

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

March 27, 2014 Finance Committee Meeting Minutes

Members present: David Walser, Chairman
KC Miller
Jason Pistillo

Also present: Teri Stanfill, Executive Director
KD, Program Manager

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 December 16, 2013 Finance Committee Minutes: Mr. Pistillo made the motion to approve the Minutes as written. Ms. Miller seconded the motion and the motion carried.

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

1. Accelerated Performance Training Institute (ACE). Represented by Donna Marie Bertault

Ms. Bertault provided the members with a letter presenting an overview of the two companies, Accelerated Performance Institute (formerly eRenewable Resource Institute) and ARG Staffing. The letter as summarized: The companies suffered in 2013 as a result of the recession. The family provided a loan to keep the companies operating. Adjustments were made: cut overhead and adjustments to the market changes; liabilities are down and earnings are up. A 2013/2014 budget was provided. Also provided "the projection for the City of Phoenix Summer Recreation contact which ARG Staffing is awarded every year for the city. Thus ensuring a savings pool." Also expanding curriculum as they ACE was awarded a certificate to teach the Traffic Survival School, the PMP course and partnering with CEE in an attempt to offer the "Certificate of Energy Management" course on an on-going basis. Attachments included: 2013/2014 ART Staffing and eRenewable Resource budget overview, ART & eRenewable Resource Institute 2013/2014 liability overview, outstanding April invoices due of \$7,856; projections for the driving school (\$1,900) and projections for annual summer contract of \$45,000.

Ms. Bertault stated she believes the letter addresses the concerns and requests that both companies be viewed as under one umbrella. Ms. Bertault stated the ACE financials have been provided and stated the information provided should be sufficient.

Mr. Pistillo requested an explanation regarding the question of ownership. Ms. Stanfill explained as follows: The ownership on record is eRenewable Resource Institute, Inc., 100% ownership by Donna Marie Bertault. The AZ Corporation Commission records show the Annual Report is delinquent. In May 2013, the licensee submitted a Change of Name application, from

eRenewable Resource Institute to Accelerated Performance Institute, Inc. Based upon records from the AZ Corporation Commission, a new corporation was formed, Accelerated Performance Institute, Inc., with Rosemarie Bentivegno and Anthony Bentivegno as directors. Ms. Bertault is not a director of the new corporation, the corporation that is listed on the 2014 License Renewal. Based upon a conversation with Ms. Bertault, Staff understands that eRenewable Resource Institute Inc. is being dissolved and a new corporation formed. As disclosed by Ms. Bertault in the phone conversation (but not reported on the renewal), Ms. Bertault filed bankruptcy and was not listed as a Director due to concerns that may cause problems in forming the new company. However, Mr. and Mrs. Bentivegno, Ms. Bertault's parents, will be transferring full ownership back to her. Ms. Bertault stated this has not yet occurred.

Mr. Pistillo asked if there were consolidated statements available for both companies. Ms. Bertault responded she did not but would be able to get them. Ms. Bertault stated she believes that the changes that have been made will result in financial stability.

Mr. Walser requested further clarification regarding the old and new company. Ms. Bertault reiterates her previous explanations. Mr. Walser again asked Ms. Bertault if her parents have transferred the ownership back to her and Ms. Bertault stated the paperwork has been started but not completed.

Mr. Walser asked about the bond. Ms. Stanfill stated there is a \$15,000 Surety bond in the new name of Accelerated Performance Training Institute.

Ms. Miller asked if there were projections for next year. Ms. Bertault responded that they are "poised" to have four specialties: the new traffic survival school, project management which has had interest, medical billing and the renewable energy which has had little interest. Ms. Bertault stated she could not provide any real numbers. Ms. Miller asked if she had a marketing plan. Ms. Bertault stated she did not and acknowledged a plan was needed. Ms. Bertault again stated the changes in the market requires the previous "formula" she had needs to be revamped and assessed. Ms. Miller asked if there are any current students. Ms. Bertault responded there are a few student anticipated for the PMP program for the end of April.

Mr. Pistillo asked what is the legal entity is licensed. Ms. Stanfill explained that is the question based upon the change of name and the additional information staff later retrieved from the Corporation Commission. Ms. Stanfill stated this is the issue that needs to be determined. Discussion ensued if a change of ownership had occurred.

