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

June 26, 2014 Finance Committee Meeting Minutes

Members present: David Walser, Chairman
Jason Pistillo

Also present: Teri Stanfill, Executive Director
Keith Blanchard, Deputy Director

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 March 27, 2014 Finance Committee Minutes: Mr. Pistillo made the motion to approve the Minutes as written. Mr. Walser seconded the motion and the motion carried.

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

1. ABC Bartending Academy. Represented by Edward Raymond

Mr. Raymond stated enrollment in the dealing class has increased, overall attendance has improved, rent has been reduced, started a night class and the 1st quarter was profitable.

Motion: Mr. Pistillo made the motion to approve the Regular Vocational Program License Renewal with the stipulation that the $15,000 Surety Bond be maintained and that quarterly reporting is no longer required. Mr. Walser seconded the motion and the motion carried.

2. Fortis College. Represented by Glen Tharp, Campus President, Steve Budosh, EA CFO and Jason Mika, EA Director of Financial Planning.

Mr. Budosh explained that student population has increased by 30, Fortis received an AZ Board of Nursing approval for a second start; 2nd quarter will improve over the 1st quarter as revenue will be higher and expenses are "flat". In response to Mr. Pistillo's question on profitability, Mr. Budosh stated profitability probably won't be seen until second quarter 2015.

Mr. Tharp clarified that the ABN approval has been in place for the Practical Nursing program and had requested approval for the lift of the cap. Mr. Tharp explained that the purpose of Fortis College has been to be a nursing and dental hygiene school, but it has just taken longer time to get there, but Fortis has had the full support of the parent company.

Mr. Walser requested clarification of the corporate structure. Mr. Tharp explained that Education Affiliates (EA) is the parent company located in Maryland and has 52 schools. Mr. Budosh further explained that EA schools have 24 OPEIDs, one of them is RETS Tech Center in Centerville, OH and Fortis is a subsidiary of RETS Tech. EA provides all of the management infrastructure support, systems, accounting and cash. Regional presidents manage the local campuses.

Mr. Pistillo asked about the forecast of profitability of the parent company, EA. Mr. Budosh responded EA expects to have a positive cash flow and revenues. Mr. Pistillo asked when does EA expect to have positive net income. Mr. Budosh responded he would need time to prepare a response. Mr. Budosh stated that Fortis' direct parent company, RETS Tech Center is showing positive net income and has a composite score of 2.74.

Mr. Walser requested clarification of "other liability" on the balance sheet. Mr. Budosh explained it is a net amount due to the parent company, EA. Mr. Walser requested explanation of the "general administrative expenses" on the income statement. Mr. Budosh explained it is the President's office, business office, financial aid, insurance, etc. The corporate allocation is also included and based upon student count.

In response to Mr. Walser's question regarding pending legal actions, Mr. Tharp stated there are no pending legal actions for the Phoenix campus.

Mr. Walser expressed his concern with the current ratio of .46. Mr. Budosh responded that there is sufficient cash flow with full support from the parent company; the cash is managed by EA and operates with a positive cash flow model. There was further discussion regarding the intercompany cash flows and if there is a "legal agreement" between the Phoenix campus and RETS Tech to ensure any claim being honored.

Mr. Pistillo asked if EA has sold or taught out any campuses. Mr. Budosh responded they have taught out a campus in Florida and currently there are a few other campuses in teach-outs and all teach outs have been orderly conducted.

Additional discussion ensued regarding the current ratio for EA; the credit agreements and the equity partner, JLL Partners Fund, IV. Mr. Budosh explained it is the intent through debt and equity to support and grow the business.

Mr. Walser asked about the significant change in net income over the last couple of years. Mr. Budosh explained that revenues were down and reduced spending; in 2013 there were fees associated with the credit agreements and an acquisition; but the cash flow statement shows that all obligations have been met.

Mr. Pistillo asked about the collateral for the debt. Mr. Budosh responded the collateral is the school's assets to include accounts receivable. Mr. Budosh explained that approximately 95% is "in-school" with less that 1-2% over 120 days and it is their process to keep bad debt low.

Discussion ensued regarding the requirement of the Surety bond. Based upon the calculation, the amount would be @ $311,000. Based upon the history that teach-outs have been done in an orderly fashion, Mr. Pistillo suggested a $150,000 Surety Bond.

<u>Motion:</u> Mr. Pistillo made the motion to approve the 2014 License Renewal with the stipulation that Fortis post a $150,000 Surety Bond and submit to quarterly reporting. Mr. Walser seconded the motion and the motion carried.

Mr. Budosh stated they agreed to the stipulations and agreed to post the surety bond within 45 days.

3. Han University. Represented Alex Holland, Jon and Stephanie Hu

Ms. Hu provided a brief summary addressing the loss for 2013/2014 and the marketing strategies for 2014. Ms. Hu addressed the Committee and explained the school is still in transition with the change of location and ownership and expects to be profitable by the end of the year.

