INSTRUCTIONS FOR REPORTING OUTSTANDING LIABILITIES

INSTRUCTIONS TO PROVIDERS OF HEALTH CLUB SERVICES AND THEIR CERTIFIED PUBLIC ACCOUNTANTS CONCERNING THE REQUIRED REPORT ON OUTSTANDING LIABILITIES TO MEMBERS AND CPA’S REPORT

PART ONE:  STEP BY STEP GUIDE TO REPORTING A HEALTH CLUB FACILITY’S “OUTSTANDING LIABILITIES”

IS THE FACILITY REQUIRED TO PROVIDE SECURITY FOR ITS OUTSTANDING LIABILITIES?  WHAT ARE OUTSTANDING LIABILITIES?

A facility that provides health club services must provide the Consumer Protection Division with security in the form of a bond, letter of credit, or cash deposit, if any one of its members:

• is required to pay (or the facility collects) payment for more than three months of services in advance,
• pays more than $200 as an initiation fee, OR
• pays an annual fee or special fee* of any type.

Md. Code Ann., Com. Law, §14-12B-02(e)(1) defines “outstanding liabilities” as:

all amounts that would be required to be refunded to members if the health club facility ceases operations, including all prepaid fees, membership fees, dues, deposits, initiation fees, and fees for health club services actually received in advance from the members less the prorated value of services rendered by the health club facility. In the case of a lifetime contract, the liabilities shall be calculated on a prorated basis for not more than 36 months.

The health club service facility’s outstanding liability is the amount of the outstanding liabilities of all members of that facility. The outstanding liability for members who do not pay monthly is the sum of the amounts received by the facility from the member or on the member’s behalf minus the value of services that have already been provided to the member. The outstanding liability for members who pay monthly is one full month’s fee to cover the liability if the facility closes at any time during the month.

Initiation fees include any fee that is paid up front or at the beginning of the contract and that is not for specific future services. Initiation fees of more than $200 are included in outstanding liabilities. Initiation fees of $200 or less, and payments for goods received (such as uniforms or equipment) are excluded from outstanding liabilities.

*Special fees include any fee that is paid for services greater than three months (example: personal training) or fees not included in general membership fee (example: facility enhancement, rate guarantee, etc.)
Bonds for Pre-Opening Sales: The information contained in these instructions and forms are for existing facilities to report on their liabilities to existing members. If a facility has not yet opened and is selling pre-opening memberships, the facility is required by law to provide a pre-opening bond. Call the Health Club Unit Administrator at 410-576-6350 for instructions and forms.

All forms and instructions are available on the Health Club Registration Unit’s Website at http://www.oag.state.md.us/Healthclub/index.htm. You may also call the Unit for forms, instructions and for answers to questions at 410-576-6350.

IF THE FACILITY IS REQUIRED TO PROVIDE SECURITY, IT MUST TAKE THE FOLLOWING STEPS:

1. Complete the form for NON-MONTHLY PAY MEMBERS. This form is used to report the facility’s outstanding liabilities for all members who meet either of the following criteria:

   (1) a member who is required by his or her contract to pay more than one month in advance for health club services; OR

   (2) a member who actually paid more than one month in advance for health club services, even if not required by the contract.

2. Complete the form for MONTHLY PAY MEMBERS. This form is used for the facility to report its outstanding liabilities for any member who meets the following criteria:

   (1) the member pays for health club services by paying on a monthly basis in advance; AND

   (2) the facility never collects more than one month of payment in advance.
STEP 3:

Complete the form for **ANNUAL FEES AND SPECIAL FEES COLLECTED**. This form is used for the facility to report its outstanding liabilities for any member who meets the following criteria:

1. the member is charged a fee that is not a monthly membership fee,
2. the member is charged a fee that is not a one time initiation fee of $200 or less,
3. the member is charged a fee that is not an advance payment of monthly dues, OR
4. the member is charged a fee that is not a fee for services that expire in less than 90 days.