Motion: Ms. Miller made the motion to refer the matter to the full State Board and require consolidated financial statements and a marketing/business plan. Mr. Walser seconded the motion. Discussion ensued. Mr. Walser requested that Ms. Stanfill also ask for accurate information regarding change of ownership, and discuss the matter with the Assistant Attorney General to determine who is the legal entity that is licensed. Ms. Miller amended the motion that ACE have a pre-meeting with Staff to determine the appropriate course of action (change of ownership or new application) for licensure and refrain from enrolling students. Mr. Pistillo seconded. Discussion ensued. Mr. Pistillo stated he believed the review of the documents will clearly determine if a change of ownership has occurred or if an application for a new school will be required. Ms. Stanfill stated the Committee did not have the authority to require ACE to cease enrollment. Ms. Miller amended the motion that the matter be referred to the full State

Board and consolidated financial statements and a business/marketing plan be provided. Prior to the State Board meeting, Staff is to meet with Ms. Bertault to determine the status of the license, if a change of ownership has occurred or if a new school application will be required. Mr. Pistillo seconded the motion and the motion carried.

2. American Indian College of the Assemblies of God. Represented by Dr. David Moore, President, Andrea Avalez, VP for Financial Services and Monica Stern, CPA, by phone.

Ms. Stern stated the quarter ending December 31, 2013 ended \$61,000 less than projected, as a result of timing to the sale of property, but contributions were above budget, but overall results were good. Ms. Stern stated 2014 projections are based upon current enrollment.

Current enrollment is 78 and campus enrollment is up which helps the bottom line.

Ms. Pistillo requested clarification on the answer to #7 on the renewal application. Ms. Stern clarified that was an error, the institution is current on all taxes.

Mr. Pistillo asked for an update on the new enrollment management system. Dr. Moore explained inquiries and up by 5 times and application process up by 4 times and believes there will be a result of increased enrollment.

Mr. Pistillo requested clarification on the "Other Income/Expense" line on the quarterly report. Ms. Stern responded that figure is from contributions. Ms. Stern recommended the quarterly report be revised to more accurately reflect the operations of a university.

Mr. Pistillo had a few questions on the Income/statement to which Dr. Moore and Ms. Stern explained.

Mr. Walser asked about the break-even point; stating current enrollment is 78, but the break-even calculation is for 95 students and asked when will the student enrollment will be met to meet the break even mark and/or expenses reduced. Ms. Stern responded that from a cash flow standpoint, they are fairly close taking into account depreciation expense; but agrees from GAAP standpoint, they are not profitable.

Dr. Moore stated contributions are up substantially, other sources of revenue and contributed services, he explains breakeven point is not a linear relationship and makes it difficult to "identify a number". Discussion ensued.

Motion: Ms. Miller made a motion to approve the Regular Degree-Granting License Renewal with the stipulation that American Indian College remain on quarterly reporting. Mr. Pistillo seconded the motion and requested discussion. Mr. Pistillo suggested that the renewal be referred to the full State Board based upon the HLC Probation. Ms. Miller modified her motion that the License Renewal be referred to the full State Board. Mr. Pistillo seconded the amended motion and the motion carried.

3. Brookline College. Represented by Roy Hawkins, President and Simit Shah, CFO

Mr. Hawkins stated 2013 was a difficult year; explaining that the corporate structure and campuses underwent a significant re-organization and staffing to meet the needs of the current enrollment. Focus was on faculty/student ratios, improvement of delivery systems, improve the student experience and outcomes. Mr. Hawkins stated the new management team had determined to "flatline" growth. However, there has been an increase in student enrollment and made a profit in January and February; primarily due to the improved Nursing program.

Ms. Miller asked the percentage of students were online. Mr. Hawkins responded that only 8 to 10% are online students as he had determined to slow down growth in order to improve the infrastructure and improve retention.

Ms. Miller asked about the 90/10. Mr. Hawkins responded currently they are at 84.16%. Mr. Hawkins also explained the marketing plans and additional programs to improve the ratio; with a goal of 80/20.

Mr. Pistillo expressed his concern with significant amount of accounts receivable. Mr. Shah explained that collection efforts have been increased as well as outsourced. Mr. Shah responded to Mr. Pistillo's questions regarding the accounts receivable. Mr. Pistillo again expressed his concerns with accounts receivable.

Mr. Walser asked why the current ratio dropped from 2.42 in 12/2012 to .66 in 9/2013. Mr. Shah explained the fluctuation is seasonal; but the average is 1.3.

Mr. Pistillo asked for the composite score. Mr. Shah responded that in 2012 the score was 1.5. The audit is currently being conducted and he expects the composite score to be in the zone from 1.0 to 1.5.