In response to Mr. Walser's question regarding the audit and when will it be available. Mr. Holland explained the difficulties incurred with the previous accountant, but expects to have the audit in the next week or so. Mr. Walser expressed his concern with the prior accounting records.

Ms. Hu stated it is their intent to purchase the Arizona School of Acupuncture and Oriental Medicine. Ms. Stanfill explained that a Supplemental License for a Change of Ownership will be required.

Mr. Pistillo stated that based upon the fact that the Hu family is financially supporting the institution; personal financial statements will be required.

Mr. Pistillo and Mr. Walser stated the document provided answered several of their questions.

Motion: Mr. Pistillo made a motion to defer the License Renewal until the August meeting, the audited statements be provided and personal financials prepared by a CPA. Mr. Walser seconded the motion and the motion carried.

4. Medline School. Represented by Chad Sines, by phone

Mr. Sines stated the past year has been profitable and the ownership dispute has been settled in a confidential agreement.

Mr. Walser asked the effect the agreement would have on institutional resources. Mr. Sines explained the escrow funds had been released.

Mr. Pistillo and Mr. Walser expressed their concerns regarding the significant difference between the in-house statements and the CPA statements; which there are usually differences due to closing entries, but are not normally significant.

Motion: Mr. Walser stated the License Renewal is incomplete as the financial statements are missing the Statement of Cash Flows and Footnotes/Disclosures and to refer the License Renewal to the Board. Mr. Pistillo seconded the motion and the motion carried.

IV. Review of Quarterly Reports

1. Executive Academy of Scottsdale. Represented by Magdalena Cutler, by phone.

Ms. Cutler stated the school is progressing as expected with no major changes.

Mr. Walser stated that it appeared that Ms. Cutler was supporting the school with personal resources and requested a personal financial statement be provided for the License Renewal application.

2. American University of Sovereign Nations (AUSN). Represented by Dr. Thomas Gionis and Dr. Nia Smyrniotis

Dr. Gionis stated AUSN currently have 4 students, projections have been revised and ASUN has received approval as a 501(C)(3) non-profit corporation. Dr. Gionis also stated AUSN received special Visa status for faculty, as a special scholar.

Mr. Pistillo asked about the second quarter. Dr. Gionis responded it was not AUSN's intent to generate high revenues, rather to go through the processes required to reach the goal of offering an accredited M.D. degree program.

Mr. Pistillo asked about the tuition of the 4 students. Dr. Gionis responded 2 students were given scholarship and the other 2 student's tuition was paid by the Tribe.

Mr. Walser acknowledged the extensive and active network building and collaborative efforts.

3. Anthem College – Bryman School. Represented by Kevin LaMountain, West Region President, Jeffrey Pierne, FCC CFO and Tatsiana Tuchinsky, VP Regulatory Affairs

Mr. Pierne explained the problems that were created from the incompatible IT systems, the additional debt capital that had been raised and the reconciliation of possible refunds is almost complete. Mr. Pierne stated they are still facing liquidity issues but are meeting payroll and payables and intend to seek additional capital and re-financing. A board meeting is scheduled next week to discuss a new equity proposal.

In response to Mr. Pistillo's question regarding actions in Florida, Ms. Tuchinsky stated the Florida Commission placed the schools on Provisional status (losing the LBMA status), deferred further action and requested additional documentation if a change of control occurred. Mr. Pistillo asked if the new equity capital is a result in the change of ownership/control. Mr. Pierne stated it is their position that a change of control did not occur, the private equity sponsors did not result in a voting stock and David Knobel leaving the Board has been the only change in the Board.

There was discussion regarding the projections. Mr. Pierne stated the student starts have been lower than expected.

In response to Mr. Pistillo's question regarding the IT systems, Mr. Pierne stated a RFP has been released to replace the current systems.

Mr. Walser stated the reports show profitability, but asked about cash flow. Mr. Pierne stated the accounts receivable is being written down and that is affecting cash.

Mr. Pierne stated they have contacted the Department (today); have returned a significant amount of funds and expect to have the refund audit completed by July, which will result in additional liabilities and how to satisfy those liabilities.

Mr. Pistillo asked about the debt covenants. Mr. Pierne responded they did not meet the debt covenants, but they are working on resolving the issue.

4. Arizona Vocational Training Institute. Represented by Marco Reguerin and Saundra Sheridan Reguerin

Ms. Reguerin stated the 2nd quarter revenues are very close to the 1st quarter revenues, but AVTI should see improvement as AVTI is now approved by WIA, Maximus and revenue through the student payment plans. Mr. Reguerin stated the student enrollment is the same as in the 1st quarter.

Mr. Walser and Mr. Pistillo cautioned AVTI on the unreasonable projections on the report.

Mr. Walser requested that personal financial statements be provided as the Reguerin' s are providing the financial support for the school. Mr. Walser stated the personal financial statements did not need to be CPA prepared.

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

Mr. Shah provided updated financial information that showed Brookline has done better than projected and will be revising projections based upon the improvement and expected the improvement to continue.

Mr. Pistillo asked about the composite score after the audit is completed. Mr. Hawkins explained they are in the "zone" intentionally in order to "clean up" 2013 and then will have a composite score above 1.5.

