



Australian Government



***VET FEE-HELP
Financial Viability
Requirements***

**Financial Viability
Instructions**

For

APPLICANTS

**(RTOs which are bodies corporate applying to be
approved as VET Providers)**

1 January 2012

TABLE OF CONTENTS

1.	PURPOSE OF THE FINANCIAL VIABILITY INSTRUCTIONS	1
2.	LEGAL 'FORM' OF FINANCIAL INFORMATION	1
3.	VET FEE-HELP BACKGROUND	1
4.	REQUIREMENTS FOR APPROVAL AS A VET PROVIDER	2
5.	FINANCIAL INFORMATION REQUIREMENTS.....	2
	A PRIVATE RTO.....	2
	AN RTO THAT IS A GOVERNMENT BODY	6
	OTHER RELEVANT INFORMATION.....	6
6.	SUPPLEMENTARY INFORMATION.....	6
	RELATED ENTITIES.....	7
	TRUSTEE ARRANGEMENTS	7
	NEW OR RECONSTITUTED LEGAL ENTITIES	8
	FINANCIAL RATIO THRESHOLDS.....	8
	STUDENT BODY PROFILE	9
	OPTIONAL AUDITOR'S ASSESSMENT.....	9
7.	RISK MITIGATION STRATEGIES	9
8.	WHAT DOES THE APPLICANT HAVE TO DO?	10
9.	ASSESSING FINANCIAL VIABILITY	10
10.	USEFUL DOCUMENTS AND LINKS.....	11
	EMAIL/PHONE ENQUIRIES.....	11
	USEFUL LINKS	11
	APPENDIX 1 - TERMINOLOGY USED IN THESE INSTRUCTIONS.....	12
	APPENDIX 2 - FINANCIAL STATEMENT REQUIREMENTS FOR APPLICANTS	14
	APPENDIX 3 - FINANCIAL RATIOS CALCULATED BY THE VET FEE-HELP FINANCIAL RATIO ANALYSIS WORKBOOK.....	15
	APPENDIX 4 - INDICATORS OF RISK	16

For a definition of terms used throughout this document which are marked with an asterisk (*) refer to 'Terminology used in these instructions' at Appendix 1

1. Purpose of the Financial Viability Instructions

- 1.1. The Minister must be satisfied that an applicant, wishing to be approved as a VET provider is able to meet the financial viability requirements as specified under clause 14 of Schedule 1A to the *Higher Education Support Act 2003* (HESA).
- 1.2. These Financial Viability Instructions (FVI) are for the use of *Registered Training Organisations (RTOs) which are *bodies corporate wishing to be approved as *VET providers.
- 1.3. They are designed to assist applicants to prepare the parts of their application that relate to financial viability. (If you are an approved VET provider already, you should refer to the publication: *Financial Viability Instructions for Approved VET Providers*).
- 1.4. Applicants are encouraged to become familiar with the financial viability requirements for approved VET providers.
- 1.5. These FVI inform applicants of the sort of information that is required, the form in which it must be prepared and how financial viability will be assessed.
- 1.6. These FVI are intended for use by:
 - the managers of an RTO wishing to be approved as a VET provider
 - the accountant who *prepares* the financial statements for the applicant and
 - the independent *qualified auditor who *audits* the RTO's financial statements.

2. Legal 'form' of financial information

- 2.1. These FVI replace the *Financial Viability Instructions for Applicants dated 1 July 2011* which were revoked on 31 December 2011.

These FVI specify the 'form' of an application approved by the Minister for the purposes of sub-clause 9(2)(a) of Schedule 1A to HESA in order to assess the financial viability of applicants.

3. VET FEE-HELP background

- 3.1. The Australian Government provides eligible students seeking to participate in vocational education and training (VET) courses at the diploma or above levels access to income contingent loans (known as *VET FEE-HELP assistance) in accordance with the requirements set out in Schedule 1A to HESA.
- 3.2. These loans are offered under the VET FEE-HELP assistance scheme administered by the Australian Government Department of Industry, Innovation, Science, Research and Tertiary Education (the department) to assist eligible students to meet the cost of *tuition fees levied by *RTOs eg. TAFEs and VET private providers.

