Appendix 3 – Methodology

In order to reach the figures contained in this report, committee staff compiled numerous data sets, performed various calculations, and in some cases made estimates based on the best available data. This appendix is designed to provide a clear explanation regarding how particular analyses and calculations were performed.

OPEID Numbers Controlled by Each of 30 Companies Examined, FY 2010 (Appendix 8)

Data, including the amount of title IV revenues received pursuant to the Higher Education Act, and various military benefits, is presented throughout the report on a per-company basis. Most of this information is reported by the companies to the Department of Education by individual Office of Postsecondary Education ID number (OPEID number OPEID numbers are traditionally identifiers for individual campuses, but can also contain multiple campuses or branches.

In order to reach a total amount for each company, amounts reported by each OPEID controlled by each company were totaled. While the OPEIDs under an individual company's control changed somewhat over the years examined, most calculations are based on the OPEIDs controlled by the companies in fiscal year 2010. These OPEIDS are listed in Appendix 8 and were compiled from data provided by the Department of Education in October and November 2011.

Enrollment 2001-2010 (Appendix 7)

Enrollment information is reported to the Department of Education by unit identifiers (unit IDs) and made available through the Integrated Postsecondary Education Database System (IPEDS). Unit IDs can include information about a single campus, or can include multiple campuses.

Additionally, publicly traded companies typically include new student enrollment and total student enrollment figures in annual and quarterly reporting to the Securities and Exchange Commission (SEC).[2968]

The yearly enrollment totals that appear in the report for privately held companies are equal to the fall enrollment for all unit IDs controlled by the company as reported to IPEDS.

The yearly enrollment totals that appear in the report for companies that were publicly traded during the entire 2001-10 period and that reliably disclosed enrollment figures in SEC filings is the total company enrollment reported for the quarter ending in August or September for each year in which the company reported information to the SEC. IPEDS data was used in the same manner as above for companies that did not reliably disclose enrollment figures in SEC filings.

For companies that issued an Initial Public Offering and became publicly traded between 2001 and 2010 the yearly enrollment totals for companies that appear in the report are collected from IPEDS in the same manner as above up to the date the company began reporting to the SEC. SEC total

[2968] Not all publicly traded companies release this information every quarter and every year. Committee staff used SEC enrollment figures where available.

enrollment figures for the quarter ending in August or September for each year in which the company reported information to the SEC are used for yearly enrollment totals in years following.

Pell Grant Funds Collected (Appendix 13)

The amount of Pell grant funds collected by each company was calculated by examining the Department of Education's Title IV Programmatic Volume Reports by School and totaling the "Award Year Cumulative Activity" figure for all institutions/OPEIDs controlled by the company for student aid award years (July 1-June 30) 2007 through 2010. These figures are adjusted by the Department of Education to factor in funds returned in cases in which students withdraw or lose eligibility during an award period. Over time, the Department revises the figures slightly to account for additional returns .

Reported 90/10, Fiscal Year 2006-2010 (Appendix 9)

The Department of Education requires that for-profit colleges provide audited financial statements that document compliance with the requirement that no more than 90 percent of the revenues of the company come from Federal financial aid funds. The financial statements provide the amount of Federal financial aid funds (the 90/10 numerator) and the total revenues received (the 90/10 denominator). Because 90/10 calculations must follow cash basis accounting, the revenues reported may differ from other financial statements of the company, which may use different accounting standards. Consolidated company-wide 90/10 ratios were calculated by aggregating the 90/10 numerators and denominators reported to the Department of Education across all institutions/OPEIDs controlled by the company in each fiscal year for the 29 companies that participate in title IV.[2969] A weighted average was then used to measure the growth in Federal financial aid funds collected over 5 years.

Share of Federal Dollars (Appendix 10)

The overall amount and share of Federal funds collected by each for-profit education company was calculated by totaling the Federal funds collected from the categories described below. The amount of revenue used was the total amount reported to the Department of Education as the 90/10 denominator in fiscal year 2010. For each company, 90/10 numerators and denominators were aggregated across all institutions/OPEIDs controlled by each company in fiscal year 2010, to provide the total revenues and the total Federal financial aid funds received pursuant to Title IV of the Higher Education Act.

Federal Financial Aid

The amount of Federal financial aid funds collected pursuant to Title IV of the Higher Education Act was calculated, as in Appendix 9, by aggregating the total Federal financial aid funds received, including but not limited to Stafford loans, Pell grants, and PLUS loans, across all institutions/OPEIDs controlled by the company in fiscal year 2010 (the 90/10 numerator).