STEP 4:

ADD THE MONTHLY PAY MEMBERS, NON-MONTHLY PAY MEMBERS AND THE ANNUAL FEES AND SPECIAL FEES TOGETHER. This is the **Aggregate Total Outstanding Liability** that must be reported on the Schedule of Outstanding Liabilities and on the CPA’s Report. See PART TWO below for the forms and instructions to complete the Schedule of Outstanding Liabilities.

STEP 5:

AN INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT MUST REVIEW THE SCHEDULE OF OUTSTANDING LIABILITIES AND COMPLETE AND SIGN THE CPA’S CERTIFICATION. The facility’s CPA must review and test the schedule of outstanding liabilities by applying certain accounting procedures. See PART THREE below for specific instructions for CPA’s and the required CPA report form.
STEP 6:

SUBMIT THE SCHEDULE OF OUTSTANDING LIABILITIES AND CPA’S CERTIFICATION WITH YOUR REGISTRATION RENEWAL BY SEPTEMBER FIRST OF EACH REGISTRATION YEAR. You must also ensure that the amount of your bond, letter of credit, or cash deposit is at least equal to the amount of outstanding liabilities you are reporting. See attached required forms for a bond and a letter of credit.

NOTICE: the information contained in the Schedule is considered by the Consumer Protection Division to be confidential commercial and financial information that may not be released to the public pursuant to the Public Information Act, Md. Code Ann., State Govt., §10-617(d). However, such information can and will be used for the purposes of enforcement of the registration and bonding requirements of the Health Club Services Act, which may result in the information being made public if a legal action becomes necessary to enforce the Act.

PART TWO: INSTRUCTIONS FOR PREPARING THE SCHEDULE OF OUTSTANDING LIABILITIES

GENERAL INSTRUCTIONS

Time to File Schedule and CPA Report:
Each facility that is subject to the bonding requirement must provide the schedule of outstanding liabilities and the CPA’s report to the Consumer Protection Division as part of its annual registration by September 1st. (unless the business has elected to post the maximum $200,000 bond per facility).

Date to Prepare Schedule:
The schedule of outstanding liabilities must be prepared within three months prior to filing of the registration application or renewal. The health club services facility, or its CPA, must obtain the necessary information to complete this schedule from any persons or entities that possess the information, including from any person who does billing or accounting on the facility’s behalf.

Format of Schedule:
The title of the schedule shall be “SCHEDULE OF OUTSTANDING LIABILITIES TO MEMBERS OF [NAME OF FACILITY ] PREPARED ON [DATE].” The schedule must be submitted in a form that discloses the information requested in each column of the forms enclosed in this packet. Submitting reports in the form provided in these instructions will expedite review. A printout from the facility’s regular accounting system is acceptable if it provides the required information and is readily understandable.
FORMAT OF SCHEDULE OF OUTSTANDING LIABILITIES

ADD TITLE:

| SCHEDULE OF OUTSTANDING LIABILITIES TO MEMBERS OF [NAME OF FACILITY] |
| PREPARED ON [DATE, for example, July 1, 2004]. |

**STEP 1**

OUTSTANDING LIABILITIES FOR NON-MONTHLY PAY MEMBERS

[Use this form to report outstanding liabilities for members who meet following criteria: (1) a member who is required by his or her contract to pay more than one month in advance for health club services; OR, (2) a member who actually paid more than one month in advance for health club services, even if not required to do so by the contract.]