Motion: Ms. Miller made the motion to approve the 2014 Regular Vocational and Degree-Granting License renewal with the stipulation to submit to quarterly reporting. Mr. Pistillo seconded the motion. Mr. Walser asked the committee to discuss the possible requirement of a surety bond. The Committee determined a surety bond was not required at this time. The motion carried. Mr. Hawkins agreed to the stipulation.

4. Penn Foster College. Represented by Frank Britt, President. By phone: Connie Dempsey, Compliance and Bill Hoyer, CFO.

Mr. Britt provided a comprehensive explanation on the current financial status of Penn Foster College. Mr. Britt stated Penn Foster does not participate in the federal student loan program and stated the company is profitable. Mr. Britt explained that new equity financing that was secured in February. Mr. Britt also explained the business model used for the improvement of the student experience.

Mr. Britt responded to Mr. Walser's request for an explanation on the corporate structure to include the high school and the 5 year plan of the equity partners.

Motion: Mr. Pistillo made a motion to approve the 2014 Regular Vocational and Degree-Granting License Renewal and quarterly reporting was not required. Ms. Miller seconded the motion and the motion carried.

5. Providence Training Institute. Represented by Roger Olade, owner and Craig Gatesman, accountant, by phone

Mr. Olade explained that second campus was closed as it was not profitable and will now focus on the one campus. Mr. Olade explained the issues as a result of the prior accountant.

Mr. Gatesman stated revenue is up by 41%; costs only increased by 20%. PTI has switched to the accrual basis.

Mr. Olade requested the \$30,000 Surety bond be reduced to \$15,000 as a result of closing the second campus.

Motion: Ms. Miller made the motion to approve the 2014 Regular Vocational Program License Renewal, reduce the bonding requirement to \$15,000 and that quarterly reporting is no longer required. Mr. Pistillo seconded the motion and the motion carried.

IV. Review of Quarterly Reports

1. ABC Bartending and Casino School. Represented by "Cosmo" Raymond.

Mr. Raymond gave a brief update on the current status of the school explaining that Channel 10 and 15 have been onsite to do a piece on the school's training; now using paypal which has helped with enrollment; the landlord has agreed to a rent reduction; casinos are hiring and job lead for bartenders has increased.

2. Arizona Automotive Institute. Represented by Darin Barga, AAI Campus President, Renee Arellano, Director of Career Services, Michael Zawisky, Ancora Education President, Art Rodriguez, Compliant and Sean Kerrigan, CFO

Mr. Zawisky stated that, for the first time in two years, there is not an update regarding any pending change of ownership/re-organization or restructuring. Mr. Zawisky also stated that the ACCSC November onsite visit went well and they received the Team Report with no findings.

Mr. Barga stated that employment percentages reported to ACCSC on the last annual report that all employment benchmarks were met and that current employment rates for the next cycle (reported in late fall of 2014), 3 of the 4 programs are already exceeding the benchmarks and the 4th program is expected to exceed in approximately six months.

Mr. Barga requested that AAI be removed from outcomes reporting. Ms. Miller commended AAI on the hard work and resulting success.

Mr. Walser asked for an update on the previous lawsuits. Mr. Zawisky explained the lawsuits under the previous ownership are now "in the hands of the trustee" and there will not be any effect on AAI. Mr. Zawisky also replied that no lawsuits have since been filed.

Motion: Mr. Pistillo made the motion to remove AAI from financial and outcome reporting. Ms. Miller seconded the motion and the motion carried.

3. Everest College. Represented by Thomas Waite, Provost; Elise Alva, Director of Career Services; Marilyn Clute, CFO; by phone: Steve Shipley, Student Services, Phoenix and Mesa Campus Presidents

Ms. Clute provided an in-depth explanation on the significant gains that are being made. Ms. Clute also explained the third and fourth quarter costs are investments in the online infrastructure, marketing and enrollment teams before the revenue will be realized. Mr. Walser asked if these costs should be capitalized. Ms. Clute responded they were current period expenses; mainly in personnel, training and advertising. Ms. Clute also stated cash flow is expected to be positive and they have met the projections, over by @\$10,000, that were provided to the Committee.

4. Executive Academy of Scottsdale. Represented by Magdalena Cutler

Ms. Cutler explained the school is developing as expected, no changes, and will continue until they are able to begin the accreditation process. Projections have been met for 2013, slightly better but still a loss as projected. The loss was due to the tuition concessions which EAS has eliminated. The next big expense will be the accreditation process.

