

ARIZONA STATE BOARD FOR PRIVATE POSTSECONDARY EDUCATION
1400 W. WASHINGTON STREET, CONFERENCE ROOM B1
PHOENIX, AZ 85007

January 6, 2015 Finance Committee Meeting Minutes

Members present: David Walser, Chairman
Jason Pistillo

Also present: Teri Stanfill, Executive Director
KD, Licensing

I. CALL TO ORDER

Chairman Walser called the meeting of the Finance Committee to order at 10:00 a.m.

II. Discussion and Action on the Minutes of the June 26, 2014 Finance Committee Minutes and September 25, 2014 Finance Committee Minutes: Due to the lack of a quorum, action could not be taken.

III. Discussion and Action on the Financial Status and License Renewals:

1. Arizona Heart Institute (AHI). Represented by Paula Banahan

Ms. Banahan explained the AHI has gone through significant changes during the last three years. Ms. Banahan explained that Dr. Deitrich retired and, the Hospital and the Institute no longer exist; the Foundation is all that is left, which the school is a part of. Ms. Banahan stated that the Foundation is currently up for sale and expects to close soon.

Ms. Banahan also explained the program length was changed and affected revenue; enrolled students have increased from 5 to 15.

The potential sale was discussed. The school is NOT a part of the sale of the Foundation; it is the building that is being sold. It is the intent that the school will then move to a smaller location and should be able to sustain itself through the tuition without incurring the expenses of the Foundation. The school has been assuming all of the expenses of the Foundation's building.

Mr. Pistillo asked about the breakeven point. Ms. Banahan stated the break-even point is 15 – 17 students.

Motion: Mr. Pistillo made the motion to approve the 2015 Regular Vocational Program License with the stipulation to post a \$53,000 Surety Bond and submit to quarterly reporting. Mr. Walser seconded the motion and the motion carried. Ms. Banahan agreed to the stipulations.

2. Brookline College. Represented by Roy Hawkins, President and Sean Kerrigan, CFO

Mr. Hawkins addressed the Committee and explained that projections have been exceeded, \$1.6 profit. The new budget is conservative with no growth, but improvements in the delivery.

Mr. Walser asked about the improved performance. Mr. Hawkins responded prior costs were very high; there is a new management team and re-structure of marketing and admissions, implemented new training programs for staff. New starts have increased.

Mr. Pistillo asked if the 2014 audit is available. Mr. Hawkins expects the Audit by the end of March. It is expected the composite score will be 1.7 to 2.0.

Mr. Walser asked about the retention and placement rates for the company as a whole. Mr. Hawkins explained the rates are calculated by campus and by program. Mr. Hawkins stated Brookline is no longer on outcome reporting.

Motion: Mr. Pistillo made the motion to approve the 2015 Regular Vocational and Degree-Granting License Renewals, but to continue quarterly reporting until the 2014 Audit is received. Mr. Walser seconded the motion and motion carried.

3. **Everest College Phoenix.** Represented by Dr. Ed Johnson, President; Marilyn Clute, CFO and Elaine Raker.

Dr. Johnson stated that ECMC is the proposed buyer of ECP and continues to work on the approvals of the COO. The Change of Control applications have been submitted to HLC. Dr. Johnson stated that ECMC has agreed to provide resources to sustain any losses during the COO transition.

It is expected to have a decision from HLC in late February and if approved, the COO will occur in March.

Ms. Clute gave an overview of the financial status of ECP.

Mr. Pistillo stated that the COO will be reviewed by the full Board in January so would like to ask questions regarding the outcome reports.

Ms. Raker stated the Phoenix campus retention rate is 71.4, the Mesa rate is 70.1 and the Online rate is 48.8.

Mr. Pistillo expressed his concern with the low retention rate for Online and the significant difference in the rates online vs. ground.

Dr. Johnson responded that there will be a significant “cultural” change with ECMC in the new business model, focusing from start driven to a model of successful outcomes. Dr. Johnson explained that ECMC is committed to provide the resources to achieve these new goals.

