these amendments were delayed indefinitely at 82 FR 27621, June 16, 2017. For the convenience of the user, the added and revised text is set forth as follows:

§ 668.175 Alternative standards and requirements.

* * * * *

(c) Letter of credit alternative for participating institutions. A participating institution that is not financially responsible either because it does not satisfy one or more of the standards of financial responsibility under §668.171(b) through (g), or because of an audit opinion described under §668.171(j), qualifies as a financially responsible institution by submitting an irrevocable letter of credit or other form of financial protection specified by the Secretary in a notice published in the Federal Register, that is acceptable and payable to the Secretary, for an amount determined by the Secretary that is not less than one-half of the title IV, HEA program funds received by the institution during its most recently completed fiscal year.

(d) Zone alternative. (1) A participating institution that is not financially responsible solely because the Secretary determines that its composite score under §668.172 is less than 1.5 may participate in the title IV, HEA programs as a financially responsible institution for no more than three consecutive years, beginning with the year in which the Secretary determines that the institution qualifies under this alternative.

(i) An institution qualifies initially under this alternative if, based on the institution's audited financial statement for its most recently completed fiscal year, the Secretary determines that its composite score is in the range from 1.0 to 1.4; and

(2) An institution continues to qualify under this alternative if, based on the institution's audited financial statement for each of its subsequent two fiscal years, the Secretary determines that the institution's
§ 668.175, NI.

comparable score is in the range from 1.0 to 1.4.

(ii) An institution that qualified under this alternative for three consecutive years, or for one of those years, may not seek to qualify again under this alternative until the year after the institution achieves a comparable score of at least 1.5, as determined by the Secretary.

(2) Under the zone alternative, the Secretary—

(i) Requires the institution to make disbursements to eligible students and parents, and to otherwise comply with the provisions, under either the heightened cash monitoring or reimbursement payment method described in §668.162;

(ii) Requires the institution to provide timely information regarding any of the following oversight and financial events—

(A) Any event that causes the institution, or related entity as defined in Accounting Standards Codification (ASC) 850, to realize any liability that was noted as a contingent liability in the institution’s or related entity’s most recent audited financial statement; or

(B) Any losses that are unusual in nature or infrequently occur, or both, as defined in accordance with Accounting Standards Update (ASU) No. 2015-01 and ASC 225;

(iii) May require the institution to submit its financial statement and compliance audits earlier than the time specified under §668.23(a)(4); and

(iv) May require the institution to provide information about its current operations and future plans.

(b) Under the zone alternative, the institution must—

(i) For any oversight or financial event described in paragraph (d)(2)(i) of this section for which both conditions are true, the Secretary must provide information, in accordance with procedures established by the Secretary, to the Federal Register no later than 10 days after that event occurs; and

(ii) May require the institution’s auditor to express an opinion on the institution’s compliance with the requirements under the zone alternative, including the institution’s administration of the payment method under which the institution received and disbursed title IV, HEA program funds.

(c) If an institution fails to comply with the requirements under paragraph (d)(2) or (3) of this section, the Secretary may determine that the institution no longer qualifies under this alternative.

* * * * *

(f) Provisional certification alternative. (1) The Secretary may permit an institution that is not financially responsible to participate in the title IV, HEA programs under a provisional certification for no more than three consecutive years if, as determined annually by the Secretary—

(i) The institution is not financially responsible because it does not satisfy the general standards under §668.171(b)(1) or (3), its recalculated composite score under §668.171(c)(2) is less than 1.8, is subject to an action or event under §668.171(d), (f), or (g) or because of an audit opinion described in §668.171(i); or

(ii) The institution is not financially responsible because of a condition of past performance, as provided under §668.174(a), and the institution demonstrates to the Secretary that it has satisfied or resolved that condition.

(2) Under this alternative, the institution must—

(i) Provide to the Secretary an irrevocable letter of credit that is acceptable and payable to the Secretary, agree to a set-aside under paragraph (b) of this section, or, at the Secretary’s discretion, provide another form of financial protection specified by the Secretary in a notice published in the FEDERAL REGISTER, for an amount determined by the Secretary under paragraph (f)(4)(i) of this section, except that this requirement does not apply to a public institution; and

(ii) Comply with the provisions under the zone alternative, as provided under paragraph (d)(2) and (3).

