

Animal Behavior College, Inc.

**Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

December 31, 2017 and 2016

Animal Behavior College, Inc.

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Independent Auditor's Report

To the Stockholder and Board of Directors
Animal Behavior College, Inc.

We have audited the accompanying financial statements of Animal Behavior College, Inc., which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of income, changes in stockholder's equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Animal Behavior College, Inc. as of December 31, 2017 and 2016, and its results of operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of operating expenses for the years ended December 31, 2017 and 2016 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "CohnReznick LLP". The signature is written in a cursive, flowing style.

Los Angeles, California
April 14, 2018

Animal Behavior College, Inc.

**Balance Sheets
December 31, 2017 and 2016**

Assets

	<u>2017</u>	<u>2016</u>
Current assets		
Cash and cash equivalents	\$ 1,223,361	\$ 1,525,209
Accounts receivable, less allowance for doubtful accounts of \$296,186 and \$352,205	1,608,345	1,506,296
Prepaid expenses	<u>293,010</u>	<u>263,374</u>
Total current assets	3,124,716	3,294,879
Property and equipment, net	260,753	180,656
Certificate of deposit	88,873	88,873
Due from related parties	802,926	777,788
Deposits	<u>20,000</u>	<u>20,000</u>
Total assets	<u>\$ 4,297,268</u>	<u>\$ 4,362,196</u>

Liabilities and Stockholder's Equity

Current liabilities		
Accounts payable and accrued expenses	720,851	\$ 851,681
Unearned revenue	1,253,952	1,507,702
Current portion of capital lease obligation	<u>51,180</u>	<u>32,002</u>
Total current liabilities	2,025,983	2,391,385
Deferred rent	184,665	-
Capital lease obligation, net of current portion	<u>153,207</u>	<u>116,394</u>
Total liabilities	<u>2,363,855</u>	<u>2,507,779</u>
Commitments and contingencies	-	-
Stockholder's equity		
Common stock, no par value; 5,000,000 shares authorized and 1,000,000 shares issued and outstanding	14,000	14,000
Retained earnings	<u>1,919,413</u>	<u>1,840,417</u>
Total stockholder's equity	<u>1,933,413</u>	<u>1,854,417</u>
Total liabilities and stockholder's equity	<u>\$ 4,297,268</u>	<u>\$ 4,362,196</u>

See Notes to Financial Statements.

Animal Behavior College, Inc.

**Statements of Income
Years Ended December 31, 2017 and 2016**

	2017			2016	
	<u>Amount</u>	<u>Percent</u>		<u>Amount</u>	<u>Percent</u>
Net tuition and fees	\$ 12,397,414	100.0 %	\$	14,232,867	100.0 %
Operating expenses	<u>11,905,920</u>	<u>96.0</u>		<u>13,740,782</u>	<u>96.5</u>
Income from operations before other income	<u>491,494</u>	<u>4.0</u>		<u>492,085</u>	<u>3.5</u>
Other income (expense)					
Interest, net	36,406	0.3		65,429	0.4
Other	112,564	0.8		109,618	0.8
Loss on disposal of property and equipment	<u>(3,688)</u>	<u>-</u>		<u>(949)</u>	<u>-</u>
Total	<u>145,282</u>	<u>1.1</u>		<u>174,098</u>	<u>1.2</u>
Income before income taxes	636,776	5.1		666,183	4.7
Income tax expense	<u>2,903</u>	<u>-</u>		<u>6,479</u>	<u>0.1</u>
Net income	<u><u>\$ 633,873</u></u>	<u><u>5.1 %</u></u>	\$	<u><u>659,704</u></u>	<u><u>4.6 %</u></u>

See Notes to Financial Statements.

Animal Behavior College, Inc.