4. Requirements for approval as a VET provider

- 4.1. In order for an RTO that is a body corporate to be able to enrol students that can be assisted by a VET FEE-HELP loan, the RTO must first obtain the approval of the Minister for Tertiary Education, Skills, Jobs, and Workplace Relations (the Minister) to function as a VET provider under HESA. HESA sets out a number of mandatory requirements an RTO, that is a body corporate, must meet before it may be approved as a VET provider by the Minister (see clause 6 of Schedule 1A to HESA).
- 4.2. While all of the mandatory requirements set out in HESA are important, these FVI are specifically concerned with whether an applicant could comply with the HESA requirement that "A VET provider (a) must be financially viable; and (b) must be likely to remain financially viable" (Schedule 1A to HESA, clause 6(f)).
- 4.3. The importance of these requirements is also reflected in clause 33 of Schedule 1A to HESA, which provides for revocation of a VET provider's approval if the provider breaches the quality and accountability requirements, including those related to financial viability.
- 4.4. Applicants should note the Minister must be satisfied that an applicant meets all of the quality and accountability requirements under clause 13 of Schedule 1A to HESA (not only those that relate to financial viability) before making an approval as a VET provider.

5. Financial information requirements

- 5.1. Applicants must provide sufficient information for the department to be able to assess the financial viability of the RTO.

A private RTO

- 5.2. An RTO that is not a *government body will be required to submit financial information which must include, but is not limited to:
 - (a) a copy of the *most recent* annual financial statements audited by an independent qualified auditor and prepared in accordance with 'Financial statement requirements for applicants' at Appendix 2
 - where these statements are more than six months old, interim management reports must be provided, including but not limited to, standard Balance Sheet and Detailed Profit & Loss statements attested to by a Director of the applicant that they present a true and fair view of the applicant's financial position. The reports must cover the period from the end of the last reporting period until the end of the month preceding the application submission date
 - (b) an independent auditor's report which must accompany the statements
 - (c) copies of financial statements for the *preceding three* annual financial reporting periods prepared in accordance with 'Financial statement requirements for applicants' at Appendix 2

- (d) a completed current version of the *VET FEE-HELP Financial Ratio Analysis Workbook* (the current version is available from the VET FEE-HELP website). Where available, the workbook must include data for the most recent four annual financial reporting periods. If unable to provide four consecutive years of data, an explanation must be included on the cover page of the workbook
- (e) a declaration by the accountant or auditor that the applicant has, as at the date of the declaration, complied with all statutory obligations relating to the lodgement and payment of:
 - Company tax
 - Goods and services tax
 - Income tax for employees
 - Payroll tax
 - Withholding tax
 - Superannuation Guarantee for employees
- (f) a copy of the Certificate of Public Practice or Public Practice Certificate held by the person who conducted the audit of the financial statements
- (g) the qualified auditor's independence declaration (as required under Section 307C of the *Corporations Act 2001*)

- (h) a business plan for the next three years, consistent with the applicant's financial reporting period, including but not limited to:
- history and profile of the organisation
 - analysis of possible risks that may affect financial viability and related risk mitigation strategies
 - detailed historical and projected student enrolments including:
 - projected vs actual student enrolments for current financial reporting year and preceding three years
 - explanation of variances of 10 per cent or more between projected and actual student enrolments
 - projected enrolments for the next three years
 - explanation of underlying assumptions and details of determining factors affecting projected enrolments
 - where international students comprise more than 50 per cent of its student population:
 - a country by country breakdown of current student numbers and the proportion of students enrolled in broad subject categories such as business, hospitality, finance etc
 - projections for international student numbers broken down by country and broad subject categories
 - detailed budget forecasts including:
 - projected vs actual income and expenses for the most recently completed financial reporting year
 - projected income and expenses for the next three years, consistent with the applicant's financial reporting period. The information should allow the department to fully understand all underlying assumptions and determining factors affecting all future revenue and expense estimates
- (i) where the applicant has entered into any payment plan(s) in relation to any of the statutory obligations referred to in clause 5.2(e), details of the payment plan(s) must be provided to the department
- (j) where the applicant has equity of less than \$200,000, it is required to demonstrate it has risk mitigation strategies in place (see Part 7). Such strategies might include, but are not limited to:
- a capital injection to reach the equity threshold of \$200,000; or
 - the provision of a deed of guarantee for an amount which represents the difference between the applicant's equity level and the \$200,000 threshold (subject to evidence the guarantor has sufficient resources to cover the guarantee, refer to clause 5.2(n))

