

New Director Seminar

Part 3

Financial Reporting

Private Licensed Schools
Division of Postsecondary Proprietary
Training

➤ Financial Review Committee (FRC)

- Composed of Board Members
- Responsible for reviewing and approving the financial information submitted
- Referrals to Review and Recommendations Panel (RRP) for enforcement action

➤ Types of Financial Reports

- New Schools
 - Pro Forma Projections
 - PDE2006
 - Audited statement
- License Renewal/
Scholarship/ Change of
Ownership
 - PDE2006 (annually)
- Quarterly Reporting
 - PDE2006 (quarterly)

Who Needs to Submit Financial Statements?

- Applicants for a License
- Applicants for [Renewal of License](#)
 - initially 1 year / then every 2 years
- Applicants for [Change of Ownership](#)
- Schools on [Quarterly Reporting](#)

➤ Who Submits Quarterly Report and Why?

- New Schools
- Schools that have changed ownership
- Schools with financial concerns
 - Identified during renewal
 - Notification from accreditor or USDE
 - Legal action
- Is a monitoring process
- Is not a sanction or punishment

▶ Quarterly Reporting

- ACTUAL, REAL, income statement and balance sheet – not projected
- A guide for the Financial Review Committee to assess the financial strength and solvency of the applicant school
- Measures the current condition and ability to operate in the future
- Must balance. Total assets must equal total liabilities plus equity.
- May not be completely zeros
- Must complete all sections

▶ Quarterly Reporting

- The [PDE-2006](#) is the form used and required for quarterly reporting.
- New schools are automatically placed on quarterly reporting.
- Good rule of thumb is to place a calendar reminder 4 weeks prior to the next Board meeting to have your quarterly report submitted to avoid a late payment fine.
 - New addition to our website to post those dates
- Please use the [instructions](#) as a guide.
- Allison Felix is staff to the Financial Review Committee (FRC) and can be contacted with any questions at alfelix@pa.gov

PDE2006

- A guide for the FRC to assess the financial strength and solvency of a school
- Measures the current condition and ability to operate in the future through:
 - Income Statement (page 1) – Revenue and Expenses
 - Balance Sheet (page 2) – Assets, Liabilities and Stockholder's Equity
 - Disclosure Information (page 3) – Methodologies, Terms of Significant Notes, Parent Company Information, Pending Regulatory/Legal Issues and Explanations
 - Key Indicators (page 4) – Individual program information

➤ PDE2006 – General Guidelines

- All financial information must conform with Generally Accepted Accounting Principles (GAAP)
 - The common set of accounting principles, standards and procedures that companies use to compile their financial statements. GAAP are a combination of authoritative standards (set by policy boards) and commonly accepted ways of recording and reporting accounting information.
 - Imposed on companies so that investors have a minimum level of consistency in the financial statements they use when analyzing companies for investment purposes. GAAP cover such things as revenue recognition, balance sheet item classification and outstanding share measurements.
 - Still Room for interpretation and different methodologies within GAAP.

➤ Key concept of GAAP is Accrual Accounting

- The Matching Principle

- Measures the performance and position of a company
- Recognizes economic events regardless of when cash transactions occur
- Matches the timing of the expenses of creating/delivering your product/service with the timing of getting revenue from the sale
- Ensures that revenue is more precisely matched with the expenses incurred to generate revenue
- Economic events are recognized by matching revenues to expenses (the matching principle) at the time in which the transaction occurs rather than when payment is made (or received)
- This method allows the current cash inflows / outflows to be combined with future expected cash inflows / outflows to give a more accurate picture of a company's current financial condition



➤ Accrual Accounting – Revenue Example

A student starts a six-month program on July 1.
He/she pays his/her full tuition on October 1.

Accrual

Recognized when earned

Revenue – recognize $1/6^{\text{th}}$
of the tuition each month
for 6 months

Cash

Recognized when collected

Revenue – recognize the
full tuition when paid in
October

➤ Accrual Accounting – Expense Example

A school pays their property insurance every year on April 1. Insurance covers from May 1 – April 30 of the following year.

