

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

September 25, 2014 Finance Committee Meeting Minutes

Members present: David Walsler, Chairman  
KC Miller

Also present: Teri Stanfill, Executive Director  
Kimm Darling

**I. CALL TO ORDER**

Chairman Walsler 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:** Due to the lack of a quorum, action could not be taken.

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

**1. Executive Academy of Scottsdale.** Represented by Magdalena Cutler

Ms. Cutler stated that 2013 and 2014 financial losses and the number of students are as expected. Ms. Cutler stated the number of students is low, primarily due to the lack of accreditation.

Ms. Miller asked if EAS is meeting the accreditation timeline. Ms. Cutler stated the timeline has been slightly revised as EAS cannot apply for DETC accreditation until EAS has had students enrolled for two years, which is this month. EAS will be submitting its application for DETC by the end of this month.

Ms. Miller expressed her concerns regarding the potential loss of approximately \$50,000? Ms. Cutler stated they expect a \$77,000 loss, which will be funded through the Cutler's personal resources.

Ms. Miller expressed her concern regarding the lack of a marketing plan.

Ms. Cutler explained that EAS has planned to have a low budget for marketing until accreditation is achieved and upon accreditation, EAS will increase marketing.

Motion: Ms. Miller made the motion to recommend to the State Board that EAS maintain the \$45,000 Surety Bond and continue quarterly reporting.

**2. FNT Fiber Network.** Represented by Gabe Dominique

Mr. Dominique explained that the licensed training program is a very small division of the larger company. Mr. Dominique explained the effect of the recession on the company, but FNT intends

to at least break even this year. Mr. Dominique stated the company now has a marketing plan to increase growth; fiber optics has increased and FNT is the only company in the southwest to provide this training.

Mr. Walser asked about contract training. Mr. Dominique responded that the majority of the contract training is out of state; many company's provide the training for their employees because of the high turnover.

Motion: Ms. Miller made the motion to approve the Regular Vocational Program License Renewal with the stipulation that the Surety Bond be maintained; quarterly reporting is NOT required. Mr. Walser seconded the motion and the motion carried.

**3. Khalsa Montessori School.** Represented by Janice Mayhew

Ms. Mayhew stated the teacher training program ended positively; projections and enrollment were met.

Mr. Walser asked where do the graduates work. Ms. Mayhew responded the teachers are employed at the Montessori schools.

Motion: Ms. Miller made the motion to approve the Regular Vocational Program License Renewal with the stipulation that the Surety Bond be maintained, quarterly reporting was NO longer required. Mr. Walser seconded the motion and the motion carried.

**4. TTY College.** Represented by Tim Smith with TTY College and Eric Juhlin, CEO of CEHE

Mr. Smith explained in 2013 the VA conducted a "surprise" audit. VA suspended funding for several months which caused the financial losses in 2013. On July 31st TTY entered into an acquisition with CEHE. CEHE is a 51% owner and also owns CollegeAmerica in Phoenix and Flagstaff as well as Stevens Henagar College and Independence University. CEHE is a non-profit organization.

Ms. Miller requested additional information regarding the VA audit. Mr. Smith stated the VA found files were incomplete and the Catalog. TTY made the required corrections and the VA restored funding in June. The VA conducted another visit in November with no findings.

Mr. Walser requested an explanation on the purchase. Mr. Smith stated that he sought potential investors and TTY felt CEHE would be the best fit. Mr. Smith stated the terms are in the Asset Purchase Agreement. Mr. Walser stated it appears CEHE assumed TTY liabilities. Mr. Smith stated that CEHE purchased the assets for about \$900,000.00 that paid off a lot of debt, assumed some liabilities and future revenue.

Mr. Juhlin explained the liabilities that CEHE assumed were the student accounts.

Mr. Walser asked about the opening Goodwill of \$1.7 million. Mr. Juhlin explained the new LLC entity that purchased TTY for \$900,000 for 51% and calculated the additional 49% for goodwill at fair market value. Mr. Walser understands their rationale.

Mr. Walser stated the information that Mr. Juhlin provided addressing the financial stability of CEHE answered many of his questions regarding the debt of CEHE at its payments.

After discussion, the FC determined the \$15,000 surety bond is sufficient.

Motion: Ms. Miller made the motion to recommend approval of the License Renewal and the Change of Ownership with the stipulation that the \$15,000 Surety Bond be maintained. Mr. Walser 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**

Dr. Moore stated that AIC recently changed accountants in order to improve financial management that provides cloud based services.

Ms. Miller expressed her concern that it does not appear that AIC is making progress and there are concerns with accreditation.

Dr. Moore responded and stated that enrollment has increased steadily over the last two years from 13% to 30% and housing income by 78% to 130%; gift income increased 30% over last year; 52% of revenue is student generated and 48% from contributions.

Mr. Walser stated projections for revenue and educational expenses are close, but interest expense is significantly higher. Mr. Chaney explained that mortgage payments were not being made and the church was lending money and AIC was not paying interest and an accrual for the unpaid interest was needed to close the books; currently making the full mortgage payment and amortizing the interest to effectively deal with the debt; AIC was undercapitalized. Mr. Chaney also stated that the room/board income is helping to service the debt.

Mr. Walser stated he must have misunderstood the earlier explanation regarding the mortgage expenses. This was subsequent discussion.

##### **2. American University of Sovereign Nations. Represented by Dr. Nia Symniotis and Aaron Coates, CPA.**

Dr. Symniotis stated AUSN has 3 full time students and 2 students in the hybrid program. Dr. S stated that AUSN has been approved to offer the program in Indonesia which will increase the enrollment to 33; the tuition is subsidized by the government. Dr. S explained the programs the students will be enrolled.

