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MASSACHUSETTS SCHOOL OF LAW AT ANDOVER, INC.
D/B/A MASSACHUSETTS SCHOOL OF LAW

AUDITED FINANCIAL STATEMENTS & REPORTS
REQUIRED FOR AUDITS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING
STANDARDS AND THE UNIFORM GUIDANCE
JULY 31, 2019 AND 2018

MASSACHUSETTS SCHOOL OF LAW
JULY 31, 2019 AND 2018
AUDITED FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Massachusetts School of Law
500 Federal Street
Andover, Massachusetts 01810

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Massachusetts School of Law at Andover, Inc. (hereafter referred to as "Massachusetts School of Law"), which comprise the statements of financial position as of July 31, 2019 and 2018, and the related statements of activities and changes in net assets, cash flows and statements of functional expenses for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Massachusetts School of Law as of July 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying footnote 13 on related party transactions is required by the U.S. Department of Education and is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying footnote 14 on the Institution's composite score is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and are not part of the financial statements.

As discussed in Note 1 to the financial statements, on July 31, 2019 the Institution adopted the provisions of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which constitutes a change in accounting principle. Our audit report is not modified with respect to this matter.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2019 on our consideration of Massachusetts School of Law's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Massachusetts School of Law's internal control over financial reporting and compliance.



David A Levy CPA PC
Needham, Massachusetts
December 6, 2019

**MASSACHUSETTS SCHOOL OF LAW
STATEMENTS OF FINANCIAL POSITION
AS OF JULY 31, 2019 AND 2018**

| ASSETS | <u>2019</u> | <u>2018</u> |
|--|----------------------------|----------------------------|
| Cash and Cash Equivalents | \$ 374,280 | \$ 455,508 |
| Accounts Receivable | | |
| -Students | 124,980 | 220,369 |
| Investments | 5,955,563 | 5,593,687 |
| Bookstore Inventory | 105,774 | 43,302 |
| Prepaid Expenses | 3,440 | 3,872 |
| TOTAL CURRENT ASSETS | <u>6,581,186</u> | <u>6,316,738</u> |
| PROPERTY, EQUIPMENT AND LIBRARY BOOKS, NET | 2,415,361 | 2,623,519 |
| TOTAL ASSETS | <u><u>\$ 8,996,547</u></u> | <u><u>\$ 8,940,257</u></u> |
| LIABILITIES & NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts Payable and Accrued Expenses | \$ - | \$ 3,872 |
| Deferred Tuition | 52,135 | 26,220 |
| TOTAL CURRENT LIABILITIES | <u>52,135</u> | <u>30,092</u> |
| TOTAL LIABILITIES | <u>52,135</u> | <u>30,092</u> |
| NET ASSETS WITHOUT DONOR RESTRICTIONS | | |
| Net Assets without Donor Restrictions | 6,294,140 | 6,262,026 |
| Net Investment in Property and Equipment | 2,650,272 | 2,648,139 |
| TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS | <u>8,944,412</u> | <u>8,910,165</u> |
| Net Assets with Donor Restrictions | - | - |
| TOTAL NET ASSETS | <u>8,944,412</u> | <u>8,910,165</u> |
| TOTAL LIABILITIES & NET ASSETS | <u><u>\$ 8,996,547</u></u> | <u><u>\$ 8,940,257</u></u> |

The accompanying notes are an integral part of these financial statements.

MASSACHUSETTS SCHOOL OF LAW
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JULY 31, 2019 AND 2018

| REVENUE | <u>2019</u> | <u>2018</u> |
|---|--------------------|---------------------|
| Earned Tuition and Fees | \$ 5,389,360 | \$ 5,615,702 |
| Net Investment Income | 385,896 | 386,402 |
| Bookstore Sales | 176,988 | 185,075 |
| Fundraising/Other | 8,773 | 24,608 |
| TOTAL REVENUES | <u>5,961,017</u> | <u>6,211,787</u> |
| EXPENSES | | |
| Program Services: | | |
| Educational | 3,373,197 | 3,765,068 |
| Management and General: | | |
| Supporting Services | 2,553,573 | 2,613,967 |
| TOTAL EXPENSES | <u>5,926,770</u> | <u>6,379,035</u> |
| CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTION | 34,247 | (167,248) |
| CHANGE IN NET ASSETS WITH DONOR RESTRICTION | - | - |
| CHANGE IN NET ASSETS | <u>\$ 34,247</u> | <u>\$ (167,248)</u> |

The accompanying notes are an integral part of these financial statements.

**MASSACHUSETTS SCHOOL OF LAW
 STATEMENTS OF CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JULY 31, 2019 AND 2018**

| | 2019 | | | 2018 | | |
|--|---------------------------|------------------------|------------------|---------------------------|------------------------|------------------|
| | Without Donor Restriction | With Donor Restriction | Total | Without Donor Restriction | With Donor Restriction | Total |
| NET ASSETS BEGINNING OF YEAR | \$ 8,910,165 | - | 8,910,165 | \$9,077,413 | - | 9,077,413 |
| CHANGE IN NET ASSETS FOR THE PERIOD | 34,247 | - | 34,247 | (167,248) | - | (167,248) |
| NET ASSETS END OF YEAR | <u>\$ 8,944,412</u> | <u>-</u> | <u>8,944,412</u> | <u>\$ 8,910,165</u> | <u>-</u> | <u>8,910,165</u> |

The accompanying notes are an integral part of these financial statements.

