

# Financial Soundness Review Process: Georgia and Arizona



# Introductions

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# Who are we?

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- The state agency responsible for the regulation of private postsecondary institutions within Georgia as well as all postsecondary institutions from out of state that choose to be physically present with locations, active recruiters, and/or advertisements within state borders.
- Mission: The agency's mission is to ensure that each authorized nonpublic postsecondary educational institution in Georgia is satisfying its commitments to hardworking Georgians through sound academics and financial stability.
- Authorization is required by Georgia law(O.C.G.A. § 20-3-250.8).
- Authorization or Exemption may be required when seeking other agency approvals (WIOA, VA, Accreditation)



# What do we do?

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- GNPEC authorizes large and small, degree-granting and certificate-granting, and accredited and unaccredited institutions. GNPEC likely needs to authorize the institution if the following apply:
  - institution provides post high school education or instruction, and
  - institution is not part of either the [University System of Georgia](#) or the [Technical College System of Georgia](#).
- **When do a Financial Viability Assessment on the institution?**
  - The institution is seeking initial authorization.
  - During Renewal of Authorization
  - The institution Undergoes a change in ownership
  - The institution is on HCM by the US Department of Education
  - \*Institutions reporting over 500K in tuition are required to submit a CPA audit.



# The Review Process

The following criteria are used in evaluating the statements and reports required from these institutions:

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Profit determined by Total Revenue Minus Total Expenses

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Asset to Liability Ratio determined by dividing Total Current Assets by Total Current Liabilities (1.0 to 1.5)

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Quick Ratio is determined by dividing Cash and Net Accounts Receivable by Total Current Liabilities (.75 to 1.0) – Determine Cash Flow

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Assess the value of all stocks or securities by deriving a percentage of stock value to Total Assets and to Retained Earnings of Capital.

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If the institution participates in certain federal loan programs with the Department of Education, review its 90/10 Revenue Test and Composite Score.

# Financial Statement and Tools

- GNPEC Financial Statement
- Financial Viability Assessment
  - Low Financial Monitoring
  - Moderate Financial Monitoring
  - High Financial Monitoring

## Unaccredited Institutions:

- Profit/Loss
- Cash on hand
- Retained Earnings (Trends)
- Ultimately, we are trying to assess the level of risk posed to students from the unaccredited school's authorization

### Assessment Results

\$207,151	Profit	(Income-Expenses)
2.5	Asset to Liability Ratio	(Total Assets/Total Liab)
2.7	Quick Asset to Liability Ratio (optional)	(Cash+AR/Current Liab)
n/a	Percent of Stocks/Securities to Total Assets	

### Notes/Comments:

1	Georgia Trade School is a for-profit LLC with two owners, located in Acworth, Georgia. The school is authorized to deliver a single unaccredited certificate in structural plate and pipe welding. The school was first authorized by GNPEC in August 2012 and has established a reporting period of a calendar year. This assessment is being conducted based on information provided by the school for CY21. The school has also provided a letter from a CPA that verifies the information provided in the financial statement is accurate.
2	For CY21, the school reported 219 students who paid a total of about 2.2 million in net tuition and fees. The school reported total expenses just over 2 million. The school reported cash on hand of 28K, accounts receivable of 87K, and total assets of 312K. The school has reported total liabilities of 127K, of which, 50K has been reported as current.
3	Based on the information provided, the school increased profit dramatically in CY21. Income increased by 69% from CY20 to CY21. Expenses rose by 62% during the same period of time. This meant an increase in profit of over 300% from CY20 to CY21. Both ratios used to assess institution's financial viability are very strong. The school's reported cash on hand falls well short of the MSC recommended amount of 166K. However, the school's significant profit, positive retained earnings, strong ratios, and longevity of operation all help to lower the potential risk to Georgia students from the continued authorization of the institution.
4	There are no significant findings to doubt the school's financial viability. The school will be on Low Financial Monitoring for the next year of authorization.



# Triggers for Further Review

The “Net Income after Taxes” (Line 27) in the GNPEC Financial Statement indicates an overall loss.

The authorized institution does not meet the requirement of unrestricted cash on hand in the amount of 30 days operating expenses.

AL Ratios below the minimum

Net Equity that would not cover 2 years of average profit or losses

Significant debt (+50% of Total Assets)

Consistent losses (2 years or more)

Financial Statement and Audit inconsistent for same period

Composite Score less than 1.5



What to  
do if  
there is  
an issue?

Require a bond

Require additional CPA documentation

Require a Financial Improvement Plan to be submitted  
by the institution

See if they have additional exposure in other states

Require a teach-out plan to be submitted

Ask for additional student information and quarterly  
reporting to understand progress or risk



# Where can you go for more information?

[www.gnpec.ga.gov](http://www.gnpec.ga.gov)

[Financial Improvement  
Guidelines](#)

GNPEC Financial  
Statement (upon request)

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# Questions?

Visit us at: [www.gnpec.ga.gov](http://www.gnpec.ga.gov)