(3) If at the end of the period for which the Secretary provisionally certified the institution, the institution is still not financially responsible, the Secretary—

(i) May permit the institution to participate under a provisional certification, but—

(A) May require the institution, or one or more persons or entities that exercise substantial control over the institution, as determined under §§668.174(b)(1) and (c), to be jointly or severally liable for any liabilities that may arise from the institution’s participation in the title IV, HEA programs; and

(B) May require one or more of the persons or entities that exercise substantial control over the institution, as determined under §668.174(b)(1) and (c), to be jointly or severally liable for any liabilities that may arise from the institution’s participation in the title IV, HEA programs; and

(ii) May permit the institution to continue to participate under a provisional certification but requires the institution to provide, or continue to provide, the financial protection resulting from an event described in §668.171(c) through (g) until the institution meets the requirements of paragraph (f)(5) of this section.

(4)(i) The institution must provide to the Secretary the financial protection described under paragraph (f)(2)(i) in an amount that, together with the amount of any financial protection that the institution has already provided,
§668.176 Severability.
If any provision of this subpart or its application to any person, act, or practice is held invalid, the remainder of the subpart or the application of its provisions to any person, act, or practice will not be affected thereby.

(Authority: 20 U.S.C. 1094, 1099c)

§668.176 Set-aside.
If an institution does not provide a letter of credit or financial protection acceptable to the Secretary for the amount required under paragraph (d) or (f) of this section within 45 days of the Secretary’s request, the Secretary offsets the amount of title IV, HEA program funds that an institution is eligible to receive in a manner that ensures that, no later than the end of a nine-month period, the total amount offset equals the amount of financial protection the institution would otherwise provide. The Secretary uses the funds to satisfy the debt and liabilities owed to the Secretary that are not otherwise paid directly by the institution, and provides to the institution any remaining funds if the institution subsequently submits the financial protection originally required under paragraph (d) or (f) of this section.

(Authority: 20 U.S.C. 1094 and 1099c)

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Section 1: Ratios and Ratio Terms

Primary Reserve Ratio = \frac{\text{Adjusted Equity}}{\text{Total Expenses}}

Equity Ratio = \frac{\text{Modified Equity}}{\text{Modified Assets}}

Net Income Ratio = \frac{\text{Income Before Taxes}}{\text{Total Revenues}}

Definitions:

Adjusted Equity = (total owner's equity) - (intangible assets) - (unsecured related-party receivables) - (net property, plant and equipment) + (post-employment and retirement liabilities) + (all debt obtained for long-term purposes)

Total Expenses excludes income tax, discontinued operations, extraordinary losses, or change in accounting principle.

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 Pre-Tax Revenues = (total operating revenues) + (non-operating revenues and gains). Investment gains should be recorded net of investment losses. No revenues shown after income taxes (e.g., discontinued operations, extraordinary gains, or change in accounting principle) on the income statement should be included.

* The value of plant, property and equipment is net of accumulated depreciation, including capitalized lease assets.

** The value of all debt obtained for long-term purposes includes the short-term portion of the debt, up to the amount of net property, plant and equipment.
Section 2, Calculating the Ratios from the Balance Sheet and Income Statement

