

TEXAS WORKFORCE COMMISSION

Career Schools and Colleges

Evidence Necessary to Establish Financial Stability for a New School

NOTES:

1. The financial requirements in *Title 40, Texas Administrative Code, Subchapter C* (Texas Career Schools and Colleges Rules) supercede any information contained on this form.
2. *Texas Education Code, Section 132.055(9)* requires that a school or college be financially sound. The financial condition of the owner of a new school or college is examined to determine this requirement.

The type of school ownership determines the kind of financial statements that must be submitted:

<u>OWNERSHIP</u>	<u>TYPE OF STATEMENTS REQUIRED</u>
a. Sole proprietorship	Individual
b. Partnership	Partnership
c. Corporation	Corporation, or if a subsidiary, statements of either the parent or subsidiary corporation

Specific requirements for each type of ownership are outlined below:

SOLE PROPRIETORSHIP/INDIVIDUAL

A **reviewed** statement of financial position (Balance Sheet) of the owner must be submitted.

The balance sheet must be prepared by a certified public accountant in accordance with Statements on Standards for Accounting and Review Services.

The notes to the reviewed personal balance sheet must disclose the amount of payments for the next five years to meet debt agreements as required by generally accepted accounting principles (GAAP).

The balance sheet must be accompanied by a report of the accountant or accounting firm associated with the statement. Out-of-state accountants must give their state license numbers.

The balance sheet must be submitted within four (4) months of the balance sheet date.

The owner must submit a signed and notarized true and correct statement:

- 1) outlining the expected expenses for the first three months of operation. This includes, but is not limited to, the following expenses:
 - a. salaries, listed by position name and including withholding taxes, unemployment taxes and any other related expenses;
 - b. lease payments for equipment listed by the name of the equipment;
 - c. lease payments for facilities;
 - d. accounting, legal, and professional fees; and
 - e. an estimate of other expenses such as advertising, travel, textbooks, office supplies, classroom supplies, printing, telephone, utilities, taxes, and sales commission.

- 2) giving a projection of the gross amount of tuition and fees to be collected during each of the first two years of operation.
- 3) Identifying the fiscal year end (FYE) that will be used for future financial statements.

NOTE: There must be sufficient cash on the balance sheet to cover these expenses, or you must submit a sworn affidavit affirming the availability of sufficient cash to meet those projected expenses.

NOTE: All persons whose assets are used to establish financial stability for a new school will be considered owners of the school. Each owner must be included on the application, owners' affidavit and assumed name registration.

PARTNERSHIP OR CORPORATION

ONE OF THE FOLLOWING MUST BE SUBMITTED

1. A balance sheet **audited** in accordance with generally accepted auditing standards (GAAS) and in conformance with GAAP, prepared by a certified public accountant.

The balance sheet must be accompanied by a report of the accountant or accounting firm associated with the statement. Out-of-state accountants must give their state license numbers.

The balance sheet must be submitted within four (4) months of the balance sheet date, unless the owner already has a certified school in Texas.

The owner must submit a signed and notarized true and correct statement:

- 1) outlining the expected expenses for the first three months of operation. This includes, but is not limited to, the following expenses:
 - a. salaries, listed by position name and including withholding taxes, unemployment taxes and any other related expenses;
 - b. lease payments for equipment listed by the name of the equipment;
 - c. lease payments for facilities;
 - d. accounting, legal, and professional fees; and
 - e. an estimate of other expenses such as advertising, travel, textbooks, office supplies, classroom supplies, printing, telephone, utilities, taxes, and sales commission.
- 2) giving a projection of the gross amount of tuition and fees to be collected during each of the first two years of operation.
- 3) Identifying the fiscal year end (FYE) that will be used for future financial statements.

NOTE: There must be sufficient cash on the balance sheet to cover these expenses, or you must submit a sworn affidavit affirming the availability of sufficient cash to meet those projected expenses.

OR

2. Financial statements prepared by a certified public accountant for the last fiscal year which have been **audited** in accordance with GAAS and which are in conformance with GAAP. These statements must include the balance sheet, income and expense statement, statement of cash flows, and all notes required by GAAP.

The balance sheet must be accompanied by a report of the accountant or accounting firm associated with the statement. Out-of-state accountants must give their state license numbers.

If more than four (4) months have elapsed since the fiscal year end, a separate balance sheet which has been **compiled** by a certified public accountant must also be submitted, unless the owner already has a certified school in Texas.

The compiled balance sheet must be for the entire partnership or corporation including all divisions. The balance sheet must be submitted within four (4) months of the balance sheet date. At least one note which discloses the current and long-term liabilities similar to those required by GAAP for reviewed and audited statements must accompany the current balance sheet.

The owner must submit a signed and notarized true and correct statement:

- 1) outlining the expected expenses for the first three months of operation. This includes, but is not limited to, the following expenses:
 - a. salaries, listed by position name and including withholding taxes, unemployment taxes and any other related expenses;
 - b. lease payments for equipment listed by the name of the equipment;
 - c. lease payments for facilities;
 - d. accounting, legal, and professional fees; and
 - e. an estimate of other expenses such as advertising, travel, textbooks, office supplies, classroom supplies, printing, telephone, utilities, taxes, and sales commission.
- 2) giving a projection of the gross amount of tuition and fees to be collected during each of the first two years of operation.
- 3) Identifying the fiscal year end (FYE) that will be used for future financial statements.

