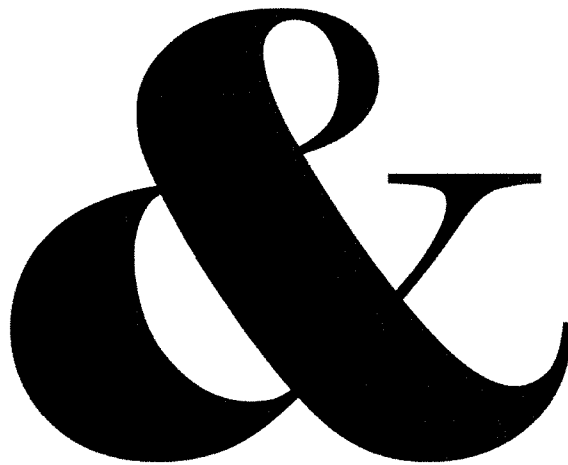


CONSOLIDATED FINANCIAL STATEMENTS

Bryant & Stratton College, Inc. and Subsidiaries  
Years Ended December 31, 2017 and 2016



**Bryant & Stratton College**

FOR EVERY & IN LIFE

Bryant & Stratton College, Inc. and Subsidiaries

Consolidated Financial Statements and Supplementary Financial Information

Years Ended December 31, 2017 and 2016

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## Report of Independent Auditors

The Board of Directors and Stockholders  
of Bryant & Stratton College, Inc. and Subsidiaries

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Bryant & Stratton College, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for the years then ended and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bryant & Stratton College, Inc. and Subsidiaries at December 31, 2017 and 2016, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

## **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Supplementary Information section containing the Department of Education Financial Responsibility Ratios and the College's calculation of its Title IV 90/10 revenue test, and certain information in the accompanying Note 3 on related-party transactions, contain information presented for purposes of additional analysis and are not a required part of the consolidated 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 audit of the consolidated 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 auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our report dated April 6, 2018 on our consideration of Bryant & Stratton College, Inc. and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Bryant & Stratton College, Inc. and Subsidiaries' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bryant & Stratton College, Inc. and Subsidiaries' internal control over financial reporting and compliance.

*Ernst & Young LLP*

April 6, 2018

# Bryant & Stratton College, Inc. and Subsidiaries

## Consolidated Balance Sheets

	December 31	
	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 19,967,755	\$ 17,826,587
Accounts receivable, net of allowance of \$3,554,065 in 2017 and \$3,461,087 in 2016	5,945,664	6,119,698
Inventory	1,686,440	2,446,607
Prepaid expenses	2,651,663	2,238,237
Income taxes receivable	898,711	122,320
Deferred tax asset	1,176,000	1,653,000
Total current assets	32,326,233	30,406,449
Property and equipment, net	25,833,287	28,932,849
Capitalized software costs, net	588,281	728,272
Deferred tax asset	4,965,000	7,417,000
Goodwill	1,215,724	1,215,724
Other assets	391,579	1,482,516
Total assets	<u>\$ 65,320,104</u>	<u>\$ 70,182,810</u>

	December 31	
	2017	2016
<b>Liabilities and stockholders' equity</b>		
Accounts payable	\$ 4,640,198	\$ 6,782,981
Accrued expenses	6,810,852	4,542,276
Tuition received in advance	177,003	95,914
Unearned tuition	4,733,870	3,974,310
Current maturities of long-term debt	435,315	1,382,752
Current maturities of capital lease obligations	210,300	194,666
Current portion of postretirement liabilities	180,499	170,466
Total current liabilities	17,188,037	17,143,365
Revolving line of credit, net of deferred financing costs	5,950,546	6,852,798
Long-term debt, less current maturities and deferred financing costs	8,453,355	8,822,674
Capital lease obligations, less current maturities	3,578,418	3,788,718
Finance obligation	4,658,485	4,717,976
Postretirement liabilities	4,404,269	4,316,642
Long-term lease obligation	2,677,140	3,027,086
Other non-current liabilities	308,889	1,291,387
Commitments and contingencies	—	—
Stockholders' equity:		
Common stock, \$.01 par value per share; 33,000 shares authorized; 19,534 issued and outstanding	195	195
Additional paid-in capital	71,302,821	70,982,779
Accumulated deficit	(27,332,049)	(24,973,298)
Accumulated other comprehensive loss, net of tax	(1,312,246)	(1,229,756)
	42,658,721	44,779,920
Less treasury stock at cost, 1,874 shares	(24,557,756)	(24,557,756)
Total stockholders' equity	18,100,965	20,222,164
Total liabilities and stockholders' equity	\$ 65,320,104	\$ 70,182,810

*See accompanying notes.*

Bryant & Stratton College, Inc. and Subsidiaries

Consolidated Statements of Operations and Comprehensive Loss

	Year Ended December 31	
	2017	2016
Revenue, net	\$ 174,489,532	\$ 165,960,033
Operating expenses:		
Instruction	60,133,105	59,052,441
Building	19,190,752	18,862,219
Student services	20,599,975	20,193,195
Marketing	30,238,014	28,090,295
General and administrative	41,450,064	38,630,216
Total operating expenses	171,611,910	164,828,366
Income from operations	2,877,622	1,131,667
Other (expense) income:		
Interest expense	(2,117,845)	(1,927,350)
Interest income	17,377	16,586
Other income	3,625	17,047
Total other expense	(2,096,843)	(1,893,717)
Income (loss) before income tax expense	780,779	(762,050)
Income tax expense (benefit)	3,372,530	(44,591)
Net loss	(2,591,751)	(717,459)
Other comprehensive (loss) income		
Postretirement liability adjustment	245,510	(388,017)
Other comprehensive income (loss) before tax	245,510	(388,017)
Income tax (expense) benefit related to components of other comprehensive income (loss)	(95,000)	151,000
Other comprehensive income (loss), net of tax	150,510	(237,017)
Comprehensive loss	\$ (2,441,241)	\$ (954,476)

