



Financial Standards

Issues in Multi-State Schools

General Audit Information

- Audit/attestation objectives
 - Basic financial statements are presented fairly in accordance with GAAP
 - Institution maintained internal controls
 - Laws, regulations
 - Compliance requirements

Report Due Dates

Generally due 6 months after year end. (Generally States following Federal Rules)

Financial Statements

- Footnote disclosures
- 90/10 revenue test
- Related party transactions
- Consideration of internal control over financial reporting
- Financial responsibility standards

Financial Statements

- Federal Requirements
- State Requirements
- Accreditation Requirements

Federal Financial Responsibility Standards

- Primary reserve ratio
- Net income ratio
- Equity ratio

Primary Reserve Ratio

Measures the ability of the institution to support current operations from expendable resources.

Net Income Ratio

Measures the ability of the institution to live within its means in a given operating cycle.

Equity Ratio

Measures the amount of total resources that are financed by owners' investments, contributions, and accumulated earnings.

Computation of the Composite Ratio Score

- Calculate the weighted score for each ratio
- Add the results

Weighting Factors

- Primary reserve ratio 30%
- Net income ratio 30%
- Equity ratio 40%

Scoring System

- Financially responsible 1.5
- “In the Zone” 1.0 – 1.4
- Not financially responsible 1.0

State Agencies

- Example
 - Current ratio of 1:1
 - Positive equity
 - Net income

An Accrediting Body

- Example – COE
 - Current ratio of 1:1
 - Positive equity
 - Net income

Who Prepares the Financial Statements?

- The financial statements are the representation of management.
- Generally, the auditor prepares financial statements but the Company should review them closely and change disclosures and presentation as needed.
- Any changes must still meet disclosure requirements.

The Financial Statements Are The Company's Report

The audit opinions are the auditor's reports ... but the financial statements are the Company's representation.

New Auditor Rules

Issued in July 2002 by the
General Accounting Office (GAO)
of the U.S. Government.

What Are GAO Standards? How Do They Affect Institution?

- Any government audit that includes institutions with Title IV funding, including the SFA audits, must be performed by the CPA using GAO standards.
- The biggest change was in the definition of independence.

Independence under GAO Standards

What is independence?

Is the CPA independent by the new
GAO standards?

Independence under GAO Standards

In all matters relating to audit work, the audit organization and the independent auditor, whether government or public, should be free both in fact and appearance from personal, external, and organizational impairments to independence.

Independence under GAO Standards

What does that mean?

Independence under GAO Standards

Is the auditor performing
management functions or
making management decisions?

Independence under GAO Standards

Is the auditor auditing their own work where the amounts or services are significant or material to the audit?

Independence under GAO Standards

Is the auditor providing routine services or advice that would impair the auditor's independence?

Some Activities Not Allowed

Some of the activities *not* allowed that previously would have been allowed:

- ▶ Preparing the financial statements and notes without management representation.
- ▶ Converting financial records from cash to accrual without management representation.
- ▶ Preparing accounting records directly from source documents such as checks and deposit slips.

Some Activities Not Allowed *(cont)*

Some of the activities *not* allowed that previously would have been allowed:

- ▶ Maintaining or preparing the basic accounting records
- ▶ Posting journal entries in the Institution's accounting records
- ▶ Installing computer and accounting software
- ▶ Providing tax structuring that is material to the entity's structure
- ▶ Acting in a job placement role by recommending a specific person for a position in your organization

Some Activities Allowed

Some of the *accepted* routine activities or advice that *are* allowed:

- ▶ Preparing compiled financial statements.
- ▶ Preparing support schedules with management making decisions (depreciation schedules).
- ▶ Providing advice on accounting software or on the chart of accounts.

Some Activities Allowed *(cont)*

Some of the *accepted* routine activities or advice that *are* allowed:

- ▶ Providing training on software
- ▶ Preparing tax returns
- ▶ Providing routine tax advice
- ▶ Providing general advice on all job candidates

Financial Statements

The Basic School
and Some Scenarios

Balance Sheet

Assets

Cash	12
Student Receivables	18
Inventory	<u>2</u>
Net Assets	32
Net Equipment	20
Other Assets	<u>17</u>
Total	<u>69</u>

Balance Sheet

Payables	1
Unearned Revenue	19
Notes Payable- Current	<u>3</u>
Current Liabilities	23
Notes Payable – Long Term	9
Other	1
Equity	<u>36</u>
Total	<u>69</u>

Income Statement

Tuition & Fees	71
Floor Services/Sales	<u>29</u>
Total Income	<u>100</u>
Cost of Goods Sold	27
Bad Debts	6
Advertising	3
Other Expense	<u>61</u>
Net Income	<u>3</u>

Example COE or ACCET Standards

- 1:1 Current Ratio 32 to 23
- Material Negative Equity N/A
- Net Operating Losses N/A

Example ED Requirements

- Primary reserve ratio .90
- Equity ratio 1.20
- Net income ratio .60
- Total 2.70

Issues in Financial Statements -2006

- Related Party Receivables and Payables
- Debt Verses Equity

Issues in Financial Statements -2006

- Hurricanes damages
- Financial Accounting Standard 46 (The Enron Rule)

Issues in Financial Statements -2006

- Goodwill impairment
- Complete Disclosures

Issues in Financial Statements -2006

- Changes of Ownership
- Individual campus results verses over corporate results

Questions?

Thank you.



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