Accrual

Recognized when used

Expense – recognize 1/12th of the costs of the insurance each month from May through April

Cash

Recognized when paid

Expense – recognize the full cost of the insurance when paid in April



▶ PDE2006 – Income Statement

- Represents the financial performance resulting from the operations of the entity
- Two Components
 - Revenue
 - Expense
- Measurement of a company's performance over a period
 - Quarter Ending – a three-month period
 - Year to Date – range from 3 months to 12 months depending upon year end date
- Balances are closed out every year

PDE2006 – Income Statement

- PDE2006 Income Statement is split into 2 sections:
 - Educational Income
 - tuition revenue less expenses incurred in operating (or running) the school
 - Other Income and Expense
 - revenue and expenses recognized from non-school / operating activities (clinic revenues, contract training, etc.)

➤ PDE2006 – Revenue

- Educational Revenue = Tuition
- In order to be compliant with GAAP, Revenue must be recognized when earned, not collected or billed (revenue recognition)
- Deduct any tuition refunds recognized in current period (regardless of who it is owed to or when it will be paid)
- Deduct cost of books and/or supplies given to students as part of the program

Tuition Revenue Example

Example – School A starts 10 students on January 1. They charge \$2,000 tuition for the 52-week program. There were no other starts in the year and half the students paid their full tuition by the end of the 1st quarter. The school's financial statements would reflect the following on March 31:

Balance Sheet

Cash	Asset	\$10,000
A/R – Student	Asset	\$10,000
Unearned Tuition	Liability	\$15,000

Income Statement

Gross Tuition	Revenue	\$5,000
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(includes tuition from all approved programs as well as funding received to pay for student tuition see [Memo 108](#))



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► Explanation of Example

Why did we recognize \$5,000 of tuition revenue?

$$\begin{aligned} &10 \text{ students} * \$2,000 \\ &= \$20,000 \text{ (total revenue)} \end{aligned}$$

$$\begin{aligned} &\$20,000 / 12 \text{ months (for the 52-week program)} \\ &= \$1,666.67 \text{ (revenue earned per month)} \end{aligned}$$

$$\begin{aligned} &\$1,666.67 * 3 \text{ months (from January 1 – March 31)} \\ &= \$5,000 \end{aligned}$$

➤ PDE2006 – Expenses

- Recognize all expenses incurred in operating the school:
 - Including but not limited to Salaries and Benefits, Classroom Supplies, Rent, Mortgage, Depreciation, Utilities, Bad Debt, Advertising and Taxes
- Include school related activity only
 - Do not include consolidated results
 - Do include school's portion of shared costs or management fees
- Expenses must be on accrual basis

➤ Accrued Expense Example

Example – School B pays their utility bill each month. The utility bill, which covered the period February 15 – March 14, was \$560. The school's financial statements would reflect the following on March 31:

Balance Sheet

Cash	Asset	(\$560)
A/P	Liability	\$340

Income Statement

Utilities	Expense	\$900
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► Explanation of Example

- Why did we accrue \$340?
- How it was calculated – The \$560 bill was for a 28-day period (February 15 - March 14). That works out to \$20/day ($\$560/28$). There are 17 days remaining in the month (March 15 - March 31).
 $17 \text{ days} * \$20 = \340 .
- The \$340 represents the amount of utilities used by the organization but not yet paid. The amount will be paid with the next bill (around April 15).
- Any expense that is likely to occur and can be estimated, must be accrued.

➤ Accrued Expense Example #2

Example – School C offers a \$2,400 bonus to its school director if they achieve their targets. It is reasonable to expect that the director will earn their bonus. The bonus is paid out January of next year (once the results are final). The school's financial statements would reflect the following at the close of each month:

Balance Sheet

A/P	Liability	\$200
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Income Statement

Administrative Expense	Expense	\$200
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▶ PDE2006 – Balance Sheet

- Three Sections:
 - *Assets* – what a company owns
 - *Liabilities* – what a company owes
 - *Stockholder's Equity* – the amount invested by shareholder(s)
- Measurement of a company at a specific point in time (e.g., June 30)
- Called a Balance Sheet because the 2 sides must balance (Assets = Liabilities + Stockholder's Equity)
- Balances are “permanent”

PDE2006 – Balance Sheet

- Evaluation criteria
 - Current Ratio > 1:1
 - Cash, Total Assets, Unearned Tuition, Retained Earnings and Total Stockholder's Equity must be > \$0 or provide explanation
 - Capitalization – How well and for how long can an entity sustain operations