*See accompanying notes.*

Bryant & Stratton College, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss, Net of Tax	Treasury Stock	Total Shareholders' Equity
Balance, December 31, 2015	\$ 195	\$ 70,399,585	\$ (24,255,839)	\$ (992,739)	\$ (24,557,756)	\$ 20,593,446
Comprehensive loss, net of tax	-	-	(717,459)	(237,017)	-	(954,476)
Stock-based compensation	-	583,194	-	-	-	583,194
Balance, December 31, 2016	195	70,982,779	(24,973,298)	(1,229,756)	(24,557,756)	20,222,164
Comprehensive (loss) income, net of tax	-	-	(2,591,751)	150,510	-	(2,441,241)
Cumulative effect adjustment from adoption of ASU 2018-02	-	-	233,000	(233,000)	-	-
Stock-based compensation	-	320,042	-	-	-	320,042
Balance, December 31, 2017	\$ 195	\$ 71,302,821	\$ (27,332,049)	\$ (1,312,246)	\$ (24,557,756)	\$ 18,100,965

See accompanying notes.



# Bryant & Stratton College, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

	Year Ended December 31	
	2017	2016
<b>Operating activities</b>		
Net loss	\$ (2,591,751)	\$ (717,459)
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for allowance for doubtful accounts	11,248,543	10,663,647
Depreciation and amortization	6,546,831	5,936,915
Deferred taxes	2,645,000	(779,000)
Stock-based compensation	320,042	583,194
Lease obligation	(349,946)	(228,659)
Other non-cash changes	327,616	281,777
(Increase) decrease in:		
Accounts receivable, net	(11,074,509)	(11,207,232)
Income taxes, net	(587,391)	873,993
Inventory	760,167	(276,278)
Prepaid expenses	(413,426)	19,999
Other assets	123,992	(21,523)
(Decrease) increase in:		
Accounts payable	(2,142,779)	1,153,196
Accrued expenses	2,268,576	(1,181,264)
Tuition received in advance	81,088	(69,123)
Unearned tuition	759,559	1,013,675
Other non-current liabilities	(966,944)	(148,854)
Net cash provided by operating activities	6,954,668	5,897,004
<b>Investing activities</b>		
Purchases of property and equipment	(2,493,065)	(2,359,344)
Purchases of capitalized software	(289,332)	(542,150)
Sales of trading securities	966,944	148,854
Net cash used in investing activities	(1,815,453)	(2,752,640)
<b>Financing activities</b>		
Payments on long-term debt	(10,615,992)	(3,294,878)
Proceeds from long-term debt	9,000,000	—
Payments on borrowings on revolving credit facility	(7,000,000)	—
Proceeds from borrowings on revolving credit facility	6,000,000	—
Payments of financing costs	(127,898)	(416,470)
Payments on finance obligation	(59,491)	(48,018)
Payment of capital lease obligations	(194,666)	(180,194)
Net cash used in financing activities	(2,998,047)	(3,939,560)
Net increase (decrease) in cash and cash equivalents	2,141,168	(795,196)
Cash and cash equivalents, beginning of year	17,826,587	18,621,783
Cash and cash equivalents, end of year	\$ 19,967,755	\$ 17,826,587

See accompanying notes.

# Bryant & Stratton College, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

December 31, 2017 and 2016

### 1. Nature of Business and Summary of Significant Accounting Policies

**Nature of Business** – Bryant & Stratton College, Inc. and its Subsidiaries (the College) is an outcomes driven career college authorized to confer diploma, associate and baccalaureate degree credentials, in the high employment potential sectors of: Business, Healthcare, Technology, Office Support, Legal Services and Support, Design, and Early Childhood Education. The College operates 18 campuses in four states and, along with an Online division, serves a diverse population through engaging and flexible instruction available online, at campus and in blended formats. The Continuing Education Center, the continuing education division of Bryant & Stratton College, provides results-driven training solutions for businesses and individuals.

The College is accredited by the Middle States Commission on Higher Education (MSCHE). MSCHE is an institutional accrediting agency recognized by the U.S. Secretary of Education and the Commission on Recognition of Postsecondary Education.

The College's campuses are located in Buffalo, New York (3), Rochester, New York (2), Syracuse, New York (2), Albany, New York (1), Cleveland, Ohio (3), Akron, Ohio (1), Milwaukee, Wisconsin (3), Virginia Beach, Virginia (1), Richmond, Virginia (1), and Hampton, Virginia (1).

**Principles of Consolidation** – The consolidated financial statements include the accounts of Bryant & Stratton College, Inc. and its wholly owned subsidiary, Abbott Park Associates, Inc. (Abbott). Abbott owns Bryant & Stratton College Corp. (B&S College) and Stratton Educational Corp. (Stratton). All significant intercompany balances and transactions have been eliminated in consolidation.