NOTE: There must be sufficient cash on the balance sheet to cover these expenses, or you must submit a sworn affidavit affirming the availability of sufficient cash to meet those projected expenses.

PARENT CORPORATION WITH A SUBSIDIARY CORPORATION

The **audited** annual financial statements for the parent corporation may be used to establish financial stability for the school if the statements are accompanied by a certified resolution of the parent corporation's board of directors to the effect that the parent corporation assumes full responsibility for ensuring that each student enrolled in the subsidiary school receives either the training agreed upon or a refund as provided in the Texas Career Schools and Colleges Act.

If more than four (4) months have elapsed since the fiscal year end, a separate balance sheet which has been compiled by a certified public accountant must also be submitted, unless the owner already has a certified school in Texas.

The financial statements must be prepared by certified public accountant and must be in accordance with GAAS and in conformance with GAAP. Statements must be for the entire corporation including all divisions.

The financial statement must be accompanied by a report of the accountant or accounting firm associated with the statement. Out-of-state accountants must give their state license numbers.

The owner must submit a signed and notarized true and correct statement:

- 1) outlining the expected expenses for the first three months of operation. This includes, but is not limited to, the following expenses:
 - a. salaries, listed by position name and including withholding taxes, unemployment taxes and any other related expenses;
 - b. lease payments for equipment listed by the name of the equipment;
 - c. lease payments for facilities;
 - d. accounting, legal, and professional fees; and
 - e. an estimate of other expenses such as advertising, travel, textbooks, office supplies, classroom supplies, printing, telephone, utilities, taxes, and sales commission.
- 2) giving a projection of the gross amount of tuition and fees to be collected during each of the first two years of operation.
- 3) Identifying the fiscal year end (FYE) that will be used for future financial statements.

NOTE: There must be sufficient cash on the balance sheet to cover these expenses, or you must submit a sworn affidavit affirming the availability of sufficient cash to meet those projected expenses.

GUIDELINES USED TO DETERMINE FINANCIAL STABILITY

Listed below are the general guidelines used in making a determination regarding the financial stability of a school. Please understand that these guidelines are merely a starting point in our examination. Due to the complex and varied field of accounting, it would be impossible to outline all possible questionable areas that may be revealed in the examination. Be assured that any questionable areas will be brought to your attention and an opportunity provided for explanations prior to any action being taken by this office.

1. The financial statements must be prepared by a certified public accountant properly registered with the appropriate state board of public accountancy.
2. The current ratio must be no less than 1:1. The current ratio is the relationship of current assets to current liabilities. A current liability is one due within twelve (12) months of the date of the balance sheet. To calculate the current ratio, our staff will deduct:
 - a. any unearned tuition from both assets and liabilities, and
 - b. any subscriptions receivable and/or related party receivables in connection with loans to stockholders if the loan has been included in current assets for more than one year from both assets and equity sections of the balance sheet.
3. The stockholders' equity or net worth account must have a positive balance.
4. There cannot be any past due liabilities.
5. The balance sheet must reflect sufficient cash to pay all expenses for the first three months of operation.

6. The balance sheet must reflect that stockholders' equity or net worth exceeds the amount shown for goodwill under the asset section of the balance sheet.
7. All financial statements must be prepared in accordance with GAAP and audited, reviewed or compiled in accordance with GAAS.
8. Cash basis statements are not acceptable. Income tax basis statements are not acceptable unless the income tax basis of accounting is limited to the method of calculating depreciation.
9. A school that maintains a financial responsibility composite score that meets the general standards established in federal regulations by the U.S. Department of Education for postsecondary institutions participating in student financial assistance programs authorized under Title IV of the Higher Education Act of 1965, as amended, shall be considered to have met the standards for financial stability.

Questions should be addressed to:

Texas Workforce Commission
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Career Schools and Colleges, Room 226T
101 East 15th Street
Austin, Texas 78778-0001
(512) 936-3100
or via e-mail at michael.delong@twc.state.tx.us

Texas Administrative Code, Section 807.35 requires that a school submit financial statements at the end of the first fiscal year¹ and annually thereafter. The statements are due not later than 180 days from the close of the school's fiscal year.

¹ The end of the first year of operation is considered to be the end of the first fiscal year during which the institution was licensed as a career school or college for more than six months.

Financial statements collected by the Texas Workforce Commission are public information and public records as defined by the *Texas Open Records Act, Government Code, Section 552.001, et. seq.*

Completed forms, inquiries, or corrections to the individual information contained in this form shall be sent to the TWC Career Schools and Colleges, 101 East 15th Street, Room 226T, Austin, Texas 78778-0001, (512) 936-3100. Individuals may receive and review information that TWC collects about the individual by emailing to open.records@twc.state.tx.us or writing to TWC Open Records, 101 E. 15th St., Rm. 266, Austin, TX 78778-0001.