[2969] Henley Putnam LLC does not currently participate in title IV and is not included. For fiscal year 2010, all data was provided by the Department Education. For previous years, companies produced financial statements to the committee.

Military Education Benefits

The Department of Veterans Affairs provided a list of post-9/11 GI bill program funds disbursed to each school during the 1-year period from August 1, 2009 – July 31, 2010 and the nearly 2-year period from August 1, 2009–June 15, 2011. The total amount of funds collected was aggregated across all schools owned by each company for each program year.

In order to calculate an estimated amount of benefits received in each company's 2010 fiscal year, committee staff calculated the average amount of benefits collected per month for each program year and then totaled the number of months from each program year that occurred during each company's fiscal year 2010.

The Department of Defense provided a list of Tuition Assistance (TA) and My Career Advancement Accounts (MyCAA) program funds disbursed by school during the Federal fiscal years 2009, 2010, and 2011 (October 1–September 30). The total amount of DOD education funds collected was aggregated across all schools owned by each company for each benefit program.

Committee staff estimated the amount collected during each company's fiscal year 2010 by calculating an average amount of benefits collected per month each Federal fiscal year and then adding up the number of months from each fiscal year that occurred during each company's fiscal year 2010.

ECASLA Exemption

In fiscal year 2010, pursuant to the Ensuring Continued Access to Student Loans Act (ECASLA), for-profit education companies were allowed to temporarily discount up to $2,000 per Stafford loan for purposes of reporting revenues received pursuant to the 90/10 rule. The result of the exemption is that the actual amount of Federal financial aid funds collected is understated for companies that took advantage of the exemption. Five of the 30 companies declined to deduct ECASLA funds from their reported title IV revenues, and the amount listed is zero. For 11 of the 30 for-profit education companies, committee staff was able to estimate the amount of this exemption based on documents provided to the committee. Because of limitations regarding the information provided, no reliable estimate of ECASLA funds was calculated for the remaining 13 companies; therefore the amount of student aid dollars that appears in the report is lower than the actual amount collected.

Because of the limitations explained above, the chart and the text that appear in the report that provide information on the share of revenues received from both Federal financial aid funds and from other Federal funds are *estimates* and do not provide the exact amount of Federal revenues received.

Post 9-11 GI Bill Disbursements to 30 Companies Examined and Cumulative Data (Appendix 11)

The Department of Veteran Affairs provided a list of post-9/11 GI bill program funds disbursed by school during the period August 1, 2009 – July 31, 2010 and the period August 1, 2009-June 15, 2011. The total amount of post-9/11 GI bill funds collected by each company was aggregated across all schools owned by each company for each program year. The total amount of post-9/11 GI bill funds collected by public institutions includes all campuses of each state's university system.

Committee staff calculated the number and share of veterans trained and dollars disbursed by sector and the top ten recipients across all sectors.

Tuition Assistance and MyCAA Disbursements to 30 Companies and Cumulative Data Fiscal Years 2009 and 2010 (Appendix 12)

The Department of Defense (DOD) provided a list of Tuition Assistance (TA) and My Career Advancement Accounts (MyCAA) program funds disbursed by school the during Federal fiscal years 2009, 2010 and 2011 (October 1–September 30). The total amount of DOD education funds collected by each company was aggregated across all schools owned by each company for each of the two programs. The total amount of DOD education funds collected by public institutions includes all campuses of each state's university system.

Committee staff calculated the number and share of veterans trained and dollars disbursed by sector and the top 10 recipients across all sectors from the data provided.

Comparison of Cost of Attendance (Appendix 14)

The committee developed cost comparisons primarily from tuition and fees information posted on colleges' Web sites. Tuition was selected for Associate, Bachelor's, Certificate, and Master's degrees and programs depending on the program of emphasis for each company.

Comparison institutions for Associate and Certificate degrees were selected by identifying a program at a community college close to the for-profit education companies' corporate headquarters and matching it to a similar program offered by the for-profit college. Comparison institutions for Bachelor's and Master's degrees were selected by identifying a program at the flagship public university in the state of the for-profit education companies' corporate headquarters. In two instances, the branch of the public university system closest to the headquarters was used.[2970]

Generally, the committee compared Bachelor's degrees in business. However, in the case of Education Management Corporation, because of the size and importance of the Art Institutes brand, both a business program (Argosy) and a Fashion and Retail Management program (Art Institutes) were measured. At the Associate degree level, a program in business was selected as the comparison program. If business was not offered, alternative programs selected were information technology or paralegal studies. At the Certificate and diploma level, programs in allied health, automotive repair, or accounting were selected depending on the programs offered by the for-profit college.