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

**Cash and Cash Equivalents** – The College considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

# Bryant & Stratton College, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 1. Nature of Business and Summary of Significant Accounting Policies (continued)

**Revenue, Net and Accounts Receivable, Net** – The College’s revenue and accounts receivable result primarily from tuition and fees for providing educational services and are primarily due from students and, indirectly, from state and federal governments in the form of financial aid. Tuition revenue is recorded as unearned revenue on the first day of the academic term and is recognized ratably (monthly) on a straight-line basis over the term. Revenues also include textbook sales, which are recognized upon delivery. Revenues are reflected on the consolidated statements of operations, net of grants and scholarships provided by the College to students in the amount of \$23,936,533 and \$21,313,395 during 2017 and 2016, respectively.

Receivables are recorded at net realizable value. Management considers all trade receivables older than 30 days to be past due and uses judgmental factors such as historical write-offs and existing economic conditions to determine allowance for doubtful accounts. Upon management’s determination of uncollectibility, such accounts are written-off through the allowance.

**Inventory** – Inventory, primarily text books and supplies, is stated at the lower-of-cost or market, with cost being determined by the first-in, first-out method (FIFO).

**Property and Equipment, Net** – Property and equipment are recorded at cost; additions and improvements are capitalized at cost, and maintenance and repairs are charged to expense when incurred. Depreciation is provided on the basis of estimated useful lives of depreciable assets by the straight-line method. Amortization of the cost of improvements to leased properties is made by the straight-line method based on the basis of the shorter of the estimated useful life or applicable lease period. The estimated lives of these assets are generally 10 to 30 years for buildings and leasehold improvements and 3 to 10 years for equipment. Amortization related to property and equipment under capital leases is included in depreciation on the financial statements.

**Capitalized Software Costs, Net** – Capitalized software cost represents costs incurred by the College in developing internal-use computer software and purchased from third parties. Such costs are amortized over three years using the straight-line method. Amortization related to capitalized software costs was \$429,323 and \$274,536 in 2017 and 2016, respectively. Accumulated amortization amounted to \$6,437,233 and \$6,007,910 at December 31, 2017 and 2016, respectively.

**Goodwill** – Goodwill represents the excess of acquisition cost over net assets acquired. The College has adopted the provisions of FASB Accounting Standards Codification (ASC) 350, *Intangibles – Goodwill and Other*. The College performs an impairment test annually at year-end or more frequently if indicators of impairment exist. The College may elect to perform a qualitative assessment that considers economic, industry, and entity-specific factors. If, after completing this assessment, it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying value, the College proceeds to a quantitative test. During 2017 and 2016, the College performed a quantitative test. There were no impairment charges recorded in 2017 and 2016.

# Bryant & Stratton College, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 1. Nature of Business and Summary of Significant Accounting Policies (continued)

**Stock-Based Compensation** – The College uses the fair value recognition provisions of ASC 718, *Compensation – Stock Compensation*. The estimated fair value of each option award is calculated on the date of grant using the Black-Scholes option valuation model utilizing the assumptions outlined in Note 9. Expected volatilities are based on the average historical volatilities of certain publicly traded companies operating in a similar industry as the College. The expected term of options granted is calculated based on the simplified-method. The risk-free rate is calculated using the U.S. Treasury bill rate based on the expected term of the option. The options vest based on a graded scale over the stated vesting period, and compensation expense is recognized based on their fair value utilizing the straight-line method over the vesting period.

**Accumulated Other Comprehensive Loss** – Accumulated other comprehensive loss at December 31, 2017 and 2016, consists of the following (see Note 10):

	2017	2016
Postretirement liability, net of tax	\$ 1,312,246	\$ 1,229,756

**Financing Costs** – During 2016 the College adopted the provisions of ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-10): Simplifying the Presentation of Debt Issuance Costs* has been adopted on a retroactive basis. As a result of these updates the College classifies deferred financing costs net of the related debt.

**Impairment of Long-Lived Assets** – The College assesses all of its long-lived assets for impairment when events or circumstances indicate their carrying amounts may not be recoverable. This is accomplished by comparing the expected undiscounted future cash flows of the assets with the respective carrying amount as of the date of assessment. Should aggregate future cash flows be less than the carrying value, a write-down would be required, measured as the difference between the carrying value and the fair value of the asset. Fair value is estimated either through independent valuation or as the present value of expected discounted future cash flows. If the expected undiscounted future cash flows exceed the respective carrying amount as of the date of assessment, no impairment is recognized. There was no impairment charge recognized in 2017 and 2016 related to long-lived assets.

**Operating Leases** – The College records operating leases related to property in accordance with ASC 840-20, *Leases – Operating Leases*. ASC 840-20 requires operating leases to be expensed over the lease term on a straight-line basis. The difference between expense and the lease payments is recorded as a lease obligation liability. At December 31, 2017 and 2016, the amount of lease obligation was \$2,677,140 and \$3,027,086, respectively.

**Shipping and Handling Costs** – Shipping and handling costs are classified as operating expenses.

# Bryant & Stratton College, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 1. Nature of Business and Summary of Significant Accounting Policies (continued)

**Income Taxes** – The College accounts for income taxes in accordance with ASC 740, *Income Taxes*. This requires, among other things, recognition of deferred tax assets and liabilities for future tax consequences, measured by enacted rates attributable to temporary differences between financial statement and income tax bases of assets and liabilities, and net operating loss and tax credit carryforwards to the extent that realization of such benefits is more-likely-than-not.