<table>
<thead>
<tr>
<th>Balance Sheet</th>
<th>Statement of Income and Retained Earnings</th>
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<tbody>
<tr>
<td>Line</td>
<td></td>
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<tr>
<td>1</td>
<td>Cash</td>
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<tr>
<td>2</td>
<td>Accounts Receivable</td>
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<tr>
<td>3</td>
<td>Prepaid Expenses</td>
</tr>
<tr>
<td>4</td>
<td>Inventories</td>
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<td>5</td>
<td>Notes Receivable from Affiliate</td>
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<tr>
<td>6</td>
<td>Inventories</td>
</tr>
<tr>
<td>7</td>
<td><strong>Total Current Assets</strong></td>
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<tr>
<td>8</td>
<td>Property and Equipment, net</td>
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<tr>
<td>9</td>
<td>Amount Due from Owner</td>
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<tr>
<td>10</td>
<td>Goodwill</td>
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<tr>
<td>11</td>
<td>Organization Costs</td>
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<tr>
<td>12</td>
<td>Deposits</td>
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<tr>
<td>13</td>
<td><strong>Total Assets</strong></td>
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<td>14</td>
<td>Accounts Payable</td>
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<td>15</td>
<td>Accrued Expenses</td>
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<td>16</td>
<td>Current Portion of Long-Term Debt</td>
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<td>17</td>
<td>Deferred Revenue</td>
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<tr>
<td>18</td>
<td><strong>Total Current Liabilities</strong></td>
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<tr>
<td>19</td>
<td>Long-Term Debt, net of Current Portion</td>
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<tr>
<td>20</td>
<td><strong>Total Liabilities</strong></td>
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<td>21</td>
<td>Contributed Capital</td>
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<td>22</td>
<td>Retained Earnings</td>
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<tr>
<td>23</td>
<td><strong>Total Owner's Equity</strong></td>
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<tr>
<td>24</td>
<td><strong>Total Liabilities and Owner's Equity</strong></td>
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<table>
<thead>
<tr>
<th>Line</th>
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</thead>
<tbody>
<tr>
<td>25</td>
<td>Operating Income</td>
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<td>27</td>
<td>Total Income</td>
</tr>
<tr>
<td>29</td>
<td>Administrative Expenses</td>
</tr>
<tr>
<td>31</td>
<td>Interest Expense</td>
</tr>
<tr>
<td>33</td>
<td>Other: Gain on Sale of Investments</td>
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<tr>
<td>35</td>
<td>Federal Income Taxes</td>
</tr>
<tr>
<td>37</td>
<td>Extraordinary Loss, net of tax</td>
</tr>
<tr>
<td>39</td>
<td>Retained Earnings, beginning of year</td>
</tr>
<tr>
<td>40</td>
<td>Retained Earnings, end of year</td>
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<table>
<thead>
<tr>
<th>Primary Reserve = (lines)</th>
<th>Ratio</th>
<th>$760,000</th>
<th>0.080</th>
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<td>$9,500,000</td>
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<table>
<thead>
<tr>
<th>Equity Ratio = (lines)</th>
<th>Ratio</th>
<th>$810,000</th>
<th>0.330</th>
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<tbody>
<tr>
<td>$2,440,000</td>
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<table>
<thead>
<tr>
<th>Net Income Ratio = (lines)</th>
<th>Ratio</th>
<th>$520,000</th>
<th>0.051</th>
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<tbody>
<tr>
<td>$10,010,000</td>
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<td></td>
<td></td>
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</tbody>
</table>

*Long-Term Debt (lines 16 + 19) cannot exceed Property and Equipment (line 8) in this formula.
Section 3: Calculating the Composite Score

Step 1: Calculate the strength factor score for each ratio, by using the following algorithms:

Example (for Proprietary institutions)

Primary Reserve strength factor score = 20 x Primary Reserve ratio result:

\[ 20 \times 0.080 = 1.600 \]

Equity strength factor score = 6 x Equity ratio result:

\[ 6 \times 0.332 = 1.992 \]

Net Income strength factor score = 1 + (33.3 x Net Income ratio result):

\[ 1 + (33.3 \times 0.051) = 2.698 \]

If the strength factor score for any ratio is greater than or equal to 3, the strength factor score for that ratio is 3. If the strength factor score for any ratio is less than or equal to -1, the strength factor score for that ratio is -1.

Step 2: Calculate the weighted score for each ratio and calculate the composite score by adding the three weighted scores

Primary Reserve weighted score = 30% x Primary Reserve strength factor score:

\[ 0.30 \times 1.600 = 0.480 \]

Equity weighted score = 40% x Equity strength factor score:

\[ 0.40 \times 1.992 = 0.797 \]

Net Income weighted score = 30% x Net Income strength factor score:

\[ 0.30 \times 2.698 = 0.809 \]

Composite score = sum of all weighted scores:

\[ 0.480 + 0.797 + 0.809 = 2.086 \]

Round the composite score to one digit after the decimal point to determine the final score:

\[ 2.1 \]

* The symbol "x" denotes multiplication.
Section 1: Ratios and Ratio Terms

Primary Reserve Ratio = \frac{\text{Expendable Net Assets}}{\text{Total Expenses}}