- (k) where the independent qualified auditor has communicated to the applicant either orally or in writing about significant matters, details of the communication must be provided to the department. These matters include, but are not limited to:
- matters that give rise to significant risk
 - concerns the financial information audited could be materially mis-stated
 - circumstances that cause the auditor significant difficulty in applying necessary audit procedures
 - findings that could result in a modification to the auditor's report.

The applicant will be required to address the matters raised and indicate how they impact on the ongoing financial viability of the business

- (l) applicants that have a deed of guarantee (and/or deed of cross guarantee) in place should submit a copy to the department
- (m) any *supplementary information (including risk mitigation strategies where necessary) that is relevant or that may assist the department to assess the ongoing financial viability of the applicant.
- (n) where the applicant has provided supplementary information in the form of a deed of guarantee, evidence the guarantor has sufficient resources to cover the guarantee must be provided. The evidence must include, but is not limited to:
- for guarantees provided by companies – most recent annual financial statements. In addition, if the statements are more than six months old, interim management reports including Standard Balance Sheet and Detailed Profit and Loss statement attested to by a Director of the guarantor company that they present a true and fair view of the guarantor's financial position
 - for guarantees provided by individuals – Statement of Assets & Liabilities attested to by an Accountant that it presents a true and fair view of the guarantor's financial position.

An RTO that is a government body

- 5.3. An applicant that is a government body will need to submit financial information which must include, but is not limited to:
- (a) a copy of the *most recent* annual financial statements audited and prepared in accordance with 'Financial statement requirements for applicants' at Appendix 2
 - (b) an independent auditor's report which must accompany the statements
 - (c) copies of financial statements for the *preceding three* annual financial reporting periods prepared in accordance with 'Financial statement requirements for applicants' at Appendix 2
 - (d) a completed current *VET FEE-HELP Financial Ratio Analysis Workbook* (the current workbook is available from the VET FEE-HELP website).
- 5.4. If the applicant is unable to provide the financial statements required, then it may provide the department with written confirmation from the respective Australian Government or state or territory Minister (or the relevant funding authority) of that Government's ongoing funding support for the applicant. This provision is intended to cover situations where the RTO has recently been created or separated from a government department or authority, and there are insufficient suitable financial records for all or some of the relevant periods.

Other relevant information

- 5.5. Information about the financial position of the applicant, including information concerning its current and future financial viability is treated as 'Commercial-In-Confidence'.
- 5.6. The applicant is deemed to have submitted the financial viability information only when all of the documentation listed is complete and correct and presented in the *electronic formats specified, from time to time, in the FVI. The department will not commence an assessment of the financial viability for the applicant until such information is lodged.

6. Supplementary information

- 6.1. When making an assessment of financial viability the department considers the level of risk that an applicant presents. The department may consider such matters as:
- failure to meet one or more of the financial ratios in the workbook
 - type of organisational structure (related entities / whether a trust is involved)
 - age and history of organisation
 - student body profile (domestic / international)
- 6.2. When an applicant is considered to present a level of risk greater than low to negligible, they are required to provide supplementary information (including risk mitigation strategies) as set out below.

Related entities

- 6.3. Applicants that have organisational ties with other entities are required to provide information about these relationships.