ASC 740-10, *Accounting for Uncertainty in Income Taxes*, clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with ASC 740. This standard prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken. The standard also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

**Marketing** – The College expenses marketing costs as incurred. Marketing expense for the years ended December 31, 2017 and 2016, amounted to \$30,238,014 and \$28,090,295, respectively.

**Fair Value** – Fair value is defined as 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. Depending on the nature of the asset or liability, various techniques and assumptions can be used to estimate fair value. The definition of the fair value hierarchy is as follows:

Level 1 – Quoted prices in active markets for identical assets and liabilities

Level 2 – Observable inputs other than quoted prices in active markets for similar assets and liabilities.

Level 3 – Inputs for which significant valuation assumptions are unobservable in a market and therefore value is based on the best available data, some of which is internally developed and considers risk premiums that market participants would require.

The College's financial instruments primarily consist of cash and cash equivalents, accounts receivable, and accounts payable, and long-term debt whose carrying values approximate fair value. The College's deferred compensation investment consists of trading securities that fall under the Level 1 hierarchy and are valued at quoted market prices at December 31, 2016 (see Note 10).

**Going Concern** – The College has adopted the provisions of FASB Accounting Standards Codification (ASC) 205-40, *Presentation of Financial Statements – Going Concern*. The College performs an evaluation of its ability to continue as a going concern within one year after the issuance of the financial statements. If after completing this evaluation, it is determined that substantial doubt exists to continue as a going concern, the College must disclose plans to alleviate the substantial doubt. The College concluded substantial doubt does not exist in its ability to continue as a going concern.

## Bryant & Stratton College, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 1. Nature of Business and Summary of Significant Accounting Policies (continued)

**Recent Accounting Pronouncements** – In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires the lease rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet. The standard also requires additional disclosures by lessees and contains targeted changes to accounting by lessors. ASU 2016-02 is effective for the College beginning in 2020, with early adoption permitted. The guidance is required to be adopted at the earliest period presented using a modified retrospective approach. The College is currently assessing the impact on the financial statements.

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for employee share-based payment transactions. The guidance makes several modifications to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. In addition, ASU 2016-09 clarifies the statement of cash flows presentation for certain components of share-based awards. The standard is effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual reporting periods beginning after December 15, 2018, although early adoption is permitted. The College prospectively adopted this standard in 2017 and it did not have a material impact on the financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Topic 606, Revenue from Contracts with Customers*. For nonpublic companies, this new standard is effective for reporting periods beginning after December 15, 2018, pursuant to the issuance of ASU 2015-14, *Topic 606 Revenue from Contracts with Customers: Deferral of Effective Date issued in August 2016*. The comprehensive new standard will supersede existing revenue recognition guidance and require revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Adoption of the new rules could affect the timing of revenue recognition for certain transactions. The guidance permits two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years and one requiring prospective application of the new standard with disclosure of results under old standards. The College is currently assessing how the adoption of this standard will impact the financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Topic 740, Balance Sheet Classification of Deferred Taxes*. The guidance requires companies to classify all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. The ASU is effective for annual periods beginning after December 31, 2017 with early adoption permitted. The College is currently assessing how the adoption of this standard will impact the financial statements.

In February 2018, the FASB issued ASU No. 2018-02, *Topic 220, Income Statement-Reporting Comprehensive Income*. The objective of this ASU is to provide guidance on reclassifications from

# Bryant & Stratton College, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 1. Nature of Business and Summary of Significant Accounting Policies (continued)

accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The adoption of the ASU would eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to the financial statement users. The ASU is effective for annual periods beginning after December 15, 2018 with early adoption permitted. The College adopted this standard in 2017 which resulted in a reclassification of \$233,000 from accumulated other comprehensive loss to retained earnings at December 31, 2017.

The College reviewed all other recently issued accounting pronouncements and concluded that they were either not applicable or not expected to have a significant impact to the consolidated financial statements.

### 2. Significant Concentrations of Credit Risk

Cash may exceed federally insured limits at various times throughout the year. The College has not experienced any losses on such amounts, and management believes it is not exposed to any significant credit risk on cash deposits.

### 3. Related-Party Transactions

The College has a lease agreement with three limited liability corporations that own a campus facility in Buffalo, New York. The sole member of BP Southtowns Campus LLC, which is one of the three limited liability corporations, is an affiliate of a limited partnership that is the majority stockholder of the College. The lease is accounted for as a capital lease (see Note 8) and terminates in August 2029. The lease payments owed annually and paid to date are approximately \$497,000.

The College has a financing agreement with B&S Northtowns Campus Group, LLC (the LLC) related to the building and land located at 3650 Millersport Highway, Getzville, NY, for \$4,850,000. One of the members of the LLC is an affiliate of a limited partnership that is the majority stockholder of the College. The financing agreement terminates on January 31, 2027. Payments of approximately \$435,000 were paid in 2017. The financing agreement requires payments of approximately \$444,000 in 2018 and increases by 2% each year thereafter.

