Structural Change Site Visit Report

Argosy University

Change of Ownership

Wednesday, April 12, 2017

Team Roster

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The team conducted its review and evaluated the institution under the 2013 Standards of Accreditation and prepared this report containing its collective evaluation for consideration and action by the institution and by the WASC Senior College and University Commission (WSCUC). Formal action is taken by the Commission and is described in a letter from the Commission to the institution. This report and the Commission letter are made available to the public by publication on the WSCUC website.

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SECTION I. Overview and Context

A. Description of the Institution and the Proposed Change

Argosy University is a private, proprietary academic institution owned by Education Management Corporation (EDMC) and headquartered in Orange County, California. Argosy offers online and campus-based programs through twenty-seven branches in Arizona (1), California (13), Colorado (1), Florida (2), Georgia (1), Hawaii (1), Illinois (2), Minnesota (1), Tennessee (1), Texas (1), Utah (1), Virginia (1), and Washington (1). Argosy University was formed in 2001 by the merging of three separate academic institutions: the American Schools of Professional Psychology, the University of Sarasota, and the Medical Institute of Minnesota. Argosy University was accredited by WSCUC in 2011. Prior to WSCUC accreditation, Argosy University was accredited by the Higher Learning Commission (HLC). EDMC still maintains three HLC accredited institutions: Illinois Institute of Art (with two actively-enrolling branch campuses and one in teach-out), The Art Institute of Colorado, and Brown Mackie College-Salina (with three branch campuses), which is in teach-out. HLC, along with the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC), Northwest Commission on Colleges and Universities, and Middle States Commission on Higher Education, are also conducting a Change of Control review.

Argosy serves adult working professionals and offers associate (22), bachelor (32),[1] masters (37), professional doctorate (18) degrees, and many non-degree certificates. Argosy reported fall semester 2015 enrollment of 16,508 (FTE) undergraduates, 6069 (FTE) graduates, a total FTE of 22,577 students. Distance education students comprised 38% of the student population in the fall 2015 semester. Argosy's eight colleges and schools include: College of Arts and Sciences, College of Clinical Psychology, College of Counseling, Psychology and Social Sciences, College of Creative Arts and Design, College of Education, College of Health Sciences, College of Law, and Graduate School of Business Management located at its main campus, satellites, branch campuses, satellite locations, and in the online modality.

Argosy is proposing a change of ownership control from Education Management Corporation to the Dream Center Foundation (DCF). The Dream Center Foundation is a nonprofit 501(c)(3) organization that supports the Los Angeles Dream Center and an affiliate network of more than 53 independent Dream Centers and other nonprofit organizations that collaborate with the Dream Center in the greater Los Angeles area.

The WSCUC team and the institution were not able to agree on the best language to describe DCF. Argosy has requested that the team describe DCF as a secular organization. In one sense this is obviously true, since the legal documents and mission statement do not declare it to be a faith-based organization. Nevertheless, there are factors that make it difficult to describe the history and function of DCF as fully secular. DCF was founded to raise funds for the Dream Centers. The Dream Centers grow out of a Pentecostal Christian Church mission. Their website includes a traditionally Christian Statement of Faith. Their Christian values and motivations are emphasized across the network, for example "At the Dream Center, they recognize the gift of life

[1] www.argosy.edu, https://nces.ed.gov/collegenavigator/?q=Argosy+University&s=CA

we've been given through Jesus Christ and understand our responsibility to share that gift and God's love with our communities. Therefore, it's been their mission to connect and reconnect isolated people to God and a community of support" (Rochester NY Dream Center).

As the name suggests, DCF was originally founded in order to assist the Dream Centers in fundraising. The two founders of the Dream Centers, Pastor Tommy Barnett and Pastor Matthew Barnett, continue to serve as Chairman and President of DCF. In an interview, Pastor Matthew Barnett described his missional goals for DC, DCF, and Argosy to the visit team. The Guidestar listing states that "The Dream Center Foundation's mission is to develop a successful working model in the greater Los Angeles area that will inspire churches worldwide to meet the spiritual and physical needs of the community." The WSCUC team notes Argosy's desire to portray DCF as fully secular. But given the sample evidence just cited, and in light of the history and leadership, the team does not concur that "secular" gives a full picture of the organization's work.

As set forth in the Asset Purchase Agreement signed on February 24, 2017, DCF will establish an Argosy University nonprofit parent, single-member limited liability and several subsidiary tax-exempt, single-member limited liability companies to purchase the assets, corporation and institutions comprising Argosy University. According to the proposal, the seven-member Argosy Board of Trustees will remain the exclusive governing board that provides oversight to Argosy University even though there are likely to be significant changes in the board of trustees' membership over time. Upon acquisition, the non-independent directors who are currently appointed by EDMC will be replaced. Not only board members but others interviewed during the site visit mentioned plans to add additional members to the board post-acquisition.

DCF has created a nonprofit education parent holding company, Dream Center Education Holdings, LLC (DCEH), and a centralized support services nonprofit, Dream Center Education Systems, LLC (DCES), which will initially provide the same shared services as those currently provided by EDMC. DCES is not obligated to continue providing the same services post-acquisition. The Dream Center Education Holdings, LLC CEO is Brent Richardson, former Chief Executive Officer and former Executive Chairman of Grand Canyon University. The Dream Center Education Holdings will provide expertise and resources related to development, alumni giving, and grant-requesting initiatives and will coordinate administrative and support services between Argosy University and the Dream Center network. In early March DCF publicized the Argosy University acquisition:

> Los Angeles Times report on March 3, 2017 states, "Today, the Dream Center Foundation announces its intent to acquire the Pittsburgh-based Education Management Corporation [EDMC], one of the largest providers of post-secondary education in the United States. The acquisition will include EDMC's The Art Institutes, Argosy University and South University.
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> For three years, the Dream Center Foundation has actively explored educational partnerships or acquisitions that might enhance our ability to provide quality education to scores of Americans through our Dream Center in Los Angeles and via our partners,

> nationwide," said Dream Center Foundation managing director Randall Barton. "We believe this is the opportunity we have been looking for, and it aligns perfectly with our mission which views education as a primary means of life transformation."
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> University operations will be managed by Dream Center Education Holdings, LLC under newly named CEO and Co-Chairman Brent Richardson. Mr. Richardson is a veteran in higher education administration who comes to Dream Center Education Holdings, LLC having most recently been a principal participant in the transformation of Grand Canyon University from a fledgling Phoenix-based residential school of 1,000 students to one of the largest residential and online institutions of higher education in America.

The change of ownership involves multiple regional accreditation associations. The WSCUC team took this into consideration when scheduling the Argosy University site visit. The Higher Learning Commission letter of March 14, 2017 outlined its review process and stated:

> Given the scope and complexity of this transaction and the Commission's unfamiliarity with the buyer, the Commission has determined that it will conduct the meeting in two parts. The first part shall occur in Phoenix the afternoon of May 11, 2017. At this meeting, we expect to meet with Mr. Randy Barton and Mr. Brent Richardson, who appear to be emerging as key players in the institutional structure wherein the Dream Center will provide executive leadership for EDMC's assets. We also expect any investors to be present at the meeting. At a minimum Mr. Najafi must be present, but representatives of other entities, including those from any other regionally accredited institutions or those that might have a direct or indirect financial or related interest in this transaction, should also be present. We also anticipate that any individuals or corporations, including but not limited to Significant Systems, that have had a role in brokering this transaction will be present as well. The second part of this meeting shall occur the afternoon of May 12, 2017, at the Dream Center campus in Los Angeles. Either at this second meeting or at the meeting in Phoenix, we anticipate meeting with Pastor Tommy Barnett and other key representatives of the Dream Center. Dr. Anthea Sweeney and I will represent the Commission although we may choose to include other representatives to be identified later.

DCF, through DCEH**,** a nonprofit limited liability company with DCF (a 501c3 organization) as its sole member, will purchase the assets of Argosy University and other assets owned by Argosy's parent company EDMC. DCF will finance the purchase from a funding source and promissory note issued to EDMC. The credit facility and EDMC promissory note will be structured so that the debt service payments are covered in part by Argosy University's operational income. In addition, DCF will provide three additional sources of funds for investment in each acquired asset in the DCEH educational system: (1) capital expenditure allocations from approved budgets, (2) an operating line of credit procured for each educational system, and (3) development and grant funding. In addition, there will be savings resulting from tax savings that will be used to hire fund development staff, and cost savings resulting from the reduction of corporate overhead to make more funds available within each educational system.