Cost at the for-profit colleges was determined by reviewing gainful employment disclosure information, multiplied by the number of years required to complete the degree assuming the student registers for the maximum number of credits. Cost at the 4-year public university was determined by reviewing the institution's yearly cost of attendance page for the most current year available, and multiplying that amount by 4 years. If specific charges for business programs were listed, they were included. Cost at community colleges for certificate programs was determined by reviewing gainful employment disclosure information. Cost at community colleges for Associate degree programs was calculated by multiplying the number of credits required by the cost per credit. The cost of books and fees was included in cost calculations wherever available including for all programs that provided gainful employment disclosures and most public community colleges and universities. The cost of books and fees was generally not available for Bachelor's and Master's degree programs offered by for-profit colleges, but was included where available.

[2970] Henley Putnam LLC and TUI Learning LLC.

The committee staff then calculated the average price for each degree level for the programs in Appendix 14 at for-profit colleges, community colleges, and public universities to obtain estimates of the average price difference for the same degree at different type of colleges.

Retention and Withdrawal (Appendix 15)

The committee document request of August 5, 2010 asked each company to provide a set of data that tracked each student based on an anonymous unique identifier and provided the student's date of enrollment, date of completion, last date of attendance, or an indication that the student was still enrolled. It stated:

> For the period July 1, 2008 to June 30, 2010, for each school operated by the Company, provide the following information: A list of each student (identified by randomized numbers) who was enrolled on July 1, 2007 or who enrolled between July 1, 2007 and June 30, 2009 together with the student's date of enrollment, and date of completion or graduation, or date of last attendance in class or date of estimated completion or graduation. Please also provide the type of degree being pursued (certificate, associate's, bachelor's, graduate). Please provide this information in a spreadsheet format compatible with Microsoft Excel 2007. [Committee staff later clarified that the "period" in the first sentence should have been July 1, 2007 to June, 30, 2010.]

This information was used to create a 1-year cohort of student retention data. For every student who enrolled in a school operated by 28 companies between July 1, 2008 and June 30, 2009, the committee analyzed whether the student had completed, was continuing or had withdrawn as of mid-2010. One company, Chancellor University, failed to produce information that would allow the committee to accurately analyze the number of students that withdrew from Chancellor. Another company, Med-Com Career Training, Inc./Drake College of Business, provided information that was not useable due to data integrity issues. Because it is only a 1 year cohort, very few students enrolled in a degree program would be expected to complete, and these numbers are not particularly relevant to the staff analysis. Companies were allowed to define what period of time determined when a student had withdrawn, and these time frames varied from 10 to 90 days. Committee staff was also able to perform comparative analysis for online and on-campus withdrawal rates for 11 companies.

The dataset provides a clear look at how many students who enrolled in 2008-9 had withdrawn without completing a degree or diploma by mid-2010. It additionally provides the median time period in which students who withdrew were enrolled. The for-profit model allows for students to re-enroll, and some students who are classified in the committee staff analysis as withdrawn likely returned. Although several schools were offered the opportunity to share this information, only one school provided that data.[2971]

Four companies had a significant enough share of students enrolled in graduate programs that committee staff also calculated graduate student outcomes for those schools. These calculations are not

[2971] The Keiser School, Inc. asserts that its withdrawal rates are actually significantly lower as 1,019 students temporarily classified as not-enrolled while awaiting entry into the core nursing curriculum are included in the withdrawal rates. The company also states that, despite clear instructions from the committee, an additional 625 students captured as withdrawals were double counted by the company in the production, and that they were actually continuing students who changed programs or campuses. Keiser additionally notes that 888 of the withdrawn students later re-enrolled.

included in the overall withdrawal analysis. The committee also did not include student outcomes for any degree program with less than 500 students enrolled.[2972]

Revenue, Profit, Marketing, Fiscal Year 2009 (Appendix 19)