### 4. Property and Equipment

	2017	2016
Land	\$ 2,060,763	\$ 2,060,763
Buildings and leasehold improvements	37,642,411	37,870,931
Equipment	39,221,231	37,092,830
	<u>78,924,405</u>	<u>77,024,524</u>
Less accumulated depreciation	53,091,118	48,091,675
	<u>\$ 25,833,287</u>	<u>\$ 28,932,849</u>

## Bryant & Stratton College, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 4. Property and Equipment (continued)

Depreciation expense was \$5,592,627 and \$5,166,578 for the years ended December 31, 2017 and 2016, respectively.

#### 5. Other Assets

	2017	2016
Security deposits	\$ 383,873	\$ 378,607
Deferred compensation investments (see Note 10)	—	955,831
Other	7,706	148,078
	<u>\$ 391,579</u>	<u>\$ 1,482,516</u>

#### 6. Accrued Expenses

	2017	2016
Payroll and related expenses	\$ 3,030,220	\$ 2,111,182
Marketing	2,309,419	1,375,529
Accrued interest	56,934	4,099
Other	1,414,279	1,051,466
	<u>\$ 6,810,852</u>	<u>\$ 4,542,276</u>

#### 7. Long-Term Debt

In January 2013, the College obtained a term loan with a principal balance of \$53,250,000, on a maximum facility of \$56,000,000, which was payable in quarterly principal installments over five years. The College also obtained a revolving credit facility which provides for borrowing up to \$40,000,000. The term loan and revolving credit facility ("old credit facility") incurred interest at various interest rate options based on an applicable margin over LIBOR or Base Rate, as defined in the credit agreement. In June 2017, the credit agreement was amended to reduce the maximum borrowings under the revolving credit facility to \$22,000,000, of which \$15,000,000 was restricted solely for letters of credit. The outstanding balances of the term note and revolving credit facility were paid in October 2017.

In October 2017, the College obtained a new term loan with a principal balance of \$9,000,000, which is payable in monthly installments over ten years. This loan incurs interest at a fixed interest rate of 4.33% for the first five years and will be adjusted in October 2022.

The College also obtained a revolving credit facility which provides for borrowing up to \$6,000,000. The revolving credit facility incurs interest at an applicable margin over LIBOR that is adjusted monthly. The interest rate under the revolving line of credit was 4.06% at December



# Bryant & Stratton College, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 7. Long-Term Debt (continued)

31, 2017. The College had \$6,000,000 outstanding less deferred financing costs of \$49,454 at December 31, 2017. The revolving credit facility expires in October 2022.

The term note and revolving credit facility ("new credit facility") are secured by substantially all of the College's real and personal property.

	<u>2017</u>	<u>2016</u>
Term loan dated January 7, 2013, with original principal balance of \$53,250,000. Payable in quarterly principal installments of \$345,688 plus interest at various rate options, which are based on an applicable margin over LIBOR or Base Rate, as defined in the credit agreement, through January 7, 2018, at which point a balloon payment of \$9,197,370 will be due. The related interest rate was 3.77% at December 31, 2016. The loan is secured by substantially all of the College's real and personal property.	\$	– \$ 10,580,122
Term loan dated October 25, 2017, with principal balance of \$9,000,000. Payable in 59 monthly payments based on a 15-year amortization and initial interest rate of 4.33% to be adjusted on October 25, 2022. Maturing on October 25, 2027, at which point a balloon payment of \$3,731,676 will be due. The related interest rate was 4.33% at December 31, 2017. The loan is secured by substantially all of the College's real and personal property.	<u>8,964,130</u>	<u>–</u>
	<b>8,964,130</b>	10,580,122
Less current maturities	<b>435,315</b>	1,382,752
Less deferred financing costs	<b>75,460</b>	374,696
	<u><b>\$ 8,453,355</b></u>	<u><b>\$ 8,822,674</b></u>

The old credit facility contained various covenants, which, among others, specified maximum leverage and minimum interest coverage ratio requirements, and prohibited the College from entering into certain contingent obligations. The June 2016 amendment eliminated these financial covenants for the remainder of 2016 and established certain covenants, which included minimum earnings and liquidity requirements and a maximum capital purchase requirement beginning in 2017. The College was in compliance with the covenants during 2017.

Additionally, the College was required to determine Excess Cash Flow each year in accordance with the terms of the old credit facility and remit additional principal payments. The additional amount due per the Excess Cash Flow Calculation was \$0 at December 31, 2016.

## Bryant & Stratton College, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 7. Long-Term Debt (continued)

The new credit facility agreement contains various covenants, which, among others, specifies a minimum debt service coverage ratio measured at December 31st each year the term note is outstanding. The College was in compliance with the covenants at December 31, 2017.

Maturities of long-term debt are as follows:

Year ending December 31:	
2018	\$ 435,315
2019	454,815
2020	474,195
2021	496,431
2022	518,668
2023 and thereafter	6,584,706
	<u>\$ 8,964,130</u>

Financing costs of \$1,919,565 related to the old credit facility obtained in January 2013 and amended in June 2017 were capitalized. Financing costs of \$127,898 related to the new credit facility have been capitalized.

Amortization expense was \$524,882 and \$495,801 for the years ended December 31, 2017 and 2016, respectively. Accumulated amortization was \$2,984 and \$1,397,678 at December 31, 2017 and 2016, respectively.