<table>
<thead>
<tr>
<th>TEST BY CPA</th>
<th>MEMBER</th>
<th>BEGIN DATE OF CURRENT CONTRACT</th>
<th>END DATE OF CURRENT CONTRACT</th>
<th>CONTRACT PRICE</th>
<th>PAYMENTS RECEIVED</th>
<th>VALUE OF SERVICES RENDERED</th>
<th>OUTSTANDING LIABILITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓</td>
<td>Susy Sally Smith 9998 Walkway This town, MD 23232 Account No. 997</td>
<td>1/1/04</td>
<td>12/31/04</td>
<td>800</td>
<td>[excludes $200 initiation fee; $50/mo. x 12 mo. = $600 for services]</td>
<td>450 [9 mo. x $50/mo. for services = $450; excludes the $200 initiation fee paid.]</td>
<td>300 [(contract price/mo. = $50) x (mo. services rendered = 6)]</td>
</tr>
<tr>
<td></td>
<td>Jasmine Jones 2445 Roadway There, MD 21435 Account No. 998</td>
<td>2/1/02</td>
<td>1/31/05</td>
<td>2100</td>
<td>[includes $300 initiation fee + $1800 for lifetime membership]</td>
<td>1500 [includes $300 initiation fee + 1200 paid towards membership]</td>
<td>291.67 [(mo. services rendered = 5) x (contract price/mo. = 2100 divided by 36 = 58.33) = 291.67]</td>
</tr>
<tr>
<td>✓</td>
<td>Adam Smith 8765 Thisway Here, MD 23213 Account No. 6354</td>
<td>2/1/04</td>
<td>1/31/06</td>
<td>1200</td>
<td>[excludes the $100 initiation fee; $50/mo. x 24 mo. = $1200 for services]</td>
<td>1200</td>
<td>250.00 [(contract price/mo. = $50) x (mo. of services rendered = 5)]</td>
</tr>
</tbody>
</table>

**TOTAL OUTSTANDING LIABILITY OF NON-MONTHLY PAY MEMBERS** $2,308.33
## OUTSTANDING LIABILITIES FOR MONTHLY PAY MEMBERS

[Use this form to report outstanding liabilities for any member who meets the following criteria: (1) the member pays for health club services by paying on a monthly basis in advance; AND (2) the facility never collects more than one month payment in advance.]

<table>
<thead>
<tr>
<th>Test by CPA</th>
<th>Name</th>
<th>Address</th>
<th>Telephone</th>
<th>Identifying #</th>
<th>Begin Date of Current Contract</th>
<th>End Date of Current Contract</th>
<th>Amount of Monthly Payment Due</th>
<th>Initiation Fee Collected (includes all up front payments not for specific future services)</th>
<th>Liability for Initiation Fee (Contract term divided by months in contract, multiplied by months remaining in contract. For month to month renewable contracts or contracts for a term of more than 24 months, use 24 months as the contract term.)</th>
<th>Outstanding Liability (Monthly Payment Due + Outstanding Liability on Initiation Fee, if any)</th>
</tr>
</thead>
<tbody>
<tr>
<td>✔</td>
<td>John Jones</td>
<td>123 Street Ave.</td>
<td>A City, MD 2111</td>
<td>4356</td>
<td>1/1/04</td>
<td>1/31/04 (renews monthly)</td>
<td>$45</td>
<td>$100</td>
<td>$0 [initiation fees not more than $200 are not counted in outstanding liabilities]</td>
<td>$45</td>
</tr>
<tr>
<td>✔</td>
<td>Sam Man</td>
<td>848 Run Street</td>
<td>Suburb, MD 24567</td>
<td>9987</td>
<td>1/1/04</td>
<td>1/1/07 [end date of life time contracts are 3 years after begin date]</td>
<td>$75</td>
<td>$150</td>
<td>$0</td>
<td>$75</td>
</tr>
<tr>
<td>✔</td>
<td>Ben Jones</td>
<td>152 Fast Lane</td>
<td>Speed, MD 24458</td>
<td>9521</td>
<td>1/1/04</td>
<td>1/1/07 [end date of life time contracts are three years after begin date]</td>
<td>$50</td>
<td>$400</td>
<td>$300.06 [initiation fees for lifetime contracts are calculated over 24 months, so, the initiation fee is divided by 24: $400 / 24 = $16.67/mo. Of the 24 month initiation fee calculation term, 6 have been used through date of report and 18 remain. 18 mo. x $16.67/mo. = $300.06 liability for initiation fee].</td>
<td>350.06 (initiation fee liability of $300.06 +$50 for one month's dues)</td>
</tr>
</tbody>
</table>

