

TEXAS WORKFORCE COMMISSION
Career Schools and Colleges
Evidence Necessary to Establish Financial Stability - Annual Statements

NOTES:

1. The annual financial statements or evidence required by those schools who meet the exception to financial statements are due no later than 180 days from the close of the school's fiscal year.
2. The financial requirements in Title 40, Texas Administrative Code, Subchapter C (Texas Career Schools and Colleges Rules) supercede any information contained on this form.

Each school owner must furnish a copy of the annual financial statements unless the owner submits acceptable evidence in accordance with the exception outlined below.

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

<u>OWNERSHIP</u>	<u>STATEMENTS FOR:</u>
Individual	School or College
Partnership	Partnership
Corporation	Corporation

Statements must be in a form consistent with generally accepted accounting principles (GAAP) and should be audited, reviewed or compiled according to generally accepted auditing standards (GAAS). The statements must identify the name, license number and licensing state of the accountant or accounting firm associated with the statements.

The statements must include the following:

1. Balance Sheet
 - a) Any unearned tuition must be reflected as a current liability.
 - b) Calculation of unearned student tuition shall be based upon at least a quarterly pro rata basis or refund policy basis for the program, whichever would most accurately reflect recognition of income.
 - c) The basis for calculation of unearned student tuition should be disclosed in the notes to the financial statements.
2. Statement of Income and Retained Earnings
 - a) This statement must include the gross amount of tuition and fees earned net of refunds during the fiscal year for all courses approved under *Texas Education Code, Chapter 132*.
 - b) If the statement shows the results of operation of more than one school or college, the tuition and fees for each licensed campus should be shown separately.
3. Statement of Cash Flows.

Additional requirements based on the type of ownership are outlined on the following pages.

PARENT CORPORATION

1. Audited annual financial statements for the parent corporation certified by a licensed independent certified public accountant or public accountant (registered with the appropriate state board of public accountancy). Out-of-state accountants must give their state license numbers.
2. A certified resolution by the board of directors of the parent corporation 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.
3. Audited list of any student refunds payable by the subsidiary operating the school at the close of its fiscal year. This list must be prepared by an independent certified public accountant or public accountant and include each student's name, address, social security number and the amount due. If the refund has been paid, the date paid should be indicated.
4. An audited list of the gross amount minus refunds of annual Texas student tuition and fees for each school. This must be prepared by an independent certified public accountant or public accountant.

INDIVIDUAL, PARTNERSHIP OR CORPORATION

The financial statements must be audited or reviewed by a licensed independent certified public accountant or public accountant (registered with the appropriate state board of public accountancy) unless evidence to meet one of the exceptions listed below is presented.

EXCEPTION TO THE SUBMISSION OF AUDITED OR REVIEWED FINANCIAL STATEMENTS

1. Compiled statements are acceptable under the following conditions:
 - a) the gross annual revenue from student tuition and fees, less refunds, is less than or equal to \$100,000, or;
 - b) the courses of instruction are less than one month in length.

If compiled statements are submitted:

- 1) the statements must be compiled by a licensed independent certified public accountant or public accountant registered with the appropriate state board of public accountancy;
- 2) the statements must include at least one note which discloses the current and long-term liabilities similar to those required by GAAP for reviewed and audited statements;
- 3) the statements must identify the name, license number and licensing state of the accountant or accounting firm associated with the statements;
- 4) the statements must be accompanied by form PS-048A, True and Correct statement; and

- 5) form PS-048B, Unearned Tuition Affidavit; stating the maximum amount of unearned tuition at any time during the most recent fiscal year and projected maximum unearned tuition at any time during the next fiscal year, and the gross amount less refunds of Texas student tuition and fees earned during the fiscal year on all programs approved under *Texas Education Code, Chapter 132*
2. A school with a gross annual revenue from student tuition and fees, less refunds, less than or equal to \$100,000 may submit all of the following in lieu of financial statements:
 - a) form PS-048B, Unearned Tuition Affidavit; stating the maximum amount of unearned tuition at any time during the most recent fiscal year and projected maximum unearned tuition at any time during the next fiscal year, and the gross amount less refunds of Texas student tuition and fees earned during the fiscal year on all programs approved under *Texas Education Code, Chapter 132*;
 - b) a copy of the annual income tax form filed specifically for the business; and
 - c) an owner's sworn statement certifying that the unearned tuition affidavit and the copy of the annual income tax form are true and correct.

DEFINITION OF UNEARNED TUITION

Unearned tuition, for the sole purpose of determining if a school meets the exception to the submission of audited, reviewed, or compiled financial statements, is defined as the total **projected maximum** of the following:

1. refunds due former students;
2. the total of all tuition and fees that have been collected or will be collected from students prior to graduation; and
3. the total of any tuition collection in advance from prospective students.

NOTE: *Title 40, Texas Administrative Code, Section 807.37*, provides that if the Commission determines that reasonable cause exists to question the validity of any financial information submitted, or the financial stability of the school, the Commission may require at the school's expense an audit of a school that has been certified by an accountant; or the owner to furnish any other evidence deemed appropriate by the Commission to establish financial stability.

INTERIM FINANCIAL STATEMENTS

If a school chooses to submit interim financial statements in addition to the annual statements to establish financial stability, those interim statements must meet the same requirements as those for annual statements.

FEDERAL FINANCIAL AID PROGRAMS

Schools which participate in these programs must submit a copy of each audit of such programs at the same time the audit report is submitted to the Education Department Audit Agency, Office of

Inspector General, in accordance with reporting requirements of "Government Auditing Standards," the most current edition, issued by the Comptroller General of the United States.

FINANCIAL STABILITY

Listed below are the general guidelines used in making a determination regarding the financial stability of a school.

It must be understood 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 are associated with an independent certified public accountant or public accountant registered with the appropriate board of public accountancy.
2. The annual financial statements include:
 - a. balance sheet;
 - b. statement of income and retained earnings;
 - c. statement of cash flows; and
 - d. gross amount of annual student tuition and fees less refunds for each school.
3. The financial statements presented reflect compliance with generally accepted accounting principles and the audit performed in accordance with generally accepted auditing standards.
4. 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.
5. The financial statements do not reveal refunds which are more than sixty (60) days old.
6. There are no past due liabilities.
7. The balance sheet must reflect any unearned tuition as a current liability.
8. Preferably, the current ratio is 2-1. At a minimum, 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.
9. The stockholders' equity or net worth account has a positive balance.

10. The balance sheet must reflect that stockholders' equity or net worth is greater than the amount shown as goodwill.
11. 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 directed to:

Texas Workforce Commission
Michael De Long, Program Administrator
Career Schools and Colleges
101 E. 15th Street
Austin, Texas 78778-0001
(512) 936-3100

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 104T, 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.