#### 8. Leases

At December 31, 2017, the College was committed as lessee under various non-cancellable operating leases and agreements to future minimum annual rentals for property as follows:

2018	\$ 9,279,388
2019	7,369,104
2020	6,281,197
2021	4,179,254
2022	3,394,275
2023 and thereafter	10,131,301
	<u>\$ 40,634,519</u>

Total rental expense for property in 2017 and 2016 was \$11,693,437 and \$11,890,784, respectively.

During 2014 the College extended the term of an existing capital lease that resulted in an adjustment of approximately \$2,200,000 to the capital lease obligation and related assets. The College received a lease extension fee of \$400,000 that is recognized as a non-current liability and

# Bryant & Stratton College, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 8. Leases (continued)

will be amortized against interest expense evenly over the lease term. At December 31, 2017 the accumulated amount amortized against interest expense was approximately \$91,000.

Building and leasehold improvements, included in property and equipment, net, include the following amounts for leases that have been capitalized at December 31:

	<u>2017</u>	<u>2016</u>
Buildings and leasehold improvements	\$ 6,876,448	\$ 6,876,448
Less accumulated depreciation	3,909,694	3,655,401
	<u>\$ 2,966,754</u>	<u>\$ 3,221,047</u>

Future minimum payments under capital leases consist of the following:

Year ending December 31:	
2018	\$ 496,560
2019	496,560
2020	496,560
2021	496,560
2022	496,560
2023 and thereafter	3,269,020
	<u>5,751,820</u>
Less amounts representing interest	1,963,102
Present value of minimum lease payments (including current maturities of \$210,300)	<u>\$ 3,788,718</u>

### 9. Stock Incentive Plan, Stockholders' Agreement, and Stock Redemption

Under the provisions of ASC 718, *Compensation – Stock Compensation*, the College recognizes the cost of employee services received in exchange for awards of equity instruments based on the grant date fair value of those awards.

The College has an Incentive Stock Option Plan which allows employees, outside directors, consultants, and advisors of the College to participate in the Plan. The Plan allows for the grant of incentive or non-qualified stock options to purchase non-voting shares of the College's common stock. Under the terms of the Plan, the College has the ability to grant stock options representing up to 8,000 shares of non-voting common stock. The options vest based on a graded scale over a five-year period, are earned when services are rendered by the employee, and expire ten years from their grant date. There are 2,634 options available for future grants under the Plan at December 31, 2017.

# Bryant & Stratton College, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 9. Stock Incentive Plan, Stockholders' Agreement, and Stock Redemption (continued)

A summary of the College's stock option activity under this plan, and related information is as follows:

	Number of Stock Options	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Contractual Life (Years)
Outstanding at December 31, 2016	4,209	\$ 8,592	5.3
Granted	98	2,566	
Exercised	—	—	
Forfeited	(49)	14,075	
Outstanding at December 31, 2017	4,258	\$ 8,390	4.4
Exercisable at December 31, 2017	3,022	\$ 11,262	3.1

The compensation expense for the options is being recognized based on the fair value of options granted utilizing the straight-line method over vesting periods ranging from 3.5 to 5 years. During 2017 and 2016, the College recognized approximately \$320,000 and \$583,000, respectively, of stock-based compensation expense and approximately \$688,000 of unrecognized compensation cost remained at December 31, 2017, which will be recognized over a weighted-average period of 2.5 years. The fair value of options that vested in 2017 and 2016 was \$309,000 and \$869,000, respectively.

The College granted 98 options in 2017 with a fair value of \$110,000 that will be recognized over the term of the award. The College did not grant any options in 2016.

### 10. Postretirement Benefits

The College provides certain health insurance benefits to eligible and retired former full-time employees and their spouses. Participants generally become eligible for these benefits after achieving certain age and years of service requirements. For individuals who retired prior to November 1, 1991, the College will pay the entire amount of their health insurance. For employees retiring after November 1, 1991, the College will contribute the same fixed amount for health insurance that was provided for at the date of the employees' separation. This amount will increase each year by the Federal Consumer Price Index (CPI) on March 1. The postretirement benefit obligation does not reflect an amount associated with the Medicare subsidy allowed under the Medicare Prescription Drug Improvement and Modernization Act of 2003 because the College is unable to conclude whether the benefits provided are actuarially equivalent to Medicare Part D under the 2003 Medicare Act.

# Bryant & Stratton College, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 10. Postretirement Benefits (continued)

#### Obligations and Funded Status

The following tables present the components of the plan:

	<b>2017</b>	<b>2016</b>
Benefit obligation at beginning of year	\$ (4,487,108)	\$ (3,807,693)
Service cost	(131,801)	(114,429)
Interest cost	(183,899)	(164,930)
Actuarial gain	90,654	(513,671)
Benefits paid	127,386	113,615
Benefit obligation at year-end	(4,584,768)	(4,487,108)
Fair value of plan assets at year-end	—	—
Funded status	<u>\$ (4,584,768)</u>	<u>\$ (4,487,108)</u>

Amounts recognized in liabilities:

	<b>2017</b>	<b>2016</b>
Current liabilities	\$ (180,499)	\$ (170,466)
Non-current liabilities	(4,404,269)	(4,316,642)
	<u>\$ (4,584,768)</u>	<u>\$ (4,487,108)</u>

Amounts recognized in accumulated other comprehensive loss, before taxes:

	<b>2017</b>	<b>2016</b>
Net loss	\$ 1,767,246	\$ 2,012,756

Amounts recognized in the net periodic cost consist of:

	<b>2017</b>	<b>2016</b>
Service cost	\$ 131,801	\$ 114,429
Interest cost	183,899	164,930
Recognized loss	154,856	125,654
Net periodic cost	<u>\$ 470,556</u>	<u>\$ 405,013</u>

During 2018, the estimated net loss for the other postretirement benefits plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost is \$125,843.

