



March 25, 2019

Ms. Yolanda T. Duran, President
Advance Beauty Techs Academy
2191 Sampson Avenue, Suite 105
Corona, California 92879-6572

UPS 2nd Day Delivery
Tracking #: 1Z A87 964 02 9483 5236

RE: Provisional Certification Alternative
Letter of Credit 25% - Refund Reserve Standard
OPE ID: 04206800

Dear Ms. Duran:

The San Francisco/Seattle School Participation Division (SPD) has completed its review of the fiscal year ended (FYE) December 31, 2017 audited financial statements of Advance Beauty Techs Academy *dba* ABTA Beauty Academy (ABTA).

In assessing the financial strength of ABTA, our financial analyst reviewed the financial statements using the indicators that are set forth in regulations at 34 C.F.R. § 668.171.

Financial Ratios 34 C.F.R. § 668.171(b)(1)

These statements yield a composite score of -1.0 out of a possible 3.0. A minimum score of 1.5 is necessary to meet the requirement of the financial standards. Accordingly, ABTA fails to meet the standards of financial responsibility as described in 34 C.F.R. § 668.172, Financial Ratios.

Audit Opinions 34 C.F.R. § 668.171(d)(1)

The Independent Auditor's Report in ABTA's audited financial statements expressed substantial doubt that ABTA can continue as a going concern.

Past Performance 34 C.F.R. § 668.171(d)(2)

As provided in the past performance provisions in § 668.174(a), ABTA is not financially responsible because it has been cited during the preceding five years for failure to submit in a timely fashion acceptable compliance and financial statement audits.

In view of its failure to meet the financial responsibility standards, ABTA may continue to participate in the Title IV, HEA programs under the Provisional Certification Alternative.

Provisional Certification Alternative (34 C.F.R. § 668.175(f))

Under this alternative, ABTA must post a letter of credit in the amount of \$129,032 and continue to be provisionally certified. This amount represents 20% of the Title IV, HEA program funds received by ABTA during the most recently completed FYE December 31, 2018.

ABTA must comply with all of the requirements specified for the Provisional Certification Alternative in 34 C.F.R. § 668.175(f), including the Zone Alternative in 34 C.F.R. §§ 668.175(d)(2) and (3), and Requesting Funds 668.162(e), including the disbursement of Title IV, HEA program funds under the Heightened Cash Monitoring 1 (HCM1) payment method. By choosing this option, ABTA acknowledges that it has not met the Department's standards of financial responsibility.

Compliance with Zone Alternative Requirements

1(a) Method of Payment – ABTA is required to make disbursements to eligible students and parents under either the cash monitoring or reimbursement payment method as described under 34 C.F.R. § 668.162(d) and (e). Under this alternative, ABTA will continue to participate under the HCM1 payment method.

Under the HCM1 payment method, as stated in 668.162(d), the institution must first make disbursements to eligible students and parents and pay any remaining credit balances before it requests or receives funds for the amount of those disbursements from the Department. This "Records First" requirement is fully described in the 2018-2019 Funding Authorization and Disbursement Information eAnnouncement. The funding request may not exceed the amount of the actual disbursements that were made to the students and parents included in the funding request. Provided the student accounts are credited before the funding requests are initiated, the institution is permitted to draw down funds through the Department's electronic system for grants management and payments, G5, for the amount of disbursements it made to eligible students and parents. All credit balances must be paid prior to draw down of funds, even if the student/parent signed a credit balance authorization in the past. Authorization forms used prior to July 1, 2016 are no longer valid. The use of credit balance authorization forms is prohibited.

The Records First requirement also means that institutions on HCM1 that are participating in the Direct Loan (DL) program will have their Current Funding Level (CFL) reduced to the greater of Net Approved and Posted Disbursements (NAPD) or Net Draws (processed payments less all refunds, returns, offsets, and drawdown adjustments). In the event of returning to the Advanced Funded status, the institution will be expected to continue processing DL awards as Records First until the next DL global funding increase is processed.

For additional information about the Records First requirement, please refer to the following e-Announcement,

<https://ifap.ed.gov/eannouncements/attachments/ImportRemindand1819FundAuthandDisbursInfo.pdf>

1(b) Notification Requirements - ABTA is required to provide information to the SPD by certified mail or electronic or facsimile transmission no later than 10 days after any of the oversight or financial events, as described below, occur. ABTA must also include with the information it submits, written notice that details the circumstances surrounding the event(s) and, if necessary, what steps it has taken or plans to take, to resolve the issue.

- Any adverse action, including probation or similar action, taken against ABTA by its accrediting agency, the State of California, or other Federal agency;
- Any event that causes ABTA, or related entity as defined in the Statement of Financial Accounting Standards (SFAS) 57, to realize any liability that was noted as a contingent liability in ABTA's or related entity's most recent audited financial statements;
- Any violation by ABTA of any loan agreement;
- Any failure of ABTA to make a payment in accordance with its debt obligations that results in a creditor filing suit to recover funds under those obligations;
- Any withdrawal of owner's equity/net assets from ABTA by any means, including by declaring a dividend;
- Any extraordinary losses as defined in accordance with Accounting Principles Board (APB) Opinion No. 30; or
- Any filing of a petition by ABTA for relief in bankruptcy court.

