

## CALL FOR COMMENT

February 28, 2017

### **Proposed Changes to DEAC Accreditation Standards, Policies and Procedures for Financial Responsibility**

The DEAC is receiving an increasing volume of applications from institutions that are owned by parent corporations that establish multi-level subsidiary structures between the ultimate parent and the institution. DEAC is also receiving an increasing number of change of ownership applications and applications for initial accreditation from corporations located outside of the United States. When institutions are reviewed for financial soundness, these complex structures require a detailed review to fully evaluate financial stability of the parent entity and parent's ability to assure that the institution can meet its financial responsibilities while fulfilling its obligations to students. DEAC's Accreditation Standard XI.C. requires audited or reviewed parent/guarantor statements under United States GAAP. The DEAC is seeking comments on a proposed a modification to its financial responsibility standards to strengthen the ability of the Accrediting Commission to obtain reliable documentation that financial resources are available from the parent company, if needed.

Institutions, students, government officials, and the public are invited to submit formal letters providing comments on the proposed changes. Comment letters are due April 28, 2017 to Dr. Leah Matthews ([leah.matthews@deac.org](mailto:leah.matthews@deac.org)). Please indicate "comments on Proposed Changes" in the subject line of your email.

Proposed changes to the DEAC *Accreditation Handbook* are indicated in **red, underlined font or strikethrough**.

#### PART 2, SECTION I – ELIGIBILITY REQUIREMENTS, DEAC *ACCREDITATION HANDBOOK* (p. 11)

- F. The institution documents, through audited or reviewed comparative financial statements that cover its two most recent fiscal years, that it is financially sound and can meet its financial obligations to provide instruction and service to its students. All financial statements submitted to DEAC are prepared in compliance with generally accepted accounting principles (GAAP) **and in accordance with the Financial Responsibility standards under Part 3, Section XI, Accreditation Standards.** ~~In the event the financial operations of the institution are supported by a parent company or a third party, audited or reviewed financial statements are provided by the supporting entity to demonstrate that the supporting entity possesses sufficient financial resources to provide the institution continued financial sustainability, as well as the commitment to do so.~~

PART 2, SECTION XVI – ANNUAL REPORTS, DEAC ACCREDITATION HANDBOOK (p. 59)

- C. **Significant Changes in Financial Condition:** The institution is required to report and explain the reasons for any significant change in financial condition since the last Annual Report.
1. An institution **is required to** submit audited or reviewed comparative financial statements **with its annual report.**
  2. **If the institution is a subsidiary or division of another company, audited or reviewed financial statements of the ultimate parent must be submitted.**
  3. **In the event the financial operations of the institution are supported by shareholders or another entity, audited or reviewed financial statements of the supporting entity or a letter of credit as outlined in Standard XI.C and D., must be submitted.**
  4. If the institution reports a loss ~~in its net income~~ **or a decrease in net assets (not for profits)** or a deficit in working capital or total equity/fund balance, the Commission reviews the financial statements and determines whether further reporting is required or other appropriate action is necessary.
  5. An institution participating in Federal Student Assistance Title IV programs reports additional information describing its participation and submits audited comparative financial statements, including its compliance audit for its most recent fiscal year, no later than June 30.

PART 3, SECTION XI – FINANCIAL RESPONSIBILITY, ACCREDITATION STANDARDS, DEAC ACCREDITATION HANDBOOK (pp. 96-97)

XI. FINANCIAL RESPONSIBILITY

- C. FINANCIAL STABILITY AND SUSTAINABILITY  
The institution maintains adequate administrative staff and other resources to operate effectively as a going concern and is not exposed to undue or insurmountable risk. Any risk that exists is adequately monitored, manageable, and insured. In the event the financial operations of the institution are supported by a parent company, **shareholders** or a third party, ~~audited or reviewed financial statements are provided by the supporting entity~~ **must provide one of the following to demonstrate that the supporting entity possesses sufficient financial resources to provide the institution continued financial sustainability, as well as the commitment to do so:**
1. **Audited or reviewed financial statements prepared in accordance with the requirements of XI(D), or**
  2. **A letter of credit in an amount sufficient to cover any projected annual operating cash deficits for the institution's next year.**

#### D. FINANCIAL REPORTING

Financial statements are prepared in conformity with generally accepted accounting principles in the United States of America often referred to as "GAAP," including the accrual method of accounting. An independent certified public accountant (CPA) audit or review report accompanies these statements.

1. The institution's financial statements reflect sufficient liquid assets to provide for a staff and faculty.
2. Annually, the institution has the option of submitting one of these two types of financial statements, unless the Commission directs the institution to submit audited financial statements.
  - Audited comparative financial statements containing an audit opinion by an independent certified public accountant in accordance with standards established by the American Institute of Certified Public Accountants, or
  - Reviewed comparative financial statements containing a review report by an independent certified public accountant in accordance with standards established by the American Institute of Certified Public Accountants.
3. **Institutions that operate as subsidiaries or divisions must submit the parent company's audited or reviewed financial statements annually.**
4. **Institutions that are financially supported by shareholders or another entity must submit audited or reviewed financial statements for the supporting entity or a letter of credit as outlined in Standard XI.C.**
5. Financial statements submitted must include the institution's fiscal statement for either the most recent fiscal year end or the date specified by the Commission, the CPA's opinion letter or review report, and a letter of financial statement validation.