**Statements of Changes in Stockholder's Equity
Years Ended December 31, 2017 and 2016**

	<u>Common stock</u>		<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>earnings</u>	<u>stockholder's</u>
				<u>equity</u>
Balance, January 1, 2016	1,000,000	\$ 14,000	\$ 1,019,074	\$ 1,033,074
Distributions to stockholder	-	-	(88,361)	(88,361)
Contributions from stockholder	-	-	250,000	250,000
Net income	<u>-</u>	<u>-</u>	<u>659,704</u>	<u>659,704</u>
Balance, December 31, 2016	1,000,000	14,000	1,840,417	1,854,417
Distributions to stockholder	-	-	(554,877)	(554,877)
Net income	<u>-</u>	<u>-</u>	<u>633,873</u>	<u>633,873</u>
Balance, December 31, 2017	<u><u>1,000,000</u></u>	<u><u>\$ 14,000</u></u>	<u><u>\$ 1,919,413</u></u>	<u><u>\$ 1,933,413</u></u>

See Notes to Financial Statements.

Animal Behavior College, Inc.

Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Net income	\$ 633,873	\$ 659,704
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for bad debt	-	95,000
Depreciation and amortization	56,996	46,077
Loss on disposal of property and equipment	3,688	949
Deferred rent	184,665	-
Changes in operating assets and liabilities		
Accounts receivable	(102,049)	(271,639)
Prepaid expenses	(29,636)	(133,954)
Accounts payable and accrued expenses	(130,830)	(226,924)
Unearned revenue	<u>(253,750)</u>	<u>(151,054)</u>
Net cash provided by operating activities	<u>362,957</u>	<u>18,159</u>
Cash flows from investing activities		
Purchases of property and equipment	(45,505)	(17,897)
Advances to related parties	<u>(25,138)</u>	<u>(26,030)</u>
Net cash used in investing activities	<u>(70,643)</u>	<u>(43,927)</u>
Cash flows from financing activities		
Repayment of capital lease obligation	(39,285)	(26,061)
Contributions from stockholder	-	250,000
Distributions to stockholder	<u>(554,877)</u>	<u>(88,361)</u>
Net cash provided by (used in) financing activities	<u>(594,162)</u>	<u>135,578</u>
Net increase (decrease) in cash and cash equivalents	(301,848)	109,810
Cash and cash equivalents, beginning	<u>1,525,209</u>	<u>1,415,399</u>
Cash and cash equivalents, end	<u><u>\$ 1,223,361</u></u>	<u><u>\$ 1,525,209</u></u>
Supplemental disclosure of cash flow data		
Interest paid	<u><u>\$ 11,569</u></u>	<u><u>\$ 7,959</u></u>
Supplemental disclosure of noncash financing activities		
Equipment acquired under capital lease	<u><u>\$ 95,275</u></u>	<u><u>\$ 174,457</u></u>

See Notes to Financial Statements.

Animal Behavior College, Inc.

Notes to Financial Statements December 31, 2017 and 2016

Note 1 - Business and summary of significant accounting policies

Business

Animal Behavior College, Inc. (the "Company") is primarily engaged in the training of individuals to become animal trainers, veterinary assistants and groomers throughout the United States and Canada.

Fair value measurements

The Company values its financial assets and liabilities on a recurring basis based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Cash equivalents and certificates of deposit

The Company considers all highly liquid investments having a maturity of three months or less when purchased to be cash equivalents. Certificates of deposit with a maturity longer than three months but less than a year are considered short-term investments and are carried at amortized cost, which approximates fair value. Certificates of deposit with a maturity greater than one year are considered long-term investments. At December 31, 2017 and 2016, all certificates of deposit are considered Level 2 investments.

Accounts receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts of \$296,186 and \$352,205 at December 31, 2017 and 2016, respectively. The Company provides for losses on receivables using the allowance method. The allowance is based on experience and other circumstances, which may affect the ability of the students to meet their obligations.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the assets, generally ranging from five to seven years. Expenditures for major renewals and improvements that extend the useful lives of property and equipment are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the remaining lease term.

