

13.2 The member institution provides the following financial statements:

- (a) **an institutional audit (or Standard Review Report issued in accordance with *Statements on Standards for Accounting and Review Services* issued by the AICPA for those institutions audited as part of a systemwide or statewide audit) for the most recent fiscal year prepared by an independent certified public accountant and/or an appropriate governmental auditing agency employing the appropriate audit (or Standard Review Report) guide.**
- (b) **a statement of financial position of unrestricted net assets, exclusive of plant assets and plant-related debt, which represents the change in unrestricted net assets attributable to operations for the most recent year.**
- (c) **an annual budget that is preceded by sound planning, is subject to sound fiscal procedures, and is approved by the governing board.**

For applicant and candidate institutions, including an applicant seeking separate accreditation from a current SACSCOC-accredited institution, the institution provides the financial information, including audit requirements, specified in the SACSCOC policy [Accreditation Procedures for Applicant Institutions](#).

(Financial documents) [CR]

Rationale and Notes

The financial statements required in this Core Requirement are necessary, as a minimum, to provide documentation of financial resources and financial responsibility. “The most recent fiscal year” means the fiscal year that most recently ended prior to the submission of a report. Note that if audited figures for earlier years are utilized in the narratives for Standard 13.1 (*Financial resources*) and/or Standard 13.3 (*Financial responsibility*), those audits or Standard Review Reports should also be provided.

A common question relates to the number of years of financial information required to document compliance. Generally, finance evaluators will place the most emphasis on the most recent audited information, but multiple years are required to establish trends. Three years of financial information produces the most basic trend, while providing ten years would seem superfluous, as it would encompass the institution’s last reaffirmation. Many evaluators look for a three- to five-year trend in financial information, but none of this is set in stone. An institution’s responsibility is to make its case, providing sufficient trend information to explain its current resources and stability.

Private institutions must provide audited financial statements for the accredited institution. Certainly public institutions may also provide audited financial statements opinioned on the individual institution. However, public institutions are often audited as part of a state or systemwide entity. If this is the case, the systemwide audit must provide supplemental schedules detailing the individual accredited institution which provide sufficient information to determine resources, stability, and operational outcomes. State auditor's offices have approached this in a multitude of acceptable formats.

Item (b) above requires a statement of financial position of unrestricted net assets exclusive of plant assets and plant-related debt (UNAEP), which represents the level, and changes in the level, of unrestricted net assets attributable to operations for the most recent fiscal years. Unrestricted net assets (UNA) are assets without donor restriction, to be used as the institution deems appropriate. UNA includes assets of varying liquidity (availability). Some assets, such as cash, may be very liquid. Plant assets, such as buildings and equipment, might be difficult to sell to meet obligations. The purpose of calculating UNAEP is to determine the level of assets available to meet day-to-day obligations of the institution. There is no prescribed format for this schedule. It must be multiyear and the content is defined by the standard: unrestricted net assets less plant, net of depreciation and adding back plant-related debt. The goal is to determine the net investment in plant, and back that out of unrestricted net assets. All institutions, whether public, private, for-profit, or not-for-profit are required to submit this schedule.

The definition of plant for the calculation of UNAEP can be problematic. Remember, plant assets are not considered available for operational expenditure. Institutions should work with their auditors to properly classify assets as either plant or investment. If an asset can be easily sold, is not intended to be held indefinitely, and is not used in core institutional operations, it may be reasonable to include it in investments. However, if an asset is not easily sold and if the institution does not intend to sell it in the foreseeable future, it may be appropriate to treat it as plant for purposes of this calculation. Institutions should be guided by the question, "Is the asset in question reasonably available to meet general operational obligations?" In general, board-designated unrestricted net assets would be included as unrestricted net assets for the purpose of this schedule. There are common types of assets frequently considered unavailable for day-to-day use by peer finance evaluators: artwork and collections, intangible assets, horses, and real estate held for investment (particularly if not income-producing, not being actively marketed and contiguous to the campus). If these or similar items are held in investments, institutions should be aware peer evaluators may disregard them when calculating UNAEP.