➤ PDE2006 – Assets

- Split into Current and Long-Term
 - Current Assets – can be converted to cash or consumed < 1 year
 - Cash (on hand and restricted)
 - Accounts Receivable (student and other)
 - Inventory
 - Non-Current Assets/Long-Term - > 1 year
 - Property and Equipment
 - Prepaid Expenses
 - Goodwill

➤ PDE2006 – Liabilities

- Split into Current and Long-Term
 - Current Liabilities – need to be settled / paid < 1 year
 - Accounts Payable / Notes Payable
 - Tuition Refunds Payable
 - Current Portion of Long-Term Debt
 - Unearned Tuition
 - Long-Term Liabilities - > 1 year
 - Notes or Bonds Payable
 - Due To / From Parent

➤ PDE2006 – Stockholder's Equity

- Stockholder's Equity – a.k.a. net worth or owner's equity
- Equity represents the capitalization and the retained earnings of the organization
 - Capitalization – capital contributed to an organization (either through stock or direct paid-in contributions)
 - Retained Earning – the amount of net income that an entity retains/re-invests back into its operations

➤ PDE2006 – Capitalization

- Ways to Capitalize
 - Cash investment – either through the purchase of stocks or direct capital contribution (Other Equity)
 - Contribution of equipment, building, or other assets
 - Note – Cash or Contribution of an Asset represents a capital investment made in the organization to purchase assets, pay expenses, or use in day-to-day operations of the business. Capital is not expected to be paid back.
 - Issuance of a Note Payable
 - Note – Notes payable are recorded as a liability and are paid back over time and place an additional burden on the organization
 - * Terms of the note payable must be disclosed on PDE2006 (*example: 5 year, 8% note payable to Bob Smith, proprietor. Note due on demand.*)

➤ PDE2006 – Retained Earnings

- Retained Earnings: Earnings (Loss) for Year - reflects the net income / (loss) from the Income Statement
- Dividends – the payout of any earnings to shareholders
- Retained Earnings: Ending Balance is closed out to the Beginning Balance each year

PDE2006 – Retained Earnings

- Key Aspects
 - Balance Sheet must balance
 - Retained Earnings for Current Year Must = Net Income for Current Year

TOTAL STOCKHOLDERS' EQUITY *	<u>500</u>	<u>0</u>
TOTAL LIABILITIES AND EQUITY	<u>500</u>	<u>0</u>

ERROR - Assets do not equal Liabilities and Stockholder's Equity

*Please submit appropriate explanations (on Page 3) if these balances are zero or negative.

ERROR - Current YEAR Income/Loss (cell M55) does not equal Retained Earnings Current Year (cell J113)

- 2 -

DISCLOSURE SECTION

METHODS USED TO DETERMINE



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► Disclosure Information

- Valuation Methodologies
 - Inventory, Depreciation, Revenue
- Default Rate
- Terms of Notes Payable / Receivable
- Parent Company Information
- Adverse Findings / Legal Action
- Explanations for Negative / \$0 Balances

► Explanations of Lines with *

65 Explanations of Zero or Negative Balances (from pages 1 and 2 of PDE-2006)

Tuition / Occupancy / Net Income

66 Cash / Total Assets

67 Unearned Tuition

68 Retained Earnings / Total Stockholders' Equity

➤ Lines with *

- Are there any zeroes in lines with *?
- If so, an explanation is required on page 3.

Lines with *

EDUCATIONAL REVENUES (Income)			
1	Gross Tuition*	1,000	
2	Less: Tuition Refunds (Current Year Only)		
BALANCE SHEET			
CURRENT ASSETS			
18	Cash on Hand and in Banks - Unrestricted*		
19	Cash - Restricted		
CURRENT LIABILITIES			
31	Accounts Payable		
32	Notes Payable		
33	Tuition Refunds Payable		
34	Current Portion - Long-Term Debt		
35	Unearned Tuition*		
36	Unearned Dormitory Fees		
Retained Earnings:			
44	Beginning Balance		
45	Add: Earnings (Loss) for Year		
46	Deduct: Dividends		
47	Other Retained Earnings Changes		
	Ending Balance *	0	
48	Deduct: Treasury Stock (at Cost)		