B. Description of the Team's Review Process

The WSCUC reviewers Philip Clayton (1st reader), Former Executive Vice President and Provost, Claremont Lincoln University, Margaret Bailey (2nd reader), President, Pacific Education Resources, and Marianne Koch (3rd reader), Professor of Management, Director of HR Program, Faculty, Golden Gate University, assisted by John Hausaman, WSCUC Director of Substantive Change and Committee Relation Liaison, and Geoff Chase WSCUC liaison to Argosy University, all participated on the original substantive change panel teleconference on Wednesday, February 22, 2017. The reviewers agreed unanimously to proceed to the visit on April 12, 2017. Due to the complexity of the financial and structural proposal, the reviewers requested a fourth member of the team with strong financial experience be added to the review team, and on March 14 Phillip Doolittle joined the team. Dr. Phil Doolittle is the Executive Vice Chancellor of Finance and Administration/CFO at Brandman University and a WSCUC Commissioner.

The reviewers have worked with Argosy University staff in preparation for the site visit. Prior to the visit members reviewed the submission and all supporting documentation, including all relevant correspondence and reports, and requested additional documentation in preparation for the visit. The Argosy ALO and the WSCUC team developed an agenda for the day-long visit designed to verify institutional preparedness for the change of ownership, as well as the educational mission alignment of the two institutions and the preparations underway for the change of control. The areas under review included but were not limited to: transition plan, governance and executive leadership, strategic planning, enrollment management and marketing, financial transaction details, financial sustainability, and student support services.

The reviewers prepared for the structural change visit according to a standard visit protocol. The institutional report and supporting documents were received in advance of the WSCUC conference call, on February 22, 2017, and the call was followed-up with a request for additional documents prior to the site visit. Argosy provided the additional documents in a timely manner. The reviewers did extensive preparation in advance of the meeting, including analysis of the evidence made available electronically. The reviewers also examined the Argosy and Dream Center Foundation websites, catalogs, and other documentation provided to WSCUC.

The reviewers met on April 11, the evening before the site visit, for an organizational meeting. The reviewers were able to meet with all of the key parties involved in the change of ownership from both Argosy and Dream Center Foundation in order to explore the issues identified for the visit. The day's activities on Wednesday, April 12 included meetings with the Argosy and Dream Center boards, presidents, executive leadership teams, staffs, and faculty.

The visit was hosted by Argosy and was well organized. The meetings offered the opportunity to make a thorough assessment of the changes anticipated with the change of ownership as well as the current situation and issues leading up to the change of ownership. Argosy and Dream Center leadership, staff, faculty and students grasp the importance and complexity of the change of ownership. They addressed the issues of the WSCUC reviewers with in-depth responses, particularly on issues related to governance, strategic planning, financial

sustainability, enrollment management, student support services, and faculty. The WSCUC reviewers concluded that the discussions were wide ranging and thorough. However, it should be noted that it is still early in the acquisition planning and some key issues were yet to be determined. (CFRs 1.5, 1.6)

SECTION II. Evaluation of the Proposed Change

A. Issue 1: Mission and Strategic Planning

Argosy University and DCEH have not created a post-acquisition strategic plan nor begun the work of collaborating on identifying strategic priorities under the proposed organizational and leadership changes. If approved, the structural change will result in Argosy transitioning from a for-profit to a nonprofit university. According to the structural change proposal, "DCF desires to acquire Argosy University and other EDMC-owned institutions so that it can expand the services that the Dream Center Network provides by making an affordable, convenient, quality education available to their existing clients and all others who would benefit. DCF also envisions the faculty, staff, students, and graduates of Argosy as partners in providing counseling, education, and volunteer services to the communities and families served by the Dream Center Network around the United States, thus expanding the services of the Dream Center Network and growing the existing commitment of Argosy University to engage in community outreach and service." While there are individuals within DCF who have higher education experience, the institution has not served a higher education mission or provided many of the functions that will support Argosy, such as shared services. These functions currently exist in EDMC and will be acquired by DCF or its subsidiaries. The initial DCEH and DCES staff will consist primarily of staff members who are currently serving Argosy University at EDMC. It is assumed that both DCEH and DCES will make changes to staffing post-acquisition. (CFR 1.1, CFR 1.2)

According to the Argosy and DCEH leadership, the Argosy mission is broad, flexible, and aligns with the social service professions. Leadership affirms that Argosy's mission is not only consistent with the DCF mission but will also allow Argosy to help serve the educational needs of staff and students from the Dream Centers. For purposes of comparison, the mission statements of the three organizations follow:

> Argosy: "*At Argosy University, our passion is teaching and learning. We develop professional competence, provide opportunity for personal growth, and foster interpersonal effectiveness. Students succeed because our university community engages and supports them.*" (https://www.argosy.edu/)
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> DCF: The mission of the Dream Center Foundation, as stated in its annual impact report is "*… to connect broken people to a community of support by offering free resources and services that address immediate and long-term needs in the areas of poverty, addiction, and human trafficking."(http://www.dreamcenter.org/about-us/about-us/vision-mission)*

The Dream Center: "The Dream Center's purpose is to reconnect isolated people to God and a community of support by providing human services that address immediate and long-term needs in the areas of homelessness, hunger, poverty, addiction, education, and human trafficking." "We are building a community of resilient people whose lives have been redeemed by God's love." (http://www.dreamcenter.org/about-us/about-us/vision-mission/)

According to the DCF website, the primary programs of the foundation are: discipleship recovery program, mobile food distribution, human trafficking program, and foster care intervention. But the foundation has also moved into supporting education, job training, and GED programs. The newly formed Dream Center Education Holdings, LLC has as its mission to be "accessible, affordable, relevant, and purposeful."

Argosy University has been looking for a strategic partner or new ownership since fall 2016 in order to help them avoid the heavy debt and negative reputation of EDMC, which has been hampering the university's financial stability and enrollment growth. For three years Dream Center Foundation has been seeking a higher education partner in order to expand its academic programs and educational opportunities for the clients it serves.

During the visit the Argosy board and leadership as well as Dream Center Foundation board and leadership discussed the synergy and benefits of the acquisition. As of the time of the visit, however, there had been no post-acquisition planning other than transition planning for corporate and shared services. When leadership was pressed about a strategic plans beyond the acquisition transition period they indicated this was not necessary because very few, if any, changes will occur immediately at the institutional level post-closing.

There seems to be a significant gap between the focus and benefits described by the university on the one hand and the Dream Center Foundation and Dream Center Educational Holdings on the other. The university's focus is on the regulatory, financial, and marketing advantages of the university's conversion to nonprofit status, and Dream Center Foundation and Dream Center Educational Holdings are focused on the financial transaction and benefits, as well as the details of the transition of services and setting up the corporate structure. Another significant difference is the scale of operations between DCF and Argosy. DCF annual revenues are approximately $21 million in 2016, $10.6 million in 2015, and $11.8 in 2014, of which a significant portion of the annual revenue is in non-cash contributions. On the other hand, Argosy revenues are approximately $400 million per annum. Argosy is also a highly complex institution in a highly regulated market.

The visiting team stressed the importance of working collaboratively on a post-acquisition strategic plan. All parties agreed that they understood the benefits and importance of developing a post-acquisition strategy but felt that they were too early in the acquisition discussions and that there was value to waiting until the new structure and leadership were in place. While this response is understandable, at this time more consideration should be given to the cultural and mission differences, size and complexity of the two organizations. (CFR 4.6 and 4.7)

The DCF and Argosy executive leadership clearly articulated the synergy between the two organizations. At this time there is no direct evidence that the mission will change immediately, and all parties insist it will remain the same. However, conversations with the Dream Center leadership indicate that there are ongoing discussions to review (1) the operational efficiency and financial sustainability of each entity, (2) ways the academic programs can serve the Dream Center clients, and (3) the expansion of new academic programs that will better serve the clients and regional communities of the university and Dream Center.