Mr. Walser asked how many AZ students attend the online campus. Dr. Johnson explained very few AZ students attend the online campus and it is hoped the new model will help change that more AZ students will enroll in the online campus.

Mr. Pistillo asked if the HLC draft staff report has been received. Dr. Johnson stated they have not as additional documents were requested, but expects to receive two HLC reports in the next couple of weeks.

Motion: Mr. Walser made the motion to defer action on the 2014 License Renewal as the Board will be reviewing the Change of Ownership in January. Ms. Pistillo seconded the motion and the motion carried.

4. Le Cordon Bleu College of Culinary Arts. Represented by Craig Bartholomew, Campus President; Tom O'Donnell, VP of Strategic Initiatives

Mr. Bartholomew stated that projections are currently being met and there has been a short decrease in the losses. Mr. O'Donnell stated that excluding the contribution margin, LCB is close to meeting break-even.

Mr. Walser asked about the potential sale. Mr. O'Donnell responded that a firm is seeking a potential buyer, but it is very early in the process.

Motion: Mr. Pistillo made a motion to approve the 2015 Regular Vocational and Degree-Granting License Renewal with the stipulations that quarterly reporting be continued and maintain the Surety Bond. Mr. Walser seconded the motion and the motion carried. Mr. Bartholomew agreed to the stipulations.

5. Tucson College. Represented by Lloyd Kirsch, Campus President; Kevin Smith, Sr. VP Finance, Kim Hill, VP Finance and Katrina VanNata, Controller.

Mr. Kirsch stated that revenue has increased, expenses have decreased and educational income has increased and exceeded budget. There has been a shortfall in bookstore operations; corporate expenses had been mis-budgeted. Retention and Placement rates have increased to 86% and 84% respectively.

Mr. Pistillo asked about the financial position of the parent company. Ms. Hill responded the parent company is experiencing a net loss, primarily due to cost of capital expense; highly leveraged company.

Mr. Hill explained the interest expense is being capitalized causing the loss. Mr. Walser stated the payments will eventually have to be made. Mr. Hill responded they are seeing improvement and expect to become profitable in the next few years.

Requirement for a Surety Bond was discussed.

Motion: Mr. Walser made a motion to approve the 2015 Regular Vocational Program License with the following stipulations: continue quarterly reporting and post a surety bond in the amount of \$453,000. Mr. Pistillo seconded the motion carried. Mr. Kirsch agreed to the stipulations. The surety bond is to be posted within 30 days.

6. Unmanned Vehicle University. Represented by Mark Wilkins, new owner of UVU and Dr. "O"

Mr. Wilkins explained that Dr. Jerry LeMieux suddenly passed away on July 4, 2014 and has been managed through the trust since then. Mr. Wilkins and his partner, Mr. Kelly, purchased UVU in December 2014. Mr. Wilkins explained they also own Stampedglobal.com, a re-seller of drones. Mr. Wilkins believes the UVU purchase with their company to be a strategic advantage and opportunity in educating future pilots of drones. Mr. Wilkins explained the many uses of the drones. Mr. Walser asked if any changes were planned. Mr. Wilkins responded yes, to simplify the mission and into three separate areas: the school, research and new ventures.

Mr. Wilkins stated new Deans have been hired, but the Provost and Dr. O have worked with Dr. LeMieux the last two years at the school.

Motion: Mr. Walser made the motion to defer the License Renewal and to be considered with the Change of Ownership application at a future Board meeting. Mr. Pistillo seconded the motion and the motion carried.

IV. Review of Quarterly Reports

1. American Indian College of the Assemblies of God. Represented by Dr. David Moore and Steve Chaney, CPA (by phone)

Dr. Moore stated that the 6/30/14 fiscal year end has been very good, housing income has increased, gift income has increased and enrollment is up.

Mr. Pistillo stated Dr. Moore's President's Report answered many of his questions.

