



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

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GUIDELINES FOR THE PREPARATION AND SUBMISSION OF FINANCIAL STATEMENTS AND SUPPORTING DOCUMENTATION TO THE OFFICE OF THE STATE AUDITOR

Chapter 112, Section 263 of the Massachusetts General Laws requires the Office of the State Auditor (OSA) to investigate the ownership, organization, and financial condition of each person or entity licensed or applying to the Division of Professional Licensure (DPL) for an original license to offer postsecondary career-oriented training programs in MA; to ensure that the Enrollment Agreements utilized by for-profit private occupational schools in MA include the pro rata refund provisions required by Chapter 255, Section 13K, of the General Laws; and to annually establish the level of indemnification/ surety protection needed by each school to cover potential refunds payable to students, based on the school's maximum projected unearned tuition income.

In accordance with MGL Chapter 112, the OSA is responsible for investigating whether private postsecondary schools licensed to offer non-degree-granting career-oriented training programs in Massachusetts by the DPL Office of Private Occupational School Education are financially sound, with resources sufficient to maintain quality educational programs and to complete the training of all enrolled participants. Periodic desk reviews conducted by the OSA at least once every three years enable the Office to monitor the solvency and financial viability of private occupational schools licensed to operate in Massachusetts on a continuing basis.

These updated *Guidelines for the Preparation and Submission of Financial Statements to the Office of the State Auditor* are intended to clearly and concisely communicate the requirements that license applicants must meet in Massachusetts to demonstrate that the educational institution is financially responsible and qualified for continued private occupational school licensure in Massachusetts in accordance with Chapter 112, Section 263 (d), of the General Laws.

I. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Private educational institutions licensed or applying for original licensure in Massachusetts through the Division of Professional Licensure must provide the Office of the State Auditor with financial statements prepared for the most recently completed fiscal year by an independent public accountant in accordance with generally accepted accounting principles (GAAP).

Institutions required by federal or state law or regulation to provide the oversight authority with audited financial statements are required to submit the same level of financial statements to the OSA.

Internally-generated financial statements or financial statements prepared on an income tax or cash basis of accounting will not be accepted as reliable evidence of financial viability.

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

The comparative year-end financial statements must include, at a minimum, an income statement, a balance sheet, and explanatory Notes to Financial Statements and supplemental disclosures.

If the income statement includes 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 independently from the non-educational operations.

Segment information as referenced above may be explained in either the Notes to Financial Statements or in a Supplementary Disclosure attached to the financial statements.

Total income reported on each applicant's year-end Income Statement/ Statement of Operations must include all sources of support and revenue, not just Massachusetts private occupational school tuition income, as the consolidated financial statements will be used to evaluate the financial viability of the organization as a whole. (Please be assured that total support and revenue generated by sources other than the applicant's Massachusetts private occupational school training programs will not be included in the OSA's calculations of projected unearned tuition income/ annual surety assessments.)

II. PARENT CORPORATION/ THIRD PARTY GUARANTOR FINANCIAL STATEMENTS

Institutions or legal entities that own or operate one or more schools or subsidiaries and are members of a multi-entity group under common ownership and/or control must submit consolidated audited financial statements prepared for the organization as a whole for the most recent fiscal year.

Institutions/ subsidiaries dependent upon a third party entity for financial stability must submit financial information to the OSA to the same extent that the entity was the Massachusetts school itself, and the third party entity may further be required to formally commit itself to being responsible for all or part of the liabilities of the Massachusetts school.

III. SUPPLEMENTARY FINANCIAL ASSURANCES MAY BE REQUIRED BY OSA

A. Management Discussion and Analysis (MD&A)

The OSA may, at its discretion, require the management or ownership of a school to submit a Management Discussion and Analysis of the Financial Statements (MD&A) narrative in a format consistent with the MD &A format filed by publicly-traded educational companies with the U.S. Securities and Exchange Commission.

Please be advised that the format specified above shall not limit or restrict school ownership or management's ability to include other data, narrative discussion, or supporting documentation related to the institution's financial position, results of operations, liquidity, and/or future expectations.

B. Interim Period Financial Statements

The OSA may request updated, interim period financial statements covering less than a full year in the event that the most recent full fiscal year financial statements do not conclusively demonstrate that the school is financially responsible and qualified for continued licensure in Massachusetts.

