

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

June 25, 2015 Finance Committee Meeting Minutes

Members present: David Walser, Chairman
KC Miller, Member
Jason Pistillo, Member

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:

A. June 26, 2014 Finance Committee Minutes: Mr. Pistillo made a motion to approve the June 26, 2014 Finance Committee Minutes. Mr. Walser seconded the motion and the motion carried. Ms. Miller abstained.

B. September 25, 2014 Finance Committee Minutes: Ms. Miller made a motion to approve the September 25, 2014 Finance Committee Minutes. Mr. Walser seconded the motion and the motion carried. Mr. Pistillo abstained.

C. January 6, 2015 Finance Committee Minutes: Mr. Pistillo made the motion to approve the January 6, 2015 Finance Committee Minutes. Mr. Walser seconded the motion and the motion carried.

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

1. American Indian College. Represented by Dr. David Moore, President and Steve Chaney, CPA by phone.

Dr. Moore stated AIC is improving as enrollment has increased and AIC has not had to borrow to operate.

Ms. Miller expressed her concern with the retention and placement rates. Dr. Moore responded that AIC's rates are better than other colleges similar to AIC. Ms. Miller also noted the high default rate and Dr. Moore responded AIC is working very hard to lower the default rate.

Mr. Pistillo asked why there is a significant difference in the budget vs. actual for student services. Mr. Chaney stated the difference is the in-kind donations for the time of volunteers.

Mr. Walser asked if AIC would meet the projections for fall starts. Dr. Moore stated they expect to meet the projections.

Motion: Mr. Walser made the motion to approve the 2015 Regular Degree-Granting License Renewal with the stipulation to continue quarterly reporting. Ms. Miller seconded the motion. The Committee stated they would consider removing AIC from quarterly reporting if the fall projections are met. The motion carried. Dr. Moore agreed to the stipulations.

2. American University of Sovereign Nations. Represented by Dr. Darryl Macer, Provost, Jacob Cadwell, Administrator and Aaron Coates, CPA

Mr. Cadwell stated the following: currently 65 students, 13 expected to graduate in December, operating profitably, in process of registering with the Department of Health Services to conduct research and also working with attorneys to enable the university to assume the practice of Dr. Gionis' stem cell centers, who are also professors with AUSN, which will improve revenue by \$2,000. Projections from this are not yet available.

Dr. Macer explained the lecturers do not charge AUSN.

Ms. Miller asked about the progress towards accreditation. Dr. Macer responded AUSN is in contact with HLC and it is their understanding AUSN must have a graduating class. Dr. Macer stated he would forward an update to Ms. Stanfill for the Board's review in August. Ms. Stanfill also stated a site visit will be conducted to review the student records.

Mr. Pistillo stated the in-kind teaching expenses for the faculty members should be recorded; financial statements must be prepared according to GAAP. The December 2014 audit was just recently received.

FC recommendation/motion: Mr. Pistillo recommended that the State Board closely monitor progress towards accreditation and administrative capability in its review of the License Renewal, maintain the bond and remove from quarterly reporting. Ms. Miller seconded the motion and the motion carried.

Mr. Walser requested that information be provided in a more timely manner.

3. **Arizona Vocational Training Institute.** Represented by Marco Reguerin, Sandra Sheridan and attorney Anthony Beecher.

Mr. Reguerin explained the new 200-hour program that was recently improved has significantly helped with enrollment.

Mr. Beecher addressed the Committee and explained the reasons for the revised numbers. Mr. Walser asked why there is a significant difference between the projections and the actuals. Mr. Beecher explained it is due to the payment plan for the students. Based upon Mr. Beecher's explanation, Mr. Walser expressed his concern with the proper recording of income.

Mr. Pistillo expressed his concern with the conflicting financial information in the different statements provided, which raises the concern of administrative capability.

Mr. Walser agreed that AVTI is profitable, however, information is late, inconsistent and projections are significantly missed. The Committee expressed concerns with the explanations provided by AVTI representatives in response to the member's questions.

Mr. Pistillo expressed his concern with Note 11 in the financials; the amortization for "curriculum" as stated is questionable and should be reviewed. Mr. Walser expressed his concern with the accounting of tuition revenue.

Motion: Mr. Pistillo made a motion to refer the License Renewal to the State Board for review with the Finance Committee's concerns of administrative capability; to submit accurate financial information to include the March and June 2015 quarterly reports and evaluate Note 11 in the financial statements. Ms. Miller seconded the motion and the motion carried.