\text{Equity Ratio} = \frac{\text{Modified Net Assets}}{\text{Modified Assets}}

\text{Net Income Ratio} = \frac{\text{Change in Unrestricted Net Assets}}{\text{Total Unrestricted Revenue}}

Definitions:

\text{Expendable Net Assets} = (\text{unrestricted net assets}) + (\text{temporarily restricted net assets}) - (\text{annuities, term endowments, and life income funds that are temporarily restricted}) - (\text{intangible assets}) - (\text{net property, plant and equipment})^* + (\text{post-employment and retirement liabilities}) + (\text{all debt obtained for long-term purposes})^{**} - (\text{unsecured related-party receivables})

\text{Total Expenses} \text{ is total unrestricted expenses taken directly from the audited financial statement}

\text{Modified Net Assets} = (\text{unrestricted net assets}) + (\text{temporarily restricted net assets}) + (\text{permanently restricted net assets}) - (\text{intangible assets}) - (\text{unsecured related-party receivables})

\text{Modified Assets} = (\text{total assets}) - (\text{intangible assets}) - (\text{unsecured related-party receivables})

\text{Change in Unrestricted Net Assets is taken directly from the audited financial statement}

\text{Total Unrestricted Revenue is taken directly from the audited financial statement (This amount includes net assets released from restriction during the fiscal year)}

^* \text{The value of plant, property and equipment is net of accumulated depreciation, including capitalized lease assets.}

^{**} \text{The value of all debt obtained for long-term purposes includes the short-term portion of the debt, up to the amount of net property, plant and equipment.}
### Section 2, Calculating the Ratios from the Balance Sheet and Statement of Activities

#### Balance Sheet

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cash and Cash Equivalents</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>2</td>
<td>Accounts Receivable</td>
<td>6,000,000</td>
</tr>
<tr>
<td>3</td>
<td>Prepaid Expenses</td>
<td>1,500,000</td>
</tr>
<tr>
<td>4</td>
<td>Inventories</td>
<td>500,000</td>
</tr>
<tr>
<td>5</td>
<td>Contributions Receivable</td>
<td>2,000,000</td>
</tr>
<tr>
<td>6</td>
<td>Student Loans Receivable</td>
<td>8,000,000</td>
</tr>
<tr>
<td>7</td>
<td>Investments</td>
<td>6,000,000</td>
</tr>
<tr>
<td>8</td>
<td>Property and Equipment, net</td>
<td>50,000,000</td>
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<tr>
<td>9</td>
<td>Bond Insurance Costs</td>
<td>720,000</td>
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<tr>
<td>10</td>
<td>Goodwill</td>
<td>500,000</td>
</tr>
<tr>
<td>11</td>
<td>Deposits</td>
<td>20,000</td>
</tr>
<tr>
<td>12</td>
<td>Total Assets</td>
<td>76,240,000</td>
</tr>
<tr>
<td>13</td>
<td>Line of Credit</td>
<td>$500,000</td>
</tr>
<tr>
<td>14</td>
<td>Accounts Payable</td>
<td>2,000,000</td>
</tr>
<tr>
<td>15</td>
<td>Accrued Expenses</td>
<td>3,500,000</td>
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<tr>
<td>16</td>
<td>Deferred Revenue</td>
<td>650,000</td>
</tr>
<tr>
<td>17</td>
<td>Post-Retirement Benefit Liability</td>
<td>6,000,000</td>
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<tr>
<td>18</td>
<td>Bonds Payable</td>
<td>36,000,000</td>
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<tr>
<td>19</td>
<td>Total Liabilities</td>
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<tr>
<td>20</td>
<td>Unrestricted Net Assets</td>
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<tr>
<td>21</td>
<td>Assets</td>
<td>300,000</td>
</tr>
<tr>
<td>22</td>
<td>John Doe Scholarship Fund</td>
<td>2,500,000</td>
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<tr>
<td>23</td>
<td>Total Temp. Restricted Net Assets</td>
<td>2,800,000</td>
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<tr>
<td>24</td>
<td>Permanent Restricted Net Assets</td>
<td>9,000,000</td>
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<tr>
<td>25</td>
<td>Total Net Assets</td>
<td>29,900,000</td>
</tr>
<tr>
<td>26</td>
<td>Total Liabilities &amp; Net Assets</td>
<td>76,240,000</td>
</tr>
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</table>