Trustee arrangements

- 6.4. An applicant submitting financial information in its capacity as a trustee company of a trust must supply, in addition to any other information required by these FVI (such as relevant financial statements for the legal entity that is the trustee), full details of the trust arrangements, including:
- a written statement of explanation from the applicant's legal adviser (who must be a person with a current, unrestricted practising certificate) about how the trust assets may be validly applied by the trustee applicant in its capacity as an approved VET provider
 - a certified copy of the current trust deed
 - a written statement of explanation from the applicant's accountant (who must hold a certificate as defined in Appendix 1) about the trust's business affairs (as defined in Section 53AD of the *Corporations Act 2001*); some aspects of which may be addressed in the legal adviser's statement of explanation; and how the trust should be taken into account in assessing the applicant's financial viability.
- 6.5. An applicant submitting financial information in its capacity as a trustee company of a trust should pay particular attention to the need to demonstrate that:
- the equity levels of the legal entity that is the applicant are sufficient to satisfy the debt to equity ratios required by the financial viability thresholds set out in the workbook
 - the legal entity that is the applicant has sufficient retained earnings to build up equity over time, and in the absence of such, the trust has made alternative sources of funding available to support its operations (such as via loans from directors).

- 6.6. The Minister will take into consideration whether the applicant that is a trustee company for a trust can:
- satisfy the VET FEE-HELP financial ratio thresholds for current ratio and net tangible asset ratio (normally achieved through an injection of cash)
 - satisfy the VET FEE-HELP financial ratio threshold for the net profit ratio
 - provide personal deeds of guarantee from Directors (subject to evidence the Directors have sufficient resources to support the guarantee, refer to clause 5.2(n)) that they are prepared to provide cash injection(s) should it be required if there are cash flow problems that will adversely affect the financial viability of the legal entity that is the trustee:
 - this offsets the risk created by the common challenge to meet the debt to equity ratio
 - provide personal deeds of guarantee from Directors that they will not call upon their loans to the trustee company, if such repayment of a loan or loans could contribute to the applicant becoming financially unviable.
- 6.7. In addition to a complete set of information as defined in Part 5, the accountant or auditor is required to provide a declaration on behalf of an applicant that is a trustee company for a trust, that it has complied with all of its obligations under the *Corporations Act 2001* and relevant state or territory Acts that apply to its operation.

New or reconstituted legal entities

- 6.8. If the applicant has recently commenced operations in its present legal form (and does not yet have audited financial statements for at least one full year), it will need to provide supplementary information to demonstrate how the applicant could be considered to present a low to negligible financial risk in the absence of four years of trading history.
- Refer to Part 7 for examples of risk mitigation strategies that may be appropriate.
- 6.9. If the applicant has a trading history (operating at any time over the past four years) in the name of an antecedent legal entity, it is required to provide financial information in relation to this entity as well as for the current entity.

Financial ratio thresholds

- 6.10. In cases where some or all of the financial ratio thresholds are not met (see 'Financial ratios calculated by the *VET FEE-HELP Financial Ratio Analysis Workbook*' at Appendix 3), an applicant is required to provide supplementary information in the form of risk mitigation strategies (see Part 7 for examples of such strategies).

Student body profile

- 6.11. Applicants that have a narrow range of courses, rely heavily on the recruitment of international students or the recruitment of international students from a limited number of overseas markets present a greater risk in terms of their ongoing financial viability. These applicants will be required to provide risk mitigation strategies to address this increased level of risk.

Optional auditor's assessment

- 6.12. Applicants may submit information prepared by an independent qualified auditor to support their financial position covering issues such as:

- organisation history
- organisation legal and capital structure
- organisation financial and other commitments
- organisation financial viability (financial ratio analysis)
- organisation other assessment
- organisation student body profile.

For further details relating to these see 'Indicators of risk' at Appendix 4

7. Risk mitigation strategies

- 7.1. Evidence of effective risk mitigation strategies is often a very important part of the financial information provided by applicants.
- 7.2. When considering whether an applicant, which appears to present a level of risk greater than low to negligible, meets the financial viability requirements under clause 14 of Schedule 1A to HESA, the Minister will take into account any risk mitigation strategies that the applicant has in place to mitigate against this greater level of risk.
- 7.3. Risk mitigation strategies may include, but are not limited to:
- the establishment of a deed of guarantee from an independent and un-related entity (i.e. a bank) or person (i.e. an investor) whose financial viability represents a low or negligible level of risk (subject to evidence the guarantor has sufficient resources to cover the guarantee, refer to clause 5.2(n))
 - the establishment of a deed of guarantee from a related entity (e.g. other companies in the applicant's corporate group) or person (e.g. an existing shareholder or director) whose financial viability represents a low or negligible risk (subject to evidence the guarantor has sufficient resources to cover the guarantee, refer to clause 5.2(n))
 - debt for equity swaps where a director's or other party's loan(s) to the applicant are converted into equity
 - a deed of guarantee that loans to the applicant will not be recalled if such recall threatens the financial viability of the applicant
 - a cash injection from a third party to improve the current ratio
 - lines of credit from banking institutions