Two documents of the new education holding company did include language related to religious purposes. The leadership stated that one document (the Operating Agreement of the Dream Center Education Holdings, LLC) had language that was standard for a nonprofit 501(c)(3) IRS filing. That language has since been revised. Some language that might be construed as suggesting religious purposes appeared in the second document (the Articles of Incorporation submitted to the Arizona Corporation Commission) and was related to the circumstance that may occur should there be a dissolution of DCEH. Argosy and DCEH leadership understand that if there is a change of mission this will require a WSCUC filing and review.

B. Issue 2: Financial Transaction and Sustainability

The WSCUC team was able to meet with key parties involved in the planning of the financial transaction and sustainability on Wednesday, April 12, 2017. This included meetings with the Argosy University and Dream Center boards, the Argosy Chancellor, Dream Center Foundation CEO, DC Education Holdings CEO and CFO's of the relevant entities, and the senior executives of both organizations, as well as other leadership teams that will be responsible for managing the financial transaction and financial operation after the transaction.

Numerous documents were reviewed including audited financial statements (Argosy University and Dream Center Foundation), financial indicators (actual and projected), financial ratios (actual and projected), letters of commitment related to the financing of the asset purchase, the draft proposed asset purchase agreement dated December 31, 2016, the initial January 18, 2017 asset purchase agreement, the current amended and restated asset purchase agreement dated February 24, 2017, the proposed operating agreement, and the proposed service agreement. In advance of the institutional visit, reviewers had discussed the Action Report and other materials in detail and prepared a series of questions. The schedule for the visit permitted sufficient time to engage with the boards and senior executives, including financial officers, in discussion of the primary issues.

Financial Transaction

The proposed financial transaction involves three key entities: (1) Dream Center Foundation ("DCF"), a California nonprofit corporation, affiliated with The Dream Center, a nonprofit California corporation. DCF is an organization with annual revenue of approximately $21.0 million and total assets of approximately $35.0 million; (2) Dream Center Education Holdings, LLC ("DC Education Holdings"), a newly formed Arizona nonprofit limited liability company which is 100% owned by DCF; and (3) Education Management Corporation (Education Management II, LLC), ("EDMC"), a for-profit entity incorporated in Delaware and

the current owner of Argosy University, South University and The Art Institutes. EDMC currently operates these three educational institutions as well as the Brown Mackie Colleges (which are not part of this transaction) as for-profit entities.

The proposed transaction involves DCF acquiring Argosy University, South University and The Art Institutes (and affiliated organizations) from EDMC. As part of the transaction, Argosy University, South University and The Art Institutes International will be converted to nonprofit education institutions and operate as Arizona nonprofit limited liability companies. Once acquired, DC Education Holdings will provide oversight, management, and administrative support services to the three educational institutions. All of the entities involved will operate collectively under a nonprofit structure (organized under a "disregarded entity" structure for federal income tax purposes).

The transaction between DCF and DC Education Holdings on the one hand and EDMC on the other is structured as an asset purchase. Under the current Asset Purchase Agreement, dated February 24, 2017, the purchase price for the assets and business is $60.0 million, subject to certain agreed upon adjustments, which will be paid in the form of a closing cash-purchase price and deferred payments. At transaction closing, DC Education Holdings will pay EDMC an aggregate cash sum of $50.0 million, plus estimated net working capital adjustments which could be positive or negative based on agreed upon pre- and post-closing calculation formulas. The parties will enter a Promissory Note in which the remaining amount due to EDMC of $10.0 million will be paid by DC Education Holdings in two (2) deferred payments of $5.0 million each, the first due on the six-month anniversary of the transaction closing date and the other due on the twelve-month anniversary of the closing date. In addition to the two $5.0 million payments, DC Education Holdings will also pay the pre-signing deal expenses and the post-signing deal expenses paid by the sellers to the buyers prior to closing. These expense payments are split, with half paid with the first deferred payment and half paid with the second deferred payment.

It should be noted that the original purchase price for this proposed transaction, as disclosed to WSCUC, was $100.0 million. However, the purchase price was reduced after the U.S. Department of Education recently released data under the Department's Gainful Employment (GE) debt-to-earnings regulations. As a result of assessing the potential impact of the GE data on the educational institutions to be acquired, including the risk of enrollment declines moving forward, the parties negotiated an adjustment in the purchase price to account for this increased risk.

As part of this overall transaction, DCF intends to finance the entire amount necessary for the closing cash payment to EDMC of $50.0 million. The majority of financing will come through a credit facility to be provided to DCF by Najafi Companies, LLC or its affiliates. The terms and conditions of the financing are outlined in a Letter of Commitment between DCF and Najafi Companies, LLC, dated February 24, 2017.

Najafi Companies, LLC is an international private investment firm, founded by Jahm Najafi, CEO, and based in Phoenix, AZ. The firm specializes primarily in recapitalizations, acquisitions, and growth capital investments in established businesses. It invests in several

industry sectors, including education. The firm generally seeks controlling interest in its portfolio companies. Najafi Companies, LLC was originally part of the consortium of investors who recently agreed to purchase Apollo Education Group, Inc., the owner of the University of Phoenix, for $1.1 billion, but the Najafi Companies withdrew from the consortium before close. According to Argosy University leadership, Najafi Companies have no involvement with Apollo or the University of Phoenix.

Per the above-referenced Letter of Commitment, Najafi Companies, LLC or its affiliates will provide a credit facility to DCF. DCF will use the proceeds from the credit facility to make capital contributions to DC Education Holdings and DC Education Subsidiaries (Argosy University, South University and Art Institutes and related businesses). DC Education Holdings in turn will be responsible for the payment of the closing cash purchase price of $50.0 million to EDMC. Per the Letter of Commitment, DCF is the "borrower" and DC Education Holdings and DC Education Subsidiaries are the "guarantors." [redacted]

The credit facility provided by Najafi Companies to DCF is subject to various regulatory approvals, pre-closing and post-closing requirements, and adherence to the conditions of the Asset Purchase Agreement, including the transaction closing by December 15, 2017. The credit facility is also contingent on DC Education Holdings (and DC Education Subsidiaries) securing a working capital line of credit. Leadership of DCF and DC Education Holdings had estimated that the required operating line of credit would likely be in the $85.0 million to $120.0 million range. However, reviewers were advised that based on a proforma analysis recently conducted by DCF and DC Education Holdings, the working capital line of credit required could be as low as approximately $78.0 million. As of the reviewers' visit, the working capital line of credit had not yet been secured.

As indicated, Najafi Companies are the primary source of the credit facility for the transaction. The reviewers were advised by DCF and DC Education Holdings leadership that Najafi Companies has provided the Richardson Family Trust the opportunity to participate in the loan to DCF, *pari passu* with Najafi Companies. The Richardson Family Trust participation is not currently a condition of the credit facility**,** per the Letter of Intent between DCF and the Najafi Companies. The amount of the participation is estimated at around 10% (~$5.0 to $6.0 million). Brent Richardson, who is serving as chief executive of DC Education Holdings, is associated with the Richardson Family Trust. Although this matter was discussed, there was no documentation provided to the reviewers regarding the terms and conditions of Richardson Family Trust's participation in the transaction.

Although not mentioned in the Letter of Commitment between DCF, DC Education Holdings and Najafi Companies, dated February 24, 2017, there is an earlier Letter of Intent between the above referenced parties, as well as EDMC, dated January 18, 2017, which specifically states that Najafi Companies and its affiliates are unrelated, arm's-length third parties to DCF and the DCF buyers.

The senior leadership of DCF and DC Education Holdings informed reviewers that the opportunity to acquire the educational program assets of EDMC was brought to DC and/or DCF by Mr. Jahm Najafi, CEO of the Najafi Companies. They indicated that Najafi Companies' interest in serving as the lender for the transaction was based on several factors, including the firm's knowledge of the EDMC situation, its relationship with the senior leadership of DCF and/or DC Education Holdings, and the availability of internal firm resources for this kind of investment ("deep pockets"), as well as its philanthropic interests. As suggested, the credit facility with Najafi Companies is the result of a negotiated arrangement, not a formal selection/RFP process.

The leadership of DCF and DC Education Holdings estimate that the annual debt service on the credit facility with Najafi Companies, once fully implemented, will be approximately $5.0 million.

The DCF and DC Education Holdings have entered into a separate Letter of Commitment, dated February 24, 2017, in which DCF commits to provide DC Education Holdings with an equity commitment to fund the closing cash purchase price of $50.0 million for the transaction. This document serves to confirm that the funding secured by DCF though the credit facility with Najafi Companies will be used specifically to provide the equity commitment to DC Education Holdings.