**MASSACHUSETTS SCHOOL OF LAW
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JULY 31, 2019 AND 2018**

| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | <u>2019</u> | <u>2018</u> |
|---|--------------------|--------------------|
| Increase/(Decrease) in Net Assets | \$ 34,247 | \$ (167,248) |
| Adjustments to reconcile Net Increase/(Decrease) in Net Assets to net cash provided by operating activities: | | |
| Depreciation | 124,489 | 126,621 |
| Amortization | 83,669 | 83,669 |
| Accounts Receivable | | |
| -Students | 95,389 | 16,617 |
| -Employee | (17,149) | - |
| Bookstore Inventory | (62,472) | 14,618 |
| Prepaid Expenses | 432 | 58,266 |
| Accounts Payable and Accrued Expenses | (3,872) | (23,711) |
| Deferred Tuition | 25,915 | (204,997) |
| Cash Provided (Used) by Operating Activities | <u>280,648</u> | <u>(96,165)</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | |
| Purchase of Investments | <u>(361,876)</u> | <u>(196,560)</u> |
| Cash Provided (Used) by Investing Activities | (361,876) | (196,560) |
| Change in Cash and Cash Equivalents | (81,228) | (292,725) |
| BEGINNING CASH BALANCE | 455,508 | 748,233 |
| ENDING CASH BALANCE | <u>\$ 374,280</u> | <u>\$ 455,508</u> |

Supplementary Information:

Cash Paid For:

| | | |
|-------------------|------|------|
| Income Taxes | \$ - | \$ - |
| Interest Expenses | \$ - | \$ - |

The accompanying notes are an integral part of these financial statements.

MASSACHUSETTS SCHOOL OF LAW
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JULY 31, 2019

| Description | Program Services | | | | | | Management & General Expenses | 2019 Grand Total |
|---------------------------------|-------------------------|-------------------------|---|---|---------------------|------------------|-------------------------------------|---------------------|
| | Academic Instruction | Bookstore Operations | Library Library Operation & & Maintenance | Plant Library Operation & & Maintenance | Student Services | Total | | |
| Salaries and wages | \$ 1,558,819 | - | 137,036 | 71,554 | 249,089 | 2,016,498 | 1,431,019 | \$ 3,447,517 |
| Fringe benefits | 366,112 | - | 32,185 | 16,806 | 58,502 | 473,605 | 336,097 | 809,702 |
| Advertsing and recruiting costs | - | - | - | - | - | - | 430,159 | 430,159 |
| Utilities | - | - | - | 274,358 | - | 274,358 | - | 274,358 |
| Depreciation and amortization | - | - | 124,489 | 83,669 | - | 208,158 | - | 208,158 |
| Office supplies and expense | - | - | - | - | - | - | 191,349 | 191,349 |
| Provision for bad debts | - | - | - | - | - | - | 75,072 | 75,072 |
| Update and upkeep costs | - | - | 68,448 | 15,680 | - | 84,128 | - | 84,128 |
| Insurance | - | - | - | 78,250 | - | 78,250 | - | 78,250 |
| Repairs and maintenance | - | - | - | 72,183 | - | 72,183 | - | 72,183 |
| Bookstore operations | - | 51,207 | - | - | - | 51,207 | - | 51,207 |
| Contract cleaning services | - | - | - | 53,295 | - | 53,295 | - | 53,295 |
| Professional fees | - | - | - | - | - | - | 52,160 | 52,160 |
| Security services | - | - | - | 16,229 | - | 16,229 | - | 16,229 |
| Common area assessments | - | - | - | 14,250 | - | 14,250 | - | 14,250 |
| Commencement | - | - | - | - | - | - | 13,357 | 13,357 |
| Bar course expenses | - | - | - | - | 10,715 | 10,715 | - | 10,715 |
| Trial team | - | - | - | - | 9,979 | 9,979 | - | 9,979 |
| Postage | - | - | - | - | - | - | 6,652 | 6,652 |
| Telephone | - | - | - | - | - | - | 5,303 | 5,303 |
| Bank fees | - | - | - | - | - | - | 5,193 | 5,193 |
| Classroom supplies | 4,178 | - | 232 | - | - | 4,410 | - | 4,410 |
| Professional development | 2,906 | - | 1,456 | - | - | 4,362 | - | 4,362 |
| Meeting expense | - | - | - | - | - | - | 3,736 | 3,736 |
| Equipment rental | - | - | - | - | - | - | 3,382 | 3,382 |
| Supplies | - | - | - | 1,570 | - | 1,570 | - | 1,570 |
| Taxes and filing fees | - | - | - | - | - | - | 94 | 94 |
| Grand Total | \$ 1,932,015 | 51,207 | 363,846 | 697,844 | 328,285 | 3,373,197 | 2,553,573 | \$ 5,926,770 |

The accompanying notes are an integral part of these financial statements.