Key Indicators

- Measures the performance of each program
 - Accreditation – Yes or No
 - Ending Student Population
 - Students on Temporary Leave
 - Attrition Rate
 - Graduation Rate
 - Placement Rate
- Instructions on Key Indicator measurements are meant to assist the schools. Use your accrediting / regulatory body calculations where possible

Key Indicators

- Attrition Rate
 - measures the % of students who permanently withdraw from a program

40 students withdraw during the year

(120 students beginning+80 starts+10 re-entries) = 19%

Key Indicators

- Placement Rate
 - measures the proportion of students who receive full time employment in their intended field compared to the number of graduates

70 students employed

90 students eligible for employment = 78%

➤ Name in Lieu of Signature

- Did you put the name of the responsible person in the signature block?
 - Signature not possible on electronic form, but name of responsible person required.

➤ Checklist for PDE2006

- Did you obtain the current, most up-to-date form from the web site?
- Are year-to-date and quarter dates correct?
- Does quarter end date on balance sheet match income statement?
- Did you enter all information, including school name, address, date licensed, etc.?

➤ Checklist

- Does the balance sheet balance?
- Does income = retained earnings?
- Are entries included for methods used to determine inventory, depreciation, and unearned tuition?

Checklist

- Are entries for methodologies accounting terms?
 - not numbers or n/a, etc.
- Did you enter your business type?
 - i.e., LLC, C-Corp, S-Corp, etc. Not “school”
- Did you include details on notes payable and notes receivable?
 - Amount, Terms, Interest, etc.
- Did you include parent company information?

➤ Checklist

- Did you include your method of accounting for unearned tuition. Is it appropriate?
 - Not “none” or n/a. Not a restatement of refund policy.

Checklist

- Did you complete Key Indicators section?
- Did you answer accreditation question accurately?
 - Note accreditation is not the same as licensure.
- Did you include all programs, even if you are not currently enrolling?
 - Board approved programs appearing on your PDE-3808 shall be reported on.
- Did you enter the name of the person completing the form?

SharePoint Submission of PLS Financial Report

Includes such documents as:

- Financials for ownership changes
- Quarterly reports
- Financials for scholarship applications

Note: Be sure to carefully enter all of the information below. Once you click Save on this screen, your application has been saved and submitted. Your application will not be listed on the Application Submission screen. Staff will contact you by e-mail within the next month to inform you of any revisions that are needed prior to consideration by the Board. You will receive notice by e-mail to inform you whether the application has been accepted for review by the Board at the next meeting. Please note that each applicant for a new school license must also submit at least one application for program approval. Please note that the Board has established a limit of three new program applications per school for each Board meeting. If you have any questions regarding your application submission, please call (717) 783-8228.

WARNING: YOU MUST COMPLETE THIS FORM

i The document was uploaded successfully and is checked out to you. Check that the fields below are correct and that all required fields are filled out. The file will not be accessible to other users until you check in.

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Program Name *		
School Name *	<div>What is the name of the school submitting the application?</div>	
CEO *	<div>Who is the CEO responsible for the application?</div>	
Email *	<div>What is the valid email address to which correspondence related to the application should be sent?</div>	
Staff Reviewer	<div></div>	

Version: 1.0
Created at 1/22/2014 12:44 PM by Landis, Patricia A (PDE)
Last modified at 1/22/2014 12:44 PM by Landis, Patricia A (PDE)

Check In

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Summary of Financial Reports

PDE2006

Actual results only
Income Statement
Balance Sheet
Disclosure Section
Key Indicators
Quarterly/Annual Reports

Pro Forma

Forecast (estimates)
Income Statement only
Filed only with a new
school application



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➤ Closing Thoughts

- Inaccurate Reporting
 - Results in delayed approvals
 - Results in follow-up questions
 - May result in requirement of audited reports
 - May result in referral for enforcement action

Questions

- Division of Postsecondary Proprietary Training
- (717) 783-8228
- Email your assigned Board Administrator
- Review Act, Regulations, Board Policy Memos

➤ Contact/Mission

For more information on financial reporting please visit PDE's website at www.education.pa.gov/PLS

The mission of the Department of Education is to ensure that every learner has access to a world-class education system that academically prepares children and adults to succeed as productive citizens. Further, the Department seeks to establish a culture that is committed to improving opportunities throughout the commonwealth by ensuring that technical support, resources, and optimal learning environments are available for all students, whether children or adults.