As indicated previously, the funding for the closing cash payment portion of the purchase price transaction is being totally financed. Neither the Dream Center nor DCF are directly funding the transaction from existing financial resources. The Dream Center itself is an indirect party to this financial transaction.

Fundamentally, this transaction is structured such that the entire purchase price for the assets of $60.0 million, plus agreed upon transaction costs, is totally debt financed, with the acquired institutions, including Argosy University, being responsible for generating the resources

through operations that are necessary to service the debt payments, which include both the long-term debt as well as the two deferred payments. In conversations with the senior leadership of DCF and DC Education Holdings, they indicated that the size and structure of the financial operations of the new DC Education Holdings entity, which is comprised primarily of the three education institutions, will provide more than sufficient debt coverage and will be able to generate the resources required for debt services payments. It was difficult for the reviewers to fully validate this claim since the financial information and projections provided were focused primarily on Argosy University's financial operations and not on those of the other DC Education Holdings-related entities involved in the transactions.

The reviewers were provided with projected financial ratios for DC Education Holdings at the close of the transactions, assumed to be July 1, 2017, as well as projected ratios at the end of the first year of operations, June 30, 2018. The projected financial ratios provided for DC Education Holdings were as follows:

Transaction Close (7/01/2017):

- Acid Test Ratio 1.08
- Current Ratio 1.21
- Tangible Net Worth $69.6 million
- Composite Score N/A

One Year after Transaction Close (6/30/2018)

- Acid Test Ratio 1.19
- Current Ratio 1.35
- Tangible Net Worth $102.7 million
- Composite Score 1.6

The financial ratios can be used to gauge the overall financial health of an institution, including the ability of an institution to meet its debt service obligations. The Current Ratio is a liquidity ratio that measures the ability of an organization to pay back its liabilities, including short-term and long-term obligations such as debt service. A ratio under 1 indicates an institution is not in good financial health. As shown above, the Current Ratio for DC Education Holdings is projected to be 1.21 at transaction closing and 1.35 a year after the close of the transaction.

The Acid Ratio also measures an organization's liquidity. A ratio of 1 or better is considered to be satisfactory. As shown, DC Education Holdings is projecting an Acid Ratio of 1.08 at transaction closing and 1.19 a year after the transaction close.

The Federal Composite Score reflects the overall relative financial health of an institution along a scale of negative 1.0 to position 3.0. The US Department of Education considers a score greater than or equal to 1.5 as an indication that an institution is financially responsible. DC Education Holdings is projecting a Federal Composite Score of 1.6 a year after the transaction closes.

Tangible net worth calculates the net worth of an entity, excluding any value derived from intangible assets, such as intellectual property, patents, and copyrights. It is a basic calculation of an entity's total tangible assets, minus the entity's total liabilities. DC Education Holdings is projecting that the tangible net worth of the organization at the end of its first year of operation will have increased by $33.1 million, an increase of 48.0%.

As noted, all of the ratios shown for DC Education Holdings are projections. All of the ratios provided for DC Education Holdings are for DC Education Holdings as a consolidated entity and do not represent the ratios for the individual educational institutions, including Argosy University. The reviewers did not review the underlying data and calculations for these projected ratios.

(It is noted also that Argosy University's stand-alone Federal Composite Score for 2016 was 1.8. The scores for Argosy University for 2015, 2014, and 2013 were 1.6, 3.0 and 2.7, respectively).

The reviewers were advised by Argosy University leadership that a pre-acquisition review is being conducted with the U.S. Department of Education (USDE) and that neither DCF nor DC Education Holdings anticipate that DC Education Holdings will be required by the USDE to post a letter of credit as a result of the transaction.

DCF has entered into an operating agreement with DC Education Holdings that outlines the governance and conduct of business of DC Education Holdings. It also includes language on capital contributions from DCF to DC Education Holdings, as well as distribution of assets from DC Education Holdings to DCF. Mr. Brent Richardson has been appointed to the position of CEO and Co-Chairman of DC Education Holdings. As such Mr. Richardson will oversee the day-to-day business and operations of the entity, including its financial affairs. Based on conversations with the senior leadership of DCF and DC Education Holdings, Mr. Richardson will develop a leadership team to oversee the operations of the DC Education Holdings "system." Mr. Richardson has previous experience in higher education, having served until recently as the Chief Executive Officer of Grand Canyon University, a for-profit Christian university located in Phoenix, Arizona. Mr. Richardson is known for building Grand Canyon University, which he acquired in 2004, along with Michael K. Clifford. Mr. Clifford is a former member of the Dream Center's board of directors. The allocation of costs for executive management support and services from DC Education Holdings to Argosy University had not been determined at the time of the team's visit.

A further aspect of the transaction is the creation of Dream Center Education Systems, LLC (DCES), a wholly-owned subsidiary of DC Education Holdings, which will provide system-wide support services to the educational institutions that are part of the DC Education Holdings organization, including Argosy University. DCES is a nonprofit, limited liability company incorporated in Arizona. The non-academic support services to be provided by DCES to Argosy University include marketing, program/institution readiness, IT services, 24 hour/7 days a week technical support, student non-academic support services (including student retention), faculty support services, and consultation services (including global online strategic partnerships, program management, and program funding). This new support services structure

is similar to the centralized support services structure currently provided to Argosy University by EDMC. Under a Services Agreement, DCES and Argosy University are to develop a mutually agreed upon statement of work that outlines the services, deliverables, and pricing for the services to be provided by DCES. The initial term of the agreement is for twelve (12) months, allowing the two parties the time to develop agreed-upon performance metrics. As of the team's visit, the exact cost for DCES' services to Argosy University had not been determined/disclosed.

As indicated earlier, all of the entities within the DCF and DC Education Holdings organizational structure are nonprofits. The reviewers asked senior leadership of DC Education Holdings if management were considering the possibility of incorporating a for-profit Outsourced Program Management (OPM) service provider within the overall system structure. Leadership stated that this option was not being considered at the current time, but indicated that they would not rule out this possibility in the future. (CFR 1.7, CFR 3.4, CFR 3.5)

Financial Sustainability

Argosy University has experienced financial challenges in recent years. Total enrollment at the institution has fallen from approximately 39,000 students in 2013 to approximately 25,000 students in 2016, an overall decline of 36%. Total revenue, which is primarily made up of student tuition and fees, has declined from approximately $669.0 million in 2013 to $404.5 million in 2016, a decrease of nearly 40.0%. The university experienced net losses in both FY 2014 ($9.0 million) and FY 2015 ($4.34 million) and the institution's total assets were reduced from $425.1 million in FY 2014 to $342.2 million in FY 2015, a decline of $82.9 million (19.5%). As shown earlier, the University's Federal Composite Score has declined over the recent past few years --- 2.70, 3.00, 1.50 and 1.60 for 2013, 2014, 2015 and 2016, respectively. Some of the decline in the enrollments and associated declines in tuition revenues and fees is likely connected with the general decline in enrollments for the entire adult-education sector, particularly for for-profit colleges and universities.

Senior leadership at Argosy University indicated that a significant factor in the institution's recent financial struggles is related to its connection with its parent organization, EDMC. They argue that EDMC's debt levels (and associated liquidity requirements) and other system-wide financial difficulties, along with EDMC's litigation and regulatory compliance problems, have had an adverse impact on Argosy University's operations, enrollment, and financial performance.

This view of EDMC is supported by recent financial audits, which indicate that EDMC's deteriorating results from operations have created uncertainty as to EDMC's ability to continue as a going concern. This uncertainty has required EDMC and its affiliates to focus in recent years on cost reduction efforts to reduce cash outflows in order to maintain sufficient liquidity to meet EDMC's financial obligations.

Argosy University's leadership believes that the institution's financial health and sustainability will be enhanced significantly as a result of its being part of a new ownership structure under DC Education Holdings:

- Access to additional resources will follow from being released from EDMC's heavy debt burden.

- As a nonprofit organization, Argosy University will be relieved from certain tax obligations, which should result in more funding being available to invest in the institution. The university is anticipating that approximately $1.0 million will become available to the institution on an annual basis as a result of the elimination of various taxes.

- Nonprofit status should permit the institution to be treated as a nonprofit for purposes of the Gainful Employment (GE) regulations. It is also possible that nonprofit status will allow Argosy to be relieved of the 90/10 Rule, allowing it to operate in a much more cost efficient manner.