Ms. Cutler stated the process to begin accreditation may be delayed slightly since they must have two years of enrollment to be eligible, perhaps September.

In response to Ms. Miller's question on who will be assisting with the accreditation process and the costs. Ms. Cutler responded EAS will continue to have the consultants assist and the costs will be funded primarily by personal assets. Ms. Miller cautioned that once accreditation has been received, the approval to participate in Title 4 will be dependent upon their financial position. Ms. Cutler believes EAS will be profitable once accreditation is received even without Title 4.

Mr. Walser asked that since EAS has eliminated the tuition concessions, will enrollment go down. Ms. Cutler stated it has, but believes EAS will be able to continued.

Mr. Pistillo requested full in-house income statements.

5. Han University of Traditional Medicine. Represented by Alex Holland, by phone.

Mr. Holland explained that Mr. and Mrs. Hu were unavailable due to a family illness.

Mr. Holland stated Han received re-accreditation from ACAOM for 7 years, hired 5 new administrators, extensive marketing in China and the U.S., raised the clinic prices, renting out space in the new building, expanding continuing education offerings and considering an in-house payment plan. There are currently 14 FTE students and 25 FTE students are needed to break even. Mr. Holland believes the investments have been completed and will begin seeing the returns in the near future.

Mr. Walser asked how Han expects to get the 25 students needed to meet break even. Mr. Holland responded there are currently 3 new students for the Spring start and there has been more interest than in the past and believes they are on the right track.

Mr. Pistillo requested Mr. Holland to develop a marketing/business plan for the Board's review at the June meeting.

6. Le Cordon Bleu School of Culinary Arts. Represented by Craig Bartholomew, Campus President, by phone Michelle Peppers and someone else.

Mr. Bartholomew stated updated, year-end actual financials have been submitted. Mr. Bartholomew stated this quarter to focus on correcting the internal challenges as well as improvement for the students.

Mr. Walser states his continued concern with the fluctuating break-even point and not a lot of improvement in meeting the breakeven point. Mr. Bartholomew responded they are addressing this issue now through appropriate staffing levels, transition to internal marketing efforts and improvements are already being realized.

7. Khalsa Montessori School. Represented by Janice Mayhew, by phone

Ms. Mayhew explained this has been a good quarter has received the MACTE accreditation for the early education program and the parent company has moved into a better financial position; enrollment has increased.

8. Medline School. No one was present.

Ms. Stanfill explained that no one was present as the arbitration between Ms. Hurkens and the previous owner was scheduled for today. Members did not have any questions. The renewal will be scheduled for the July meeting.

9. Tucson College. Represented by Lillie Roman, Campus President. By phone: Kim Hill, VP of Finance and Katrina Van Natta, VP Accounting and Controller with Delta Ed

Ms. Roman explained the significant improvements that have been made over the past year to include enrollments and retention.

Mr. Pistillo asked about allocation from corporate and asked if the same services provided by corporate would be about the same with an outside source. Ms. Hill stated the costs are probably close or perhaps lower because of the allocation to all of the schools.

Mr. Walser asked about the student breakeven point and why is there not a profit. Ms. Roman stated breakeven should be met by June. Mr. Pistillo states he also questions why a profit is not being shown. Ms. Roman explained the calculation.

10. Unmanned Vehicle University. Represented by Dr. Jerry LeMeiux and Doug Ball, CPA

Dr. LeMeiux explained the "new" industry of "drones" and that UVU is to provide the training in developing these new systems this industry. Dr. LeMeiux stated UVU is profitable, graduated the first certificate student and is working; has been on several TV stations to include USA Today. UVU is approved by WIA and has been approved in 3 other states. UVU also should be

approved by the VA soon. Dr. LeMeiux explained several students are hired before completing the program; UVU also has a UMV flight training program that is very successful.

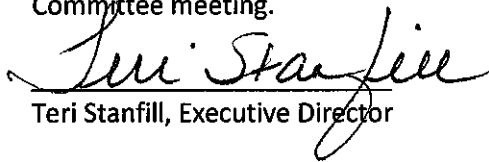
An accreditation attorney has been hired to help them through the process. Currently re-writing the catalog to make required changes and hired a CPA to help with the financial processes.

Dr. LeMeiux stated the breakeven point is about 40 students.

V. Adjournment

The meeting adjourned at 12:03 a.m.

The March 27, 2013 Finance Committee Minutes were approved at the June 26, 2014 Finance Committee meeting.



Teri Stanfill, Executive Director