COMTA
Commission on Massage Therapy Accreditation

# *Standard XII: Institutional Financial Practices*

## Lesson 1

## Standard XII.A Financial Stability

**REFLECTION QUESTIONS:**

- *Who is responsible for managing the school's finances?*
- *Does your institution have enough resources to complete the education for all currently enrolled students? How do you know?*

**COMTA STANDARD**

A. **Financial Stability**
**Institutions are adequately financed, and finances are administered competently and legally to ensure long-term stability.**

1. **A responsible financial management system ensures the continuance of the institution.**
   a. **Financial books and bank accounts are separate from any other finances not connected to the institution.**

   b. **Written policies and procedures exist to assure the safety, accountability, and effective use of financial resources.**

2. **The institution demonstrates a commitment to the financial resources for the education of all currently enrolled students in a program consistent with the standards.**

   a. **Financial reports provide clear evidence of financial stability and sound fiscal practices (e.g., budget, tuition bond, letter of credit, audited or reviewed statements, history of income and reserves, current ratio of assets and liabilities).**

   b. **Financial statements are prepared in accordance with generally acceptable accounting principles, the COMTA Financial Reporting Guidelines, and all applicable federal, state, and local requirements.**

3. **Institutions carry adequate general liability insurance for all properties to address extraordinary events that could disrupt business operations (e.g., fire, water, theft, or tampering).**

**PURPOSE**:

Institutions should be financially sound, show adequate financial planning and management, and be in compliance with all regulatory agency requirements. Accredited institutions must demonstrate the financial solvency to continue operating at the same level of quality and, should something happen, the ability to "teach out" all currently enrolled students.

Verification of financial stability requires **annual independently** reviewed or audited financial reports that follow Generally Accepted Accounting Principles (GAAP). An independent Compilation with Disclosures will also be considered for schools generating less than $400,000 in gross revenue.

See ***COMTA Financial Reporting Guidelines*** for more information.

**Excerpt from COMTA Financial Reporting Guidelines document**
**(effective April 2015)**

**Determining Compliance**
*In determining compliance with the standard, the Commission and/or an assigned task force specializing in school accounting will consider the financial statements in light of the following:*

- *A record of income and reserves is maintained (as evidenced by an independent audited, reviewed or compiled financial statement) sufficient to complete the instruction of currently enrolled students and to maintain a program consistent with the standards.*

- *Financial statements specifically and clearly demonstrate a ratio of current assets to current liabilities of at least 1:1.*

*If one of these items is not evident in the financial statements, the Commission may consider other factors which may impact an institution's financial stability, including but not limited to:*

- *Audited/reviewed/compiled Profit and Loss statements demonstrating sufficient income*
- *Pattern of improvements in income and/or current ratio*
- *Presence of Letter of Credit, tuition bond, or other security which can be used as evidence that currently enrolled students will be protected*
- *Participation in federal or state funding programs and the institution's current standing therein*
- *Explanation of one-time, unusual expenses and a current budget demonstrating improvements since the fiscal year end.*

## <u>Common Challenges to Compliance</u>

The most common challenge for newly accredited schools is that they do not obtain and submit an **Independent Financial Review** *or* **Audit (**or **Compilation** for those who qualify**)** from an outside certified financial professional.

In-house financial statements are **not** sufficient.

This is a requirement that must be planned for in timing and budget in order to apply for accreditation.  If you have not already done so, contact an independent account—*with experience in educational institutions*—as soon as possible to avoid delays in the application process.