- As a nonprofit organization, Argosy University will be eligible to apply and compete for government and foundation grants, as well as engage in charitable fundraising activities.

- Nonprofit status should allow Argosy University to enhance its "brand" in the higher education space.

- Leadership anticipates that being part of the DC Education Holdings organizational structure will result in more of the decision-making authority being held at the institutional level, both for the Argosy University Board of Trustees and for management.

Argosy University's Chancellor stated that if the proposed transaction between DCF and EDMC were not successful, the institution would likely face serious operational and financial sustainability challenges going forward. The Chancellor saw this deal as the only real opportunity for Argosy University to get "out from under" the ongoing operational and financial problems associated with EDMC's ownership.

Argosy University has prepared a three-year financial forecast, FY 2017 through FY 2019, operating under the new DC Education Holdings structure. The forecast shows total student enrollments (SSB) progressively declining through FY 2018 (7.5% decline from FY 2017 to FY 2018), then starting to grow in FY 2019 (3.6% increase from FY 2018 to FY 2019). The same pattern is true for total revenue. The "net" from operations declines through FY 2017, but then starts increasing in FY 2018. The forecast provided for the out years of FY 2018 and FY 2019 do not include an allocation for DC Education Holdings corporate overhead expense as well as certain other allocated expenses. It was difficult for the reviewers to fully validate the underlying assumptions for the three-year financial forecast.

As mentioned earlier, it is not totally clear in the information provided if the excess net annual contribution generated by Argosy University will be transferred to DCF and, if excess contribution is to be transferred to DCF, how that amount will be determined. There is

documentation that suggests that the amount of transfers will be restricted in the first two years of operations, but there are no stated guidelines regarding this matter after that two-year period.

Argosy University's senior leadership indicated during the visit that the institution intends to remain fundamentally unchanged following the close of the transaction. They indicated that its key leadership team and institutional capabilities would remain the same, including its financial operations (accounting, treasury services, cash management, and credit line management) and the role and responsibilities of the Chief Financial Officer. (CFR 1.7, CFR 3.4, CFR 3.8)

Working with DC Education Holdings, Argosy University plans to develop a fundraising/advancement capability. The fundraising initiative involves engagement of an advancement executive director, alumni director, special events director, grant writer, social events director, and social media technologist, all full-time positions. In addition, the initiative will involve campus community coordinators, as well as student interns. The advancement executive director will report to the Argosy University Chancellor, with a dotted reporting line to the Executive Chairman of DC Education Holdings. The expected return of the institution's investment in the advancement initiative is expected to be as follows: Year 1 - .50x; Year 2 – 1.50x; Year 3 – 3.00x; and Year 4 – 4.00x. A new subcommittee of the Argosy University Board of Trustees will be formed to provide oversight of the initiative, along with the Chancellor and DC Education Holdings Executive Chairman. (CFR 1.7, CFR 3.4, CFR 3.5, CFR 3.6, CFR 3.8)

C. Issue 3: Governance and Executive Leadership

The reviewers were able to meet with most of the key parties involved in Argosy and DCF governance and executive leadership on Wednesday, April 12, 2017. This included meetings with the Argosy and Dream Center Foundation boards, the Argosy Chancellor and the DCF Board CEO, and the senior executives of both organizations, as well as the executive leadership teams that will be handling the transition. The CFO of Argosy University was on vacation and was only able to join the conversations via telephone for part of the time.

Materials reviewed included contracts, financial details, current mission and strategy statements, legal documents, and bylaws. These included materials initially presented by the two institutions at the time of their initial proposal for change of ownership, as well as a series of further materials that the institutions provided in response to the February 27, 2017 Action Report from the Structural Change Committee. Nine additional documents responding to requests from the visit team were received on April 18, 2017, along with a cover letter from the Chancellor of Argosy.

The team also reviewed online materials about mission, vision, and goals from the Dream Center and Dream Center Foundation that were supplemental to the submitted materials. In preparation for the institutional visit the reviewers discussed the Action Report and other materials in detail and prepared a series of questions. The schedule of the day allowed for ample opportunity to engage the two boards as well as senior executives in discussions of the key issues.

Boards and Ownership

The proposal submitted to WSCUC is for a change of ownership for Argosy University from Education Management Corporation (EDMC), the current parent company of Argosy University, to the Dream Center Foundation (DCF), a 501(c)(3) tax-exempt California nonprofit. The change of ownership is governed by the Amended and Restated Asset Purchase Agreement, dated February 24, 2017.

DCF is primarily responsible for funding and supporting the mission of another California nonprofit, the faith-based Dream Center, which includes an affiliate network of some 46 Dream Centers. According to the online description of DCF (dreamcenter.org/about-us/foundation/),

> "What has emerged from [DCF internal] discussion is an amazing opportunity for Dream Center Foundation to acquire 3 university systems from for-profit organization, Education Management Corporation (EDMC) and turn those systems into a community focused not-for-profit educational institutions that will:
>
> - Provide low cost or no cost GED training at each campus in conjunction with participating Dream Centers;
> - Offer academic programs on-site and/or through "on-line" at Dream Centers throughout the world;
> - Provide scholarships for graduates from the network of Dream Centers;
> - Provide pathways and scholarships for higher education for the thousands of volunteers and interns;
> - Connect graduates to jobs through job placement programs at the Dream Center Network and through expanded job placement efforts at each college campus site;
> - Take profits that now primarily benefit shareholders and invest those profits back into each campus and through scholarships to serve prospective students, current students, faculty, staff and the communities served with not only educational opportunities but compassionate service."

The Education Management Corporation (EDMC) and the Dream Center Foundation (DCF) have agreed on terms for the proposed change of ownership, subject to a number of contingencies, including decisions about accreditation from WSCUC and a number of other regional accreditors. The proposed change of ownership has been approved by the Argosy University board and the DCF board. Both boards affirm that the change of ownership is congruent with the mission of their respective institutions. Both also affirm that it is in the long-term interest of their organization to complete the change of ownership.

The institutions have submitted written plans concerning governance and executive leadership during and after the transition. According to the plans, the Argosy board of trustees will continue to function as an independent board as required by the WSCUC Independent Governing Board Policy, approved by the Commission on June 15, 2012 (CFR 3.9). Four current board members of the Argosy board will continue under the new leadership, whereas the board members currently appointed by EDMC will be replaced by board members appointed by DCF. According to the board bylaws, there will be at least one more non-DCF appointed board member than the number of board members who are appointed by DCF.

Members of the Argosy board acknowledged that the current size of the board, seven members, is likely too small. The seven member board of trustees presents challenges to adequately sustain a high-performance committee structure and appropriate oversight as described in WSCUC Independent Governing Board Policy. The Argosy Board of Trustees described plans for increasing the number of members of the Board of Trustees. It is assumed that, after the change of ownership, DC Education Holdings and DCF will have some influence recommending new board members, even though these new members will not be specifically nominated or approved by the DC Education Holdings or DCF leadership.

The DCF board of directors intends "for its wholly owned Argosy system parent limited liability company to keep the Board of Trustees of Argosy fully functional and independent" (Argosy University Change of Ownership proposal). Also, "subsidiary limited liability companies owned by DCF will make the acquisition of Argosy institution assets" (ibid.).

According to the website (dreamcenter.org/about-us/foundation/board-of-directors/), the DCF board currently consists of: Pastor Tommy Barnett, Chairman; Pastor Matthew Barnett, President; Pastor Caroline Barnett, Executive Director; Randall Barton, Managing Director; Danise Jurado, Executive Director of Development; Jack Carey, Treasurer; Brett Grimes, Secretary; and 32 other members.

A new holdings company, Dream Center Education Holdings (DCEH), has been established as the holdings company for Argosy University post-acquisition. DCEH has as its sole member the Dream Center Foundation. According to the Argosy response to WSCUC dated April 3, 2017, the mission of DCEH is "distinct and independent from the mission of DCF." The response continues:

> The President of DCEH is Brent Richardson, former CEO and Executive Chairman of Grand Canyon University. DCEH will be governed by a board that is independent of DCF; only two members of the seven-member DCEH board are affiliated with DCF, Randy Barton (Executive Chairman of DCEH and Managing Director of DCF) and Matthew Barnett (Board Member of DCEH and President of DCF). Mr. Richardson, who is not affiliated with DCF, also will serve as Co-Chairman of the DCEH Board. The Board also will have four (4) members with relevant education experience who have no affiliation with DCF.

