

February 7, 2019

Diane Auer Jones
Principal Deputy Undersecretary
United States Department of Education
400 Maryland Ave. SW
Washington, D.C. 20202

**Re: Source and Application of Funds, January 2019
Non-Receivership Entities**

AI Atlanta
AI Portland
AI Colorado
AI Houston
AI Fort Lauderdale
AI Miami
AI Chicago
South Savannah

Receivership Entities

AI Seattle
AI Pittsburgh
Argosy Orange County
AI Phoenix/Las Vegas

Dear Ms. Jones,

This letter, and its accompanying exhibits, is intended to account for \$50,933,320 of funds advanced from January 1 to February 4, 2019, to the Argosy, South and Art Institutes universities (the "Universities") listed above, both pre- and post-receivership. Through February 4, 2019, \$2,853,809 (\$2,824,880 + \$28,929) was advanced to the Receivership ("Post-Receivership Receipts"). An additional \$48,079,511 was advanced to the Universities prior to the appointment of the Receiver, and to the Non-Receivership entities between January 1 and February 4, 2019 ("Non-Receivership Receipts"). Please see the attached spreadsheet entitled "Receipts Summary" to see the recipients of the cash and the date the cash was received.

When the Receiver seized the cash accounts, there was \$5,478,585 in cash in all Receivership Entities' accounts. This cash was used by the Receiver to pay the

February 1, 2019, payroll of \$5,178,482. The figures are provided in the second spreadsheet entitled "AU & DCEH Cash Flow." The payment of the February 1, 2019, payroll leaves the Receivership Entities with only \$3,811,883 to manage all of their support and administrative services.

The Receivership's dire cash situation was born out of an early January series of agreements that were entered into by the Non- Receivership Entities that transitioned those entities into separate 501(c)(3) entities with independent boards of directors (the "Spin-Off"). The problem with the Spin-Off is that the Universities were really not separate entities for purposes of their non-academic operational management. The solution, they thought, was for all of the Universities to use a managed services company named Studio Enterprise Manager, LLC, ("Studio"). But Studio was not equipped to provide any services to the Universities, so Studio had agreements with DCEH to continue to provide all of the operational services to the Universities.

Given that DCEH was ultimately responsible to provide operational services to the Universities, the agreements anticipated a flow of service fees from the Department of Education to the Universities, then to Studio, then to DCEH. The funds were reduced by the fees that Studio was allowed to charge under these agreements. As DCEH is providing all of the operational services to the Universities, it is hard to understand why Studio is receiving substantial fees under its Managed Services Agreements. It is also our understanding that the Universities made their payments in advance, and Studio was required to send the money on to DCEH in arrears. At this point, it appears that over \$6 million is due to DCEH from Studio for services to support the Universities; this money may never be paid short of legal action.

We further understand "investors" were supposed to inject \$10,000,000 to make sure DCEH paid for the Universities' operations. Unfortunately, there was no cash investment into DCEH by anyone. If any investor cash was contributed, it was consumed by administrative expenses, legal fees and/or Studio management fees. We are still pursuing this line of inquiry to determine from whom this cash was expected, if it was paid, and if paid, to what use it was put.

We also believe that there was scattered matching of revenues and expenses among the Universities. For example, prior to the receivership, DCEH was saddled with a \$9 million payroll to pay employees in all of the Universities. Days later when draws on Title IV were made, it appears there was no allocation among the universities for these payroll expenses creating windfalls for the Non- Receivership Entities. Again, we are pursuing this matter with South and Art Institutes systems.

The purpose behind the reorganization in January was a laudable attempt to save the Non- Receivership Entities benefiting both students and taxpayers. However, it

is not working because the Universities in good faith have paid Studio, but Studio has decided to hold on to all monies for their own fees. If the problem cannot be resolved, DCEH will have to work with the Non-Receivership Entities so that they can support their own operations.

While the Receiver is concerned about all of the students, he has a direct fiduciary responsibility to the Argosy students. In order to meet that responsibility, the Receiver is implementing a plan to support the needed managed services at a greatly reduced cost. We intend to have that plan in place by March 1st with the approval of the independent board of Argosy.

The Receiver understands that, regardless of the situation among the Universities and Studio, the most critical need is to pay the \$13 million of Argosy student stipends. As the spreadsheets show, the Receiver's cash balance is only \$3,811,883. This is clearly not adequate to pay \$13 million of stipends due to the Argosy students and the situation must be urgently addressed.