## Bryant & Stratton College, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 10. Postretirement Benefits (continued)

##### Weighted-Average Assumption as of December 31

	<u>2017</u>	<u>2016</u>
Discount rate	3.65%	4.25%

The discount rate assumption reflects the estimated rate at which the obligation could be effectively settled. The Company evaluates the discount rate assumption on an annual basis.

For measuring the postretirement benefit obligation, a blended 3% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2017. The rate is assumed to remain constant going forward. As of the measurement date in 2017, a one percentage point increase in this rate would increase the benefit obligation and combined service and interest costs by \$762,849 and \$64,901, respectively, while a one percentage point decrease in this rate would decrease the benefit obligation and combined service and interest costs by \$613,331 and \$50,975, respectively.

Based on current data and assumptions, the following benefit payments are expected to be paid over the following fiscal years:

Year Ending:	
2018	\$ 180,499
2019	187,945
2020	192,942
2021	200,043
2022	204,712
2023 – 2027	1,213,058

##### Defined Contribution Plan

The College also has a defined contribution 401(k) plan. Substantially all full-time and some part-time employees who meet certain eligibility requirements are eligible to participate in the plan. The College has the option to match employee contributions up to a maximum of 5% of each participant's salary and, in addition, declare a profit sharing contribution. During 2017 and 2016, the College's match was 25% and 0% of the participants' contribution, respectively. Expense for 2017 and 2016 was \$947,000 and approximately \$0, respectively.

##### Deferred Compensation Plan

In January 2015 the College adopted a non-qualified deferred compensation plan for a select group of employees in accordance with IRS regulation 409A. The plan was terminated prior to December 31, 2017, and the proceeds distributed to the plan participants with no assets or obligations remaining after the distribution.

## Bryant & Stratton College, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 10. Postretirement Benefits (continued)

The fair value of the plan assets and liability at December 31, 2016 was \$955,831, which was included in other assets and other non-current liabilities, respectively, on the consolidated balance sheet. The realized and unrealized investment gains and losses are recognized as a component of other (expense) income and the corresponding change in liability is recognized as a component of compensation expense in the College's financial statements. The net gain recognized as a component of compensation expense was approximately \$13,000 and \$17,000 in 2017 and 2016, respectively.

#### 11. Income Taxes

The components of income tax expense (benefit) for the years ended December 31, 2017 and 2016, are summarized below:

	2017	2016
Current taxes:		
Federal	\$ 778,499	\$ 363,423
State	(50,969)	370,986
Total current taxes	<u>727,530</u>	<u>734,409</u>
Deferred taxes:		
Federal	2,777,934	(500,664)
State	(132,934)	(278,336)
Total deferred taxes	<u>2,645,000</u>	<u>(779,000)</u>
Total income taxes	<u>\$ 3,372,530</u>	<u>\$ (44,591)</u>

# Bryant & Stratton College, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 11. Income Taxes (continued)

The Company's deferred tax assets (liabilities) consisted of the following at December 31, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Postretirement adjustment (accumulated other comprehensive loss)	\$ 455,000	\$ 783,000
Stock compensation expense	1,898,817	2,754,240
Depreciation and amortization	1,438,104	1,597,132
Bad debt reserves	983,642	1,456,813
Postretirement reserves	760,731	1,014,484
Lease obligation	687,065	1,163,555
Deferred compensation	—	400,755
Accrued expense	125,051	65,554
Other	119,363	194,027
Gross deferred tax assets	<u>6,467,773</u>	<u>9,429,560</u>
State tax	<u>(326,773)</u>	<u>(359,560)</u>
Gross deferred tax liabilities	<u>(326,773)</u>	<u>(359,560)</u>
Net deferred tax asset	<u>\$ 6,141,000</u>	<u>\$ 9,070,000</u>

A valuation allowance is provided for deferred tax assets if management believes that it is more-likely-than-not that these items will either expire before the College is able to realize their benefit or that future deductibility is uncertain. Although realization is not assured, management believes it is more-likely-than-not that the recorded deferred tax assets will be realized. Although no valuation allowance against deferred tax assets is required at December 31, 2017, the College has deeply out-of-the-money stock options that management believes will likely expire in 2018 and 2020 representing deferred tax assets as of December 31, 2017 of approximately \$476,000 and \$440,000, respectively, that it expects to write-off in the years they expire.

On December 22, 2017, the Tax Cuts and Jobs Act significantly changed U.S. income tax law. The provisions of this Act are effective for years commencing January 1, 2018 or later. The College's federal tax rate in 2018 will decrease from 35% to 21% and resulted in a provisional write-down of the December 31, 2017 net deferred tax asset by \$2,947,000. The other provisions of the Tax Cuts and Jobs Act are not likely to have a material impact on the College's financial statements.