Long-lived assets

Long-lived assets to be held and used are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. The Company periodically reviews the

Animal Behavior College, Inc.

Notes to Financial Statements December 31, 2017 and 2016

carrying value of long-lived assets to determine whether an impairment to such value has occurred. No impairments were recorded during the years ended December 31, 2017 and 2016.

Income taxes

The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. A similar election was also made for California tax purposes. Under these provisions, the Company does not pay federal corporate income taxes, but is subject to a 1.5% California corporate income tax. The stockholder of the Company reports the Company's taxable income on his individual income tax returns.

Income taxes are recognized for the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets are recognized for the future tax consequences of transactions that have been recognized in the Company's financial statements or tax returns. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. At December 31, 2017 and 2016 and for the years then ended, deferred income taxes were not material to the Company's financial statements and, accordingly, were not recorded. For the years ended December 31, 2017 and 2016, current income tax expense was \$2,903 and \$6,479, respectively.

The Company has no unrecognized tax benefits at December 31, 2017 and 2016. The Company's federal and California income tax returns prior to fiscal years 2014 and 2013, respectively, are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

When necessary, the Company recognizes interest and penalties associated with tax matters as operating expenses and includes accrued interest and penalties with the related tax liability in the balance sheets.

Revenue recognition

Revenue is recognized at the standard tuition rate in effect at the beginning of each program. Tuition and fees are recognized over the period in which the programs are run. Amounts received prior to the program period are recorded as unearned revenue. At December 31, 2017 and 2016, approximately \$115,000 and \$130,000, respectively, of the amounts included in unearned revenue were nonrefundable.

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$3,987,232 and \$4,941,084 for the years ended December 31, 2017 and 2016, respectively.

Deferred rent

The Company records rent expense under its operating lease over the lease term. The difference between the actual payments and rent expense computed on a straight-line basis is recorded as deferred rent.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Animal Behavior College, Inc.

**Notes to Financial Statements
December 31, 2017 and 2016**

Subsequent events

The Company has evaluated subsequent events through April 14, 2018, which is the date the financial statements were available to be issued.

Note 2 - Concentrations

The Company maintains its cash and cash equivalents with high-credit quality financial institutions. At times, such amounts may exceed federally insured limits.

Note 3 - Property and equipment

At December 31, 2017 and 2016, property and equipment consist of the following:

	2017	2016
Computer equipment	\$ 171,511	\$ 138,357
Furniture and fixtures	73,663	73,663
Telephone equipment	174,457	174,457
	419,631	386,477
Less accumulated depreciation and amortization	158,878	205,821
	<u>\$ 260,753</u>	<u>\$ 180,656</u>

Note 4 - Related party transactions

During the years ended December 31, 2017 and 2016, the Company advanced \$25,138 and \$26,030, respectively, to two related entities owned 100% by the stockholder of the Company.

At December 31, 2017 and 2016, the Company had receivables of \$802,926 and \$777,788, respectively, from the two related entities. The amounts are due on demand and noninterest-bearing. The amounts are not expected to be repaid within one year and, accordingly, are classified as long-term.

Note 5 - Employee benefit plan

The Company maintains a defined contribution plan (the "Plan") established under Section 401(k) of the Internal Revenue Code for all eligible employees. An employee may participate after having completed one year of service as defined by the Plan and upon attaining age 21. The Company may make discretionary profit sharing contributions to the Plan. The Company has no accrued contributions for the Plan for the years ended December 31, 2017 and 2016.

Note 6 - Commitments and contingencies

Operating leases

The Company has a noncancelable lease for an office facility expiring in January 1, 2022. Total rent expense under this lease for the years ended December 31, 2017 and 2016 is \$562,912 and \$471,567, respectively. The Company also leases office equipment under a noncancelable lease expiring in July 2020. Total rent expense under this lease for the years ended December 31, 2017 and 2016 is \$19,002 and \$19,002, respectively.

Animal Behavior College, Inc.

