I. CALL TO ORDER: Chairman Hauff called the meeting to order at 10:00 A.M.

II. CALL TO THE PUBLIC: Public input is encouraged. Presentations must be limited to five minutes. In order to complete the agenda, the Chair may limit the number of speakers at any given meeting. Please be aware, however, that the Council may not discuss, consider or take action at this meeting on any item not appearing on its Agenda.

Mr. Hauff opened the call to the Public. No individuals from the public were present at the meeting.

III. INSTITUTIONAL RENEWALS

A. PENN FOSTER- DEFERRED FROM 9.29.16 COUNCIL MEETING: Ms. Dueck provided an overview of the activity that transpired between the 9.29.16 Council meeting and today’s meeting. Penn Foster provided the requested information to the Council to
include a copy of the Teach Out plan, numbers on headcount and revenue, the AZ SARA bond calculation and other general questions. The contracted Certified Public Accountant (CPA), Ball and McGraw PC, conducted a review and recalculation of the institution’s composite score with the audited financials score resulting in a score of -0.925 and the adjusted financials resulting in a score of 1.57. NC SARA was consulted and a score using adjusted financials that follow Generally Accepted Accounting Principles (GAAP) may be considered for SARA purposes. The adjusted score, as provided by the CPA, follows GAAP. Of the adjustments made by the institution, only one was considered to not follow GAAP, the reversal of amortization of other intangible assets in the amount of $5,051,000. Mr. James Baker from Penn Foster requested the CPA’s rationale for this decision. Ms. Dueck will facilitate communication with the CPA to obtain the rationale.

Mr. Hauff opened for Council discussion. Ms. Stanfill had questions regarding the Teach Out plan, maintenance of student records and the potential tax liability related to the purchase of the institution. Ms. Dempsey affirmed that the institution is committed to teaching out all students if transfer options are not available and that transfer partners that are currently undergoing Teach Out plans need to be updated. She further commented that the documents retention plan with Cengage Learning can be updated to include Arizona as the designated records holder. Ms. Stanfill requested that an update of the documents retention plan be provided to her. Mr. Baker added that there is no further update from Thompson in relation to the sale however it is believed that the tax liability is no longer applicable. Ms. Stanfill related her concern that the current bond in the amount of $228,000 is not sufficient to cover SARA’s liability in the event of a closure. Mr. Hauff agreed and indicated that consistent application of the bond requirement would necessitate the increase of the bond to the Council’s maximum requirement of $500,000. Ms. Miller inquired if the 60 days allotted in the Teach Out plan is a reasonable amount of time. Ms. Dempsey indicated that the 60 days timeframe can be adjusted. Ms. Miller also asked if there were multiple transfer options for each program. Ms. Dempsey replied that most programs have multiple transfer partners and reiterated that the institution is committed to fully teaching out all students who do not find a transfer partner. Ms. Stanfill commented on her concern of the use of the adjusted financials to calculate the composite score and how if the institution were Title IV participating, these adjustments would not be allowed. She suggested that conditions such as an increase in the bond amount and quarterly financial updates be added to the institution if approved. Mr. Hauff is in support the bond increase however is not supportive of quarterly reporting requirements. Mr. Hauff commented that the composite score is not a reliable indicator of financial health and that the Council could engage in dialogue with NC SARA about the future use of other, more reliable metrics such as the EBITDA, as Penn Foster provided in their financial information. Ms. Elias supported this position. Ms. Feldman voiced concern over the current bond amount and the institution’s finances, but added that given the institution’s acceptable composite score, she did not believe the Council could not approve the institution. Ms. Miller suggested a Provisional approval with conditions set at a later date. Mr. Hauff expressed
uncertainty in the Council’s ability to use the Provisional approval. Ms. Dueck informed the Council that she had discussed this possibility with John Lopez of W- SARA and NC-SARA and that SARA believes the Council has sufficient grounds for Provisional approval. Ms. Dueck cited NC SARA policy on the criteria to be used for Provisional approval found on page 6 of the current policy document.

2. Provisional admission or renewal of an institution
   B. If the institution is currently using a letter of credit or is under a cash management agreement with the U.S. Department of Education

Rational for the application of the above policy lies in that if Penn Foster was participating in Title IV, it would be under cash management. Mr. Hauff expressed that as SARA allowed for the use of adjusted financials to calculate the score, the above policy is no longer applicable as it would be inconsistent to allow a departure from Title IV standards for the score calculation however continue to apply Title IV criteria for the use of Provisional approval. Mr. Radda indicated that he is in favor of approval with increasing of the bond rather than the use of Provisional approval. Ms. Miller requested the Council move into Executive Session.

Mr. Hauff moved into Executive Session at 10:47 A.M. Executive Session closed at 11:15 AM. Regular Session resumed at 11:15 A.M. Mr.

Mr. Hauff motioned to approve Penn Foster with an increase to the required bond amount of $500,000.

Motion: Mr. Hauff
Second: Ms. Miller
Vote: 6-0-0

ADJOURNMENT: The Meeting of the Arizona SARA Council Adjourned at 11:26 AM.