#### Statement of Activities

<table>
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<tr>
<th>Line</th>
<th>Description</th>
<th>a</th>
<th>b</th>
<th>c</th>
<th>d</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>27</td>
<td>Tuition and Fees</td>
<td>$45,000,000</td>
<td></td>
<td></td>
<td></td>
<td>$45,000,000</td>
</tr>
<tr>
<td>28</td>
<td>Contributions</td>
<td>1,200,000</td>
<td></td>
<td>300,000</td>
<td>$120,000</td>
<td>1,620,000</td>
</tr>
<tr>
<td>29</td>
<td>Auxiliary Enterprises</td>
<td>5,500,000</td>
<td></td>
<td></td>
<td></td>
<td>5,500,000</td>
</tr>
<tr>
<td>30</td>
<td>Net Assets Released from Restrictions&amp; halftime restrictions</td>
<td>200,000</td>
<td></td>
<td></td>
<td></td>
<td>200,000</td>
</tr>
<tr>
<td>31</td>
<td>Total Revenue</td>
<td>51,900,000</td>
<td>300,000</td>
<td>120,000</td>
<td>52,320,000</td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>Operating Expenses</td>
<td>38,000,000</td>
<td></td>
<td></td>
<td></td>
<td>38,000,000</td>
</tr>
<tr>
<td>33</td>
<td>Depreciation</td>
<td>5,000,000</td>
<td></td>
<td></td>
<td></td>
<td>5,000,000</td>
</tr>
<tr>
<td>34</td>
<td>Interest Expense</td>
<td>2,880,000</td>
<td></td>
<td></td>
<td></td>
<td>2,880,000</td>
</tr>
<tr>
<td>35</td>
<td>Auxiliary Enterprises</td>
<td>5,200,000</td>
<td></td>
<td></td>
<td></td>
<td>5,200,000</td>
</tr>
<tr>
<td>36</td>
<td>Non-Operating Expenses</td>
<td>900,000</td>
<td></td>
<td></td>
<td></td>
<td>900,000</td>
</tr>
<tr>
<td>37</td>
<td>Net Assets Released from Restrictions &amp; halftime restrictions</td>
<td>200,000</td>
<td></td>
<td></td>
<td></td>
<td>200,000</td>
</tr>
<tr>
<td>38</td>
<td>Total Expenses</td>
<td>51,980,000</td>
<td>200,000</td>
<td></td>
<td>52,180,000</td>
<td></td>
</tr>
<tr>
<td>39</td>
<td>Change in Net Assets</td>
<td>(80,000)</td>
<td>100,000</td>
<td>120,000</td>
<td>140,000</td>
<td></td>
</tr>
<tr>
<td>40</td>
<td>Net Assets at beginning of year</td>
<td>15,170,000</td>
<td>2,700,000</td>
<td>8,880,000</td>
<td>26,850,000</td>
<td></td>
</tr>
<tr>
<td>41</td>
<td>Net Assets at end of year</td>
<td>15,190,000</td>
<td>2,800,000</td>
<td>9,000,000</td>
<td>26,990,000</td>
<td></td>
</tr>
</tbody>
</table>

**Primary Reserve Ratio** = \( \frac{\text{Line 27 - Line 28 - Line 29}}{\text{Line 32}} \) = \( \frac{45,000,000 - 1,200,000 - 5,500,000}{38,000,000} \) = 0.188

**Equity Ratio** = \( \frac{\text{Line 27 + Line 28 + Line 29}}{\text{Line 32}} \) = \( \frac{45,000,000 + 1,200,000 + 5,500,000}{38,000,000} \) = 0.386

**Net Income Ratio** = \( \frac{\text{Line 27 - Line 28 - Line 29}}{\text{Line 32}} \) = \( \frac{45,000,000 - 1,200,000 - 5,500,000}{38,000,000} \) = 0.085

* In accounting statements, parentheses denote negative numbers (i.e., (0.00) equals negative 0.00).

