

Appendix A: Ratio Methodology for Propriety Institutions

SECTION 1: Ratio and Ratio Terms

Primary Reserve Ratio	<u>Adjusted Equity</u> Total Expenses and Losses
Equity Ratio	<u>Modified Equity</u> Modified Assets
Net Income Ratio	<u>Income Before Taxes</u> Total Revenue and Gains

Total Expenses and Losses excludes income tax, discontinued operations not classified as an operating expense or change in accounting principle and any losses on investments, post-employment and defined benefit pension plans and annuities. Any losses on investments would be the net loss for the investments. Total Expenses and Losses includes the nonservice component of net periodic pension and other post-employment plan expenses.

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 includes all revenues, gains, expenses and losses incurred by the school during the accounting period. Income before taxes does not include income taxes, discontinued operations not classified as an operating expense or changes in accounting principle.

Total Revenues and Gains does not include positive income tax amounts, discontinued operations not classified as an operating gain, or change in accounting principle (investment gains should be recorded net of investment losses).

* Unsecured related party receivables based on the related party disclosures as required by 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.