- closer monitoring of financial performance against projections by submitting quarterly or six monthly financial statements.
- 7.4. Where an applicant does not provide evidence of risk mitigation strategies as part of their submission, and on assessment, the department considers them necessary for the financial viability requirements to be met, the department will request such further information. This may increase the time needed to assess the application and for a decision to be made.

8. What does the applicant have to do?

- 8.1. The first step in the process is for the applicant to assemble the relevant financial information as specified in Part 5.
- 8.2. The second step is to determine whether the financial ratio thresholds (see 'Financial ratios calculated by the *VET FEE-HELP Financial Ratio Analysis Workbook*' at Appendix 3) have been met.
- 8.3. If there are circumstances that may be considered to increase the level of financial risk (ie if the financial ratios are not met) the applicant will be required to provide supplementary information including risk mitigation strategies (see Part 6 and Part 7 for examples and further information).
- 8.4. Complete Chapter 4 - Financial Requirements of the VET FEE-HELP Application Assistance Pack (available on the VET FEE-HELP website) to confirm all of the information required by the FVI has been assembled.
- 8.5. The final step after assembling all information required by the FVI is to submit it, along with the rest of the application, by uploading it to the department's *VET FEE-HELP Information Technology System (VITS).

9. Assessing financial viability

- 9.1. The financial viability requirements set out in clause 14 of Schedule 1A to HESA must be met by each applicant.
- 9.2. If the Minister is satisfied that an applicant presents no more than a low or negligible risk in terms of their financial viability, this will usually be considered sufficient for meeting the requirements under clause 14 of Schedule 1A to HESA.
- 9.3. In determining the level of risk, the department analyses the financial statements, the financial ratios in the workbook and any supplementary information including risk management strategies (see Part 6 and Part 7) provided by the applicant.
- 9.4. Where the risk is initially assessed by the department as being greater than 'low or negligible', the applicant may be contacted and offered the opportunity to demonstrate how it will mitigate financial risk:
- for example, an applicant may undertake to reduce financial exposure to certain events, reduce certain costs or obtain bank and/or third party guarantees.

10. Useful documents and links

Email/phone enquiries

- 10.1. Enquiries on VET FEE-HELP – TSEnquiries@deewr.gov.au

VET Provider enquiry line (including enquiries on VET provider IT application system): **13 3873**

Internet: www.deewr.gov.au/vetfeehelp

Useful links

- 10.2. **Legislation**

Higher Education Support Act 2003

<http://www.comlaw.gov.au/Series/C2004A01234>

Corporations Act 2001

<http://www.comlaw.gov.au/Series/C2004A00818>

- 10.3. ***Guidelines for VET FEE-HELP***

VET Provider Guidelines, VET FEE-HELP Guidelines, VET Administration Guidelines

<http://www.deewr.gov.au/Skills/Programs/Support/VetFeeHelp/RTOsandHEPs/Pages/RTOsandHEPs.aspx> - Useful Publications page

- 10.4. ***Guidelines for VET FEE-HELP financial viability assessment***

VET FEE-HELP Financial Viability Instructions and VET FEE-HELP Financial Ratio Analysis Workbook

<http://www.deewr.gov.au/Skills/Programs/Support/VetFeeHelp/RTOsandHEPs/Pages/RTOsandHEPs.aspx> - Useful Publications page

- 10.5. ***VET FEE-HELP Application Assistance Pack***

<http://www.deewr.gov.au/Skills/Programs/Support/VetFeeHelp/RTOsandHEPs/Pages/RTOsandHEPs.aspx> - Useful Publications page

- 10.6. ***VET FEE-HELP IT System (VITS)***

<https://extranet.deewr.gov.au/VetFeeHelp/App/default.aspx>

Appendix 1 - Terminology used in these instructions

The term '**body corporate**' is not defined under HESA and the term has its ordinary meaning. It is recommended that RTOs seek legal advice regarding their body corporate status before lodging an application to be a VET provider.

