(i) 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 disclaimer 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 disclaimer 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 against the institution under the procedures established in §668.13(d).

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


§668.172 Financial ratios.

(a) Appendices A and B, ratio methodology. As provided under appendices A and B to this subpart, the Secretary determines an institution’s composite score by—

(1) Calculating the result of its Primary Reserve, Equity, and Net Income ratios, as described under paragraph (b) of this section;

(2) Calculating the strength factor score for each of those ratios by using the corresponding algorithm;

(3) Calculating the weighted score for each ratio by multiplying the strength factor score by its corresponding weighting percentage;

(4) Summing the resulting weighted scores to arrive at the composite score; and

(5) Rounding the composite score to one digit after the decimal point.

(b) Ratios. The Primary Reserve, Equity, and Net Income ratios are defined under appendix A for proprietary institutions, and under appendix B for private non-profit institutions.

(1) The ratios for proprietary institutions are:

For proprietary institutions:

- **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:

\[
\begin{align*}
\text{Primary Reserve ratio} &= \frac{\text{Expendable Net Assets}}{\text{Total Expenses}} \\
\text{Equity Ratio} &= \frac{\text{Modified Net Assets}}{\text{Modified Assets}} \\
\text{Net Income ratio} &= \frac{\text{Change in Unrestricted Net Assets}}{\text{Total Unrestricted Revenues}}
\end{align*}
\]

(o) 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.

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


§ 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); and
(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; and
(2) The institution initiates an electronic funds transfer (EFT) no later than 45 days after the date it determines that the student withdrew;