

INSTRUCTIONS FOR THE PREPARATION AND SUBMISSION OF FINANCIAL STATEMENTS AND RELATED INFORMATION

APPLICABLE STANDARD OF ACCREDITATION:

Section I (C)(1), Substantive Standards, Standards of Accreditation sets forth the Commission's requirement that institutions must maintain a financial structure that is sound, with resources sufficient for proper operation of the institution and discharge of obligations to students. The annual submission of financial statements enables the Commission to monitor the compliance of accredited institutions with this requirement.

These Instructions for the Preparation and Submission of Financial Statements and Related Information are intended to provide institutions and their independent accountants, advisors or consultants who are engaged to assist in the preparation of financial statements to the Commission, with specific requirements that institutions must meet in preparing financial statement submissions. Compliance with these instructions is the responsibility of the institution. An institution that is unable to provide financial statements in accordance with these requirements cannot provide assurance that it can fulfill its obligations to students (*Section I, Statement of Purpose, Substantive Standards, Standards of Accreditation*) and may cause the Commission to question the administrative capability of the institution.

BASIS OF PRESENTATION OF FINANCIAL STATEMENTS AND REQUIRED DISCLOSURES

Accredited institutions are required to submit audited financial statements that are prepared in accordance with generally accepted accounting principles (GAAP) by an independent certified public accountant licensed by the state to perform such services.

Method of Accounting

The financial statements must be prepared using the accrual basis of accounting. Financial Statements prepared using the income tax or cash basis will not be accepted.

Financial statements must be presented using a comparative format showing side-by-side information for the two most recently concluded fiscal years ended.

The audited financial statements submitted must include, at a minimum, a balance sheet, an income statement, a statement of cash flows, and all appropriate notes to the financial statements and must include additional disclosures as are specified in these instructions.

Specific requirements for the presentation of financial statements are the following:

The Balance Sheet

Unless otherwise indicated below, the balance sheet must, at a minimum, disclose totals for the following categories:

a. Accounts receivable;

(Note - Student receivables must be disclosed separately from other receivables (unless such other receivables are de minimis) and must provide an allowance for doubtful accounts. The segregation of student receivables from other receivables and the disclosure of the allowance for doubtful accounts may be presented on the face of the Balance Sheet or in the notes to the financial statements. Without regard to materiality, any accounts or notes receivable from related parties, whether classified as current or non-current, must be segregated and to the extent that the related party receivable is secured, in whole or in part, the security must be disclosed in the notes to the financial statements. If the security for the receivable is not disclosed, the Commission will assume the related party receivable is unsecured.)

b. Total current assets;

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- c. Fixed assets (net of depreciation);
- d. Other assets (if any);
- e. Unearned/deferred tuition;

(*Note* - Unearned tuition is that portion of tuition income recognized but not yet earned by the institution. These amounts are payments made for educational services to be rendered in the future to presently enrolled students and must be shown as a current liability of the school. The method of calculating unearned tuition must be disclosed in the footnotes. The method must be applied consistently from year to year.)

- f. Total current liabilities;
- g. Total long-term liabilities;
- h. Each category of equity (such as common stock, preferred stock, additional paid-in-capital, retained earnings (deficit), or appropriate corresponding categories for non-corporate entities); and
- i. Total shareholders equity (or appropriate corresponding designation for non-corporate entities).

The Statement of Income (or Operations), Notes to the Financial Statements, and Supplemental Information

The income statement, notes to the financial statements or supplemental information as appropriate, must, at a minimum, be prepared in accordance with the following guidelines when disclosing gross tuition revenue and the revenue recognition method.

a. Gross Tuition Revenue

Tuition revenue must be identified as a line item on the income statement or in the notes to the financial statements. Gross tuition revenue is defined as revenues from all tuition and fees assessed against students (net of refunds and discounts and allowances) for all educational purposes provided by an ACCSC accredited institution. If gross tuition revenue is not identified as a line item on the income statement, then it must be disclosed in the notes to the financial statements, otherwise the Commission will use tuition revenue to calculate the institution's annual sustaining fee obligation.

When an income statement includes any material operations that are not related to the delivery of education and training services, the financial statements must provide "segment information" in adequate detail to allow the educational operations to be viewed separately from the non-education operations. Such "segment information" may be provided in the notes to the financial statements or in supplemental information attached to and incorporated in the financial statements. (For example, a trucking company that operates a small truck driving school must segregate the results of the operations and the tuition income earned by the school to facilitate an evaluation of the educational operations from the income earned by the non-educational operations. Conversely, revenues from a salon operated for the purpose of supporting a cosmetology program would not be considered segment information, but rather ancillary to the educational program and included with tuition revenue.)

b. Revenue Recognition Method

Revenue from educational services is to be recognized ratably as educational services are delivered over the period of enrollment (i.e., the period of time for which the student is obligated financially for educational services to be received). Other terms such as a "period of obligation" or other appropriately descriptive terms of comparable meaning may be substituted for "period of enrollment."

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CONSOLIDATED FINANCIAL STATEMENTS ARE REQUIRED

Institutions and/or the legal entities that own or operate one or more schools, and are members of a multi-entity group under common control and/or ownership, must submit consolidated financial statements prepared in compliance with these instructions. This must include a consolidation of the holding company that beneficially owns the stock of the institutions and where any debt, as it relates to acquisitions or operations of the institutions, is recorded. Consolidated statements of operating subsidiaries or such other groupings of affiliated companies that do not contain the holding company's financial statements will not be deemed to satisfy the Commission's requirements. Notwithstanding the preceding, the institution is free to submit any such financial statements as additional information for the Commission's consideration.