4. Fletchers Pilates. Represented by Deborah Mendoza.

Ms. Mendoza explained that Fletchers' recently changed the program length from 810 clock hours which negatively affected income for the last two years. However, Ms. Mendoza explained that several special events were offered to help offset the loss.

Ms. Miller stated the 810 program is very long. Ms. Mendoza explained that the Pilates Method Alliance has not yet developed a common standard for the Pilates Teacher programs. Ms. Mendoza explained the current state of the industry. Ms. Mendoza acknowledged that their program is significantly longer than other programs.

Mr. Pistillo noted the 1st quarter shows a profit and asked if they expected it to continue. Ms. Mendoza responded Pilates expects to be profit for the year.

Motion: Mr. Pistillo made the motion to approve the 2015 Regular Vocational License Renewal with the stipulation to submit to quarterly reporting and maintain the surety bond. Ms. Miller seconded the motion and the motion carried.

5. Fortis College. Represented by Glen Tharp, Campus President; Jason Pullman, Business Manager; Steve Budosh and Jason Mika, by phone.

Mr. Tharp addressed the Committee and stated that Fortis is meeting expectations; a good start for the nursing program is expected in the fall; a good visit with CODA and a positive report from the ACCSC re-accreditation visit.

Mr. Walser asked for an update on the restructuring. Mr. Budosh responds and explained he expects the transaction to close by June 30th. Mr. Walser also asked about the preferred stock redemption timeline. Mr. Budosh explained the period is approximately three years.

Mr. Pistillo raised a question on the occupancy expense.

Motion: Mr. Pistillo made the motion to approve the 2015 Regular Vocational License Renewal with the stipulation that the surety bond be maintained and continue quarterly reporting. Ms. Miller seconded the motion and the motion carried.

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

Mr. Holland stated the Audit should be completed by next week. Han has also applied to participate in Title IV and the application has been accepted, but more information has been requested. Mr. Holland stated there are 4-5 new enrollments for fall and total enrollment should be 16; break-even point is 18.

Mr. Pistillo cautioned Han that if audits continue to be late, it will cause an issue with the Department.

Motion: Ms. Miller made a motion to approve the 2015 Regular Degree-Granting License Renewal with the stipulation to continue quarterly reporting and maintain the surety bond. Mr. Pistillo seconded the motion, but asked if action should be delayed until the Audit is received.

Amended Motion: Ms. Miller amended the motion to defer action and refer the Renewal to the State Board at the August meeting in order to review the Audit. Mr. Pistillo seconded the motion and the motion carried.

IV. Review of Quarterly Reports

1. Arizona Heart Foundation. Represented by Paula Banahan, Director and Sue Griffin.

Ms. Banahan reported AHF has received public donations; leased some of the space in the building; research/education operations have begun again, reducing expenses and looking for partnerships. Ms. Banahan stated there are 11 students, all in clinicals and received 10 applications for the fall.

Ms. Miller expressed her concern that AHF may not be a sustainable business. Ms. Banahan explained AHF is in discussions with Brookline College to form a partnership.

Mr. Pistillo requested an explanation for the tuition revenue. Ms. Banahan stated investments had been cashed in and explained the change in accounting for the tuition revenue.

The recording of tuition was discussed. Mr. Walser suggested that recording of expenses be properly classified as well as tuition recorded as earned and not received. Mr. Walser also requested that student break-even numbers be provided. Ms. Banahan stated 20 students is the break-even point. Ms. Banahan acknowledges there has been a significant challenge with the accounting.

2. Arizona School of Massage Therapy. Represented by Elizabeth Hepler, Dir. Of Accreditation, by phone.

Ms. Hepler stated that ASMT has been granted re-accreditation from ACCET and that reporting is no longer required. Ms. Hepler acknowledged that ASMT will continue to work on improving retention and placement rates.

Motion: Ms. Miller made the motion to remove ASMT from quarterly outcomes reporting. Mr. Pistillo seconded the motion and the motion carried.

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

Mr. Hawkins stated the Audit has been completed and explained the financial improvement of Brookline – increase enrollment, re-structuring to meet today’s environment and a new management team. Mr. Walser suggested quarterly reporting continue in order to determine if the improvement continues.

4. Cummings Graduate Institute for Behavioral Health Studies. Represented by Dr. Janet Cummings, Dr. Cara English, Amy Burkhart and Bret Sabitini, CFO by phone.

It was noted the name was incorrect on the Agenda.

