- 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 investments, and such. An institution may be overall financially stable, with generally adequate financial resources [i.e., in compliance with Standard 13.1 *(Financial resources)*], and still experience fluctuations in its financial health, such as in changes in funding, enrollment, or expenditures. Or it may behave in ways that cannot be fiscally sustained. If an institution experiences operational problems or undertakes actions not generally considered commonly accepted practices, it is important that the institution understand the issues, explain their causes, and have a reasonable plan for remedying the situation. While a plan is not considered evidence for compliance, it may be helpful to peer evaluators to understand the financial landscape.

All institutions may experience financial difficulties due to internal or external factors. Evaluators and the SACSCOC board expect institutions to respond to declines in revenues with budget reductions, with the expectation of operational surpluses most years.

Private institutions may choose to detail operational outcomes over time, both unrestricted and total (including restricted activities). Private finance evaluators, across the board, consider depreciation expense an operational expense. For private institutions attempting to demonstrate compliance with 13.3 by claiming unrestricted operational surpluses, including an operational measure on audited financial statements goes a long way in providing clear evidence of this outcome (SACSCOC does not require this, but it may be helpful).

Public institutions, at the time of this publication, have a GASB format which necessitates the inclusion of operating and non-operating revenues (includes appropriations) when examining operational outcomes and the exclusion of depreciation from expenses. States have a variety of methodologies for funding capital improvements, and the GASB format separates out this information. While public finance evaluators may disregard depreciation from operational outcomes, they generally expect total net assets to be stable or increasing. This means that the states, generally and over time, must provide adequate capital infusions to offset depreciation expenses and maintain the overall value of the institution which includes its capital assets, net.

In order to demonstrate compliance with this standard, institutions should place primary attention on the documents required in Standard 13.2 *(Financial documents)*, as external audits and standard review reports give the evidence external verification as well as some degree of standardization. However, it is critical for the institution to provide a narrative supporting its claims. Judicious use of table and charts is often helpful. Special attention should be given to items in the external audits that appear anomalous, as reviewers will not have proper context unless the institution provides it.

Questions to Consider

- Is the institution operating within its financial means? Is it producing operational surpluses most years? Are these outcomes clear (either in audited financial statements or based on audited statements and included in institutional narratives)?
- Is the institution living within its operational cash flows? (Public institutions will have to include operational and non-capital cash flows for consideration.)
- Are financial behaviors sustainable?

- Has the institution experienced recent changes in operational revenues and expenditures?
  - Have these financial fluctuations undermined the overall financial stability and resources of the institution? [If so, does this rise to noncompliance with Core Requirement 13.1 *(Financial resources)*?]
- Are there special circumstances that explain any unusual financial conditions?
- How has the institution managed changes in revenue streams such as net tuition, state appropriations, endowment/investment income, fund-raising income?
- What have been the changes in unrestricted, restricted and total net assets over the past several years?
- Is short-term indebtedness manageable? Is operations relying on debt?
- Does the institution have sufficient operational liquidity?
- How does interest expense compare to revenues? Has this changed over time?
- Does the institution have sufficient operational liquidity?

Sample Documentation

- See 13.2 *(Financial documents)* for required documentation.
- Tables, graphs or charts of recent financial trends.
- Tables, graphs, and charts of recent enrollment trends (e.g., FTE, unduplicated headcount, grad/undergrad—FTE for fall term is often a standard comparison item, FTE for all semesters for a given fiscal year may roughly correlate to gross tuition revenues).
- Tables, graphs, and charts of tuition revenues (gross and net), perhaps with consideration of net tuition per FTE.
- Tables, graphs, or charts of endowment trends such as balance, spending rate, spending per policy, additional draws, reclassifications or changes in donor restriction.
- Tables, graphs, or charts detailing debt trends (overall balances, current versus long-term debt, annual debt service, etc.).

Reference to SACSCOC Documents, If Applicable

SACSCOC position statement:

The Impact of Budget Reductions on Higher Education

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

CR 13.1 *(Financial resources)*
Standard 13.3 *(Financial responsibility)*
Standard 13.6 *(Federal and state responsibilities)*