Mr. Walser asked about the breakeven point on the quarterly report (xxx's). Mr. Chaney stated the breakeven point is 106 without "discounted features"; intends to break even without the gift income.

2. American University of Sovereign Nations. Represented by Jacob Caldwell, Administrator and Aaron Coates, CPA

Mr. Caldwell stated current enrollment of 50 briefly summarized the January 6, 2015 quarterly report update from Dr. Gionis.

Mr. Pistillo expressed his concern with 50 students and no tuition revenue and questioned the accounting. Mr. Coates stated they are taking investments to fund the students for accreditation purposes. It was clarified the statements are cash basis.

Mr. Pistillo stated the statements are required to be accrual. Mr. Walser also expressed his concern that tuition revenues cannot be verified.

Mr. Walser and Mr. Pistillo clearly stated that accrual statements be provided and that financial information can be verified. Concern was expressed.

Ms. Stanfill stated that the State Board be notified of any changes in administrative staff.

3. Arizona School of Massage Therapy. Represented by Beth Hepler and Melissa Wade, by phone.

Mr. Walser asked about the December 22, 2014 ACCET letter. Ms. Wade stated they immediately complied with ACCET's request and ceased enrollment in the aesthetic programs. Ms. Wade stated they are teaching out the students and expects to report improved rates to ACCET and request re-consideration.

Ms. Wade clarified there are currently no adverse actions on the AZ programs.

Mr. Pistillo asked about the percentage of revenue is the aesthetics program. Ms. Wade explained is approximately 16%; massage is the main program.

Next report is due to ACCET by February 27, 2015 for consideration at the ACCET May meeting.

4. Arizona Vocational Training Institute.

Mr. Reguerin will not be present due to an injury. The Finance Committee requests that personal financial statements be provided for the June Finance meeting.

5. Executive Academy of Scottsdale. Represented by Magdalena Cutler

Ms. Cutler gave a brief update – going as expected, started the DEAC application, projecting small losses but personal reserves will cover the ongoing losses as they seek accreditation.

Mr. Pistillo asked if EAS has met the DEAC timeline. Ms. Cutler stated they have not met the timeline, off by approximately 60 days.

6. Fortis College. Represented by Glen Tharp, Campus President, Steve Budosh, CFO and Jason Mika by phone

Mr. Tharp stated Fortis is close to meeting projections; student enrollment is slightly lower than expected. Mr. Tharp expects the Nursing program to improve. One of the other strategies is to return to grow their “core” programs that have better margins.

Mr. Walser asked about the break-even point of 265. Mr. Tharp responded current enrollment is 230. They are currently working on budget for next year.

7. Han University. Represented by Alex Holland, President and Stephanie Hu.

Mr. Holland gave a brief overview; current enrollment is 18 and the breakeven point is 15. Mr. Holland expects to meet breakeven by the fall start.

Ms. Hu explained Han is received rental income from ASAOM. Mr. Holland explains that there is a pending COO for ASAOM by the Hu’s who also own Han.

8. Thunderbird School of Global Management. Represented by James Scott

Mr. Walser recused himself. Mr. Tharp joined as an alternate member.

As of December 30, 2015, Mr. Scott reported that Thunderbird is now owned by ASU and has requested HLC to continue the Thunderbird accreditation during the teach-out period.

Mr. Scott reported that ABOR has approved the two programs offered by Thunderbird. Currently there is 600 students in the teach-out of the program.

Ms. Stanfill explained that the Board approved the Change of Ownership and approved the Teach-out through April 2016, to include submission of the April 2015 License Renewal.

Additional discussed ensued to provide further explanation of the transition period.

Motion: Mr. Pistillo made the motion to remove Thunderbird School of Global Management from quarterly reporting. Mr. Tharp seconded the motion and the motion carried.

V. Adjournment: The meeting adjourned at 11:44 a.m.

The Minutes of the January 6, 2015 Finance Committee Minutes were approved at the June 25, 2015 meeting


Teri Stanfill, Executive Director