Ms. Miller stated the marketing plan is very good and realistic, but expressed concern that AUSN may not have the sufficient resources to carry out the marketing expenses.

Dr. S stated AUSN keeps expenses low.

Mr. Walser asked if the Committee had current statements. Mr. Coats provided the actual figures; it was determined the Committee did not have the current statement.

3. Arizona Vocational Training Institute. Represented by Marco Reguerin.

Mr. Reguerin stated the shorter program that was recently approved has helped with 8 new students starting October 1<sup>st</sup>; and have several starts scheduled. AVTI now offers a payment plan that has also helped; hired a consultant to help with marketing and to apply to WIA. Mr. Reguerin also stated income is received from the technical CD books that are copyrighted.

Ms. Miller stated the projections are significantly off and requested the projections be revised to be more realistic. It was noted projections were “off” in the prior quarter, which raises the question of administrative capability.

Mr. Walser explained that AVTI is on quarterly reporting because of the losses, but if the projections are not realistic, there may be a concern at the next renewal.

4. Brookline College. Represented by Roy Hawkins, President and Chris ????? Controller

Mr. Hawkins stated Brookline has made significant improvement and projections will be adjusted accordingly. The budget was based on “no growth”. The new programs have attributed to the growth that were not a part of the budget; expect to have \$1.5 net income.

Mr. Hawkins stated that 22 students from Anthem have enrolled and 30 students are scheduled to start. Ms. Miller thanked Brookline for all of their help Anthem students.

Ms. Miller asked about the 90/10; it appears to be increasing. Mr. Hawkins explained it is cyclical and expects the final percentage to be @ 86%.

5. Everest College. Represented by Dr. Ed Johnson, President, Marilyn Clute, CFO and Elaine Raker, Compliance.

Dr. Johnson stated that CCI is currently working on the sale of Heald Colleges and Quickstart. Everest expects to enter into a Letter of Intent for the purchase of Everest with a non-profit corporation. The Change of Ownership application will be submitted to HLC for review by October 1<sup>st</sup>; seeking informal approval continues with USDE, banks and other required entities.

Mr. Walser requested clarification on the year to date net income. Ms. Clute responded that is correct, that Everest is profitable and expects to be through 2014; projections are changing based upon the approval of HLC to allow to begin enrollment and the pending sale process.

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

Mr. Tharp stated that things are going as planned; some of the programs has taken awhile to get in place, but 66-70 students are expected to start in October; an additional Associate Nursing program has been submitted to the Board of Nursing.

Mr. Budosh stated the surety bond was posted as required.

Mr. Budosh asked about the protocol in changing projections. Mr. Walser responded is it generally once a year, however, if it is necessary to change the projections to notify the Committee and to explain why the projections are being revised.

Ms. Miller requested clarification regarding the ACCSC Warning. Mr. Tharp explained it was financial warning for the main campus. Mr. Tharp also explained that the parent company did close five institutions, but all students were taught out; which did affect the company overall.

Mr. Walser requested further information on the ACCSC action. Mr. Tharp explained that they are closely working with ACCSC and addressing ACCSC's concerns. Mr. Budosh stated a response is currently being prepared to explain the acquisition costs and the expenses of teaching out the five campuses. Mr. Budosh also stated that USDE reduced the LOC requirement significantly.

7. Le Cordon Bleu College of Culinary Arts. Represented by Tony Bondi, Regional VP and Tom O'Donnell VP Finance by phone.

Mr. Bondi stated that LCB is on track to meet the goals and pleased with the new leadership team.

Mr. O'Donnell explained that enrollment has increased as a result of the re-introduction of the associate degree; revenue is a little lower than projections, but expected to meet projections with the increase enrollment. The other expense line is the corporate allocation and management fees and that the campus is cash flow positive.

Mr. Walser expressed his concern with the parent company; the 8K shows a loss in 2013 and 2014 to date. Mr. O'Donnell explained that the company had to write off significant deferred tax assets which affected the operating income.

8. Tucson College. Represented by Lloyd Kirsch, Campus President, Dennis Chavez, Dean of Education and Katrina Van Natta, Controller.

Mr. Kirsch explained he became Campus President in August and has assessed marketing and admissions. Mr. Kirsch summarized the information that was provided to the Committee. Mr. Kirsch stated the revenues were less than projected and stated that the management fees from prior years have affected net income.

Ms. Kirsch stated there has been substantial improvement in retention and placement.

Mr. Walser expressed his concern with the parent company. Ms. Van Natta stated that Delta did close and teach out some institutions as well as a substantial write-off of goodwill, but 2014 shows improvement with additional cost cutting.

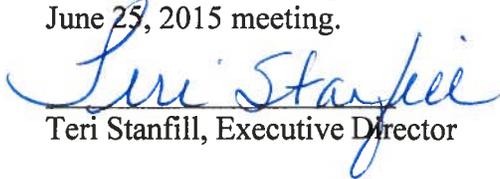
9. Unmanned Vehicle University.

Ms. Stanfill reported that Dr. Jerry Le Meix passed away on July 4, 2014. At this time, the status of the institution is unknown.

### **Adjournment**

The meeting adjourned at 11:51 a.m.

The Minutes of the September 25, 2014 Finance Committee Minutes were approved at the June 25, 2015 meeting.

  
Teri Stanfill, Executive Director