Of the three named members of the DCEH board, the professional backgrounds of Mr. Richardson and Mr. Barton are described above. Matthew Barnett is one of the three founders of the Dream Center, along with Tommy and Caroline Barnett. According to the Dream Center

website: “Matthew Barnett, New York Times Best Selling Author, and pastor of one of America’s fastest growing churches, is one of the most dynamic voices God is using in Christianity today. Son of Pastor Tommy Barnett, best-selling author, church growth pioneer, and founder of what Time Magazine noted as ‘One of the three largest churches in America,’ Pastor Matthew has learned powerful principles of ministry, which have gifted him in founding The Dream Center in Los Angeles.” The other four board members have not yet been appointed.

The fiduciary responsibility for Argosy University before the transition was the legal responsibility of the Argosy Board of Trustees, although EDMC has until now been the owner of the university. After the transition, the new Argosy board will continue its fiduciary responsibility for Argosy University. DCF will then become the owner of the university and its assets. In both cases, since Argosy is the accredited institution, the Argosy board remains responsible for WSCUC standards pertaining to the boards of accredited institutions (see the WSCUC Independent Governing Board Policy and CFR 3.9).

Executive Leadership

An executive leadership team is responsible to its board. The power to employ or to terminate employment of Argosy’s Chief Executive Officer (Chancellor) is now held, and will continue to be held, by the Argosy board. The Chancellor is in turn responsible for all management decisions within the organization, including personnel decisions. The Chancellor has assured WSCUC and the review team in multiple documents and discussions that the change of ownership will not change the mission of Argosy. In fact, the documents affirm that there will be *no* changes of personnel pre- and post-transition, except for a small number of EDMC corporate personnel who provide legal, real estate, IT, benefits/payroll, and other non-student services for the university. At the time of acquisition, all current EDMC employees who provide services directly or indirectly to Argosy students will be employed in a division of DCEH (Dream Center Education Services), overseen by Brent Richardson and managed by the current services manager, Chad Garrett. The team is not aware of any documents stipulating the duration of employment of these current EDMC employees following the close of the transaction.

The visit team found competent executive leadership of Argosy University. The Chancellor described a number of changes at the executive level since assuming the position about 18 months before this visit. The management experience and professional competence of the executive leadership of Argosy University were clearly visible in multiple meetings. The visit team found that the executive leadership team exercises appropriate control, responsibility, and accountability for the leadership of the university (CFRs 3.6, 3.7, 3.8). The faculty and deans likewise exercise effective academic leadership (CFR 3.10). The faculty and deans interviewed expressed support for the change of ownership.

A concern was raised about the role of Argosy executive leadership in the details of the transition from University support services being handled by EDMC to support services being offered by DCES. An EDMC representative maintained that EDMC was handling all logistical details pertaining to the transfer of support services so that the Argosy Chancellor will not be “bothered” by them and so that Argosy can “continue its work of being the excellent educational institution that it is.” This arrangement raises questions about Argosy’s oversight

and management of its educational support services, for which it is ultimately responsible (CFR 3.8). The institution has affirmed that the current shared support services will continue following the close of the transaction, with the EDMC employees and systems migrating over to DCES. The duration of employment of EDMC staff that will become DCES employees has not yet been decided.

Observations

All parties concerned recognize that this is a complex change of ownership proposal. Argosy University is a large educational system, consisting of 27 campuses that include, according to the organizational chart provided on April 18, 2017, seven art institutes, the Western State College of Law, and the University of Sarasota. The proposal involves Argosy's transition from a for-profit to a nonprofit educational institution. Approvals from multiple accreditors will be required, and the visit team was told that the finalizing of the sale is contingent on positive responses from each of these accreditors. Argosy University will become an Arizona Nonprofit LLC, the "Dream Center Argosy University of California, LLC," doing business as Argosy University.

The institution acknowledges that, under the ownership of EDMC, Argosy University faced a number of student grievances (CFR 1.6) and other legal actions. For example, the Guideline for CFR 1.6, that "the institution does not have a history of adverse findings against it with respect to violation of policies" regarding financial aid, appears not to have been met during the last few years that the institution was owned by EDMC. There is reason to hope that these issues, which place the university at risk for being out of compliance, will be mitigated and perhaps resolved by the change of ownership, although the time required for reputational recovery may be longer than the estimations given by the institution's leadership.

Despite very extensive review of the materials submitted by the institution, the visit team was not able to ascertain whether or not a number of the WSCUC CFRs will be met by this transaction. The visit team was not able to establish to its satisfaction that, under the new ownership, Argosy University will continue to operate with appropriate autonomy (CFR 1.5). It was also not able to establish that this CFR would not be met. The visit team was not able to establish that Argosy University will have autonomy with regard to the supplier of its support services, DCES. The visit team was not able to establish that the Argosy board will continue to function as an independent board (CFR 3.9), since it cannot ascertain what factors may influence the non-DCF appointed board members in the future. It was also not able to establish that CFR 3.9 will not be met.

Among the factors explored during the WSCUC visit was the extent to which, after the change of ownership, the mission of Argosy University will be influenced by the faith-based mission of the Dream Center. The visit team was repeatedly told that there would be no change of mission or culture post-transition that would shift Argosy's current vision and goals. As grounds, the officers of DCF and DCEH cited the fact that there would be "three degrees of separation" between the faith-based organization, the Dream Center, and Argosy University. It is interesting to note that the co-founder of the Dream Center did not emphasize this separation; instead, he emphasized the multiple ways that Argosy University could help to support the

mission of the Dream Center. The visit team notes that, as mentioned above, the co-founder is also the President of the Dream Center Foundation and a Board Member of DCEH.

This issue is not black-and-white. Legally, there are indeed "three degrees of separation" between the Dream Center and Argosy University (DC – DCF – DCEH – Argosy). Yet online documents and some comments made during the visit are more ambiguous. Also, comments by faculty showed that they expect to be training and educating staff and clients from the Dream Centers. In another area of ambiguity, the initial proposal suggested that the excess net contribution from Argosy University would be available to DCF. In a later document, this amount was limited to $1.5M for the first 2 years post-acquisition but not capped after that point. Should the net revenue be used by the DCF board for Dream Center purposes, then the existence of three degrees of separation would be less clear. Hence the visit team was unable to establish that the change of ownership will leave Argosy's mission completely unchanged. It was also not able to establish that the change of ownership will bring about a direct or indirect change of mission, a result that would trigger a Comprehensive Review by WSCUC.

It is difficult to evaluate the team's inability to resolve these matters. In most cases, the culture of nonprofit institutions allows visit teams to quickly resolve these types of questions, including possible scenarios that might arise in the future. By contrast, for-profit institutions, in order to succeed in a competitive environment, understandably need to be more cautious in what information they reveal. But since the parties in the transaction affirm that there will be no change of culture pre-transition and post-transition, even this difference could not be discussed.

The visiting team was thus not able to establish that the institution is "informing the Commission promptly of any matter that could materially affect the accreditation status of the institution" (CFR 1.8), which raises questions of transparency (CFR 1.7). But the review team was also not able to conclusively establish that there exist factors in the proposed change of ownership, including foreseeable indirect consequences, that were not presented and discussed.

D. Issue 4: Transition Planning

In the original proposal (2017-01, Argosy University Change of Ownership.doc), it is reiterated that after the acquisition everything will continue at Argosy University as it currently operates: "The proposed change of ownership will result in a change from for-profit to nonprofit state for AU, but will not result in any change to mission, purpose or strategic plan of AU" (page 3); "…changes at the institution level are minimal…" (page 3); "…this proposed change of ownership will not change AU's direction, focus, or planning" (page 8); "The governance and management structure at each AU campus will remain unchanged" (page 9); "DCF intends to leave the current leadership of AU in place in terms of its day-to-day operations and is committed to continuing A's organizational structure…" (page 9); "There are no plans to hire or terminate individuals (trustees) based on this plan…" (page 9). "There is no anticipated impact to alumni…" (p.10); "There will be no changes in the qualifications of, number of, or compensation for faculty or staff employed at AU subsequent to the change of ownership" (page 10).

