

## NACCAS 2016 SUPPLEMENTAL POLICY CALL FOR COMMENT

### COMPARISON OF PROPOSED CHANGES TO STANDARDS, CRITERIA, RULES, APPENDICES AND BY-LAWS

#### General Notes on Changes:

1. More than one Proposal may relate to the same provision of NACCAS' Standards, Policies, Rules of Practice and Procedure, Appendices, By-Laws or Glossary. Unless otherwise noted, all Proposals relating to a given Standard, Policy, etc. are included in a comprehensive mark-up of that provision.
2. Language to be deleted is overstruck (~~overstruck~~) and language to be added is in **bold, underlined** text.
3. Proposals adopted by Emergency Action precede Proposals not yet adopted by the Commission.
4. Any Proposal adopted under emergency action is given a Proposal Number with an "E". The effective date for each such Proposal is noted in the Call for Comment Survey document.

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## PROPOSAL 2016-S1E

**Proposal 2016-S1E:** The Commission has amended Section 5.1 of the NACCAS Rules of Practice and Procedure (effective May 25, 2016) to provide that for certain accreditation decisions and processes, the Commission will not reach a final decision on the basis of audited financial statements with a fiscal year end date more than 14 months past.

**Rationale:** The Commission believes that when an institution applies for the grant of accreditation (either initially or in renewal, and whether as a main campus or an addition location), the Commission's review process must include review of the institution's current financial status, as evidenced by the institution's audited financial statements. The Commission further believes that when the most recent available audited financial statements cover a period that ended more than 14 months in the past, they are not sufficiently reliable as an indicator of the institution's current financial status, and a final decision by the Commission should be deferred until audited statements for the institution's most recently-ended fiscal year are received.

### Amendment

#### **Section 5.1 Financial Statements**

**(c) In the case of the following accreditation processes, if more than fourteen (14) months have passed since the fiscal year end date of the institution's most-recently submitted audited financial statements, the Commission shall defer final action on the application until it has received the institution's audited financial statements for its most recent fiscal year; provided that the foregoing shall not apply if the Commission determines that its consideration of the application has been delayed beyond the 14-month deadline through no fault of the institution.**

**(1) Application for Initial Accreditation**

**(2) Application for Renewal of Accreditation**

**(3) Application for Initial Accreditation of an Additional Location**

**(4) Granting Full Additional Location Accreditation for an Additional Location**

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## PROPOSAL 2016-S2E

**Proposal 2016-S2E:** The Commission has amended Policy VII.03 to postpone application of the Policy by one year (i.e., the Policy will apply to audited financial statements with a fiscal year end date of July 1, 2017 and thereafter) and to make clarifying changes to the language of the Policy.

**Rationale:** The Commission believes that the clarifying changes made will assist institutions in better understanding, and therefore being better able to comply with, the requirements of the Policy. Other than postponing the application of the Policy by one year, no substantive changes have been made in the requirements of this Policy.

### Amendment

#### **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 Revenue in reserves.

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. 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.)

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 is 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.

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3. Average Reserve Balance: In each fiscal year, the institution must maintain the required reserve balance (as described above) (a) for the 90 days prior to fiscal year end and (b) for at least nine (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).
4. CPA Certification of Compliance: The institution's audited financial statements must include auditor footnote(s) 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.