MINISTRY OF TRAINING, COLLEGES AND UNIVERSITIES

Private Career Colleges Act, 2005

FACT SHEET #4B

TRAINING COMPLETION ASSURANCE FUND: PREMIUMS

September 30, 2010

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1. WHAT IS THE TRAINING COMPLETION ASSURANCE FUND?

The Training Completion Assurance Fund (TCAF) is a provision of the *Private Career Colleges Act, 2005* (PCCA). TCAF is administered by the Superintendent of Private Career Colleges (Superintendent). The TCAF Advisory Board is appointed by the Minister of Training, Colleges and Universities to provide advice to the Superintendent in administering TCAF.

In accordance with the PCCA, private career colleges (PCCs) are required to provide the Superintendent with a prescribed amount of financial security in a prescribed form. In addition, PCCs are required to pay premiums into the TCAF.

In the event a PCC closes, the PCC's financial security will be used to provide students with training completions or refunds. Once the PCC's financial security has been exhausted, outstanding student claims will be paid out by the TCAF.

Participation in the TCAF is mandatory for all registered PCCs with the exemption of PCCs that are part of the "Segregated risk category." The Segregated risk category applies to PCCs that earn more than $25M in annual gross vocational revenue. These PCCs are not required to pay premiums into TCAF but post $3M in financial security.

This Fact Sheet provides further information on the TCAF premium requirements. For further information on the financial security requirements of a PCC, please refer to *Fact Sheet #4A: TCAF: Financial Security*.

2. WHAT PREMIUMS WILL I HAVE TO PAY?

For each year of registration under the PCCA, you will be required to pay TCAF premiums. You will not be asked to calculate these premiums; the calculation of premiums will be done by the Ministry. You will receive an invoice informing you of how much your premium is, how it is calculated and when it must be paid.

PCCs interested in estimating their own premiums can do so by understanding the various premium formulas. The following types of premiums are explained in this Fact Sheet:

- Initial Annual Premiums
- Annual Premiums and Founding Surcharges
- Premium Surcharges
- Levies

2.1 Initial Annual Premiums

Every PCC that registers for the first time under the PCCA will be required to pay two years worth of initial annual premiums. The initial annual premium is equal to 0.875% of the college's annual gross revenue from vocational programs.

New PCCs are required to provide forecasted, financial statements in their application to register with the Superintendent. The vocational revenue forecasted in these statements is used to determine the PCC's initial annual premiums for the first registration period.

For subsequent renewals of registration, PCCs are required to submit audited annual financial statements. The actual vocational revenue reported in the annual financial statements is used to calculate initial annual premiums for the second period of registration.

Vocational revenue refers to all fees collected from students with respect to the vocational program, including, but not limited to: tuition fees, book fees, expendable supplies, uniforms and equipment, major equipment, field trips, professional/exam fees, other compulsory fees, international student fees and optional fees.

Example 1

ABC Hairstyling College registered as a PCC on June 10, 2010. In its application for registration, ABC Hairstyling College included forecasted financial statements for the year ending June 30, 2011. Tuition revenue from its only vocational program, hairstyling, was forecasted at $200,000. ABC Hairstyling College forecasted an additional $50,000 of revenue would be earned from hairstyling kits and uniforms sold by the PCC to its students.

ABC Hairstyling College's registration expires on February 25, 2012, 626 days after its registration start date.

To determine ABC Hairstyling College's TCAF Premiums:

1. Determine the forecasted vocational revenue.
   $200,000 + $50,000 = $250,000

2. Multiply forecasted vocational revenue by 0.875%
   $250,000 x 0.875% = $2,187.50.

3. Prorate the premium for the registration period.
   $2,187.20 / 365 days x 626 = **$3,751.71**

2.2 Annual Premiums and Founding Surcharges

Annual premiums take effect after the first 24 months of registration. The premium is based on the risk presented to TCAF by the PCC and is calculated in the following manner:

<table>
<tr><th>Risk Level</th><th>Equifax Credit Rating</th><th>Premium %</th><th rowspan="4">X</th><th rowspan="4">Highest Monthly Prepaid Unearned Revenue</th></tr>
<tr><td>Low</td><td>452+</td><td>0.75%</td></tr>
<tr><td>Medium</td><td>376-451</td><td>1.00%</td></tr>
<tr><td>High</td><td>101-375
OR no CDS score available</td><td>1.25%</td></tr>
</table>

The minimum annual premium is $500.

As noted above, the Annual Premium formula is based on two factors: the **Equifax credit ratings** of the PCC and the **highest monthly balance of prepaid unearned revenue**.

2.2.1 Equifax Credit Ratings

For the purposes of determining a PCC's annual premiums, the Ministry obtains credit ratings directly from Equifax on a quarterly basis. The Cumulative Delinquency Score (CDS) of all Ontario businesses rated by Equifax have been divided into 3 categories for high, medium and low risk. The current CDS ranges are noted in the table above. As per O. Reg. 414/06, if no credit rating is available, the PCC will automatically be placed in the "high risk" category.

