**"What body requires the audit and do they have some guidelines on minimum equity requirements?"**

The audit/external financial review is required by MEAC in Standard V, Benchmark B2, which lays out requirements for audits versus external financial reviews based on revenue thresholds. Please note that both audits and external financial reviews must be conducted by an independent accountant. (This means, for example, that an accountant contracted by an organization to provide bookkeeping services may not also perform the audit for that organization.)

MEAC does not have a minimum equity requirement under the 2013 standards, but we do require a current ratio of at least 1:1. (See Standard V, Benchmark B4.)

From a longer-range planning perspective, if an institution has interest in eventually participating in Title IV, Higher Education Act (HEA) programs (federal student aid), there are audit and financial responsibility requirements associated with such participation. These requirements are not administered by MEAC and we are not qualified to advise institutions on those requirements. (Note that accreditation by an agency designated as a "Title IV gatekeeper", such as MEAC, is a prerequisite for participation in Title IV programs.)

**Current assets:**

"Cash and other assets that are expected to be converted to cash or sold or used up, usually within one year or less, through the normal operations of the business."

Examples: The money in the organization's checking account, accounts receivable from students for tuition billed

Counter-examples (i.e. things that are NOT likely to be considered current assets): buildings owned by the organization, office furniture, computer equipment

**Current liabilities:**

"Liabilities that will be due within a short time (usually one year or less) and that are to be paid out of current assets."

Examples: Accounts payable for routine expenses like payroll, utilities, insurance, the current portion (due within the next year) of any long-term debts

Counter-example: The non-current portion of long term debt such as a mortgage

**Current ratio:**

"A financial ratio that is computed by dividing current assets by current liabilities."

Standard V, Benchmark B4 requires that the institution maintains a current ratio (assets to liabilities) of at least 1:1.  This means the ratio as defined above must be greater than or equal to 1.0.

For example, if an institution had current assets of $15,000 ($10,000 in a checking account and $5,000 in accounts receivable) and current liabilities of $7,500 (in accounts payable), the current ratio would be 2.0, which meets the benchmark.

On the other hand, if an institution had current assets of $60,000 and current liabilities of $80,000, the current ratio would be 0.75, which does not meet the benchmark (even though the institution has four times as much money in current assets than in the previous example).

The intent behind this benchmark is to ensure that an institution has enough money to pay its bills over at least the near term.

\*Warren, Carl S., James M Reeve, and Philip E. Fess Financial and Managerial Accounting, 8e. Mason, OH: South-Western, 2005.