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Instructions for Reporting Outstanding Liabilities
Revised 7/23/09
**OUTSTANDING LIABILITIES FOR MONTHLY PAY MEMBERS**

[Use this form to report outstanding liabilities for any member who meets the following criteria:

1. the member pays for health club services by paying on a monthly basis in advance; AND
2. the facility never collects more than one month payment in advance.]

<table>
<thead>
<tr>
<th>Test by CPA</th>
<th>Name Address Telephone Identifying #</th>
<th>Begin Date of Current Contract</th>
<th>End Date of Current Contract</th>
<th>Amount of Monthly Payment Due</th>
<th>Initiation Fee Collected (includes all up front payments not for specific future services)</th>
<th>Liability for Initiation Fee (Contract term divided by months in contract, multiplied by months remaining in contract. For month to month renewable contracts or contracts for a term of more than 24 months, use 24 months as the contract term).</th>
<th>Outstanding Liability (Monthly Payment Due + Outstanding Liability on Initiation Fee, if any)</th>
</tr>
</thead>
<tbody>
<tr>
<td>✔</td>
<td>[example of a renewable month to month contract, with a $600 initiation fee] John James 345 Street Ave. A City, MD 21111 Account No. 4356</td>
<td>1/1/04</td>
<td>1/31/04 (renews monthly)</td>
<td>$45</td>
<td>$600</td>
<td>$450 [renewable monthly contracts are treated as 24 mo. contracts, so, the initiation fee is divided by 24: $600 / 24 = $25/mo. Of the 24 month contract term, 6 have been used through date of report and 18 remain. 18 mo. x $25/mo. = $450 liability for initiation fee].</td>
<td>$495 ($initiation fee liability of $450 + $45 for one month's dues)</td>
</tr>
<tr>
<td></td>
<td>[example of a one year contract payable monthly with a $1200 initiation fee] Suse Sally Smith 9998 Walkway This Town, MD 23232 Account No. 99998</td>
<td>1/1/04</td>
<td>12/31/04 (one year term)</td>
<td>$50</td>
<td>$1200</td>
<td>$600 ($1200 initiation fee divided by 12 months in contract = $100/month. This contract is 12 months, 6 have been used through month report was prepared in, so 6 months remain. 6 months x $100/mo. = $600 outstanding liability for initiation fee.]</td>
<td>$650 ($50 + $600)</td>
</tr>
</tbody>
</table>

**TOTAL OUTSTANDING LIABILITIES FOR MONTHLY PAY MEMBERS** $1615.06
**STEP 3**

**OUTSTANDING LIABILITIES FOR ANNUAL FEE OR OTHER SPECIAL FEE.**

Use this form to report outstanding liabilities for any member who pays an annual fee or special fee for services.

<table>
<thead>
<tr>
<th>Test by CPA</th>
<th>Name</th>
<th>Date of Payment</th>
<th>Amount of Payment</th>
<th>Outstanding Liability “Annual Fee Collected”</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| ✔           | 1. example of an annual fee - [a $10 “Annual Rate Guarantee Fee”]
             | Suse Sally Smith
             | 9998 Walkway
             | This Town, MD 23232
             | Account No. 99998
             | Jan 1st          | $10              | $10                                          |
| OR          | 2. example of a special fee - [a $10 “Club Enhancement Fee”]
             | Ben Jones
             | 152 Fast Lane
             | Speed, MD
             | Account No. 9521
             | Jan 1st          | $10              | $10                                          |

