



Quick Reference Guide: Reading School Financials

1. Why Financial Review Matters

Purpose: Protect students, preserve mission, ensure sustainability.

Visiting Teams review financials to:

- Confirm **long-term financial sustainability**
- Ensure compliance with **Standard 4: Financial Stability & Management**
 - **4.1** – Annual *audited* financials required
 - **4.2** – Effective financial management practices
- Identify risks that may affect students or operations

✓ You are assessing financial health indicators

✗ You are *not* performing a forensic audit

2. Type of Financial Report (First Step!)

Report Type	Acceptable?	Level of Assurance
Audit	✓ Required	Highest – full testing
Review	✗ Not acceptable	Limited assurance
Compilation	✗ Not acceptable	No assurance

Quick Test:

If it is not an **independent audit**, the school does *not* meet Indicator 4.1.

3. The 3 Key Ratios You Must Know

① Asset-to-Liability Ratio

Formula: Total Assets ÷ Total Liabilities

FCIS Standard: 1.5:1 or higher

- ≥ 1.5 → Meets standard
- Below 1.5 → Financial concern

Meaning: Does the school own significantly more than it owes?

② Debt-to-Asset Ratio

Formula: Total Debt ÷ Total Assets

- Express as a percentage
- Higher % = More financed by debt

Meaning: How much of the school is financed through borrowing?

③ Current Ratio

Formula: Current Assets ÷ Current Liabilities

- Measures liquidity
- Can the school pay bills without borrowing or using future tuition?

Strong liquidity → Greater than 1

Weak liquidity → Near or below 1

4. GAAP & Real Estate (Common Misunderstanding)

- FCIS relies on **GAAP (Generally Accepted Accounting Principles)**
- Real estate is reported at **cost**, not market value
- Schools cannot inflate assets to reflect current market pricing
- Be cautious of statements like:
"Our land is worth much more than what's listed."

Market value ≠ audited financial value

5. Looking Beyond the Ratios

Numbers alone are not enough.

Review:

- ✓ Operating surplus vs. recurring operating losses
- ✓ Multi-year trends (improving or declining?)
- ✓ Reliance on lines of credit
- ✓ Heavy short-term borrowing

A school can technically meet ratio standards but still show risk signals.

6. Visiting Team Financial Review Checklist

During your visit, confirm:

- ☐ Type of report = Audit
 - ☐ Asset-to-Liability ratio ≥ 1.5
 - ☐ Current ratio shows healthy liquidity
 - ☐ Debt levels are reasonable
 - ☐ Operating results are stable or improving
 - ☐ No red flags related to property valuation
 - ☐ Concerns discussed in context of Standards 4.1 & 4.2
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Key Question to Ask as a Team

“Does the financial evidence support long-term sustainability aligned with the school’s mission?”