In order to pay the student stipends, complete the semester, transition the Receivership Entities, address the Teach Out requirements, and meet the other regulatory requirements of the Department of Education and the Department of Justice, we plan to take the following action steps:

- On behalf of Argosy, the Receiver will request a \$13 million drawdown of the \$21 million in available funds to immediately pay all outstanding student stipends. Although Argosy is currently on HCM2, under these urgent circumstances, we are requesting a one-time exemption from the normal rules for the sake of the students who are in extreme need.
- Once the stipends are paid, on behalf of Argosy the Receiver plans to apply for the remaining \$7 million in G5 funds. These funds, combined existing balances of approximately \$3.8 million will fund Argosy operations and payroll for the remainder of the semester. There is also between \$3 million to \$6 million of additional draws available related to online starts in February and March.
- The Receiver will work with the independent boards and officers of South and Arts Institutes so that they can take over their own operating services at the earliest possible time.
- The Receiver intends to settle with or unwind the Studio transaction and recover the funds in Studio's hands.
- The Receiver is working with eight active potential purchasers and pursuing transitioning or selling the Receivership Entities as soon as possible.

We look forward to working with the Department of Education and the Department of Justice to transition these Universities to a soft landing, which is in the interest of every stakeholder.

Yours very truly,



Mark E. Dottore
Receiver

cc: Jonathan E. Jacobson, Esq.
Department of Justice
Benjamin W. Butterfield, Esq.
Morrison & Foerster, LLP
James A. Newton, Esq.
Morrison & Foerster, LLP

Enclosure

Title IV Receipts
Cash Flow By Day
1/1/19 - 2/5/2019

ORPID	Entity	1/2/2019	1/3/2019	1/7/2019	1/10/2019	1/15/2019	1/16/2019	1/28/2019	1/29/2019	1/30/2019	2/4/2019	Total
AI Atlanta	All	\$ 233,951	\$ -	\$ -	\$ -	\$ 3,115,241	\$ -	\$ 810,170	\$ -	\$ -	\$ -	\$ 4,159,362
AI Portland	AI DCEH	\$ -	\$ 36,755	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 36,755
AI Seattle	AI DCEH	\$ 1,000	\$ -	\$ 544,250	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,929	\$ 574,179
AI Pittsburgh	AI DCEH	\$ 1,143,182	\$ -	\$ -	\$ -	\$ 2,362,281	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,505,463
AI Philadelphia	AI DCEH	\$ 17,377	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,377
AI Colorado	AI DCEH	\$ -	\$ 2,329	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,329
AI Houston	All	\$ 46,437	\$ -	\$ -	\$ -	\$ 3,718,337	\$ -	\$ 494,479	\$ 366,824	\$ -	\$ -	\$ 4,626,077
Argosy Orange County	AU DCEH	\$ 869,097	\$ 18,372	\$ -	\$ -	\$ 3,723,500	\$ 5,519,912	\$ -	\$ -	\$ 2,824,880	\$ -	\$ 12,955,761
AI Fort Lauderdale	AI DCEH	\$ -	\$ 36,138	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 36,138
AI Phoenix/Las Vegas	AI DCEH	\$ 32,786	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,786
AI Miami	All	\$ 89,303	\$ -	\$ -	\$ -	\$ 2,594,620	\$ 152,257	\$ -	\$ 874,060	\$ -	\$ -	\$ 3,710,240
AI Chicago	AI DCEH	\$ 7,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,000
South Savannah	South	\$ 1,651,050	\$ -	\$ -	\$ -	\$ 9,504,335	\$ -	\$ 10,114,468	\$ -	\$ -	\$ -	\$ 21,269,853

Entity	Total Receipts
All	\$ 12,495,679
AI DCEH	\$ 4,212,027
AU DCEH	\$ 12,955,761
South	\$ 21,269,853
Total	\$ 50,933,320

Cash Flow
 ARGOSY/DCEH
 1/1/19 - 2/5/2019

		Pre- Receiver 1/1/19-1/20/19	Post Receiver 1/21/2019
Argosy Cash Flow	Total		
starting balance	\$ -	\$ -	\$ 5,449,656
Title IV Receipts	\$ 12,955,761	\$ 10,101,952	\$ 2,853,809
1/18 Pay	\$ (2,147,583)	\$ (2,147,583)	
2/1 Pay	\$ (2,141,427)		\$ (2,141,427)
Stipends	\$ (907,114)	\$ (325,834)	\$ (581,280)
Other Vendor Payments	\$ (569,463)	\$ (569,463)	
D2L	\$ (305,773)	\$ (305,773)	
Twin Cities Rent	\$ (263,690)	\$ (263,690)	
TSA	\$ (1,609,416)	\$ (1,609,416)	
Current Balance	\$ 5,580,757	\$ 5,449,656	\$ 5,580,757

DCEH Cash Flow

Starting Balance	\$ 11,300,000	\$ 11,300,000	\$ 1,268,180
Title IV Receipts	\$ 4,212,027	\$ 4,212,027	
1/4 Pay	\$ (9,508,425)	\$ (9,508,425)	
1/18 Pay	\$ (4,485,422)	\$ (4,485,422)	
2/1 Pay	\$ (3,037,055)		\$ (3,037,055)
Other Vendor Payments	\$ (250,000)	\$ (250,000)	
Current Balance	\$ (1,768,875)	\$ 1,268,180	\$ (1,768,875)
Receiver Cash balance	\$ 3,811,883		\$ 3,811,883