

NACCAS' Policies & Procedures
January 2017

Policy VII.03 – Financial Practices & Management: Policy on Financial Statement Reserves

This policy applies to audited financial statements with a fiscal year end date of July 1, 2017 and thereafter.

1. Reserve Requirement: The institution must have (at least) 3% of Net Revenues in reserves. (Based on the net revenues reported in the previous year's audited financials.)
 - a. For these purposes, "Net Revenue" is defined as revenue minus refunds, or discounts. It does not include cost of goods sold, operating expenses, or taxes.
 - b. Reserves shall consist of cash and/or cash equivalents as defined by U.S. GAAP, or any documented commercial line of credit issued to the institution. (Any letter of credit requirement imposed by the U.S. Department of Education cannot be included as reserves as required by this Policy VII.03).
 - c. The amount of Cash Reserves referred to bank balances should be based on the Average Daily Balance for each month in analysis. (See Section 3 below.)
2. Compliance Deadlines: All accredited institutions and applicants for accreditation must demonstrate compliance with this Policy VII.03 by the following deadlines.
 - a. Applicants for Initial Accreditation: Institutions applying for initial accreditation must have 3% of Net Revenue in reserves at the time of application. [This means that any financial statements with a fiscal year end date of July 1, 2017 and thereafter that are submitted in connection with an application for initial accreditation must show reserves of at least 3% of Net Revenue.]
 - b. Accredited Institutions: Accredited institutions may demonstrate compliance with this Policy VII.03 by increasing their reserves over a three-year period, in accordance with the following timetable:
 - i. The institution should (but it not required to) demonstrate at least 1% of Net Revenue in reserves for audited financial statements with year-ending dates between July 1, 2017 and June 30, 2018
 - ii. The institution must demonstrate at least 2% of Net Revenue in reserves for audited financial statements with year-ending dates between July 1, 2018 and June 30, 2019
 - iii. The institution must demonstrate at least 3% of Net Revenue in reserves for audited financial statements with year-ending dates of July 1, 2019 and thereafter.
3. Average Reserve Balance: In each fiscal year, the institution must maintain the required reserve balance (as described in Section 1 (b) & 1 (c) above):
 - a. For the 90 days prior to fiscal year end and ,
 - b. For at least (9) of the twelve (12) months in that fiscal year.

[For example, an institution with a 3% reserve requirement and a December year-end must meet the 3% reserve requirement for (i) October through December, and (ii) at least 6 other months during that year.] This requirement does not apply to accredited institutions in their first year of transitioning to the 3% Reserve Requirement (as described in Section 2(b)(i) above).

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4. CPA Certification of Compliance: The institution's audited financial statement must include auditor's note indicating the institution is compliant with this Policy VII.03.
5. Temporary Waiver: An institution that has suffered a disaster (as described in Policy VIII.01: Policy on Disasters) may Petition the Commission for a temporary waiver of this Policy VII.03.