GUIDELINES FOR PREPARING AUDITED FINANCIAL STATEMENTS

Revised: June 2020

The Council's primary purpose is to assure various publics of the educational excellence in its accredited schools. Included in its methods of assessing excellence is a review of an entity's financial status. The emphasis on financial stability, however, on the part of either the Council or the institution, should never overshadow the prime objective of the school – the education of students. Monetary exigencies should in no way impair the attainment of educational goals.

PLEASE NOTE: Audited financial statements for the most recently completed fiscal year must be received and reviewed by the Council before the initial resource visit will be conducted. **The audited financial statements must be in English and the numbers in US$.**

Standards for All Financial Reports

Method of Accounting

Statements are to be prepared using the accrual basis of accounting, as defined by generally accepted accounting principles. Statements using the income tax or cash basis are unacceptable for Council reporting purposes.

Accounting Principles

These guidelines are not designed or intended to conflict with or supersede accounting principles or auditing standards, regulations, and interpretations promulgated by the American Institute of Certified Public Accountants (AICPA), the Financial Accounting Standards Board (FASB), or other professional accounting organizations which help to establish generally accepted accounting principles and auditing standards.

Audit Guidelines

General Requirements

Financial reports must be audited annually. Audited financial statements are submitted as part of the Annual Financial Report (AFR), never in lieu of it. The Council understands that audited financial statements may not necessarily use the ACICS Chart of Accounts required for the AFR.
Audited financial statements are acceptable only when prepared in accordance with generally accepted accounting principles, conducted in accordance with generally accepted auditing standards, and certified by an independent CPA. The audited financial statement must include, at minimum, a balance sheet, an income statement covering a twelve-month period, a statement of cash flows, a supplemental schedule with income statement for each branch and main campus, and all appropriate disclosures (including footnotes). Certification requires the auditor to express an opinion regarding the financial statements as a whole. Reviewed or compiled statements are insufficient and will not be accepted in lieu of audited financial reports.

Other Financial Statement Audits Prepared by the Institution

Any time an institution prepares audited financial statements, it must submit three copies to the Council. This provision requires institutions to submit audits to ACICS whenever other regulatory bodies request or compel them to submit audited financial results. This standard includes audited financial reporting to state licensing boards or to any agency or department of the U.S. Government.

Accounting for Non-Profit Corporations

Those institutions organized as not-for-profit corporations are encouraged to report financial results using FASB publications regulating the preparation of audits of non-profit organizations. These standards require consistent categorization of operating accounts and funds into a consolidated statement.

Consideration of Financial Condition

Applicants must submit audited financial statements:

- Prepared in accordance with GAAP, or International Financial Reporting Standards (IFRS)
- Two most recent fiscal years preferred

Other Considerations:

- Unqualified auditor's opinion?
- Are (unrestricted) cash/cash equivalents more than or equal to 35% of current assets?
- Allowance for doubtful accounts less than or equal to 20% of accounts receivable?
- Accounts receivable (net of allowance for doubtful accounts) less than or equal to 25% of current assets?
- Current ratio (current assets/current liabilities) 1:1 or better?
- Positive income from operations instead of a net loss?
- Is the operation supporting itself without relying on an influx of cash from the owner/parent?
- Cash flow from operations positive?

PLEASE NOTE: During the analysis, other factors will be considered which may result in questions or concerns regarding an institution's financial stability (Section 3-1-203 of the *Accreditation Criteria*). Therefore, ACICS does not guarantee an institution's ability to proceed following this analysis.

Resources Available to the Certified Public Accountant

When auditing educational institutions, the recommendations included in professional accounting literature should be considered. Some of the more significant items are:

- Audits of Colleges and Universities – Industry Audit Guide – AICPA;
- Objectives of Financial Reporting by Non-business Organizations – Concepts Statement #4-FASB;
- Audits of Certain Non-Profit Organizations, including Statement of Position 78-10, Accounting Principles and Reporting Practices for Certain Nonprofit Organizations – AICPA;
- OMB Circular A-128 Audits of State and Local Governments;

- OMB Circular A-133 Audits of Institutions of Higher Education and Other Nonprofit Organizations; and
- U.S. Department of Education Audit Guide, Compliance Audits (Attestation Engagements) of the Student Financial Assistance Program at Participating Institutions.

If you have any questions regarding the guidelines and procedures for filing financial reports with ACICS, please contact Ms. Diane Durham, Accounting Manager, at ddurham@acics.org.