Note: Generally, a body corporate is an artificial legal entity having a separate legal personality. These entities have perpetual succession. They have the power to act, hold property, enter into legal contracts, sue and be sued in their own name, just as a natural person can. If an entity is not established under an Act of Parliament, or under a statutory procedure of registration, such as the Corporations Act 2001 or a State or Territory associations incorporation Act, it is generally not a body corporate, although there are rare exceptions in the form of bodies incorporated by Royal Charter. Each state and territory has legislation that allows various kinds of non-profit bodies to become bodies corporate. Bodies incorporated under these Acts are normally community, cultural, educational or charitable type organisations. Source: Australian Business Register website.

'**Electronic Formats**' means the following approved file types – DOC, DOCX, XLSX or PDF smaller than 15MB.

'**General Purpose Financial Statements**' has the same meaning as in the *Glossary of Defined Terms* of the Australian Accounting Standards Board (AASB) and AASB 101.7 i.e. "Financial statements that are intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs".

'**Government body**' means, for the purposes of the VET FEE-HELP scheme, that the applicant or VET provider is an RTO which has been established as a statutory authority under State, Territory or Commonwealth law (eg. a TAFE) and/or is a wholly owned government business enterprise.

A '**qualified auditor**' includes:

the Auditor General of a State, of the Australian Capital Territory or of the Northern Territory or

- a person registered as a company auditor or a *public accountant under a law in force in a State, the Australian Capital Territory or the Northern Territory
- a member of the Institute of Chartered Accountants in Australia, or of the Australian Society of Certified Practising Accountants or
- a person approved by the Minister in writing as a qualified auditor for the purposes of the *Higher Education Support Act 2003* (HESA).

Notes: For the purpose of HESA and these Financial Viability Instructions, a qualified auditor will be considered to be independent from the entity it is auditing if the qualified auditor meets the independence requirements specified in Part 2M.4, Division 3, of the Corporations Act 2001 and is independent of the entity which prepared the financial statements of the applicant. The accountant who prepared the financial statements and the independent qualified auditor should normally not belong to the same firm or be related in any way. There may be some instances where larger accounting and audit practices can demonstrate separation and independence of the preparation of and the auditing of financial statements.

'Public accountant' means the holder of a practising certificate recognised under Regulation 2M.4.01A to the *Corporations Law 2003* (Cwth) which states that "for paragraph 324BE(1)(b) of the Act, the following kinds of practising certificates are specified:

- (a) the Certificate of Public Practice issued by The Institute of Chartered Accountants in Australia
- (b) the Public Practice Certificate issued by CPA Australia Ltd or the National Institute of Accountants".

A **'Registered Training Organisation'** (RTO) is an organisation registered by the Australian Skills Quality Authority (ASQA) or the relevant state or territory government authorities to deliver vocational education and training (VET) qualifications.

A **'Reporting Entity'** is an entity in respect of which it is reasonable to expect the existence of users who rely on the entity's general purpose financial report for information that will be useful to them for making and evaluating decisions about the allocation of resources. A reporting entity can be a single entity or a group comprising a parent and all of its subsidiaries.

'Supplementary Information' means any documentation pertaining to the financial viability of an applicant, or of its guarantor(s) if any, that is submitted to the Department by an applicant or a VET provider beyond the financial information referred to in Parts 5 and 6 of these Financial Viability Instructions.

'Tuition Fees' means the fee an approved VET provider charges students for each unit of study. VET FEE-HELP can only be used to pay for tuition fees.

'VET FEE-HELP' is an income contingent loan scheme for the VET sector that is part of the Higher Education Loan Program (HELP). It assists eligible full fee-paying and subsidised students who are enrolled in certain VET courses of study with a VET provider to pay for all or part of their tuition fees. VET FEE-HELP is administered by the Department under HESA.

'VET provider' refers to an RTO that is a body corporate that is approved by the Minister under Schedule 1A of HESA to offer VET FEE-HELP assistance to eligible students.