** Long-Term Debt (Line 18) cannot exceed Property and Equipment, net (Line 8) in this formula.
Section 3: Calculating the Composite Score

Step 1: Calculate the strength factor score for each ratio, by using the following algorithms

Example (for Private Non-Profit institutions)

Primary Reserve strength factor score = 10 x Primary Reserve ratio result:
10 x 0.188 = 1.880

Equity strength factor score = 6 x Equity ratio result:
6 x 0.350 = 2.100

Because the Net Income ratio result is negative, the algorithm for negative net income is used -- Net Income strength factor score = 1 + (25 x Net Income ratio result):
1 + (25 x -0.0015) = 0.963

(Note: If the Net Income ratio result is positive, the following algorithm is used,
Net Income strength factor score = 1 + (50 x Net Income ratio result) -- If the Net Income ratio result is 0, the Net Income strength factor score is 1).

If the strength factor score for any ratio is greater than or equal to 3, the strength factor score for that ratio is 3. If the strength factor score for any ratio is less than or equal to -1, the strength factor score for that ratio is -1.

Step 2: Calculate the weighted score for each ratio and calculate the composite score by adding the three weighted scores

Primary Reserve weighted score = 40% x Primary Reserve strength factor score:
0.40 x 1.880 = 0.752

Equity weighted score = 40% x Equity strength factor score:
0.40 x 2.100 = 0.840

Net Income weighted score = 20% x Net Income strength factor score:
0.20 x 0.963 = 0.193

Composite score = sum of all weighted scores:
0.752 + 0.840 + 0.193 = 1.785

Round the composite score to one digit after the decimal point to determine the final score:
1.8

* The symbol "x" denotes multiplication.
### Appendix C to Subpart L of Part 668 - Balance Sheet and Income Statement Adjustments for Recalculating Composite Score

#### Section 1: Proprietary Institutions

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of Loss</td>
<td>Debt, relief claimed, or other amount as determined under §688.1710(c)(2)(i)</td>
<td>Relief claimed, or other amount as determined under §688.1710(c)(2)(ii)</td>
<td>Total amount withdrawn, §688.1710(c)(2)(iii)</td>
<td>Title IV funds received during the most recently completed fiscal year by G&amp;R programs in jeopardy of losing eligibility, §688.1710(c)(2)(iv)</td>
<td></td>
</tr>
</tbody>
</table>

**Allowance for Expenses**
- Not applicable
- Cost of Goods Sold (COGS) / Operating Income (OIP) multiplied by Amount of Loss

<table>
<thead>
<tr>
<th>Entries for Loss</th>
<th>Debit</th>
<th>Credit</th>
<th>Debit</th>
<th>Credit</th>
<th>Debit</th>
<th>Credit</th>
<th>Debit</th>
<th>Credit</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Line item from Section 2, Appendix A</td>
<td>#30, Total Expenses</td>
<td>#32, Total Expenses</td>
<td>#23, Total Owners Equity</td>
<td>#27, Total Income</td>
<td>#27, Total Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusting Entries</td>
<td>#19, Total Assets</td>
<td>#13, Total Assets</td>
<td>#13, Total Assets</td>
<td>#13, Total Assets</td>
<td>#13, Total Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>#13, Total Assets (expense allowance)</td>
<td>#13, Total Assets (expense allowance)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>#32, Total Expenses (expense allowance)</td>
<td>#32, Total Expenses (expense allowance)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Entries for Loss and Expenses**
Line item from Section 2, Appendix A

- Note that based on the changes to #17 Total Income and Line #32 Total expenses, the following line items may be recalculated: #34 Net Income Before Taxes, #36 Net Income After Taxes, #38 Net Income, #22 Retained Earnings, #23 Total Owner's Equity, and #24 Total Liabilities and Owner's Equity
§ 668.181

Subpart M—Two Year Cohort Default Rates

Source: 65 FR 65638, Nov. 1, 2000, unless otherwise noted.

§ 668.181 Purpose of this subpart.

(a) General. Your cohort default rate is a measure we use to determine your eligibility to participate in various Title IV, HEA programs. We may also use it for determining your eligibility for exemptions, such as those for certain disbursement requirements under the FFEL and Direct Loan Programs. This subpart applies solely to cohorts, as defined in §§ 668.182(a) and 668.183(b), for fiscal years through 2011. For these cohorts, this subpart describes how cohort default rates are calculated, some of the consequences of cohort default rates, and how you may request changes to your cohort default rates or appeal their consequences. Under this subpart, you submit a “challenge”...