C. Other Circumstances that May Warrant Further Investigation by the OSA

MGL Chapter 112, Section 263 (d): *“In the event that the Division (of Professional Licensure) has reason to believe that a school is no longer financially qualified to conduct business, the division may request in writing that the State Auditor re-establish the eligibility of the licensee. The State Auditor shall review the request of the Division and determine if the circumstances warrant further review prior to the annual indemnification review under subsection (g).”*

IV. CONFIDENTIALITY OF FINANCIAL INFORMATION SUBMITTED TO THE OSA

“Notwithstanding Section 12 of Chapter 11 relative to the maintenance of records in the Department of the State Auditor, the financial information submitted to the State Auditor shall be retained in the Office of the State Auditor and shall not be classified as public records.” MGL Chapter 112, Section 263 (d)

V. CALCULATION OF MASSACHUSETTS PROJECTED UNEARNED TUITION INCOME

The final responsibility of the OSA in the occupational school licensure process is to annually establish the level of indemnification/ surety protection needed by each school to cover potential refunds payable to students, based on the school's maximum projected unearned income.

In accordance with Chapter 112, Section 263 (g), of the General Laws, such indemnification/ surety protection *“shall be procured only from companies or institutions legally authorized to conduct business in the Commonwealth,”* each indemnification *“shall be conditioned to provide that the obligor shall satisfy all valid claims to recover damages sustained by students resulting from a breach of contract,”* *“the amount of the indemnification in the case of the private occupational school shall not exceed the anticipated maximum unearned tuitions,”* and *“the indemnification shall not limit or impair any right of recovery otherwise available under the law.”* The indemnification required under this Section may take the form of a Surety Bond, an Irrevocable Letter of Credit, or a Term Deposit Account listing the Commonwealth of Massachusetts as the beneficiary that will be held in trust for the benefit of Massachusetts private occupational school students.

Unearned tuition income as it applies to licensed private occupational schools in Massachusetts can be defined as funds paid to a school for which the student has yet to receive any education, goods or services in return. The amount of each school's projected unearned tuition income (and the OSA's corresponding surety assessment) is significantly impacted by the nature and timing of tuition payments. . If a student prepays tuition in full prior to the start of classes, the entire amount collected (100%) would be considered unearned tuition income/potential refunds payable to students on day one. If the school's payment plan allows students to pay 50% on day one and 50% at mid-term, projected unearned tuition income/ potential refunds payable to students would be restricted to the 50% collected by day one. If the school utilizes a quarterly payment plan, unearned income would be limited to the initial installment of 25% paid to the school by day one.

Tuition income/course is calculated by multiplying the enrollment/course by the tuition/student. Projected tuition income/month is calculated by adding together all of the tuition income forecast for all concurrent occupational school courses expected to be offered in MA each month. (Please provide the OSA with a School Calendar, Course Schedule, and Twelve Month Spreadsheet detailing the anticipated Massachusetts private occupational school tuition income and enrollment per month for the upcoming year.) Please be advised that the projected Massachusetts occupational school tuition income and enrollment per month reported on your Spreadsheet will be compared and contrasted to the MA occupational school tuition income reported on the school's latest year-end financial statements and the tuition income and Annual Adjusted Gross Revenues (AAGR) reported on the Division of Professional Licensure's Renewal Fee Calculation Worksheet.

Unearned tuition income is the difference between funds collected and funds earned by a school. Earned tuition income/ month is calculated by dividing the tuition income/course by the length of the course (in months). If 10 students prepay \$15,000 tuition in full for a 4-month course, the school will have \$150,000 on hand at that time, and there will be \$150,000 in potential refunds payable to these students on day one. Under this payment plan the school will earn \$37,500 per month over the length of the program (\$150,000 divided by four months), and unearned tuition income will total \$112,500 at the end of the month one, \$75,000 at the end of month two, \$37,500 at the end of month three, and \$-0- at the end of month four (course completion- all contractual obligations fulfilled).

Private occupational school tuition income and enrollment projections submitted annually to the OSA should detail the anticipated tuition income and enrollment per class; anticipated tuition income and enrollment projections per month; all anticipated sources of revenue (students, employers, government agencies); and the nature and timing of tuition payments/ disbursements per source.