'VITS' means the VET FEE-HELP Information Technology System of the department, which is used by applicants, VET providers and the department to send and receive necessary information in secure electronic form.

Appendix 2 - Financial statement requirements for applicants

1. An applicant is to provide required financial statements, as set out in Part 5, in the relevant form prescribed below:
 - *general purpose financial statements prepared in accordance with all the current standards set by the Australian Accounting Standards Board should be provided by an applicant which:
 - is a *reporting entity; or
 - a large proprietary company, if two of the following apply:
 - the consolidated revenue for the financial year of the company and the entities it controls (if any) is \$25 million or more
 - the value of the consolidated gross assets at the end of the financial year of the company and the entities it controls (if any) is \$12.5 million or more
 - the company and the entities it controls (if any) have 50 or more employees at the end of the financial year; or
 - has financial statements that are, or held out to be, general purpose financial statements
 - special purpose financial statements prepared in accordance with the following current standards set by the Australian Accounting Standards Board may be provided by small proprietary companies who are not reporting entities:
 - AASB 101
 - AASB 107
 - AASB 108
 - AASB 1031
 - AASB 1048
 - AASB 1053
2. Where an applicant is not able to provide financial statements prepared in accordance with paragraph 1 above, it may at a minimum, provide special purpose financial statements, which must include, but are not limited to:
 - a statement of financial position (balance sheet)
 - a statement of comprehensive income (income statement or profit and loss statement)
 - a statement of changes in equity
 - a statement of cash flows
 - notes, comprising a summary of significant accounting policies and other explanatory notes
 - full disclosure of any related party transactions
 - a signed and dated report from an independent qualified auditor, in cases where one has been prepared, in respect of the financial statements
 - a signed and dated Directors' report and Declaration in respect of the financial statements
3. Where an applicant is not able to provide the most recent annual financial statements prepared in accordance with paragraph 1 above, it must provide a signed and dated statement by the qualified auditor. The statement must confirm the financial information reported in the audited financial statements is not materially different to the information which would have been reported if the financial statements had been prepared in accordance with paragraph 1 above.

Appendix 3 - Financial Ratios Calculated by the <i>VET FEE-HELP Financial Ratio Analysis Workbook</i>		Threshold
Current Ratio	Current Assets / Current Liabilities	>1
Net Tangible Assets Ratio	Tangible Assets / Total Liabilities	>1
Debt to Equity Ratio	Total Liabilities / Total Equity	0 < < 1
Net Profit Ratio	Operating Profit after Tax / Total Revenue	>0
Return on Assets	Operating Profit after Tax / Total Assets (where total assets equals the average of the opening and closing total asset levels in a financial year)	>0

Calculation of the above ratios and comparison with relevant thresholds is to be carried out using the *VET FEE-HELP Financial Ratio Analysis Workbook*, available on the VET FEE-HELP website

Appendix 4 - Indicators of Risk

Item No.	Assessment Item	Considerations
1	Organisation history	<p><u>Life and stability of RTO</u> An RTO that has been operating for more than two years could be considered a lower risk. An RTO that has had a recent change to core business lines may represent increased risk. An RTO that has had high turnover of Directors and/or senior management could be considered a higher risk.</p> <p><u>Past success of RTO</u> An RTO that has successfully delivered other government funded programs could be considered a lower risk.</p> <p><u>Industry experience of RTO</u> An RTO that is new to the industry could be considered a higher risk. An RTO that is considered to be a market leader and with a strong reputation could be a lower risk.</p>
2	Organisation legal and capital structure	<p><u>Ownership and control of RTO</u> In assessing risk, the appropriateness of the corporate structure to the nature of the business should be considered. An RTO with a simple corporate structure could be considered a lower risk. An RTO that does not have clear ownership could be considered a higher risk.</p> <p><u>Loans to RTO</u> An RTO that has a low level of borrowings could be considered a lower risk. An RTO that has a high level of loan repayments could be considered a higher risk.</p> <p><u>Legal agreements with RTO</u> An RTO which has agreements that may constrain its operations could be considered a higher risk.</p>
3	Organisation financial and other commitments	<p><u>Financing commitments</u> An RTO that has a low level of capital commitments could be considered a lower risk. An RTO that already has significant non-cancellable commitments could be considered a higher risk.</p> <p><u>Insurance cover</u> An RTO that has adequate insurance to cover professional indemnity, public liability etc could be considered a lower risk. An RTO that does not have insurance to cover the value of the anticipated level of VET FEE-HELP payments, as a minimum, could be considered a higher risk.</p> <p><u>Contingent liabilities</u> An RTO that is currently involved in significant litigation could be considered a higher risk.</p>