TOTAL = 650 Members Who Pay Annual Fee or Special Fee

All payments made Jan 1st of each year

$6,500

**TOTAL OUTSTANDING LIABILITIES FOR ANNUAL PAY MEMBERS**

$6,500

**STEP 4**

**ADD ALL LIABILITIES TOGETHER FOR A TOTAL:**

<table>
<thead>
<tr>
<th>AGGREGATE OUTSTANDING LIABILITIES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>NON MONTHLY PAY MEMBERS</td>
<td>$2,308.33</td>
</tr>
<tr>
<td>MONTHLY PAY MEMBERS</td>
<td>$1,615.06</td>
</tr>
<tr>
<td>ANNUAL FEE MEMBERS</td>
<td>$6,500.00</td>
</tr>
<tr>
<td><strong>TOTAL AGGREGATE OUTSTANDING LIABILITIES</strong></td>
<td><strong>$ 10,423.39</strong></td>
</tr>
</tbody>
</table>
PART THREE: INSTRUCTIONS FOR THE SCHEDULE OF OUTSTANDING LIABILITIES

STEP 1 INSTRUCTIONS:

COMPLETING THE FORM FOR NON-MONTHLY PAY MEMBERS

The facility must report its outstanding liabilities for members on the NON-MONTHLY PAY MEMBERS form for any member who meets either of the following criteria:

(1) a member who is required by his or her contract to pay more than one month in advance for health club services; OR

(2) a member who actually paid more than one month in advance for health club services, even if not required to do so by the contract.

The following information must be reported for each membership on the schedule of outstanding liabilities.

TESTED BY CPA: This column is reserved for the use of the CPA to check off the contracts he or she has tested according to the procedures specified in the CPA’s report.

MEMBER LAST NAME, FIRST NAME, ADDRESS, AND IDENTIFYING NUMBER. If the facility uses a method of identifying the member other than by name, such as a membership number, contract number, or account number, that number must be disclosed along with the name and address of the member.

BEGIN DATE OF CONTRACT. For fixed term or life time contracts, use the beginning date of the current contract in effect on the date the schedule of outstanding liabilities is prepared.

END DATE OF CONTRACT. For fixed term contracts, enter the last date of the term of the contract.

CONTRACT PRICE. Enter the total amount the member is required to pay under the contract. Initiation fees of $200 or less may be excluded from the contract price, but initiation fees of more than $200 must be included in the contract price. Initiation fees include any fee that is paid up front or at the beginning of the contract and that is not for specific future services. Payments for goods, such as uniforms or equipment, may also be excluded from the contract price. All required payments for health club services -- usually called dues or fees -- must be included in the contract price.
PAYMENTS RECEIVED BY FACILITY. Enter the total amount received by the facility from or on behalf of the member, including all payments received from (a) the member, (b) a finance company or credit provider arranged by the member, and (c) a finance company or credit provider arranged by the health club services facility. If initiation fees of $200 or less, or payments for goods and services were excluded from the contract price above, the same fees should be excluded from the payments received as well.

VALUE OF SERVICES RENDERED. The value of services rendered is calculated as follows:

MONTHS OF SERVICES RENDERED. Determine the amount of time during which services have actually been rendered to the member by counting the number of months from the Begin Date of the Contract through the Date of the preparation of the Schedule of Outstanding Liabilities. Example: If the contract began on Feb. 1, and the date of the schedule is July 1, there are five months during which services have been rendered through the date of the schedule. *If months are used as the unit of time, only complete months of services rendered may be used: the months must be rounded down to the number of full months of services rendered.*

CONTRACT PRICE PER MONTH. Determine the contract price per month by taking the total contract price and dividing it by the number of months between the contract Begin Date and End Date. Example: If the total contract price was $600, and there were 12 months in the contract period from beginning to end, the contract price per month would be $50.

VALUE OF SERVICES RENDERED. The contract price per month multiplied by the months of services rendered equals the dollar value of services rendered. Example: 5 months of services rendered multiplied by $50 per month equals $250 of services rendered.