**MASSACHUSETTS SCHOOL OF LAW
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JULY 31, 2018**

| Description | Program Services | | | | | | Management & General Expenses | 2018 Grand Total |
|---------------------------------|-------------------------|-------------------------|---|---|---------------------|------------------|-------------------------------------|---------------------|
| | Academic Instruction | Bookstore Operations | Library Library Operation & & Maintenance | Plant Library Operation & & Maintenance | Student Services | Total | | |
| Salaries and wages | \$ 1,726,430 | - | 181,265 | 69,900 | 363,374 | 2,340,969 | 1,247,910 | \$ 3,588,879 |
| Fringe benefits | 369,527 | - | 38,798 | 14,961 | 77,777 | 501,063 | 267,104 | 768,167 |
| Advertsing and recruiting costs | - | - | - | - | - | - | 435,655 | 435,655 |
| Provision for bad debts | - | - | - | - | - | - | 293,536 | 293,536 |
| Utilities | - | - | - | 261,844 | - | 261,844 | - | 261,844 |
| Depreciation and amortization | - | - | 126,621 | 83,669 | - | 210,290 | - | 210,290 |
| Office supplies and expense | - | - | - | - | - | - | 178,975 | 178,975 |
| Bookstore operations | - | 170,301 | - | - | - | 170,301 | - | 170,301 |
| Insurance | - | - | - | 46,685 | - | 46,685 | 51,757 | 98,442 |
| Repairs and maintenance | - | - | - | 86,174 | - | 86,174 | - | 86,174 |
| Professional fees | - | - | - | - | - | - | 59,586 | 59,586 |
| Contract cleaning services | - | - | - | 58,339 | - | 58,339 | - | 58,339 |
| Bar course expenses | - | - | - | - | 40,450 | 40,450 | - | 40,450 |
| Commencement | - | - | - | - | - | - | 17,627 | 17,627 |
| Trial team | - | - | - | - | 17,025 | 17,025 | - | 17,025 |
| Classroom supplies | 14,649 | - | - | - | - | 14,649 | - | 14,649 |
| Update and upkeep costs | - | - | 12,692 | - | - | 12,692 | - | 12,692 |
| Bank fees | - | - | - | - | - | - | 11,261 | 11,261 |
| Postage | - | - | - | - | - | - | 10,741 | 10,741 |
| Telephone | - | - | - | - | - | - | 9,971 | 9,971 |
| Meeting expense | - | - | - | - | - | - | 8,941 | 8,941 |
| Seminars | - | - | - | - | - | - | 7,263 | 7,263 |
| Equipment rental | - | - | - | - | - | - | 5,259 | 5,259 |
| Shadow Fund Expenses | - | - | - | - | - | - | 3,281 | 3,281 |
| Taxes and filing fees | - | - | - | - | - | - | 2,649 | 2,649 |
| Publication costs | - | - | - | - | - | - | 2,451 | 2,451 |
| Security services | - | - | - | 2,160 | - | 2,160 | - | 2,160 |
| Professional development | 1,173 | - | 430 | - | - | 1,603 | - | 1,603 |
| Supplies | - | - | - | 824 | - | 824 | - | 824 |
| Grand Total | \$ 2,111,779 | 170,301 | 359,806 | 624,556 | 498,626 | 3,765,068 | 2,613,967 | \$ 6,379,035 |

The accompanying notes are an integral part of these financial statements.

NOTE 1: NATURE OF BUSINESS & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Incorporation

Massachusetts School of Law at Andover, Inc., (the Institution) was organized on April 25, 1988, pursuant to the incorporation laws of the Commonwealth of Massachusetts to establish and operate a law school as a non-profit organization under section 501(c)(3) of the Internal Revenue Code of 1986. The School began its first academic semester on August 22, 1988.

Educational Programs

The Institution has a fall semester that begins in August, a spring semester that begins in January, and two summer sessions that occur in June and July. All revenues and expenditures are reported totally within the fiscal year in which the sessions are predominantly conducted.

Licenses and Accreditation

The Massachusetts School of Law is currently accredited by the New England Commission of Higher Education (NECHE). The Institution is also accredited by the Massachusetts Board of Regents as of May 1990 to grant the degree of Juris Doctor. This permits graduates of the Massachusetts School of Law to take the bar examination and be admitted to practice law in the Commonwealth of Massachusetts. Other states, including California, Connecticut, Maine, New Hampshire, Vermont, West Virginia, and Wisconsin, permit graduates of the Massachusetts School of Law to take their bar examination and practice law in those states.

Change in Accounting Principle

Effective July 31, 2019, the Institution adopted accounting standards update (ASU) 2016-14, *Not-for-Profit Entities (Topic958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU changes the presentation and disclosure requirements for nonprofit entities to provide more relevant information about their resources as follows:

| ASU 2016-14 | Financial Statement Audits Prior to July 31, 2019 | Financial Statement Audits as of July 31, 2019 and Thereafter |
|---|---|---|
| Net Asset Segregation | Three Categories: Unrestricted Net Assets, Temporarily Restricted Net Assets, Permanently Restricted Net Assets | Two Categories: Net Assets with Donor Restriction, Net Assets Without Donor Restriction |
| Qualitative and Quantitative Information | None required beyond basic financial reporting and disclosures | Management of liquidity, investment return, expense allocation |

A) Form of Presentation

The Financial Statements are prepared on the accrual basis of accounting in accordance with the U.S. generally accepted accounting principles. Revenues and gains are recognized when earned, and expenditures and losses are recognized when incurred.

B) Classification and Reporting of Net Assets

The Institution reports two classes of net assets and the changes in those net assets in the statements of financial position and statements of activities respectively. The two classes of net assets are as follows:

NOTE 1: NATURE OF BUSINESS & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1) Net Assets Without Donor Restriction

Net assets that are not restricted by donor-imposed stipulation. This includes all resources over which the Board of Directors has discretionary control. The board may elect to designate such resources for specific purpose. This designation may be removed at the board's discretion. As of July 31, 2019 and 2018, all net assets were without donor restriction.