The visiting team reviewed the Argosy planning and review documents (Exhibit D_AU Annual Planning and Review Cycle.pdf), which state that there will be no change to the annual cycle of planning and budgeting and no change to the current strategic plan or priorities.

In Argosy University's response to the review teams request on February 27, 2017 for additional documentation following the initial conference call with the review team, university and DCF leadership addressed issues concerning the transition (Argosy Response to WSCUC.pdf). Transition planning was treated in its own section of the document (pages 4-5). Once again, it is stated that the mission, values, and strategic plan of AU will not change as a result of the change in ownership: "AU does not believe there is a need for a transition of culture or otherwise for its faculty, staff, or students" (page 4); and "On the day the transaction closes, all employees will report to work at the same facilities, with same programs, same job duties, same colleagues, and same expectations" (page 5). The WSCUC review team also considered other evidence that was provided through discussions on April 12, 2017 at Argosy University.

The most significant issues in the transition of administrative and student support systems are between EDMC and DCEH, since DCEH will provide the centralized shared services to the university systems post-acquisition that EDMC currently provides. Initially DCEH will rely on many of the EDMC personnel and systems by transferring the employment contracts to DCEH for many of the supporting and administrative staff personnel. Argosy University has been less involved in operationalizing the transition since many of the operational activities are supported by the parent holdings company and are moving from EDMC to DCEH. The visit team received the impression that Argosy University is not fully aware or engaged in the transition planning that will directly impact the educational experience of the students.

There will be challenges in transitioning the EDMC personnel and merging the cultures and practices. The motivations between EDMC and DCF differ in important respects, insofar as EDMC is a for-profit organization and DCF, according to a board member, supports an "inner-city ministry." DCF has no previous higher education experience; its clientele was described as being made up of individuals and families in need, many of whom have experienced traumatic circumstances or events. DCF and the recently created DCEH, which have not previously operated in higher education (although members of the proposed leadership team have higher education experience), will be acquiring an EDMC team of employees associated with a struggling organization. These factors represent significant challenges that could impact the quality and integrity of Argosy's educational mission.

It was acknowledged by Argosy University, DCF, DCEH, and EDMC that this change of ownership is occurring under some time restraints and that in order for the sales transaction to take place expeditiously a number of issues have not yet been resolved. Furthermore, acknowledging and planning for a transition from one type of institution to another would benefit all stakeholders. (CFR 4.2, CFR 4.3, and CFR 4.7)

E. Issue 5: Students, Faculty, and Staff

The supporting documents for this proposed transaction state that there will be no effect on students, faculty or staff, with one exception – that there will be more resources available for

their use and success: "… DCEH does not intend to impose new programs or create a new stream of students for The Art Institutes other than providing opportunities for qualified candidates who previously might not have considered or been in a position to enroll and succeed" (DCEH Four Fold Mission.pdf, page 4); "There will be no changes in the qualifications of, number of, or compensation for faculty or staff employed at AU subsequent to the change of ownership" (2017-01, AU Change of Ownership.doc, page 10); "Further, with this structure, Argosy University students, faculty, and staff should not see any change to the support services that are currently provided in whole or in part by EDMC prior to the proposed change" (page 11).

In discussions during the April 12, 2017 visit, DCEH and DCF leadership affirmed several times that there will be more resources available to students and faculty for scholarships through a fully staffed development office, costs savings, and tax benefits. It was reported that these additional revenues – unavailable under the current for-profit structure – will greatly enhance outcomes for students, staff and faculty (Exhibit K. Three Years of Income and Expenses.pdf).

The evidence reviewed raises some questions concerning students, staff, and faculty. For example, there is no discussion of the effects of bringing Dream Center staff, clients, or volunteers into Argosy University, although this possibility was raised during the site visit and mentioned as a benefit in the original proposal from the institution. Should this in fact occur, it might require some changes in admission requirements (CFR 2.2 and 2.14) and additional types of support services (CFR 2.13).

Whether some of the projected new revenues will be made available for staff and faculty was not clear. If there are changes in the types of students enrolling at Argosy University, some additional resources will be necessary for training, updating learning outcomes, and other forms of support for faculty and students.

If the new ownership of Argosy University should result in new student enrollments from some of the Dream Centers, careful attention will need to be given to monitoring the academic readiness and success of these students and the educational effectiveness of the classes and programs in which they enroll. There would also be some impact on needs for student support services, including remediation support, as well as the cultural impacts of integrating these students into the university (CFR 2.2, 2.1). For example, Argosy might need to reexamine student learning outcomes (CFR 2.4) to adjust to changes in the student population. It may also be necessary to modify student success monitoring systems, to offer enhanced tutoring programs, and to develop new mentoring programs if Argosy indeed experiences an increase in new students with different cultural and educational backgrounds (CFR 2.12).

F. Issue 6: Marketing and Enrollment

The reviewers were able to meet with key parties involved in the planning of marketing and enrollment on Wednesday, April 12, 2017. This included meetings with Argosy University's Chancellor as well as Vice Chancellor of Marketing and Vice Chancellor of Admissions. The

visit team also met with other related leadership in the support areas of Student Financial Services and Student Services. Numerous documents were reviewed, including enrollment performance reports. In advance of the institutional visit, reviewers had discussed the Action Report and other materials in detail and prepared a series of questions. The schedule for the visit permitted sufficient time to engage with the senior executives and others in discussion of the primary issues.

As reported earlier, Argosy University has been experiencing enrollment challenges in recent years. Since 2013, Argosy University's total student enrollment has declined by approximately 36.0%. Argosy University's forecast indicates that total enrollment will continue to decline through 2018 and then stabilize and begin growing in 2019. Some of the decline is likely explained by the general decline in enrollments throughout the sector, particularly for for-profit colleges and universities. The enrollment decline may also be the result of past coordination and operational challenges between Argosy University and EDMC, as well as reputational damage to Argosy University caused by regulatory compliance difficulties experienced by EDMC-related student financial aid programs.

In discussions during the visit, Argosy University leadership outlined the steps being taken to enhance its marketing efforts. This included a discussion of the University's engagement of Grey and Associates, a strategy consulting firm focused on higher education, which has served to significantly expand the institution's market intelligence capabilities and improved the institution's overall student recruitment outreach. In addition, the institution has in place a strong institutional research function, which has provided effective data analysis for decision making and has contributed to the development of a national strategic plan for marketing that includes both regionally targeted marketing and campus-based marketing. These improved capabilities have permitted the University to begin to focus on new opportunities, such as the expansion of strong programs such as the clinical psychology program to more of its regions. The institutional research is also supporting the development of new certification programs in areas such as counseling, environmental sustainability, geriatrics, addiction, forensics, and cyber security. These programs seek to complement existing degree programs by focusing on providing students with the skills and competencies needed for career success.

The institution appears to have developed sophisticated internal marketing and enrollment functions with increased capabilities in data analysis, ROI analysis, and conversion rate analysis. In addition, the admissions team has been working with each of the schools to develop appropriate messaging so that students are directed to the programs that best serve their educational needs. Admissions leadership affirmed that the institution is more focused now on finding the right fit for students rather than primarily on growing enrollment numbers. They also stated that the student admissions process has become more personalized since Argosy University brought more of the recruitment and admissions functions in-house, in contrast to the previous system in which these services were provided centrally by EDMC.

The marketing and admissions teams believe that the new relationship with DCF and DC Education Holdings will strengthen marketing and enrollment capacities. The advantages include operating as a nonprofit educational institution and distancing Argosy from the reputational issues connected with EDMC. Marketing staff also emphasize that the DCF relationship will

provide students opportunities to participate in internships and student placements at clinics and programs operated by DCF such as the Dream Centers.

The marketing and admissions leadership also discussed the history of Argosy University's relationship with EDMC, including the operational and reputational challenges associated with that arrangement and the regulatory compliance difficulties experienced by the two organizations. The leadership commented on its efforts to turn the situation around, develop more effective and appropriate processes, and create a new corporate culture for the organization.

The institution is to be commended for its efforts to build in-house marketing and recruitment functions, and for its increased focus on the fit between educational programs and student needs (CFR 2.2b). The difficulties caused by the damage to Argosy's reputation should not be underemphasized, however. Enrollment projections anticipate an increase in student enrollments by 2019, which is only two enrollment cycles away. It is more typical for the process of rebuilding a brand to take significantly longer. For example, it may take several years for potential students to recognize that Argosy has become a nonprofit educational system. Even though EDMC practices appear to be primarily responsible for the damaging publicity, potential students may not recognize the difference between these two entities.