The amount of money spent on "marketing" includes all funds spent on marketing and advertising, recruiting, and admissions, including salaries of marketing and recruiting employees. In 2009, among the 30 companies examined, eight publicly traded companies and 14 privately held companies list an amount that includes both marketing and recruiting in the statement of income included in financial reports. Where available, this figure was used. The remaining eight companies reported a figure spent on marketing and on recruiting to the committee in response to question one of the second tranche of the document request of August 5, 2010. (See Appendix 4.) Appendix 19 indicates both the source and the amount of funds included in the committee staff calculation of marketing and recruiting.[2973]

Revenue, Expenses, and Profit (Operating Income) Fiscal Years 2006-10 (Appendix 18)

The report includes a chart detailing the annual amount and increase in profit for each of the publicly traded companies between 2007 and 2010, and for each of the privately held companies between 2006 and 2009. As noted, profit denotes operating income before taxes, depreciation, or amortization are subtracted. Unlike public colleges or non-profit colleges, for-profit colleges are tax paying entities. Revenue, expenses, and profit numbers for 14 of the publicly traded companies are taken from SEC filings. Revenue, expenses, and profit numbers for Kaplan Higher Education Corporation, and 13 privately held companies are taken from company financial statements provided to the committee. Amounts for ECPI Colleges, Inc. and Herzing, Inc. have not been included due to the closely held nature of the companies. TUI Learning LLC and Chancellor University System LLC were not in existence for all years.

Executive Compensation (Appendix 17)

All for-profit college executive compensation figures are taken from company SEC filings. On an annual basis, publicly traded companies are required to disclose information concerning the amount and type of compensation paid to its chief executive officer, chief financial officer, and the three other most highly compensated executive officers. This served as the source of 2009 and 2010 executive compensation information for 13 of the 15 publicly traded companies. For National American University, executive compensation figures are only available for 2010, as the company was not listed on a major stock exchange in 2009. No executive compensation figures are provided for privately held

[2972] One exception is Henley Putnam LLC. Outcomes for less than 500 students were included because their only program contained less than 500 students.

[2973] Prior to fiscal year 2011, Strayer Education, Inc. reported one line item "marketing and admissions" in SEC reports to describe this category; In 2011 the company changed the reported line item to "marketing" and "admissions advisory." As a result of this new category, the figure reported in 2011 for 2009 is $15 million lower than the figure reported in 2009. The committee used the figure reported in 2009.

companies or Kaplan Higher Education Corporation, which is owned by the Washington Post Company, and does not disclose compensation for its Kaplan executives.

All figures regarding public university and non-profit college executive compensation are taken from *Chronicle of Higher Education* reports. The public university selected was the branch of the flagship university in the state closest to the corresponding company's headquarters.[2974]

Per Student Spending on Instruction (Appendix 21)

Each institution of higher education annually reports the amount spent on instruction to the Department of Education. The information reported primarily consists of funds spent on faculty and is defined by the Department of Education as:

> A functional expense category that includes expenses of the colleges, schools, departments, and other instructional divisions of the institution and expenses for departmental research and public service that are not separately budgeted. Includes general academic instruction, occupational and vocational instruction, community education, preparatory and adult basic education, and regular, special, and extension sessions. Also includes expenses for both credit and non-credit activities. Excludes expenses for academic administration where the primary function is administration (e.g., academic deans). Information technology expenses related to instructional activities if the institution separately budgets and expenses information technology resources are included (otherwise these expenses are included in academic support). Institutions include actual or allocated costs for operation and maintenance of plant, interest, and depreciation.

IPEDS makes this information available by dividing the total spending on instruction (as reported by the institution) by the number of 12-month full-time equivalent students enrolled. IPEDS then reports this information for institutions of higher education by Unit ID. Unit IDs can include information about a single campus, or can include multiple campuses.

To generate the spending per student for each company, the total spending on instruction and the 12-month full-time equivalent enrollment for 2009 were aggregated across all Unit IDs operated by each company and a weighted average of spending per student was calculated.

Med-Com Career Training, Inc. was not included because of because the amount of total instructional spending reported to IPEDS was equal to all expenses listed on its financial statements and was deemed erroneous. Henley Putnam LLC does not currently participate in title IV and is not required to report information to the Department of Education. Materials presented at the March 10, 2011 hearing, "Bridgepoint Education, Inc.: A Case study in For-Profit Education and Oversight" stated that Bridgepoint Education, Inc.'s Ashford University spent $700 per student on instruction in 2009; this amount was calculated using the enrollment figure of all students as reported to the SEC rather than the full-time equivalent enrollment reported to IPEDS. In order to create a complete comparison across all 30 companies examined, this report uses the IPEDS full-time equivalent for the enrollment figure. The $700 figure previously reported continues to be accurate.