Furthermore, the definition of plant-related debt can also be difficult. Plant-related debt is generally debt used to purchase, expand, or refinance buildings, improvements, equipment, or other plant assets. Plant debt may also include accounts payable balances related to renovation, construction or equipment, lines of credit for construction, obligations related to auxiliary improvements (often made by vendors and amortized over the life of vendor agreements), swap obligations, and so on. Debt obtained to fund operational deficits, even if secured by plant, should not be included in plant-related debt. For purposes of this calculation, plant-related debt may not exceed plant net of depreciation.

Recent changes in accounting standards, especially by the Governmental Accounting Standards Board (GASB), have introduced elements that may need to be considered when deriving a workable definition of UNAEP. Specifically, public institutions may now be required to record pension obligations, compensated absences and other post-employment benefits (OPEB). If there are asset or liability categories that reflect a contingency that is largely unrelated to operational activities, public institutions may augment the UNAEP statement by also netting out these categories. However, the values prior to this change should be explicit within the statement.

NOTES

Letters from SACSCOC sent to the CEO of the institution may provide additional details on the submission of audits and may request additional financial materials or information.

The language of the standard at the end is specific to applicant and candidate institutions, including an applicant seeking separate accreditation from a current SACSCOC accredited institution; the cited SACSCOC policy does not apply to member institutions seeking reaffirmation or submitting a Fifth-Year Interim Report.

Questions to Consider

- Are audited financial statements (or standard review reports prepared for public institutions as part of a systemwide or statewide audit) prepared in accordance with generally accepted accounting principles and the appropriate audit guide?
- Did the most recent audited financial statements bear an unmodified opinion?
- Will final audited statements be received in time for due dates of SACSCOC reports? (If not, you might check with your institution's assigned SACSCOC vice president for possible options.)
- Are the independent auditor's report and the report on compliance and on internal control over financial reporting included (if issued with the audit)?
- Has a schedule of UNAEP been provided based on audited numbers? (This schedule can be placed in the audited statements, in the audit footnotes, as a table or chart in the institutional narrative or as a separate schedule in institutional materials. It is important that its location be clearly indicated.)
- Is the schedule of UNAEP multiyear, indicating the change in the balance of UNAEP? (Must be at least two years, more may make a better case; it's up to the institution.)
- What is the process for preparing the budget? (Often a flowchart or timeline outlines budget activities. Be sure to indicate offices/individuals involved.)
- Are underlying budget assumptions reasonable (e.g., enrollment, fundraising, state appropriations if applicable)? How do these budget assumptions compare to actual audited results?
- Is the budget balanced? Are there allowances for contingencies? Is there an amendment process? (Generally the SACSCOC board expects budgets to be reduced if budgeted revenues do not materialize.)

- How is the institution's budget approved? (Often institutions provide excerpts from board minutes along with narrative describing the approval process.)

Sample Documentation

- The following documents are required as part of a Compliance Certification or if specifically requested by SACSCOC:
 - An institutional audit (or Standard Review Report issued in accordance with *Statements on Standards for Accounting and Review Services* issued by the AICPA for those institutions audited as part of a system-wide or statewide audit) for the most recent fiscal year prepared by an independent certified public accountant and/or an appropriate governmental auditing agency employing the appropriate audit (or Standard Review Report) guide.
 - A statement of financial position of unrestricted net assets, exclusive of plant assets and plant-related debt, which represents the change in unrestricted net assets attributable to operations for the most recent fiscal year (based on audited numbers).
 - An annual budget for the most recent year.
 - Evidence the budget is preceded by sound planning, and is subject to sound fiscal procedures.
 - Evidence of budget approval by the board.

Reference to SACSCOC Documents, If Applicable

SACSCOC policy: [Accreditation Procedures for Applicant Institutions](#) (applies only to applicant and candidate institutions, including an applicant seeking separate accreditation from a current SACSCOC-accredited institution)

Cross-References to Other Related Standards/Requirements, If Applicable

CR 13.1 (*Financial resources*)
 Standard 13.3 (*Financial responsibility*)
 Standard 13.4 (*Control of finances*)

13.3 The institution manages its financial resources in a responsible manner. (*Financial responsibility*)

Rationale and Notes

Institutions have obligations to the public, to government entities, and to current and future students to responsibly manage their finances. This standard boils down to two questions: Is the institution operating within its means? Are its fiscal activities sustainable? The emphasis is on the operational aspects of financial management, with a focus on such items as revenue streams, expenses, capital