2) Net Assets With Donor Restriction

Net Assets subject to donor-imposed restrictions that permit the Institution to use or expend the donated assets as specified. This represents resources accumulated through donations or grants for specific operating or capital purposes. Restrictions on such resources will cease when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose or program or through the passage of time. As of July 31, 2019 and 2018 the Institution did not have any Net Assets With Donor Restriction.

C) Contributions, Gains and Other Support

Contributions are recognized when received from the donor. Unrestricted contributions are reported as increases in unrestricted net assets in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Institution records interest and dividends on its marketable securities when earned. Gains or losses are recorded when realized. Unrealized gains or losses are recorded based upon changes in the fair value of investments held.

D) Cash and Cash Equivalents

For purposes of reporting cash flows, cash equivalents include highly liquid assets with an original maturity of three months or less. Cash and Cash Equivalents consist of cash on hand, checking, and money market accounts.

E) Functional Expense Allocation

The costs of providing programs and other activities have been summarized on a functional basis in these financial statements. Accordingly, certain costs have been allocated between program services and support services. Expenses that can be identified with a specific program or support service are allocated directly according to the expenditure classification. All other indirect costs require allocation on a reasonable basis that is consistently applied. This allocation is based off of total revenue attributable to each program and support function.

F) Inventory Bookstore

Inventory consists of books purchased primarily for resale to the students. It is stated at the historical cost determined on a First-In-First-Out (FIFO) basis.

NOTE 1: NATURE OF BUSINESS & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

G) Property and Equipment

Property and Equipment are stated at cost, net of accumulated depreciation. The cost of property and equipment is depreciated over the estimated useful lives of the related assets. Depreciation and amortization are computed on the straight-line method over the estimated useful asset lives.

H) Advertising Costs

Advertising costs, except for direct-response advertising, are charged to operations when incurred. The costs of direct-response advertising are capitalized and amortized over the period during which future benefits are to be received. There were no direct-response advertising costs for the current fiscal year. Total advertising expenses for the fiscal years ended July 31, 2019 and 2018 were \$430,159 and \$435,655, respectively.

I) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

J) Concentration of Economic Dependency

The Institution derives a significant portion of its revenue from student financial assistance originating from the U.S. Department of Education's Title IV Higher Education Act of 1965. For the students to receive financial assistance at the Institution, it must maintain eligibility requirements established by the U.S. Department of Education.

K) Uncertain Tax Positions

The Institution accounts for uncertain tax positions in accordance with FASB ASC 740.

L) Donated Services

Donated services have not been reflected in the accompanying financial statements since they do not meet the criteria for recognition in accordance with GAAP.

M) Revenue and Cost Recognition

The Institution bills tuition throughout the period of enrollment and recognizes the revenue on a pro rata basis over the period of instruction. As of the end of the fiscal year, the Institution had tuition from academic periods where the associated revenue has not yet been earned in accordance with GAAP. Accordingly, these amounts have been recorded as unearned tuition in the accompanying balance sheets. If a student withdraws from the Institution, the standards of the U.S.

**MASSACHUSETTS SCHOOL OF LAW
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019 AND 2018**

NOTE 1: NATURE OF BUSINESS & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

M) Revenue and Cost Recognition

Department of Education, the state education authority, the accrediting commission that accredits the Institution and the Institution’s own internal policies (collectively, “Refund Policies”) limit a student’s obligation for tuition and fees to the school depending on when the student withdraws during the period of enrollment. The greater the portion of the enrollment period that has elapsed at the time the student withdraws, the greater the student’s obligation to the school. The Institution records revenue after applying all applicable refund policies.

N) Fair Value Measurement

The Institution reports its qualified assets and liabilities in accordance with the Fair Value Measurements and Disclosure Standards and accounting principles generally accepted in the United States. These standards define fair value, establish a framework for measuring fair value, and expand disclosures about fair value measurements. This policy establishes a Fair Value framework that prioritizes the inputs and assumptions used to measure fair value. The three levels of the fair value hierarchy and a description of the valuation techniques used for instruments measured at fair value are as follows:

- Level 1- Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date.
- Level 2- Pricing inputs other than quoted prices included in Level 1, which are either directly observable or that can be derived or supported from observable data as of the reporting date.
- Level 3- Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are generally less observable from objective sources. These inputs may be used with internally developed techniques that result in management’s best estimate of fair value.

A qualifying asset or liability’s level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. The Institution’s qualifying assets or liabilities are recorded at fair value using Level 1 inputs.

The reported values of assets measured at fair value on a recurring basis are categorized as follows at July 31, 2019.

| | Totals | Fair value measurements using: | | |
|-------------------------|---------------------|---|--|---------------------------------------|
| | | Quoted prices in Active Markets Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs |
| | | Level 1 | Level 2 | Level 3 |
| Certificates of Deposit | \$ 60,000 | \$ 60,000 | \$ - | \$ - |
| Common Fund Multi | | | | |
| -Strategy Equity Fund | 3,576,267 | 3,576,267 | - | - |
| -Strategy Bond Fund | 2,319,296 | 2,319,296 | - | - |
| Totals | \$ 5,955,563 | \$ 5,955,563 | \$ - | \$ - |

NOTE 1: NATURE OF BUSINESS & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

O) Reclassification

The presentation of certain prior year balances have been reclassified to conform to the current year presentation.

P) Subsequent Events

The Institution evaluates subsequent events through December 6, 2019, the date of this report. No material subsequent events have occurred that require recognition or disclosure in these financial statements.