6. Everest College (ECP). Represented by Dr. Ed Johnson, Everest College Phoenix President, Marilyn Clute, CFO and Elaine Raker, Compliance. No one from CCI was on the phone.

Ms. Clute stated the revised statement have been provided that show ECP has shown a profit through the 3rd quarter and expects to have a profit of approximately $1.9m for the year end as the online campus has had significant growth, has contained expenses. All three campuses have improved in enrollment and in retention. For 2015, projections will also indicate a positive net income based upon the improvements.

Dr. Johnson addressed the problems facing CCI and shared the information with the Board. Mr. Pistillo expressed his concerns that the ECP cash is being taken by the parent. Dr. Johnson shared that it is the intent of CCI to sell ECP and discussed the Memorandum of Understanding between CCI, the Department, the operating agreement (of which institutions are sold or taught out) and the process. Dr. Johnson explained that HLC is requiring a teach-out regardless if ECP is sold or taught-out and he has kept in contact with this Board and HLC. Dr. Johnson stated ECP has a good relationship with HLC, was recently award a 10 year accreditation with no conditions and has had conversations with HLC regarding the potential change of ownership/control.

Dr. Johnson explained it has not received the final program report one the two program reviews and there are not any outstanding regulatory issues against ECP.

Dr. Johnson also explained the timeframe for the sale will probably be 6 months or so with regular disbursements from the Department of Education.

Mr. Pistillo asked who is "QuickStart". Dr. Johnson responded it is the Microsoft courses through CCI that provide college credit, provides training business to business and training to some individuals. Mr. Pistillo explained that the advertising showed that the training is provided by ECP. Mr. Pistillo explained that licensure may be required and further clarification and discussion is needed. Ms. Stanfill explained several states are concerned that QuickStart is operating without licensure. Ms. Stanfill stated this particular issue needs further clarification.

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

Ms. Mayhew stated the Teacher Training program is doing well; 7 students have graduated, 10 new enrollments and 3 continuing students. Ms. Mayhew explained the Khalsa School has improved, enrollment has increased, but is still experiencing a loss.

8. Le Cordon Bleu School of Culinary Arts. Represented by Craig Bartholomew, Campus President, by phone Regina Wozny, Director of Finance

Mr. Bartholomew reported LCB has seen significant improvement and outpacing projections for enrollment and revenue. Ms. Wozny stated the 2nd quarter will still see a net loss of approximately $1.3m, but total enrollment is improving. Expectations are to have the end of the year enrollment increase of 2.4% over last year. Total enrollment is 1104 vs 1103 last year and by the end of the year expects 1022 vs. 998 for last year. Mr. Walser stated the student count is still below break-even. Ms. Wozny responded LCB is contribution margin positive, but unable to determine when LCB will be profitable.

Mr. Pistillo stated it appears to be a recruiting problem. Mr. Bartholomew stated recruitment has been a significant problem but has hired new leadership and personnel and beginning to see improvement.

Mr. Walser expressed his concern with the losses of the parent company.

9. Thunderbird School of Global Management. Represented by Rick Franke, VP Finance.

Mr. Walser recused himself.

Mr. Franke explained that Dr. Penley was unable to attend.

Mr. Franke stated that Thunderbird is about on target for the end of the year. Mr. Pistillo requested clarification of about the large swing in net income between the last two years, but appears to be profitable at this time. Mr. Franke responded that last year Thunderbird went through an extensive budgeting process to develop policies and procedures for certain areas that had gotten out of control; implementing checks and balances.

Mr. Pistillo asked if the year-end will be profitable. Mr. Franke stated additional expenses have been incurred but should be profitable.

In response to Mr. Pistillo's question regarding the strategic alliance, Mr. Franke stated he could not comment.

10. Tucson College. Represented by Darcy Price, Operations Manager and Dennis Chavez, Director of Education

Ms. Price explained there have been significant changes in leadership of Tucson College. A new director of admissions has been hired and the first issue is to increase enrollments. Improvements are being made with retention and placement.

Mr. Pistillo expressed his concern with the significant corporate allocation of approximately 30%. Ms. Price explained the corporate allocation is for the "shared services" provided by corporate to the institutions.

Mr. Walser again expresses his concern with the fluctuating student break even numbers.

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

Dr. LeMeiux stated the UVU has been profitable since licensure and hired several experience d personnel. Dr. LeMeiux stated UVU intends to apply to DETC in January 2015 and expects accreditation to be granted in January 2016.

The Finance Committee discussed if the Committee had the authority to remove the quarterly reporting requirement imposed by the Board at licensure. Ms. Stanfill stated she would seek advice from the A.G. The Committee stated if the Committee had the authority to remove the financial reporting requirement, to do so.

V. Adjournment

The meeting adjourned at 12:42 p.m.

January 6, 2015

The June 26, 2014 Finance Committee Minutes were approved at the ~~September 25, 2014~~ Finance Committee meeting.

Teri Stanfill

Teri Stanfill, Executive Director