**Notes to Financial Statements
December 31, 2017 and 2016**

The following is a schedule by years of future minimum rental payments required under the noncancelable operating leases:

2018	\$	593,319
2019		610,549
2020		620,378
2021		627,572
Thereafter		<u>53,867</u>
	\$	<u><u>2,505,685</u></u>

Line of credit

The Company has a line of credit agreement with a financial institution with a maximum borrowing limit of \$88,873. The line of credit matures in January 2019 and borrowings bear interest at 2.55% per annum. The line of credit is secured by a certificate of deposit held by the Company, with a balance of \$88,873. At December 31, 2017 and 2016, there were no outstanding borrowings on the line of credit.

Litigation

The Company is subject to claims and litigation in the ordinary course of business, the outcome of which cannot be predicted with certainty. In the opinion of management, the Company has sufficient liability insurance to cover any such claims, and, in the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on the Company's financial position or results of operations.

Note 7 - Capital lease obligation

During 2016, the Company entered into a capital lease agreement. The lease is collateralized by the related equipment and expires in February 2021. The equipment is included in telephone equipment (see Note 3) at December 31, 2016. During 2017, the Company entered into another capital lease agreement. The lease is collateralized by the related equipment and expires in May 2022. The equipment is included in computer server equipment (see Note 3) at December 31, 2017. The net balance of property and equipment under capital leases as of December 31, 2017 is as follows:

Gross amount of equipment under capital lease	\$	269,732
Less accumulated amortization		<u>(65,345)</u>
	\$	<u><u>204,387</u></u>

Animal Behavior College, Inc.

**Notes to Financial Statements
December 31, 2017 and 2016**

The following is a schedule by years of future minimum lease payments under the capital lease together with the present value of the net minimum lease payments:

2018	\$	63,119
2019		63,119
2020		63,119
2021		29,099
2022		<u>13,005</u>
		231,461
Less amount representing interest		<u>(27,074)</u>
Present value of net minimum lease payments		204,387
Less current portion		<u>(51,180)</u>
Total	\$	<u><u>153,207</u></u>

Amortization of assets held under the capital leases is recorded in depreciation and amortization expense.

Supplementary Information

Animal Behavior College, Inc.

**Schedules of Operating Expenses
Years Ended December 31, 2017 and 2016**

	2017			2016	
	Amount	Percent		Amount	Percent
Advertising	\$ 3,987,232	32.2	%	\$ 4,941,084	34.7
Automobile	20,217	0.1		27,580	0.2
Bad debt	-	-		95,000	0.7
Bank charges	218,295	1.8		234,712	1.6
Computer	33,024	0.3		37,422	0.3
Credit card fees	136,387	1.1		163,708	1.1
Credit reports	2,977	-		4,072	-
Depreciation and amortization	56,996	0.5		46,077	0.3
Donations	9,340	0.1		10,090	0.1
Educational supplies	460,653	3.7		483,406	3.3
Employee benefits	140,029	1.1		132,853	0.9
Entrance exams	17,250	0.1		21,870	0.2
Equipment rental	58,861	0.5		92,715	0.7
Insurance	82,128	0.7		65,414	0.5
Office	16,336	0.1		14,992	0.1
Payroll processing	18,409	0.1		19,421	0.1
Payroll taxes	371,887	3.0		366,363	2.6
Postage	123,811	1.0		128,689	0.9
Professional fees	578,359	4.7		622,806	4.4
Rent	562,912	4.6		471,567	3.3
Salaries, including independent contractors	4,869,749	39.3		5,600,936	39.4
Taxes and licenses	21,141	0.2		33,992	0.2
Telephone and utilities	70,896	0.6		88,855	0.6
Travel	19,297	0.2		23,376	0.2
Website	29,734	0.2		13,782	0.1
Total	<u>\$ 11,905,920</u>	<u>96.0</u>	<u>%</u>	<u>\$ 13,740,782</u>	<u>96.5</u>

See Independent Auditor's Report.

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