## Bryant & Stratton College, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 11. Income Taxes (continued)

A reconciliation of income taxes at the federal statutory rate of 35% to actual income tax expense (benefit) for the years ended December 31, 2017 and 2016, is as follows:

	2017	2016
Income tax expense (benefit) at federal statutory rate	\$ 273,815	\$ (266,717)
State income taxes, net of federal income tax benefit	46,056	111,406
Permanent differences	154,542	121,628
Statutory federal tax rate change from 35% to 21% applied to all deferred tax assets and liabilities	2,947,000	—
Other	(48,883)	(10,908)
	<u>\$ 3,372,530</u>	<u>\$ (44,591)</u>

Under the College's policy, interest and penalties would be expensed as incurred and included in general and administrative expenses.

The College has open tax years for its Federal, Virginia, and Wisconsin tax jurisdictions for the 2014-2016 tax years and for its New York State tax jurisdiction for the 2013-2016 tax years.

#### 12. Commitments and Contingencies

In order for students to participate in Title IV federal financial aid programs, the College is required to maintain certain annual standards of financial responsibility and administrative capability. At December 31, 2017 and 2016, the College was in compliance with the standards of administrative capability and financial responsibility and exceeded the numeric standard of financial responsibility.

In June 2016, the U.S. Department of Education (DOE) notified the College that full certification of its Program Participation Agreement was granted through March 31, 2020. On December 1, 2017, a transaction between the College's two largest shareholders was consummated which was deemed to be a change-in-control by the U.S. DOE. Due to this transaction, the College's Program Participation Agreement was changed by the U.S. DOE from full certification to temporary provisional approval pending the U.S. DOE's final review of the College's application for change-in-control.

The College is involved in general legal actions arising in the ordinary course of its business. Management believes that the final resolution of these matters will not have a material impact on the College's financial position.

## Bryant & Stratton College, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 13. Supplemental Cash Flow Information

Supplemental cash flow information for fiscal years ended December 31 is as follows:

	<u>2017</u>	<u>2016</u>
Income taxes paid	\$ 1,466,656	\$ 169,026
Interest paid	1,540,128	1,529,551

#### 14. Subsequent Events

The College has evaluated subsequent events through April 6, 2018, the date the financial statements were available to be issued, noting no events have occurred that require adjustment of or disclosure in the consolidated financial statements.

## Supplementary Information

# Bryant & Stratton College, Inc. and Subsidiaries

## United States Department of Education Title IV Revenue Test

Year Ended December 31, 2017

### 90/10 Revenue Test

In accordance with the 90/10 Revenue Test of the U.S. Department of Education (DOE), approximately 84% of the College's revenues were derived from Title IV funds received during 2016. The calculations are made on a cash basis and in accordance with Section 600.5(a)(8) of the U.S. DOE 34 CFR Part 600 Regulations, adjusted in 2008 for the passage of the Higher Education Opportunity Act of 2008, as follows:

Adjusted Student Title IV Revenue	
Federal Pell Grant	\$ 48,206,504
Subsidized Loan	37,254,941
Unsubsidized Loan	50,267,142
Plus Loan	1,181,647
Supplemental Educational Opportunity Grant	883,533
Academic Competitive Grant	-
Student Title IV Revenue	<u>137,793,767</u>
Revenue Adjustment	-
Adjusted Student Title IV Revenue	<u><u>\$ 137,793,767</u></u>
Student Non-Title IV Revenue	
Student Payments	\$ 8,868,247
State Grants	8,860,544
Veteran Administration Grants	5,720,612
Funds provided for purpose of job training	1,071,304
Other Non-Title IV sources	<u>1,807,666</u>
Student Non-Title IV Revenue	<u>26,328,373</u>
Adjusted Student Title IV Revenue	<u>137,793,767</u>
Adjusted Student Title IV Revenue and Student Non-Title IV Revenue	<u><u>\$ 164,122,140</u></u>
Title IV Revenue percentage	84.0%

# Bryant & Stratton College, Inc. and Subsidiaries

## United States Department of Education Financial Responsibility Ratios

Year Ended December 31, 2017

### Balance sheet

#### Assets

Property and equipment, net	\$ 26,421,568
Intangible assets	1,215,724
Related-party receivable	—
Other assets	37,682,812
Total assets	<u>\$ 65,320,104</u>

#### Liabilities and stockholders' equity

Long-term debt	\$ 23,286,419
Postretirement liabilities	4,584,768
Other liabilities	19,347,952
Total liabilities	<u>47,219,139</u>
Stockholders' equity	<u>18,100,965</u>
Total liabilities and stockholders' equity	<u>\$ 65,320,104</u>

### Income statement

Revenue, net	\$ 174,489,532
Expenses	173,726,130
Interest income	17,377
Income before income tax expense	<u>\$ 780,779</u>

### Financial responsibility regulation

Modified assets	\$ 64,104,380
Modified equity	16,885,241
Adjusted equity	18,334,860
Primary reserve score	0.63
Equity score	0.63
Net income score	<u>0.35</u>
Composite score	1.61



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## Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Management and the Board of Directors  
of Bryant & Stratton College, Inc. and Subsidiaries

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Bryant & Stratton College, Inc. and Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2017, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 6, 2018.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bryant & Stratton College, Inc. and Subsidiaries' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bryant & Stratton College, Inc. and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of Bryant & Stratton College, Inc. and Subsidiaries' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bryant & Stratton College, Inc. and Subsidiaries' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such tests included compliance tests as set forth in the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs*, issued by the U.S. Department of Education, Office of Inspector General (the Guide) including those relating to related parties and percentage of revenue derived from Title IV programs. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ernst & Young LLP*

April 6, 2018