ADDITIONAL SUBMISSIONS THAT MAY BE REQUIRED AT THE DISCRETION OF THE COMMISSION

Management's Discussion and Analysis of the Financial Statements

The Commission may, at its discretion, require the management or owner(s) of an institution to submit a Management's Discussion and Analysis ("MD&A") narrative examining and explaining the financial condition of the school.¹ The Commission may, in its notice requiring submission of the MD&A, specify that certain items be discussed in addition to items that would typically be found therein.

Nothing in the above specification of the form of the submission shall be deemed to limit or otherwise restrict management's right to include other data or narrative discussion related to an institution's financial position, results of operations, liquidity, or future expectations. Such additional management comments, if any, must be clearly marked as such and be provided immediately following the MD&A portion of the submission.

Interim Financial Statements

Additionally, the Commission may require the submission of interim financial statements (i.e., financial statements for specified dates and accounting periods other than the entire fiscal year). In the event that interim financial statements are required, the Commission will specify whether such interim financial statements may be prepared internally, or whether the interim financial statements should be compiled, reviewed or audited by independent accountants. The Commission may also require the submission of additional financial information, disclosures, and supporting documentation in conjunction with any interim financial statements that are required and specify the timeline for submission.

Circumstances Requiring Additional Submissions

The Commission may, at its discretion, require the submission of any additional information it deems necessary or desirable in making a determination as to whether an institution is in compliance with the *Standards of Accreditation*.

Examples of circumstances that may require the submission of additional information include, but are not limited to, situations where:

- a. The Commission has a question or concern that a school's previously submitted financial statements may contain materially misleading information, intentionally misleading information, or may not contain all required information;

¹ When such a submission is required by the Commission, the institution must prepare the narrative in a form consistent with that typically found in the "Management's Discussion and Analysis" section of the form 10-K which publicly-traded educational companies are required to file with the Securities and Exchange Commission.

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- b. The Commission has information which raises concern that a school may have experienced a material adverse change in its financial position subsequent to the date of its most recently submitted fiscal year-end statements;
- c. The Commission has received information that school's auditors have resigned following a dispute over the Company's financial statements;
- d. The school's previously submitted financial statements indicate that the school may not have resources sufficient for the operation of the school and discharge of obligations to students (*Section I(C)I, Substantive Standards, Standards of Accreditation*);
- e. The Commission has placed an institution on Financial Reporting; and
- f. Any other circumstances in which the Commission reasonably believes that additional or more current financial information is necessary to monitor the school's compliance with the *Standards of Accreditation*.

OTHER REQUIRED SUBMISSIONS

In addition to the financial statements required to be submitted as described above, schools are also required to submit a copy of any of the following correspondences from the U.S. Department of Education, within 10 days of receipt:

- a. The school's financial position (for example, any correspondence regarding a low composite score and/or a requirement to post additional financial assurances, such as letters of credit);
- b. The school's actual or potential loss of eligibility to continue to participate in the Title IV Federal Student Aid program;
- c. Notice that the school will be, or may be, placed on heightened cash monitoring or otherwise be subject to a change in its Title IV status;
- d. A demand for the reimbursement or repayment of Title IV funds received by the school (unless such amounts are *de minimis*); or
- e. The assessment of a fine or penalty in an amount that is equal to or greater than the lesser of: 5% or more of:
 - 1. Shareholders' equity (or other corresponding equity accounts for non-corporate entities), or
 - 2. Net income, as such amounts are reflected on the most recent fiscal year end financial statements.

SUBMISSION DEADLINES FOR FISCAL YEAR END FINANCIAL STATEMENTS

Accredited institutions must submit their audited fiscal year-end financial statements no later than the earlier of:

- a. The date of the submission of such audited fiscal year-end financial statements to any State or Federal regulatory agency (such as the United States Department of Education or the Securities and Exchange Commission);
- b. Any state agency to whom the school is required to make annual reports that include fiscal year-end financial statements or the inclusion of information/data extracted from fiscal year-end financial statements);
- c. The date of the submission of audited fiscal year-end financial statements to any other regulator agency other than ACCSC; or

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d. In any event not later than 180 days following the end of the fiscal year.

If the Commission directs the school to submit interim financial statements or other additional information or submissions the due date for submission, along with any specific instructions relative to the information to be provided, will be contained in the communication from the Commission directing the submission of any such interim financial statements or other financial information.

INSTRUCTIONS FOR INSTITUTIONS APPLYING FOR INITIAL ACCREDITATION

Institutions making application for initial accreditation shall be subject to the exact same requirements as set forth above in these instructions.

An Application for Initial Accreditation will not be accepted from an institution when the financial statements show any of the following:

- a. Net loss for the two most recent fiscal years;
- b. Negative net worth for the two most recent fiscal years; or
- c. Negative cash flow from operations for the most recent fiscal year.

CONFIDENTIALITY

ACCSC treats financial data and reports submitted to the Commission as confidential. Notwithstanding the preceding, ACCSC may release such data or reports as required by government regulation, legal or administrative process, or other applicable legal requirements.