NOTE 2: ACCOUNTS RECEIVABLE, ALLOWANCE FOR BAD DEBTS AND DEFERRED TUITION

Accounts Receivable at the balance sheet date consist of amounts related to revenue from current or former students for classes that have been completed, or obligations of current students for tuition in progress for which payment has not been received in accordance with GAAP. If a student withdraws from the Institution, the standards of the U.S. Department of Education, the state education authority, the accrediting commission that accredits the Institution, and the Institution's own internal policies (collectively, "Refund Policies") limit a student's obligation for tuition and fees to the school depending on when the student withdraws during the period of enrollment. The greater the portion of the enrollment period that has elapsed at the time the student withdraws, the greater the student's obligation to the school. The Institution records revenue after applying all applicable refund policies.

Allowance for Doubtful Accounts

The Institution maintains an allowance for doubtful accounts and has established a reserve based on the likelihood of collection. Bad debts are written off using an allowance account. As of July 31, 2019 and 2018, the allowance account was \$288,087 and \$110,686, respectively.

Accounts Receivable & Deferred Tuition

Upon student admission, the contract price is recorded in a subsidiary ledger. As the student progresses through the program, the institution earns the contract tuition ratably. Accounts receivable represent balances owed to the school for education provided but not yet paid for. Deferred tuition represents payments paid on account in excess of amounts earned for tuition.

As of July 31, 2019 and 2018, the students' accounts receivables and deferred tuition balances were as follows:

| | 2019 | 2018 |
|--------------------------------------|-------------------|-------------------|
| Deferred Tuition | \$ 52,135 | \$ 26,220 |
| Accounts Receivable | 413,067 | 331,055 |
| Less: Allowance for Doubtful Account | (288,087) | (110,686) |
| Accounts Receivable, Net | <u>\$ 124,980</u> | <u>\$ 220,369</u> |

MASSACHUSETTS SCHOOL OF LAW
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019 AND 2018

NOTE 3: BOOKSTORE INVENTORY

As of July 31, 2019 and 2018 the Institution has bookstore inventory balance of \$105,774 and \$43,302, respectively.

NOTE 4: PREPAID EXPENSES

As of July 31, 2019 and 2018 the Institution has a prepaid expenses balance of \$0 and \$3,872, respectively.

NOTE 5: INVESTMENTS

Investments, exclusive of physical plant, are recorded at fair value; investments received by gift are recorded at market value. Estimated fair values of the Institution's financial instruments (all of which are held for non-trading purposes) are as follows:

| | 2019 Fair Market Value | 2018 Fair Market Value |
|-------------------------------|---------------------------|---------------------------|
| Certificates of deposits | \$ 60,000 | \$ 92,955 |
| Equities | <u>5,895,563</u> | <u>5,500,732</u> |
| Total Investments | <u>5,955,563</u> | <u>5,593,687</u> |
| Cash and cash equivalents | \$ 374,280 | \$ 455,508 |

Amortized costs approximate fair value of cash and cash equivalents. Fair values of other investments are based upon quoted market prices.

Net investment income consists of the following:

| <u>Description</u> | <u>2019</u> | <u>2018</u> |
|--|-------------------|-------------------|
| Interest, Dividend income and capital gain distributions | 143,302 | 108,467 |
| Realized gain (loss) on sale of investments | - | - |
| Unrealized gain (loss) on investments | 262,601 | 295,509 |
| Investment advisory fees | (20,007) | (17,574) |
| Total | <u>\$ 385,896</u> | <u>\$ 386,402</u> |

MASSACHUSETTS SCHOOL OF LAW
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019 AND 2018

NOTE 6: PROPERTY, EQUIPMENT AND LIBRARY BOOKS

Physical plant, equipment, and library books are stated on the balance sheet at cost at date of acquisition or, in the case of gifts, fair market value at date of donation. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis.

The major classification of property, plant, equipment, and library books as of July 31, 2019 and 2018 is as follows:

| Assets | Estimated Life | 2019 | 2018 |
|--|----------------|---------------------|---------------------|
| Real Estate | 39 Years | \$ 5,472,942 | \$ 5,472,942 |
| Library Books & Microforms (Net of Amortization) | 10 Years | 585,685 | 585,685 |
| Computer and Office Equipment | 5 Years | 272,870 | 272,870 |
| Furniture, Fixtures and Equipment | 5-7 Years | 146,977 | 146,977 |
| Leasehold Improvements | 15 Years | 46,072 | 46,072 |
| Maintenance Equipment | 5 Years | 1,864 | 1,864 |
| Property & Equipment, Gross | | <u>6,526,410</u> | <u>6,526,410</u> |
| Less: Accumulated Depreciation & Amortization | | <u>(4,111,049)</u> | <u>(3,902,891)</u> |
| Property & Equipment, Net | | <u>\$ 2,415,361</u> | <u>\$ 2,623,519</u> |
| Amortization | | 83,669 | 83,669 |
| Depreciation | | <u>124,489</u> | <u>126,621</u> |
| | | <u>\$ 208,158</u> | <u>\$ 210,290</u> |

Expenditures for maintenance and repairs are charged to expenses, whereas major betterments are capitalized.

NOTE 7: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses balances as of July 31, 2019 and 2018 consisted the following:

| | 2019 | 2018 |
|---------------|-------------|-----------------|
| Accrued Wages | <u>\$ -</u> | <u>\$ 3,872</u> |
| Total | <u>\$ -</u> | <u>\$ 3,872</u> |

NOTE 8: PENSION PLAN

The School sponsors a defined contribution pension plan that covers substantially all full-time employees. The plan qualifies under Internal Revenue Code Section 403(b)(1) as a tax deferred annuity plan. Contributions are made at a rate of 5% of an eligible employee's base salary. Contributions were \$176,988 and \$155,734 for the years ended July 31, 2019 and 2018, respectively.