1 (c) Auditor's Attestation Requirement – As part of its compliance audit, ABTA must require its auditor to express an opinion on its compliance with the requirements under the Zone Alternative, including its administration of the payment method used to receive and disburse program funds.

Letter of Credit 25% - Refund Reserve Standard

To participate in the Title IV programs, ABTA must meet the General Standards of Financial Responsibility requirements outlined in 34 C.F.R. § 668.171(b). One of those standards requires institutions to comply with the refund requirements in 34 C.F.R. § 668.173. Those requirements state that an institution is considered to be making required refunds on a timely basis if the institution's compliance audits for the two most recently completed fiscal years did not have a finding in either of those fiscal years that the institution made late refunds to 5% or more of the students in the auditor's sample. ABTA's compliance audit submitted on December 11, 2018 indicates that late refunds were made on behalf of 12% of the students in the auditor's sample.

In cases where the late refunds exceed the permissible compliance threshold outlined in 34 C.F.R. § 668.173(c), the institution is required to submit an irrevocable letter of credit (LOC), acceptable and payable to the Secretary, equal to 25% of the total amount of Title IV, HEA program refunds the institution made or should have made during its most recently completed fiscal year. Based on the total dollars refunded, per the auditor's *Schedule of Findings and Questioned Costs*, the LOC should be in the amount of \$3,243 (25% of \$12,971). However,

since ABTA has submitted an LOC under the First Year Past Performance Provisional Certification requirement, another LOC for the Refund Reserve Standard is not required at this time.

Letter of Credit Requirements

The irrevocable letter of credit must be made payable to the Secretary, U.S. Department of Education. The letter of credit is necessary in the event that ABTA would close or terminate classes at other than the end of an academic period. It assures the Secretary that funds would be available from which to make refunds, provide teach-out facilities, and meet institutional obligations to the Department.

Our records indicate that ABTA has LOC #13-SB-5200 on file for \$48,145 which is scheduled to expire on December 17, 2023. ABTA may provide a new LOC for \$80,887 with an expiration date one year from the date of issuance. The \$80,887 LOC amount is the difference between the \$129,032 LOC requirement and the \$48,145 LOC already on file.

ABTA may provide an LOC amendment increasing the LOC amount to \$129,032, but the expiration date must remain at December 17, 2023. If an LOC amendment is submitted, it must be a separately numbered amendment issued by the financial institution clearly indicating the total LOC amount.

Please note that LOC #13-SB-5133 on file for \$7,778 expired on January 30, 2019 and is no longer active.

A sample irrevocable letter of credit is enclosed. ABTA's letter of credit must be issued by a United States bank. Your lending institution must use this format on its letterhead with no deviation in the language contained therein. The irrevocable letter of credit must be received prior to 45 calendar days from the date of this letter. Please note that if ABTA fails to provide the irrevocable letter of credit prior to 45 calendar days from the date of this letter, the institution may be referred to the Department's Administrative Actions and Appeals Service Group (AAASG) for termination and/or other administrative action under 34 C.F.R. § 668.86. Also, note that information regarding the financial analysis score, results, and the LOC is subject to the Freedom of Information Act (FOIA) of 1966, as amended.

Please mail the irrevocable letter of credit to the following address:

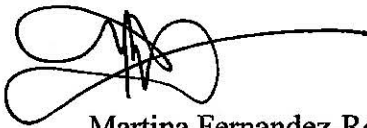
Veronica Pickett, Director
Performance Improvement and Procedures Service Group
U.S. Department of Education
Federal Student Aid/Program Compliance
830 First Street, NE, UCP3, MS 5435
Washington, DC 20002-8019

ABTA is required to notify the SPD within 3 calendar days, in the event the LOC issuing institution should fail, resulting in financial transactions and operations being administered by the Federal Deposit Insurance Corporation. ABTA will also be required to submit a new replacement LOC issued by a different and non-failed U.S. bank, within 45 calendar days.

Promptly contact Hyun Jhong Yi, Payment Analyst, at (415) 486-5511 with any questions regarding ABTA's current DL award authorization level or the Records First requirements.

If you have any questions regarding the financial responsibility determination, or disagree with the reason or methodology used for this determination, please contact Michael Fuller, Financial Analyst, within 30 calendar days at (206) 615-3686.

Sincerely,

A handwritten signature in black ink, appearing to read 'Martina', with a long horizontal line extending to the right.

Martina Fernandez-Rosario
Division Director
San Francisco/Seattle School Participation Division

Enclosure: Sample Irrevocable Letter of Credit

cc: National Accrediting Commission of Career Arts and Sciences
California Bureau for Private Postsecondary Education