

**COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF EDUCATION
February 17, 2005**

SUBJECT: Private Licensed Schools Memorandum #63

TO: Chief Executive Officers/Directors
Licensed/Registered Private Schools
Applicants for Licensure and Registration

FROM: Patricia Landis, Chief,
Division of Private Licensed Schools

FINANCIAL REPORTING

NEW SCHOOL APPLICANTS

All schools are required to submit financial documentation as a component of the license application. (24 P.S. §6507) The financial documentation is required in order to demonstrate that the school has the financial solvency that will be required to successfully launch the operation and prevent negative consequences for students. (22 Pa. Code §73.53)

Each application must include documentation that demonstrates that the school is appropriately capitalized, that accurate assessments have been made regarding operating costs, and that the individual, partnership, or corporation that owns the school is solvent and has the financial capacity to support the operation.

The Financial Review Committee reviews financial statements and supporting documentation before each Board meeting. A license cannot be issued until the Financial Review Committee approves the financial condition of the applicant school.

If a school is currently operating (conducting contract training, etc.), it must submit actual financial statements specific to the school on the PDE-2006 form. This statement should be only for the school site that is applying for licensure. It should not include other operations such as placement work or consulting work that is conducted by associated but unrelated business operations. The financial statements should not include other schools or other sites associated with the school.

If the school is not operating yet, it must provide a pro-forma financial statement that accurately and realistically reflects the revenue and expenditures anticipated prior to opening and the first 12 months of operation post opening. This pro-forma statement should include all costs associated with the operation of the school, including facilities, utilities, advertising, printing costs, staffing, staff benefits, insurance, and all other expenses. Failure to accurately anticipate reasonable expenses or unrealistic revenue projections can result in deferral or denial by the Financial Review Committee. Please refer to the PDE 2006 Form (Instructions and Chart of Accounts) for sample projections and definitions of terms. New school applicants are also encouraged to examine the PA Power Port site containing information for starting a business in PA. (<http://www.state.pa.us/> - click on Business in PA and then click on Start a Business.)

All applicant schools must demonstrate the financial solvency of the owners. If the school is a proprietorship (single owner) or partnership, the application should include personal financial statements. If the school is owned by a corporation, corporate financial statements must be provided. Audited or reviewed statements are appreciated, but not required, unless the committee specifically requests an audited or reviewed statement.

All financial documentation must be less than six months old on the Board meeting date at which the application will be reviewed. If a program is deferred, updated financial statements will be required for the subsequent meeting.

Financial statements provided for new school applications are expected to meet the following criteria:

If the school has been in operation:

1. A current ratio of 1:1 (current assets to current liabilities)
2. A positive net worth, accompanied by a reasonable debt to equity ratio
3. Net profit in one of the last two fiscal years

If the school has not been in operation yet:

1. Sufficient cash reserves to support 4 months of operation without depending on tuition revenue.
2. A positive net worth, accompanied by a reasonable debt to equity ratio
3. A pro-forma that accurately and realistically reflects the revenue and expenditures anticipated prior to opening and the first 12 months of operation post opening.

New schools will automatically be placed on quarterly reporting for the first four quarters following initial licensure.

RENEWAL APPLICATIONS

Each renewal application must contain a bi-annual financial statement covering the past 2 years. Financial statements cannot be more than 6 months old. They must contain a line item for gross tuition. Registered (out-of-state) schools must identify the amount of gross tuition revenue from Pennsylvania students. The financial statement for a renewal application must be specific to that licensed school. It may not contain information related to other associated schools or businesses. The parent corporation financial statement may be submitted with renewal applications, but it does not replace the need for a school-specific financial statement.

The financial statement can be submitted on the form PDE-2006 or in an acceptable format consistent with Certified Public Accountants review or compilation formats. Audited or reviewed statements are also acceptable.

Financial statements submitted with a renewal application are reviewed for:

1. A current ratio of 1:1
2. A positive net worth, accompanied by a reasonable debt to equity ratio
3. Net profit in one of the last two fiscal years
4. Major changes in revenue or expenses in recent years

Significant concerns related to the financial statements provided with a renewal application will be referred to the Financial Review Committee.

SCHOLARSHIP APPLICATIONS

Scholarship applications should include a financial statement for the school itself. The financial statement cannot be more than 6 months old at the time of review. The application may include financial information for the parent corporation or other associated schools or businesses, but the school-specific financial statement must be provided. The financial statement can be submitted on the form PDE-2006 or in an acceptable format consistent with Certified Public Accountants review or compilation formats. Audited or reviewed statements are also acceptable.

CHANGE OF OWNERSHIP

Please note that financial statements for the school submitted with an application for approval of a change of ownership must be dated after the closing of sale. Financial statements for the new owner must also be submitted. Please see the instructions above for new licensure applications for operating schools.

If the new owner is an individual or partnership, the application should include personal financial statements. If the school is owned by a corporation, corporate financial statements must be provided. Audited or reviewed statements are appreciated, but not required, unless the committee specifically requests an audited or reviewed statement.

All financial documentation must be less than six months old on the Board meeting date at which the application will be reviewed. If a program is deferred, updated financial statements will be required for the subsequent meeting.

Schools that have had a change of ownership will automatically be placed on quarterly reporting for the first four quarters following Board approval of the change of ownership.

QUARTERLY REPORTING

Schools that are placed on quarterly reporting by the Financial Review Committee are required to submit a quarterly statement for review at each meeting. New schools and schools with ownership changes are automatically placed on quarterly reporting for a minimum of four quarters. The deadline for submission of each report is provided in writing by staff.

Reports for schools on quarterly reporting must be provided on the PDE-2006 form. Quarterly reports may contain information for the parent corporation or other associated schools or businesses, but a school-specific report must be provided on the PDE-2006 to comply with quarterly reporting requirements.

Schools that are relieved of quarterly reporting requirements will be informed in writing by staff.

ALL FINANCIAL REPORTING

Please note that this information is provided to guide schools and applicants in financial planning and financial reporting. Information related to criteria for assessing financial stability is provided to inform schools and applicants regarding the assessment process. However, the Board and the Financial Review Committee may look at any other indicator to determine stability and are not limited to or bound by the criteria outlined in this memo.