| Audit | Review |
| --- | --- |
| • Conducted by an independent certified financial professional.<br>• The most thorough highest level of assurance.<br>• Consists of gathering evidence to support financial numbers.<br>• It requires an opinion by the auditor on the financial solvency of the school.<br>**Sufficient for COMTA**<br>**Required for Title IV application** | • Conducted by an independent certified financial professional.<br>• Consists primarily of Inquiry and Analytical Procedures.<br>• Less evidence required than for an Audit<br>• Provides “limited assurance” that the financial statements comply with GAAP (vs an “opinion” of the accountant)<br>**Sufficient for COMTA**<br>**(but not Title IV application)** |
| Compilation with Disclosures | Internal Reports |
| • Basic level conducted by an independent certified financial professional.<br>• Compilation of financial information, including statements of income and cash flow.<br>• Does not include an opinion or assurance that the finances are in accordance with GAAP.<br>**Sufficient for COMTA if revenue <$400,000**<br>**(but not Title IV application)** | • May include financial reports for such accounting programs such as QuickBooks.<br>• Often these are *erroneously* submitted as evidence.<br>• Not conducted by an outside, independent accountant.<br>****NOT sufficient evidence for COMTA**** |

NOTE: The Financial Reporting Guidelines contains a glossary of financial terms.

<u>Current Ratio</u>

Another common challenge for too many schools (large or small) is not maintaining a strong enough **current ratio** of current assets to current liabilities. The specific 1:1 current ratio threshold was **taken out of the standard language itself and moved to the COMTA Financial Reporting Guidelines** document, thus allowing the Commission to review financial stability more holistically.

$$\text{Current Ratio} = \frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$$

The current ratio remains the most common expectation of financial soundness in business (including schools) because it means that your assets are *at minimum* enough to cover your liabilities. However, as noted in the excerpt on the first page, the Commission will consider the current ratio *in context* of the other financial data in the financial statement, particularly if a school is very close to the 1:1 threshold.

<u>If a school cannot demonstrate financial stability as outlined in the Financial Reporting Guidelines</u>, it must explain ***specifically*** how it plans to remedy the situation to obtain a 1:1 ratio (or other demonstrations of stability) in the near future.

- The US Department of Education has regulations for the length of time allowed to become compliant with any Commission Standard.
- This timeframe is 12-24 months, as determined by the longest program length.
- See the COMTA Policies & Procedures Manual under "Commission Actions" for specific deadline requirements.

**<u>Accounting Best Practices:</u>**

As stated in COMTA Financial Reporting Guidelines document:

The **accrual basis of accounting** is strongly recommended.

However, if financial statements are submitted using the **cash basis** of accounting, the following **additional information is required** to enable a more accurate evaluation of the institution's financial stability:

1. Current payable obligations, including:
   a. Trade receivables and payables
   b. Payroll tax obligations
   c. Tuition refund payable obligations
2. Unearned tuition obligations with clear notation of earnings method.
3. Financial relationships with affiliates and subsidiaries.

4. Other assets and liabilities and adjustments of other accounts.

## Filing Financial Reports

- Accountants must provide a standard **Statement of Cash Flows, with Disclosures and Notes to Financial Statements** which include method of earnings and method of accounting of unearned tuition obligations.
- The chart of accounts described in the Financial Reporting Guidelines has been developed by COMTA for its evaluation of educational institutions with programs in massage. This chart is consistent with accounting requirements of proprietary schools under **generally accepted accounting principles (GAAP)**.
- See the full Financial Reporting Guidelines for additional information, including definitions of term and sample balance sheets.
    - *A link to the document is provided at the beginning of this lesson, is included as a handout in the module, and is available on the COMTA website at* [www.comta.org](http://www.comta.org) *< Resources < Accreditation Forms.*

## General Liability Insurance

Standard XII.A.3 requires that schools maintain current insurance coverage for general liability. This is included as important financial protection for the business.

**NOTE:**

**Professional liability insurance** ("malpractice") is covered under Standard IV because it is required for both programmatic and institutional accreditation.

**General Liability** covers the property and general business practices which is an additional requirement for institutionally accredited schools.

**Be sure all auxiliary classrooms or separate clinic spaces are included.*

The standard states that institutions must carry "**adequate**" coverage for *all properties**. This word is used intentionally so that the school can demonstrate the appropriate amount of coverage for its specific circumstances (size/scope).  Evidence of a current policy with listed coverage limits is to be submitted with the Self-Study Report.