NOTE 9: REFUNDS AND REPAYMENTS TO THE U.S. DEPARTMENT OF EDUCATION

As of July 31, 2019 and 2018, there were \$0 and \$0 unpaid refunds to the U.S. Department of Education or to lenders who issued SFA loans. Accordingly, no part of the prior year current liabilities consist of repayment obligations. The Institution processes and posts students' refunds within 45 days of the date a student withdraws or is terminated from the Institution.

NOTE 10: CONCENTRATION OF CREDIT RISK

The Institution maintains many banks accounts with large regional banks. The balances of these accounts may exceed the Federal Deposit Insurance Corporation insured \$250,000 limit. It is the Institution's policy to try to ensure that the balance in any bank does not exceed \$250,000 at any time. It is, however, not practicable for an Institution of this size to maintain cash balance below \$250,000 at all times, due to the ongoing cash needs of the Institution.

Concentration of credit risk with respect to accounts receivables are limited due to the large number of customers comprising the Institution's customer base.

NOTE 11: INCOME TAXES

The Institution is a non-profit entity formed for charitable purposes and is exempt from Federal and State Income Taxes under Section 501(c)(3). As such, no income tax is due from the Institution. Donors may deduct contributions made to the Intuition within Internal Revenue Code Regulations. The Institution is subject to a tax on any unrelated business income. The Institution's policy is to classify income tax related interest and penalties in interest expenses.

NOTE 12: RELATED PARTY TRANSACTIONS

Massachusetts School of Law derives a substantial portion of its revenues from Student Financial Aid (SFA) received by its students under the Title IV programs administered by the U.S. Department of Education pursuant to the Higher Education Act of 1965, as amended (HEA). Massachusetts School of Law must comply with the regulations promulgated under the HEA. Those regulations require that all related party transactions be disclosed, regardless of their materiality to the financial statements. As of July 31, 2019 and 2018, the Institution has no related party transactions.

This information is required by the U.S. Department and is presented for purposes of additional analysis and is not a required part of the basic financial statements.

NOTE 13: FINANCIAL RESPONSIBILITY COMPOSITE SCORE

The U.S. Department of Education determines an Institution to be financially responsible if the Institution has a composite score of at least 1.5, the Institution has sufficient cash reserves to make the required refunds, including the return of Title IV funds (these requirements are known as the *refund reserve standards*), the Institution is current in its debt payments, and the Institution is meeting all of its financial obligations, including making required refunds, including the return of Title IV funds and making repayments to cover FSA program debts and liabilities. For an Institution to participate in any Title IV, HEA program, the Institution must be financially responsible (34 C.F.R. § 668.171(a)). An Institution that is not financially responsible because its composite score is between 1.0 and 1.4 but meets all other standards of financial responsibility may participate in the Title IV programs under the Zone Alternative, as described in 34 C.F.R. § 668.175(d). In general, Institutions participating under the Zone Alternative receive a letter from ED notifying the Institution of this condition of its participation. These Institutions are required to use the cash monitoring or reimbursement payment method of funding (34 C.F.R. § 668.175(d)(2)(i)).

Composite Score

The composite score standard combines different measures of fundamental elements of financial responsibility to yield a single measure of a school's overall financial responsibility. This score, which has not been calculated by the U.S. Department of Education, is currently 2.7, as detailed below:

| Type | Ratio | Weight | Weighted Ratio |
|-----------------|--------|--------|----------------|
| Primary Reserve | 3.0000 | 40% | 1.2000 |
| Equity | 3.0000 | 40% | 1.2000 |
| Net Income | 1.2850 | 20% | 0.2570 |
| Composite Score | | | <u>2.7</u> |

This ratio as of fiscal year ended July 31, 2018 was 2.5. This information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

NOTE 14: AVAILABILITY OF RESOURCES AND LIQUIDITY

The Institution monitors the liquidity required to meet its operating needs. Financial assets without donor restrictions that are available for general operating use within one year of the Statements of Financial Position date are as follows as of July 31, 2019 and 2018:

| Financial Assets Without Donor Restriction Available for General Operating Use | 2019 | 2018 |
|---|---------------------|---------------------|
| Cash and Cash Equivalents | \$ 374,280 | \$ 455,508 |
| Accounts Receivable | 124,980 | 220,369 |
| Investments | 5,955,563 | 5,593,687 |
| | <u>\$ 6,454,823</u> | <u>\$ 6,269,564</u> |
| Cash Runway Given Assets Available as of July 31, | | |
| Financial Assets Available | 6,454,823 | 6,269,564 |
| Total Operating Expenses | 5,926,770 | 6,379,035 |
| Months of Operating Net Assets Without Donor Restriction to Cover Operating Expenses | 14 | 12 |
| Current Ratio | | |
| Total Current Assets | 6,581,186 | 6,316,738 |
| Total Current Liabilities | 52,135 | 30,092 |
| Current Ratio | <u>126.23:1</u> | <u>209.91:1</u> |

MASSACHUSETTS SCHOOL OF LAW
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019 AND 2018