[2974] For NAU's comparison school, the committee used South Dakota State instead of the University of South Dakota which was not included in the *Chronicle of Higher Education* listing.

Per Student Spending on Marketing, Recruiting, and Admissions (Appendix 22)

To generate a comparable figure for per student spending on marketing and recruiting for each company for fiscal year 2009, committee staff took the marketing and recruiting total sourced in Appendix 19 and divided that amount by the 12-month full-time equivalent enrollment for 2009 aggregated across all Unit IDs operated by each company.

Per Student Spending on Profit (Appendix 20)

To generate a comparable figure for amounts dedicated to profit on a per-student basis for each company for fiscal year 2009, committee staff took the reported operating income sourced in Appendix 18 and divided that amount by the 2009 12-month full-time equivalent enrollment aggregated across all Unit IDs operated by each company.

Per student spending on profit could not be calculated for Anthem Education Group, Henley Putnam LLC, or Chancellor University System LLC because none of the three companies were profitable in 2009.

Instruction Costs per Student at Comparison Institutions (Appendix 23)

For each company, the report provides a comparison of the amount spent on instruction at other types of institutions offering comparable programs in the state of the company headquarters. Each institution of higher education annually reports the amount spent on instruction to the Department of Education. The information reported primarily consists of funds spent on faculty and is defined by the Department of Education (see above Appendix 21).

Instruction costs per student at each comparison institutions were calculated by aggregating the total spending on instruction and the 12-month full-time equivalent enrollment for 2009 across all Unit IDs operated by each institution and a weighted average of spending per student was calculated.

The comparison community college is a community college close to the company headquarters that offers similar programs. The comparison public university is the flagship public university in the state of the company headquarters (and in two instances in California is the branch of the flagship located closest to the headquarters). The private non-profit university is the largest non-profit by enrollment in the state of the company's headquarters.

Employee Distribution by Company (Appendix 24)

The report contains information regarding the number of staff employed by each company in various capacities. The information includes the number of full-time and part-time faculty, staff responsible for recruiting and enrolling students, student services staff, and career services staff. All data was provided by the companies pursuant to the document request of August 5, 2010 in response to question two of the second tranche of the request.[2975] The question asked that each company provide the total number of staff employed in a number of categories. These categories included: teaching,

[2975] See Appendix 4.

recruiting and admissions, financial aid assistance, career services, and placement, marketing and admissions, and student services. For each category, companies were asked to indicate how many people were full-time and how many were part-time or contract employees. This information appears in charts that demonstrate the number of recruiters, student service staff and career student staff and the enrollment in each fiscal year 2006-10 for each company that provided information.

The report also makes comparisons regarding how many employees are employed in recruiting, career services and student services on a per student basis. Those numbers are calculated by dividing the number of employees in each category in fiscal year 2010 by the fall enrollment total (IPEDS or SEC) for 2010.

The following companies did not provide information for all years: Walden and American Career Colleges, Inc. did not provide data for 2010, Bridgepoint Education, Inc. and TUI Learning LLC did not provide data for 2006, Chancellor University System LLC and Career Education Corporation provided information only for 2009, and Apollo Group, Inc., Anthem Education Group, and TUI Learning LLC did not provide information for some categories (financial aid and marketing and advertising).

Cohort Default Rate (Appendix 16)

For each of the years 2005 through 2008, the Department of Education reports, by OPEID, the number of student borrowers and number of students who default within 3 years of entering loan repayment. Loan repayment generally starts after the end of the 6 month "grace period" after graduating or withdrawing from an institution. These rates were released in preparation for the change from a default rate monitoring window of 2 years to 3 years in 2014, and are trial rates. In 2008, companies were provided the opportunity to make corrections and corrected rates were issued.

Committee staff calculated a 3-year cohort default rate for each company by aggregating the total number of borrowers and defaulters for all OPEIDs controlled by the company for each cohort year from 2005 through 2008.[2976]

Companies which became eligible for title IV during the period and for which data was not available for all 3 years include American Public Education, Inc. (2005 and 2006); TUI Learning LLC, Chancellor University System LLC (2005-7), and Henley Putnam LLC which does not participate in title IV and for which no data is available.

[2976] The data was derived from trial 3-year cohort default rates released by the Department of Education.