Negative media coverage of for-profit colleges and universities in general, which fuels concerns about financial aid and the employment prospects of graduates, may continue to affect enrollment numbers even after Argosy has achieved nonprofit status. In addition, the specific charges of false advertising and misrepresentation that have been raised against Argosy in the media and social media will continue to do damage. Although the vast majority of these charges are false, the settlements by EDMC in multiple states may have created the impression of guilt even in areas where none exists.

On the one hand, major investments in marketing and public relations work may need to be made in order to overcome the reputational damage and to stop the rapid enrollment decline. The visit team noted that the significant costs of sustained nation-wide marketing campaigns are not yet reflected in the institution's budgets. On the other hand, aggressive marketing campaigns might tend to reinforce the perception among potential students that Argosy has retained its for-profit culture, even when this perception is inaccurate. In either case, marketing and enrollment will present significant challenges to the institution post-acquisition. (CFR 3.4, CFR 3.6, CFR 4.7)

SECTION III. Commendations, Recommendations, and Conclusion

Commendations

1. Argosy University leadership is to be commended for its proactive efforts in seeking a change in ownership, finding a strategic partner, and successfully managing the vast number of tasks that are entailed by the proposed transition.

2. Argosy leadership has shown the ability to balance expediency and attention to detail. Although under some time pressure, university leadership has prepared highly professional proposals, case statements, and documentation in order to address the legal and accreditation issues raised by a very large and complex acquisition.

3. The Argosy executive team is to be commended for its consistent professionalism and the quality of management it has shown throughout its interactions with WSCUC as its regional accreditor.

4. Argosy is to be commended for its efforts to distance itself from the kinds of practices that were among the allegations made against EDMC. In particular, the University has developed a strong institutional research function, has engaged consultants to improve its recruitment outreach, and has taken concrete steps to develop a student-centered culture both at the system-wide level and at individual campuses.

5. The deans and faculty of Argosy are to be commended for their commitment to the Argosy educational mission. The academic leaders who were interviewed demonstrated a high level of academic excellence and an enthusiasm for student-centered education in their programs and disciplines.

6. The institution is to be commended for its combination of realism and vision, which reflects a deep commitment to the mission and goals for which Argosy University exists.

Recommendations

1. *Mission and strategic planning*: It is recommended that the key stakeholders in the proposed acquisition begin work immediately on outlining a post-acquisition strategy that addresses the distinctive cultural and missional features of each organization involved in the transaction, including Argosy University, the Dream Center Foundation, and Dream Center Education Holdings. The document should provide the basis on which aligned strategic priorities can be developed that serve the educational mission of Argosy University as the accredited institution. This collaborative effort should include alumni, students, faculty, staff, practitioners, community representatives, boards and executive leadership. (CFR 1.1, CFR 1.2, CFR 1.5, CFR 4.5, and CFR 4.6)

2. *Line of credit*: It is recommended that DCF and DC Education Holdings move forward in securing a working capital line of credit for DC Education Holdings as required to

comply with the terms of the credit facility with Najafi Companies. Securing this line of credit is an essential component in completing the proposed transaction. (CFR 3.4)

3. *Letter of commitment (credit facility)*: The term sheet in the Letter of Commitment with Najafi for the credit facility includes only a brief description of the principal terms of the credit facility and could be subject to additional requirements by Najafi Companies in order to finalize terms for a definitive loan agreement. It is recommended that DCF finalize the terms and conditions of the credit facility with Najafi Companies. Scope and terms of the credit facility will not be fully known until definitive loan agreements are completed. (CFR 3.4)

4. *Financing (Richardson Family Trust participation)*: The Najafi Companies have provided the Richardson Family Trust the opportunity to participate in the loan to DCF, *pari passu* with Najafi Companies. The Richardson Family Trust participation is currently not a condition of the credit facility provided to DCF by Najafi Companies. The terms and conditions of such participation need to be defined and documented. Brent Richardson serves as CEO and Co-Chairman of DC Education Holdings. Given Mr. Richardson's executive leadership and fiduciary role in the nonprofit DC Education Holdings organization, the participation of the Richardson Family Trust in the transaction may present potential legal, regulatory compliance, and conflict of interest issues. It is recommended that the terms and conditions of the Richardson Family Trust's participation in the financing of the transaction be clearly defined and that any potential conflicts to be resolved prior to the close of the transaction. (CFR 1.7, CFR 3.4, CFR 3.6)

5. *Service agreement*: The services agreement between Argosy University and DCES does not currently include a statement of work, nor does it stipulate the amount in fees to be paid by Argosy University for the support services that will be provided to the institution. It is recommended that Argosy University and DCES finalize the statement of work and determine the service fees that will be charged and include them in Argosy University's financial planning. (CFR 3.4)

6. *Executive overhead expense agreement*: It does not appear that Argosy University and DC Education Holdings have developed a formal agreement that addresses issues such as the allocation of corporate overhead expenses and other expenses from DC Education Holdings to Argosy University. Argosy University has indicated a commitment from DC Education Holdings to a reduction in such charges when compared to EDMC's corporate expense allocations. It is recommended that Argosy University and DC Education Holdings develop such an agreement. (CFR 3.4)

7. *Gainful Employment (GE) risk exposure*: As reported, the original purchase price for the proposed transaction was reduced to address the potential impact of the GE data on the operations of the educational institutions being acquired, particularly the risk to enrollments. It is recommended that Argosy University and DC Education Holdings incorporate any risk to Argosy University's future enrollment into Argosy University's enrollment planning and financial forecasts. (CFR 3.4)

8. *USDE Financial Responsibility Composite Score*: DCF, DC Education Holdings, and EDMC have been involved in pre-acquisition discussions with US Department of Education. Based on those communications, neither DCF nor DC Education Holdings expects that a letter of credit will be required. It is recommended that DC Education Holdings and Argosy University analyze the implications for the transaction should the USDE actually require a letter of credit. For example, should the requirement be imposed and the transaction close with the letter of credit in place, what would be the potential financial implications on Argosy University's operations. (CFR 3.4)

9. *Argosy University Office of Advancement*: Argosy University and DC Education Holdings have proposed the development of an advancement function within the institution. It is recommended that Argosy University and DC Education Holdings develop an expense and revenue budget for this proposed function and incorporate it into the University's three-year financial planning. (CFR 3.4)

10. *Financial forecast models*: Argosy University has developed a three-year financial forecast. The forecast primarily focuses on the financial operations of Argosy University as a stand-alone entity. It is recommended that DC Education Holdings develop a comprehensive financial forecast for the entire DC Education Holdings enterprise, including the operations of the three education entities as well as the system-wide executive oversight and support services functions. It is further recommended that the Argosy University forecast be updated to reflect the expense allocations from DC Education Holdings to the institution, as well as any funding/capital contributions flowing from DC Education Holdings to the University. The projected expense allocations from DC Education Holdings should include allocations for DCES support services, DC Education Holdings corporate overhead expenses, and any other anticipated expenses. The updated forecast for Argosy University should also include the expected expenses and contributions associated with the advancement initiative. The forecasts should include a comprehensive description of all of the key assumptions. (CFR 1.7, CFR 3.4)

11. *Potential areas of conflicts of interest*: The structure of the transactions and the key parties involved in the transaction introduce the possibility of conflicts of interest. First, the proposed DC Education Holdings system, which is inclusive of three educational entities including Argosy University, will operate nation-wide and potentially internationally. Some of the key parties involved in the transaction have past and potentially current relationships with major competitors in the higher education sector. Second, DC Education Holdings leadership has indicated the possibility that a for-profit OPM service provider could be incorporated into the structure of the enterprise at some future time. This opens up the possibility of there being connections or overlaps in principal parties involved in the nonprofit and for-profit entities. Given these potential areas of conflict of interest, it is recommended that Argosy University and its proposed parent organizations, DCF and DC Education Holdings, carefully examine these potential conflicts of interest and regulatory compliance issues, including compliance with USDE and IRS regulations, before proceeding with any transactions or re-structures. (CFR 1.5, CFR 1.7, CFR 1.8, CFR 3.6, CFR 3.9, CFR 4.7)