OUTSTANDING LIABILITY. The outstanding liability is the difference between the amount the member paid and the value of services provided to the member. This is calculated by subtracting the VALUE OF SERVICES RENDERED from the total PAYMENTS RECEIVED BY FACILITY.

**STEP 2 INSTRUCTIONS:**

COMPLETING THE FORM FOR MONTHLY PAY MEMBERS

The facility must report its outstanding liabilities on the MONTHLY PAY MEMBERS form for any member who meets the following criteria:
(1) the member pays for health club services by paying on a monthly basis in advance; AND

(2) the facility never collects more than one month of payment in advance from the member.

The CPA must test the members entered on the Monthly Pay Members form to ensure that they meet the above eligibility requirements and are accurately reported. See Instructions to CPA enclosed.

Examples of eligible contracts for the Monthly Pay Members form include:

- a month to month renewable contract that is renewed by payment of another month of fees in advance, that may be terminated by one month’s notice;
- a contract for a term of one year (or any other specified time period) that requires the member pay monthly dues in advance for each month of the term; OR
- a lifetime membership that requires the member to pay monthly dues in advance for each month.

The total outstanding liabilities on the Monthly Pay Members form is the sum of one full month's payment plus the prorated amount of any unused portion of an initiation fee that exceeds $200. Since members pay on a monthly basis in advance, and the facility may close at any point during the month that has been paid for, a bonded facility must maintain security for one full month of fees for each member who pays monthly.

**How to Prorate Initiation Fees for Monthly Pay Members.** This is easy if the facility does not collect more than $200 initiation fee from the member – one time initiation fees of $200 or less are not included in outstanding liabilities and no proration need be done. Initiation fees include any fee that is paid up front or at the beginning of the contract and that is not for specific future services.

If the facility collected more than $200 as an initiation fee from any member, the outstanding liability for the initiation fee that must be reported is calculated as follows:

1. Divide the amount of the initiation fee by the term of the contract in months. For example, for a $1,200 initiation fee paid on a one year contract, divide $1,200 by 12 = $100/month. Month to Month Renewable contracts and contracts that are longer than 24 months are considered to be 24 month contracts. A $1,200 initiation fee paid on a month to month renewable, or a 3 year, or a lifetime contract, would be $1,200 divided by 24 = $50/month liability.

2. Multiply the amount of liability per month times the number of months remaining in the contract after the date the Schedule of Outstanding Liabilities is prepared. For example, on the one year contract in paragraph (1) above, if the schedule was prepared at the end of the 5th month, there would be 7 months remaining on the one year contract. 7 months x $100/month = $700 outstanding liability for the initiation fee. For month to month renewable contracts, or contracts with a term greater than 24 months, use 24 months as the total term.
of the contract, and determine the months remaining. For example, on the month to month renewable contract in paragraph (1) above, if the schedule was prepared at the end of the 5th month, there would be 19 months remaining. 19 months x $50/month = $950.00 outstanding liability for the initiation fee.

**STEP 3 INSTRUCTIONS:**

**COMPLETING THE FORM FOR ANNUAL FEE OR FEE FOR SERVICES.**

The facility must report its outstanding liabilities on the Annual Fee form for any member who meets the following criteria:

(1) the member is charged a fee that is not a monthly membership fee;

(2) the member is charged a fee that is not a one time initiation fee under $200;

(3) the member is charged a fee that is not an advance payment of monthly dues; OR

(4) the member is charged a fee that is not a fee for services that expire in less than 90 days.

→ The CPA must test the number of members who pay the fee to ensure that they meet the above eligibility requirements and are accurately reported.

**How to determine the Outstanding Liability for an Annual Fee or Fee for Service.**
The Outstanding Liability for an Annual Fee is the amount of the fee multiplied by the number of members who pay that fee amount.

Examples of contracts containing Annual Fees include:

- charges for facility enhancement; OR
- charges for rate guarantees.

Examples of contracts containing Special Fees include:

- personal training; OR
- special classes (example: kickboxing).