Mr. Pistillo asked how the school has done since licensure was granted in February. Dr. Cummings explained they currently have 10 students. Dr. Cummings explained the projections for the fall class to be 70 students. After discussion, Ms. Miller expressed concern with the “optimism” of projections. The application process and the current leads were briefly discussed. Mr. Pistillo also cautioned on the potential expenses with a projection of 70 students for fall.

5. Executive Academy of Scottsdale. Represented by Magdalena Cutler.

Ms. Cutler stated EAS began the application for accreditation with DEAC, additional information has been requested by June 30th. The SER process will begin after that. Ms. Cutler also explained EAS encountered a malware attack and affected operations. Ms. Cutler also explained EAS is in negotiations to partnership with Brookline College.

6. Le Cordon Bleu College of Culinary Arts. Represented by Craig Bartholomew, Campus President, present and by phone Tom O'Donnell VP of Strategic and Anna Vasquez, VP of Operations

Mr. Pistillo asked if the parent company has reduced its administrative fees, and as well as the improvement. Mr. O'Donnell responded that there have been accounting changes to corporate overhead; dues to the proposed sale of the LCB schools, assets are impaired, improved starts and retention.

Mr. Walser noted the break-even calculations should have been revised based the above changes.

7. Tucson College. Represented by Lloyd Kirsch, Campus Director, present and by phone Ned Snyder, VP Online Operations and Katrina Van Natta, VP Accounting.

Mr. Kirsch explained that 2 new programs, AOS, that have been approved by ACICS; retention has improved, financial aid has been centralized to Tempe, improvements in the website and mobile apps has improved marketing. Tucson College is also very active in the community.

Mr. Walser asked about the significant difference between the actuals vs. projections on the quarterly reports. Mr. Kirsch explained the differences are due to the management fees which are variable.

8. UEI College. Represented by Joe Fox, IEC COO and Todd McDonald, Campus President.

Mr. Fox explained that IEC purchased 19 of the FCC-Anthem schools in August 2014, which include UEI College on Black Canyon Highway, formerly Anthem College. Mr. Fox explained it was IEC's intent to purchase the remaining FCC schools, which included the other two campuses of Anthem College, but the transaction was not approved by the Department; so the purchase of only one of the three campuses in Arizona has been difficult, in terms of losing the "critical mass with the 3 locations" and the market here in Arizona is very different that their other locations.

Mr. Fox stated IEC is very committed to this campus, making recent changes of reducing expenses and a re-organization and re-structuring. Mr. Fox expects to hit break-even in the near future.

Mr. McDonald stated enrollment has improved. Mr. McDonald explained they had a good ACICS visit in March under the prior management.

Ms. Miller asked if the marketing materials will be changed. Mr. Fox explained changes are being made and developing more branded marketing materials based upon the AZ market.

Mr. Pistillo asked about the challenges/unexpected regarding this acquisition. Mr. Fox explained this acquisition as an "emergency" acquisition with limited time to do the due diligence; however, the overall integration has gone fairly well.

Marketing and branding was discussed.

9. University of Medical Sciences Arizona. Represented by Dr. Janice Pitts.

It was noted the name was incorrect on the Agenda.

Dr. Pitts explained that UMSAz had opened a clinic that did not perform as expected and they are making significant changes.

Mr. Pistillo asked about the change in accrediting agencies. Dr. Pitts then explained the change from seeking accreditation from TRACS to HLC and their disappointment with the change that had to be made due to the difference in some of the Christian beliefs between TRACS and UMSAz. Dr. Pitts acknowledges the change will cause a delay in seeking accreditation.

10. Unmanned Vehicle University. Represented by Kevin Kelly, President/owner and John Minor, Provost.

Mr. Kelly explained during this first quarter, there has been significant re-structuring and stabilization of the company since the purchase and the untimely passing of Dr. Jerry LeMeux, the founder of UVU.

Mr. Minor stated UVU has had one graduate from the Master's program and a new student enrolled in the doctoral program. Mr. Minor also stated that DEAC has accepted UVU's petition to continue the accreditation process prior to the change in ownership based upon the extenuating circumstances, and expects to know the decision next week. Mr. Minor also explained UVU continually updates course to meet the changing technology.

Mr. Pistillo asked about the excellent PR that UVU had experienced. Mr. Kelly responded that Dr. LeMieux was primarily responsible for the PR and they are now working with a PR firm.

The student and faculty demographics were briefly discussed. Mr. Pistillo cautioned that student and/or faculty residency may trigger a physical presence in some states.

V. Adjournment: The meeting adjourned at 12:26 p.m.

The Minutes of the June 25, 2015 Finance Committee Minutes were approved at the September 24, 2015 meeting.


Teri Stanfill, Executive Director