PCCs may want to consider obtaining their CDS from Equifax annually to ensure they are available and accurate prior to the invoicing of TCAF premiums. This will be your opportunity to verify information and address any unresolved issues directly with Equifax. See **Appendix A** for a schedule of PCC fiscal year ends and the corresponding dates at which CDS scores will be obtained for TCAF premiums.

To obtain a CDS, you can order your Enhanced Commercial Credit Report from the Equifax website: https://www.equifax.ca/CommercialInfo/Home.asp or by contacting customer service at 1-877-227-8800.

2.2.2 Understanding Prepaid Unearned Revenue

On an annual basis, registered PCCs are required to apply for renewal of their registration. This application must include a review engagement or audited annual financial statements (as specified by the Ministry) as well as an **audited monthly schedule of prepaid unearned revenue (PUR)**.

Beginning in 2011, *all PCCs* will be required to provide audited annual financial statements, audited monthly schedule of prepaid unearned revenue (PUR) and an audited schedule of revenue by funding source.

The monthly schedule of PUR must be provided in a management schedule, separate from the annual financial statements. After the first period of registration, data from this schedule is used to determine both financial security and TCAF premium requirements.

For each month-end in its fiscal year, a PCC must calculate the amount of fees collected with respect to vocational programs that have *not* been earned. Fees are considered “earned” to the extent that the goods or services have been delivered. If goods or services have been partially delivered, a portion of the fees may be considered earned.

In determining when revenue is earned, PCCs must follow their own established revenue recognition policy in accordance with generally accepted accounting principles. If a PCC does not have such a policy in place, it should recognize revenues from a vocational program on a prorated basis over the duration of the program.

Other Considerations

- The PUR schedule should not include fees collected from third-party funded students. For a definition of third-party funded students, please refer to *Superintendent's Policy Directive #1: Exemption of Vocational Programs Funded by a Third-Party*.

- Only collected amounts should be recorded as part of the prepaid unearned vocational revenue account balance. Payments which have not been received should not be included in the prepaid, unearned balance.

- Fees are not considered earned simply because they are non-refundable. They are earned to the extent that the goods or services have been delivered.

- Unearned fees from international students are to be included in the monthly unearned revenue schedule, whether or not they are held in a trust account.

- PCCs shall not offset their prepaid unearned vocational revenue account balance with their accounts receivable, unless it is related to the same student.

By collecting fees on a regular basis (ie: monthly as opposed to annually), and/or by collecting fees after services have been delivered, PCCs can maintain low prepaid unearned revenue balances and minimize their TCAF premiums.

Example – Calculating PUR

ABC Esthetics College delivers a three month vocational program to just one student. The $6,000 tuition fee is collected from the student on January 30, 2010. The program starts February 1, 2010, and ends April 30, 2010.

The student pays an additional $1,000 for books and a tool kit on the first day of class. As the books and tool kit are provided to the student immediately, there is no PUR with respect to these items.

ABC Esthetics College had no other students for this year.

ABC Esthetics College
Monthly Prepaid Unearned Vocational Revenue
Fiscal Year ended December 31, 2010

MONTH	PREPAID UNEARNED VOCATIONAL REVENUE
January 30, 2010	6,000
February 28, 2010	4,000
March 31, 2010	2,000
April 30, 2010	0
May 31, 2010	0
June 30, 2010	0
July 31, 2010	0
August 31, 2010	0
September 30, 2010	0

October 31, 2010	0
November 30, 2010	0
December 31, 2010	0

The highest monthly balance of PUR is $6,000.

2.2.3 Founding Surcharges

Per O. Reg. 414/06, PCCs paying the annual premium will also be required to pay an additional **founding surcharge**, until TCAF reaches its fund target of 3% of gross sector revenues. This approach ensures that TCAF receives additional monies when it is below its target and that PCCs automatically receive a premium discount when the target has been reached.

Founding surcharges are calculated by multiplying the annual premium calculation by six. Unlike the annual premium, there is no minimum for the founding surcharge. Accordingly, a PCC with no prepaid unearned revenue balances would have no founding surcharges.

Note: The founding surcharge is not applied until a PCC has paid 24 months of the initial annual premiums.

2.2.4 Calculating Annual Premiums and Founding Surcharges

The following three examples illustrate how annual premiums and founding surcharges are calculated for PCCs:

Example 1

ABC Hairstyling College has a Cumulative Delinquency Score (CDS) of 400. The highest monthly prepaid unearned revenue account balance is $10,000. To determine the PCC's total premium:

1. Determine the premium rate based on the CDS.
   400 CDS = Medium Risk = 1%

2. Multiply the highest monthly prepaid unearned revenue by the premium rate.
   $10,000 x 1% = $100

3. Annual premium is the greater of $500 or the calculation above.
   $500 > $100, so annual premium = $500

4. Calculate the founding surcharge by multiplying annual premium calculation by 6.
   $100 X 6 = $600

5. Calculate total premium (annual premium + founding surcharge)
   $500 + $600 = $1,100

Example 2

ABC Hairstyling College has a Cumulative Delinquency Score (CDS) of 400. The highest monthly prepaid unearned revenue account balance is $50,000. To determine the PCC's total premium:

1. Determine the premium rate based on the CDS.
   400 CDS = Medium Risk = 1%

2. Multiply the highest monthly prepaid unearned revenue by the premium rate.
   $50,000 x 1% = $500

3. Annual premium is the greater of $500 or the calculation above.
   Annual premium = $500

4. Calculate the founding surcharge by multiplying annual premium calculation by 6.
   $500 X 6 = $3,000

5. Calculate total premium (annual premium + founding surcharge)
   $500 + $3,000 = $3,500

Example 3

ABC Hairstyling College has a Cumulative Delinquency Score (CDS) of 400. The highest monthly prepaid unearned revenue account balance is $500,000. To determine the PCC's total premium:

1. Determine the premium rate based on the CDS.
   400 CDS = Medium Risk = 1%

2. Multiply the highest monthly prepaid unearned revenue by the premium rate.
   $500,000 x 1% = $5,000

3. Annual premium is the greater of $500 or the calculation above.
   $500 < $5,000, so annual premium is $5,000

4. Calculate the founding surcharge by multiplying annual premium calculation by 6.
   $5,000 X 6 = $30,000

5. Calculate total premium (annual premium + founding surcharge)
   $5,000 + $30,000 = $35,000

2.3 Levies

Paid only if fund needs to be replenished immediately.

The Superintendent can establish extraordinary levies if the fund is inadequate to meet claims. Before a levy is imposed, the Superintendent must consult with the TCAF Advisory Board on any levy and consider the impact of the levy on the PCC sector. These levies would be charged in-year, independent from other TCAF premiums or surcharges due for that year. To minimize the impact on PCCs, these levies cannot exceed .875% of PCC's revenues from vocational programs.

3. PCCS WITH REVENUE FROM VOCATIONAL PROGRAMS IN EXCESS OF $25M

PCCs with gross annual revenue from vocational programs that exceed $25M are placed in a **segregated risk category**. Such PCCs are not required to pay TCAF premiums. Instead, they are required to provide financial security of $3M.

In the event a PCC in the segregated risk category ceases to operate, its students will only be compensated out of the $3M financial security provided by the PCC. TCAF monies will not be used to provide additional compensation to these students.

Should the gross annual vocational revenues of a segregated risk PCC fall below $20M, the PCC must leave the segregated risk category. The PCC will once again be required to pay TCAF premiums and provide financial security in accordance with the prescribed calculations above.

4. PCC ACCOUNTING PRACTICES

On an annual basis, registered PCCs are required to apply for renewal of their registration. The deadline for renewal is 6 months after the fiscal year-end of your PCC. At each fiscal year-end, the Ministry will send you a *Notice of Renewal* as well as *Guidelines for Renewal of Registration*. These documents will remind you of your upcoming renewal and will inform you of the reporting requirements for your renewal application.

Once a PCC's registration has been renewed, they will be invoiced for their TCAF premiums. Refer to **Appendix A** for a schedule of PCC fiscal year-ends and the corresponding deadlines.

For further information regarding the renewal application, refer to the most recent *Guidelines for Renewal of Registration*.

APPENDIX A
PCC Renewal Deadlines

My Fiscal Year-end is:	My Renewal Application is due:	My Next Registration Period will start:	My Equifax Credit Rating will be obtained by:
January 31, 2010	July 30, 2010	September 29, 2010	September 10, 2010
February 28, 2010	August 27, 2010	October 27, 2010	September 10, 2010
March 31, 2010	September 27, 2010	November 27, 2010	December 10, 2010
April 30, 2010	October 27, 2010	December 27, 2010	December 10, 2010
May 31, 2010	November 27, 2010	January 27, 2011	December 10, 2010
June 30, 2010	December 27, 2010	February 26, 2011	March 10, 2011
July 31, 2010	January 27, 2011	March 29, 2011	March 10, 2011
August 31, 2010	February 27, 2011	April 29, 2011	March 10, 2011
September 30, 2010	March 29, 2011	May 29, 2011	June 10, 2011
October 31, 2010	April 29, 2011	June 29, 2011	June 10, 2011
November 30, 2010	May 29, 2011	July 29, 2011	June 10, 2011
December 31, 2010	June 29, 2011	August 29, 2011	September 10, 2011

This document is provided for your information and convenience only. It is not a legal document. For further information and the exact wording of legislative provisions please refer to the *Private Career Colleges Act, 2005* and regulations.

Need More Information?

For further information on the requirements of the *Private Career Colleges Act, 2005* contact the Ministry of Training, Colleges and Universities at:

Private Career Colleges Branch
Ministry of Training, Colleges and Universities
9th Floor Mowat Block
900 Bay Street
Toronto, ON M7A1L2

Telephone: (416) 314-0500 or 1-866-330-3395
Fax: (416) 314-0499, Email: pcc@ontario.ca

OR

Visit our website at: www.edu.gov.on.ca/eng/general/private.html

The full text of the act and regulations can also be downloaded from the Ontario government E-Laws website at:
www.e-laws.gov.on.ca