

SUBJECT: Private Licensed Schools Memorandum #72

TO: Chief Executive Officers/Directors
Licensed/Registered Private Schools

FROM: Patricia Landis, Chief
Division of Private Licensed Schools

ROLE AND AUTHORITY OF THE FINANCIAL REVIEW COMMITTEE

This memorandum was discussed, reviewed and approved by the Board of Private Licensed Schools at its meeting on May 14, 2009 and the Board has directed staff to provide notice of the policy set forth herein by distributing this memorandum to all existing private licensed and registered schools and by providing copies to all new school applicants. The policy of the Board is as follows:

The Board of Private Licensed Schools affirms the creation of the Financial Review Committee (FRC), which is to consist of from 3 to 5 Board members named by the Board Chair. The FRC is authorized by the Board to review financial information submitted with school applications pursuant to 24 P.S. §6507(a)(7)&(10). The FRC is also authorized to request additional financial information from schools in accordance with 24 P.S. §6504(e) and 22 Pa. Code §73.53 and to review the school's financial statements in accordance with 24 P.S. §6504(e) and 22 Pa. Code §73.53.

The FRC will meet on the day before each regularly scheduled quarterly Board meeting to review school financial statements or other financial submissions. The FRC meetings will be conducted in private to ensure the confidentiality of school financial statements in accordance with 22 Pa. Code §73.53.

The FRC may place schools on quarterly financial reporting. The reasons for making such a recommendation include, but are not limited to failure to maintain: (1) a current ratio of 1:1; (2) a positive net worth; (3) a reasonable debt to equity ratio; (4) net profit in the last fiscal year; (5) sufficient cash to cover current payables; or (6) receivables of less than 2 times quarterly tuition revenue. In addition, schools may be placed on quarterly reporting if outstanding legal, accreditation, or regulatory issues exist or if the parent company of the school is in financial distress.

Schools placed on quarterly financial reporting will receive notice from staff of the need to submit financial statements for review and of the deadline for submission of quarterly financial statements. Schools that fail to submit quarterly financial statements by the deadline may be referred to the Board's Review and Recommendation Panel for issuance of a Notice of Violation. Schools placed on quarterly financial reporting will remain in that status until released by the FRC and provided written notice by staff.

Failure to provide a complete or accurate financial statement will result in an FRC referral to the Board's Review and Recommendation Panel for issuance of a Notice of Violation.

The FRC has been delegated the authority by the Board to request additional information from the school to clarify information on the financial report. Additional information will be requested in writing by staff and a deadline for submission of the information will be provided. Failure to provide the information by the established deadline may result in an FRC referral to the Board's Review and Recommendation Panel for issuance of a Notice of Violation.

If the FRC determines that a school faces the possibility of closure due to financial concerns, the FRC may take any one or more of the following steps: (1) require the school to provide a teach out plan, (2) recommend strategies to alleviate the crisis, (3) require the school to provide a list and contact information for all current students and a copy of all current transcripts, (4) require the school to provide a business plan, and/or (5) recommend that the Board raise the school's surety level. In addition to the above, if the FRC determines that the school is in imminent danger of closing, loses its accreditation or loses approval to provide federal financial aid to students, the FRC may refer the school to the Board's Review and Recommendation Panel, with a recommendation that the panel seek suspension or revocation of the school's license.

If the Board receives an application for a new program from a school that is on quarterly financial reporting, then the Board must consult with the FRC before taking final action on the application.

The FRC will review the financial statements for new school applicants. New schools applicants will be required to submit a reviewed or audited financial statement. The Board will require a report and recommendation from the FRC before taking final action on a new school license application.

It is the policy of the Board that new schools will be placed on quarterly financial reporting for at least 4 quarters. At the end of that time, the FRC shall determine whether to release the school from reporting and the school will receive written notification from staff that they have been released from quarterly reporting or must continue to report.

Schools that submit application for approval of a change of ownership must submit a post-acquisition financial report for the school and a financial report for the new owner. Financial information for change of ownership applications will be reviewed by the FRC and the Board will require a report and recommendation from the FRC before taking final action on a change of ownership. It is the policy of the Board that schools will be placed on quarterly financial reporting for at least 4 quarters following a change of ownership. At the end of that time, the FRC shall determine whether to release the school from reporting and the school will receive written notification from staff that they have been released from quarterly reporting or must continue to report.

Schools that submit an application to the Board to award a scholarship must also submit a financial report for review by the FRC. The Board will not take action on the application until receiving a report and the recommendation of the FRC.

Staff may refer a school's financial statement to the FRC for review if there is concern about the school's financial solvency. If the FRC concurs that there is reason to be concerned about the financial solvency of a school referred by staff, the FRC will place that school on quarterly reporting.

If a school questions the report and recommendation that FRC proposes to make to the Board, the school must ask the Board that the matter be deferred and must submit a written explanation of its disagreement and the grounds for requesting reconsideration to the FRC. This written request for reconsideration with any supporting financial documentation must be submitted to the FRC within 30 days following the date of the Board meeting. The FRC may meet by conference call to consider and evaluate the request for reconsideration and will notify the school of its decision in writing. If the school remains dissatisfied, the FRC may allow the school to make an oral presentation at its next meeting, if requested.

If the school wishes to challenge a decision of the FRC following a request for reconsideration, the school must make a request and presentation to the Board of Private Licensed Schools during the period of the Board meeting set aside for the report of the FRC. The Board will consider the request and the recommendation of the FRC and make its decision on the matter.

Schools may also petition the Board to appeal FRC determinations maintaining a school on quarterly reporting. Such requests may be made orally to the Board during the FRC portion of the meeting. The school will be permitted to present its position to the Board and the Board will vote on the appeal.

This memorandum should be considered in conjunction with memorandum #63, which remains in effect.