NOTE 15: PROFITABILITY, ACID TEST RATIO, TANGIBLE NET WORTH

CHANGES IN NET ASSETS

The Institution's profitability for the current and previous two years are as follows:

| Description | 2019 | 2018 | 2017 |
|------------------------------------|--------------------|--------------------|---------------------|
| Unrestricted Revenues | \$ 5,961,017 | 6,211,787 | \$ 5,598,910 |
| Release from Temp Restricted Funds | - | - | - |
| Total Expenses (excluding Taxes) | <u>(5,926,770)</u> | <u>(6,379,035)</u> | <u>(6,286,741)</u> |
| Change in Net Assets | 34,247 | (167,248) | (687,831) |
| Tax Expenses | - | - | - |
| Net Change in Net Assets after tax | <u>\$ 34,247</u> | <u>(167,248)</u> | <u>\$ (687,831)</u> |

ACID TEST RATIO

The Institution's acid test ratio as of July 31, 2019 and 2018 was as follows:

| Description | 2019 | 2018 |
|---------------------|-----------------|-----------------|
| Current Assets | \$ 6,581,186 | 6,316,738 |
| Current Liabilities | <u>52,135</u> | <u>30,092</u> |
| Acid Test Ratio | <u>126.23:1</u> | <u>209.91:1</u> |

TANGIBLE NET WORTH

The tangible net assets of the Institution as of July 31, 2019 and 2018:

| Description | 2019 | 2018 |
|-------------------------|---------------------|------------------|
| Total Assets | \$ 8,996,547 | 8,940,257 |
| Less: Total Liabilities | (52,135) | (30,092) |
| Net Assets Unrestricted | 8,944,412 | 8,910,165 |
| Less: Intangible Assets | - | - |
| Tangible Net Assets | <u>\$ 8,944,412</u> | <u>8,910,165</u> |

This information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

NOTE 16: GUARANTEED PAYMENTS

The Institution has an employment agreement effective as of August 1, 1999 with the Institution's former dean, Lawrence R. Velvel. The agreement stipulates that if Mr. Velvel ceases to be Dean of the Institution for any reason whatsoever, unless he has ceased to be Dean because of just cause, he shall have the right to continue to serve on the Institution's full-time faculty as a tenured full professor. As such tenured full professor, he shall receive a salary, fringe benefits, vacation and sick leave equal to his highest compensation as Dean, and shall receive a percentage increase in annual salary each subsequent year for the remainder of the term of this agreement. Mr. Velvel retired from his position as the dean of the Institution as of July 31, 2015, and this employment agreement is now in full effect and runs through July 31, 2020.



David A Levy CPA PC

Certified Public Accountants

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Needham, MA 02492

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND ON OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

(NO MATERIAL WEAKNESSES IDENTIFIED, NO SIGNIFICANT DEFICIENCIES IDENTIFIED, NO REPORTABLE INSTANCES OF NONCOMPLIANCE OR OTHER MATTERS IDENTIFIED)

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Massachusetts School of Law
500 Federal Street
Andover, Massachusetts 01810

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Massachusetts School of Law, which comprise the balance sheet as of July 31, 2019 and 2018 and the related statement of activities and changes in net assets, statements of functional expenses and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated December 6, 2019.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered Massachusetts School of Law's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Massachusetts School of Law's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Massachusetts School of Law's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of Massachusetts School of Law's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Massachusetts School of Law's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the Uniform Guidance.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "David A. Levy CPA PC". The signature is written in a cursive, flowing style.

David A Levy CPA PC
Needham, Massachusetts
December 6, 2019



David A Levy CPA PC
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REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM, ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (UNMODIFIED OPINION ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL OVER COMPLIANCE IDENTIFIED)

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Massachusetts School of Law at Andover, Inc.
d/b/a Massachusetts School of Law
500 Federal Street
Andover, Massachusetts 01810

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Massachusetts School of Law's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on Massachusetts School of Law's major federal program for the year ended July 31, 2019. Massachusetts School of Law's major federal program is identified in the summary of auditor's results section of the schedule of Findings and Questioned Costs.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for Massachusetts School of Law's compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for Massachusetts School of Law's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Massachusetts School of Law's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Massachusetts School of Law's compliance.

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, Massachusetts School of Law complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major programs for the year ended July 31, 2019.

OTHER MATTERS

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on each major federal program is not modified with respect to these matters.

Massachusetts School of Law's response to the noncompliance findings identified in our audit is described in the accompanying corrective action plan and schedule of findings and questioned costs. Massachusetts School of Law's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of Massachusetts School of Law is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered Massachusetts School of Law's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Massachusetts School of Law's, internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a compliance requirement applicable to SFA programs on a timely basis.

A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a compliance requirement applicable to SFA programs will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance requirements of applicable SFA programs that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

Massachusetts School of Law's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of questioned costs and corrective action plan. Massachusetts School of Law's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

PURPOSE OF REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "David A. Levy CPA PC". The signature is written in a cursive, flowing style.

David A Levy CPA PC
Needham, Massachusetts
December 6, 2019

**MASSACHUSETTS SCHOOL OF LAW
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR PERIOD ENDED JULY 31, 2019**

| <u>Federal Grantor</u> | <u>Federal CFDA Number</u> | <u>Federal Expenditures</u> |
|--|-----------------------------------|------------------------------------|
| U.S Department of Education: | | |
| <u>Student Financial Assistance Cluster</u> | | |
| Federal Direct Student Loans | 84.268 | \$ 5,618,297 |
| <u>Total Student Financial Assistance Cluster</u> | | \$ 5,618,297 |
| Total Expenditures of U.S. Department of Education | | \$ 5,618,297 |
| Total Expenditure of Federal Awards | | <u>\$ 5,618,297</u> |

**MASSACHUSETTS SCHOOL OF LAW
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR PERIOD ENDED JULY 31, 2019**

PURPOSE OF SCHEDULE

Office of Management and Budget Uniform Guidance requires a schedule of Expenditures of Federal awards showing total expenditures for each federal award program as identified in the Catalog of Federal Domestic Assistance (CFDA).

SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity-The accompanying schedule includes all federal award programs for the fiscal year ended July 31, 2019. The reporting entity is defined in Notes to Financial Statements as of July 31, 2019.

B. Basis of presentation-The information in the accompanying schedule of expenditures of federal awards is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulation* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Massachusetts School of Law, it is not intended to and does not present the financial position, changes in net assets or cash flows of Massachusetts School of Law.

1. Pursuant to the Uniform Guidance, federal awards are defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance or direct appropriations.

2. Major Programs- The Uniform Guidance establishes the levels of expenditure or expenses to be used in defining major federal financial award programs. Major programs for the school have been identified in the attached Schedule of Findings and Questioned costs.

C. Basis of Accounting-The information presented in the schedule of expenditures of federal awards is presented on the accrual basis of accounting, which is consistent with the reporting in the Institution's financial statements.

D. Indirect Cost Rate - The school has elected not to use the 10 percent de minimis indirect cost rate allowed under Uniform Guidance.

E. Subrecipients – There were no funds passed through to subrecipients.

**MASSACHUSETTS SCHOOL OF LAW
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR PERIOD ENDED JULY 31, 2019**

I. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified _____ Yes X No
- Significant weaknesses identified _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal awards

Internal control over major program:

- Material weaknesses identified? _____ Yes X No
- Significant deficiencies identified? _____ Yes X None Reported

Type of auditor's report issued on compliance for major program: Unmodified

- Any Audit Findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? _____ Yes X No

Identification of major programs

| | |
|--------------------|--------------------------------|
| <u>CFDA Number</u> | <u>Name of Federal Program</u> |
| 84.268 | Federal Direct Loan Program |

Dollar Threshold used to distinguish between
Type A and Type B programs \$750,000

Auditee qualified as low-risk auditee? Yes

II. FINANCIAL STATEMENT FINDINGS

A. Internal control- None

B. Compliance Findings- None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

A. Internal Control-No

B. Compliance Findings- No

**MASSACHUSETTS SCHOOL OF LAW
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE ONE YEAR PERIOD ENDED JULY 31, 2019**

CURRENT AUDIT

Finding 2019-001: NSLDS Status Reporting Error

Criteria : In accordance with 34 CFR 682.610 (c), Institutions are to report the enrollment status of students who received Title IV aid to NSLDS. This enrollment information is updated in NSLDS and, as appropriate, is reported to guarantors, lenders, and servicers of federal student loans. A student's enrollment status determines eligibility for in-school status, deferment and grace periods as well as for the Department's payment of interest subsidies to loan holders. SSCR/Enrollment Reporting is not only critical for effective administration of the Title IV student loan programs, but is also required so that the Department can engage in budgetary and policy analysis.

Description : In 3 instances out of 79 files reviewed, of which NSLDS data for 37 students was reviewed, the students' enrollment status changes were not reported to NSLDS in a correct manner. In each instance the effective date of the withdrawal was reported incorrectly as shown below:

| NSLDS Reporting Error | | | | |
|-----------------------------|-----------|-------------------------------|------------------|--------------|
| Student Sample Number | Status | Official | Date Reported to | Reported |
| | | Graduation/ Withdrawn Date | NSLDS | Incorrectly? |
| 64 | Withdrawn | 9/11/2018 | 12/1/2018 | Yes |
| 66 | Withdrawn | 5/24/2019 | 8/20/2019 | Yes |
| 76 | Withdrawn | 5/24/2019 | 5/24/2018 | Yes |

| Questioned Costs | | No. of Students | FDLP | Total |
|-----------------------------|--|-----------------|---------|-----------|
| | | Universe | 596 | 5,618,301 |
| Sample Size | | 37 | 602,160 | 602,160 |
| Instances of Non Compliance | | 3 | 34,791 | 34,791 |
| Level of Materiality | | Material | | |

Cause : The Institution did not have the administrative capabilities to ensure that NSLDS enrollment reporting was consistently submitted correctly.

Effect : The USDOE does not have timely and accurate information pertaining to student's enrollment status which can affect loan deferments among other things.

Recommendation : We recommend that the Institution enact stronger controls to ensure that all future enrollment reporting is submitted both correctly and timely.

ENTITY'S RESPONSE TO NONCOMPLIANCE FINDINGS AND INTERNAL CONTROL OVER COMPLIANCE FINDINGS

Massachusetts School of Law's responses to the findings identified in our audit are addressed in the accompanying corrective action plan.

MASSACHUSETTS SCHOOL OF LAW
AUDITOR'S COMMENTS ON RESOLUTION MATTERS RELATING TO THE SFA PROGRAM

The office of David A Levy CPA PC performed the Student Financial Aid Audit for the year ended July 31, 2018. There were no instances of noncompliance noted within the sample population.

**MASSACHUSETTS SCHOOL OF LAW
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**CORRECTIVE ACTION PLAN
FOR THE FISCAL YEAR ENDED JULY 31, 2019**

Audit Firm: David A Levy CPA PC

Audit Period: August 1, 2018 - July 31, 2019

Signed Corrective Action Plan from the Institution is attached via the eZ-Audit system under a separate attachment.