**STEP 4 INSTRUCTIONS:**

**AGGREGATE TOTAL OUTSTANDING LIABILITY.** This is the sum of all individual liabilities, including those reflected on all charts or sub-schedules provided. This amount must be reported on the last page of the schedule and in the CPA’s report.
STEP 5 INSTRUCTIONS:

INSTRUCTIONS TO THE CERTIFIED PUBLIC ACCOUNTANT ON REQUIRED PROCEDURES TO BE PERFORMED AND THE RESULTING REPORT.

The Consumer Protection Division will accept either (1) an audited report, or (2) the following report based on the stated procedures, made by an independent certified public accountant, as meeting the requirements of Md. Code Ann., Com. Law, §14-12B-02(e)(ii). The accounting procedures required for testing the schedule of outstanding liabilities are specified in the report format below. **The schedule(s) of outstanding liabilities must be attached to the CPA’s report when submitted.**

To: [name of health club services facility ]:

Re: Report of Independent Certified Public Accountant on Application of Agreed-Upon Procedures to the Schedule of Outstanding Liabilities to Members of [name of facility] prepared on [date].

We have performed the procedures enumerated below, which are required by the Health Club Registration Unit of the Consumer Protection Division as part of the registration and bonding requirements for health club service facilities under Md. Code Ann., Com. Law §14-12B-01 et seq., solely to assist you in determining the outstanding liabilities and surety bond requirements of [name of facility] prepared on [date].

This engagement to apply agreed upon principles was performed in accordance with standards established by the American Institute of Certified Public Accountants. In performing these procedures, we applied the definitions and instructions provided in the instructions from the Health Club Registration Unit entitled “Instructions for Reporting Outstanding Liabilities.”

The procedures and associated findings are as follows:

1. We obtained from management [or prepared for management based on management’s records] the attached “SCHEDULE OF OUTSTANDING LIABILITIES TO MEMBERS OF [NAME OF CLUB], PREPARED ON [DATE]” (hereinafter referred to as “the schedule”).

2. We mathematically tested the schedule to verify the accuracy of the calculation of outstanding liabilities for each contract and the aggregate value.

We found [no exceptions or, describe exceptions found].
3. We selected a representative sample of _______ [insert number] membership contracts listed on the schedule, which are indicated with a check mark in the “Tested” Column on the schedule. We then obtained the selected original contracts from management, and verified that the information stated in the contract was accurately reported on the schedule.

We found [no exceptions as a result of these procedures or, describe exceptions found].

4. We then obtained from management all records of cash receipts pertaining to the same sample of selected contracts in Procedure No. 3 above, to verify that the total amount paid by the member and other information was accurately reported on the schedule, including any payment of annual or special fees.

For members reported on MONTHLY PAY MEMBERS FORM, we verified that they had not paid, and the business had not collected, more than one month's fee for services in advance. The records of cash receipts tested included records of cash receipts maintained by management and by any billing or accounting agents or contractors of [name of facility]. Included as cash receipts are any payments that were or should have been credited to the member’s contract, including any payments that were received from the member or from a credit provider or financing company that was arranged by either the member or by [name of facility].

We found [no exceptions as a result of these procedures or, describe exceptions found].

5. We selected a representative sample of _______ [insert number] cash receipts, and verified that those cash receipts pertained to a member’s contract that was reported on the schedule and that the cash receipt was included in the amount reported as having been paid by the member. We have attached a list identifying the cash receipts in this representative sample.

We found [no exceptions as a result of these procedures or, describe exceptions found].

As a result of applying the above procedures, the aggregate total outstanding liability of [name of facility] as of [date] as stated on the attached Schedule is $_______________. In connection with the procedures referred to above, no matters came to our attention that caused us to believe that the outstanding liabilities to members of [name of facility] reported herein might require adjustment.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Date:______________

[signature] ____________________  
Certified Public Accountant