

Evidence Necessary to Establish Financial Stability for a New School
Texas Workforce Commission – Career Schools and Colleges

GIVE THESE INSTRUCTIONS TO YOUR CPA OR PA

The type of school ownership determines the kind of financial statements that must be submitted (if you do not see your particular type of ownership, contact TWC at 512-936-3100 for guidance):

OWNERSHIP

- a. Sole proprietorship
- b. Partnership
- c. Corporation

**TYPE OF STATEMENTS
REQUIRED**

Individual
Partnership
Corporation, or if a subsidiary,
statements of either the parent or
subsidiary corporation

NOTE: If the owner of this school has a certificate of approval for another school and acceptable financial statements have been received, only 1 & 2 of the Additional Required Documents is needed.

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).

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.

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.

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. Statements must be for the entire corporation including all divisions.

ADDITIONAL REQUIRED DOCUMENTS TO BE SUBMITTED

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.

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 balance sheet must be submitted within four (4) months of the balance sheet date. 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. The compiled balance sheet must be for the entire partnership or corporation including all divisions. 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.
- 2) The financial statements must be prepared by a certified public accountant properly registered with the appropriate state board of public accountancy. 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.
- 3) All financial statements must be prepared in accordance with GAAP and audited, reviewed or compiled in accordance with GAAS

- 4) 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.
- 5) The stockholders' equity or net worth account must have a positive balance.
- 6) There cannot be any past due liabilities.
- 7) The balance sheet must reflect sufficient cash to pay all expenses for the first three months of operation, or you must submit a sworn affidavit affirming the availability of sufficient cash to meet those projected expenses.
- 8) 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.
- 9) 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.
- 10) 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
Career Schools and Colleges, Room 226T
101 East 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 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.