4	<p>Organisation financial viability (Financial Ratio Analysis)</p>	<p>Comparing the financial performance indicators of an RTO with those of another can provide significant insight into an RTO's performance. In addition, financial period to period comparisons between the financial performance indicators of an RTO can indicate fluctuations in performance. It is important to exercise care in the interpretation of performance indicators as fluctuations could arise from variations in the underlying assumptions or changes in the environment that an RTO operates within.</p> <p>Financial ratio analysis using the <i>VET FEE-HELP Financial Ratio Analysis Workbook</i></p> <p><u>Net Equity</u> An RTO that has high levels of net equity, working capital, reserves and revenue could be considered a lower risk. An RTO that does not provide independently audited financial statements could be considered a higher risk. An RTO that cannot provide financial statements for the previous four years could be considered a higher risk. An RTO that has received audit qualifications in the past, depending on the nature of the qualifications, could be considered a higher risk.</p> <p><u>Debt levels</u> An RTO that has low debt levels could be considered a lower risk. An RTO that has a poor credit rating could be considered a higher risk. An RTO that has high debt levels could be considered a higher risk.</p> <p><u>Operation levels</u> In considering the level of risk, <i>revenue streams</i> should be considered in conjunction with the nature of the business and its history and structure. An organisation that has multiple sources of revenue could be considered a lower risk. RTOs that rely on one project, customer or operation (<i>eg. the VET FEE-HELP scheme</i>) could be considered a higher risk.</p> <p><u>Profit levels</u> In considering the level of risk, consideration should be given to the relationship between sales volume and margin to ensure sound business planning is evident. An RTO that has a high profit to net sales could be considered a lower risk. An RTO that has high operating expenses to sales could be considered a higher risk.</p> <p><u>Return on Assets (RoA)</u> In considering the level of risk, consideration should be given to the relationship between the ability of the company to generate profit from its assets. This indicator demonstrates how efficient management of the RTO is at using its assets to generate earnings. This indicator may not be relevant for a company that is established as a not-for-profit. An RTO that has a high RoA (i.e. higher than .1) could be considered a lower risk. An RTO that has a low RoA (i.e. closer to 0) could be considered a higher risk.</p>
---	--------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

5	Financial Benchmarking	<p><u>Internal</u> An RTO that has negative trends when comparing current financial information with prior periods may indicate a higher risk.</p> <p><u>External</u> An RTO that has positive comparisons of financial information with other like RTOs may indicate a lower risk.</p>
6	Organisation other assessment	<p><u>Other Financial Considerations</u> An RTO that has several years of independently audited financial statements that are unqualified could be considered a lower risk. An RTO that has a history of unaudited or non lodgement of financial statements could be considered a higher risk.</p> <p><u>Necessary infrastructure</u> An RTO that has the necessary technology, equipment and materials to deliver the proposed courses could be considered a lower risk. An RTO that relies on another party for the availability of infrastructure could be considered a higher risk.</p> <p><u>Industry experience</u> An RTO that has management with relevant qualifications and/or experience could be considered a lower risk. An RTO that has high levels of director and management turnover could be considered a higher risk.</p> <p><u>Size and scope</u> An RTO with a sufficient stable equity base and varied scope could be considered a lower risk. An RTO with limited equity base and scope could be considered a higher risk.</p>
7	Organisation student body profile	<p><u>Course Structure</u> An RTO that has a narrow range of courses could be considered a higher risk.</p> <p><u>Student Body</u> An RTO that relies heavily on the recruitment of international students could be considered a higher risk. An RTO that relies heavily on the recruitment of international students from a limited number of overseas markets could be considered a higher risk.</p>