

MILWAUKEE CAREER COLLEGE, INC.

FINANCIAL STATEMENTS

AUGUST 31, 2017

MILWAUKEE CAREER COLLEGE, INC.

FINANCIAL STATEMENTS

AUGUST 31, 2017

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PROFESSIONAL ACCOUNTING,
CONSULTING & BUSINESS
ADVISORY SERVICES

February 13, 2018

To the Shareholders
Milwaukee Career College, Inc.
Milwaukee, Wisconsin

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Milwaukee Career College, Inc., which comprise the balance sheet as of August 31, 2017, and the related statements of income, changes in stockholders' equity, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and those 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 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 audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Milwaukee Career College, Inc. as of August 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Note 10 on Milwaukee Career College, Inc.'s related party transactions and Note 9 on its 90/10 revenue calculation are required by the U.S. Department of Education and are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2018 on our consideration of Milwaukee Career College, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 on compliance and the results of that testing, and not to provide an opinion on the 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 Milwaukee Career College, Inc.'s internal control over financial reporting and compliance.



Certified Public Accountants
Pittsburgh, PA
February 13, 2018

MILWAUKEE CAREER COLLEGE, INC.

BALANCE SHEET

ASSETS

	August 31, 2017
Current Assets	
Cash and cash equivalents	\$ 237,464
Certificate of deposit	44,435
Student accounts and notes receivable, current portion less allowance of \$208,474	733,585
Prepaid expenses	28,145
Inventory	7,992
	<hr/>
Total Current Assets	1,051,621
Equipment and Improvements	
Computer equipment and software	659,243
Office furniture and equipment	635,700
Leasehold improvements	582,994
	<hr/>
	1,877,937
Less accumulated depreciation and amortization	<hr/> (1,648,748)
	<hr/>
Net Property and Equipment	229,189
Other Assets	
Student notes receivable, net of current portion and allowance of \$86,641	227,379
Deferred tax asset, net of valuation allowance	365,100
	<hr/>
Total Other Assets	592,479
	<hr/>
Total Assets	<u><u>\$ 1,873,289</u></u>

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND SHAREHOLDER'S EQUITY

	August 31, 2017
Current Liabilities	
Accounts payable and accrued liabilities	\$ 104,708
Deferred tuition	179,263
Current portion of capital lease	<u>6,351</u>
Total Current Liabilities	290,322
Long Term Liabilities	
Deferred rent liability	<u>243,715</u>
Total Long Term Liabilities	<u>243,715</u>
Total Liabilities	534,037
Shareholder's Equity	
Common stock (\$1 par value; 10,000,000 shares authorized; and 7,024,708 shares issued and outstanding)	7,124,708
Additional paid-in capital	3,026,097
Retained deficit	(8,711,553)
Less: treasury stock at cost (100,000 shares)	<u>(100,000)</u>
Total Shareholder's Equity	<u>1,339,252</u>
Total Liabilities and Shareholder's Equity	<u><u>\$ 1,873,289</u></u>

The accompanying notes are an integral part of these financial statements.

MILWAUKEE CAREER COLLEGE, INC.

**STATEMENT OF INCOME
FOR THE YEAR ENDED**

	August 31, 2017
Tuition and fees revenue	\$ 2,987,618
Operating Expenses	
Education	1,282,354
Administrative	815,695
Admissions	182,585
Occupancy	760,224
Depreciation and amortization	87,679
Total Operating Expenses	3,128,537
Loss Before Income Tax Expense	(140,919)
Income tax expense	(500)
Net Loss	\$ (141,419)

The accompanying notes are an integral part of these financial statements.

MILWAUKEE CAREER COLLEGE, INC.

**STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED
AUGUST 31, 2017**

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Deficit</u>	<u>Less Treasury Stock, at Cost</u>	<u>Total Shareholder's Equity</u>
Balance at September 1, 2016	\$ 7,124,708	\$ 3,026,097	\$ (8,570,134)	\$ (100,000)	\$ 1,480,671
Net loss	<u>-</u>	<u>-</u>	<u>(141,419)</u>	<u>-</u>	<u>(141,419)</u>
Balance at August 31, 2017	<u><u>\$ 7,124,708</u></u>	<u><u>\$ 3,026,097</u></u>	<u><u>\$ (8,711,553)</u></u>	<u><u>\$ (100,000)</u></u>	<u><u>\$ 1,339,252</u></u>

The accompanying notes are an integral part of these financial statements.

MILWAUKEE CAREER COLLEGE, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED

	August 31, 2017
Cash Flows from Operating Activities	
Net loss	\$ (141,419)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Provision for doubtful accounts	(2,800)
Depreciation and amortization	87,679
Increase in deferred tax asset valuation allowance	500
Decrease (increase) in:	
Student accounts receivable	97,628
Student notes receivable	32,543
Inventory	-
Increase (decrease) in:	
Accounts payable and accrued liabilities	13,667
Deferred tuition	84,731
Deferred rent liability	(74,166)
Total Net Operating Adjustments	239,782
Net Cash Provided by Operating Activities	98,363
Cash Flows from Investing Activities	
Purchase of equipment and improvements	(10,451)
Net Cash Used in Investing Activities	(10,451)
Cash Flows from Financing Activities	
Capital lease principal payments	(6,826)
Net Cash Used in Financing Activities	(6,826)
Net Increase in Cash and Cash Equivalents	81,086
Cash and cash equivalents at beginning of year	156,378
Cash and Cash Equivalents at End of Year	\$ 237,464
Supplemental Disclosures of Cash Flow Information:	
Cash paid during the year for interest	\$ 1,373

The accompanying notes are an integral part of these financial statements.

MILWAUKEE CAREER COLLEGE, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – NATURE OF OPERATIONS

Milwaukee Career College, Inc. (the Company) was founded in 2002 and provides allied health and veterinary assistant vocational training at its school located near Milwaukee, Wisconsin. The Company is accredited by the Accrediting Bureau of Health Education Schools (ABHES) and is certified by the U.S. Department of Education for participation in Federal Title IV Student Financial Assistance Programs. The Company is a wholly-owned subsidiary of Fukuda Gakuen USA, Inc., which is also incorporated under the laws of the State of Wisconsin. Fukuda Gakuen USA, Inc. has no operations of its own.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in the bank, money market accounts, and all investments with an original maturity of ninety days or less.

Student Accounts and Notes Receivable and Allowance for Doubtful Accounts

Student receivables are recorded at the amounts originally billed, less payments received. Students sign non-interest bearing installment notes, which range from one to in excess of thirty-six months, for the amount of tuition and fees not covered by financial aid, outside agencies or other funding sources. Management has estimated an allowance for doubtful accounts based upon historical losses and the sum of the collection risks associated with each student's uncollected balance at year-end. Balances owed by students who have failed to make payments in accordance with their note terms are written off after further collection efforts prove to be unsuccessful.

Inventory

Inventory is carried at the lower of cost, determined by first-in, first-out (FIFO) method of accounting, or market.

Equipment and Improvements

Equipment and leasehold improvements are recorded on the basis of cost. Expenditures for renewals and betterments which extend the life of the assets are capitalized. Repairs and maintenance items are charged to expense as incurred.

Depreciation and Amortization

Depreciation of furniture and equipment and amortization of leasehold improvements is computed using the straight-line method based on the estimated useful lives of the assets and the length of the lease.

Revenue Recognition and Deferred Tuition

The Company records tuition revenue as it is earned. Deferred tuition represents student prepayments and tuition charges which will be recognized when earned as students progress through their academic program. Tuition adjustments to students who withdraw are calculated in accordance with federal, state, and accrediting agency standards. Bookstore revenue is recognized at the time of sale.

MILWAUKEE CAREER COLLEGE, INC.

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Deferred Rent Liability

The Company recognizes rent expense on the straight-line method over the life of the lease. The cumulative excess of the amounts expensed over the payments required under the lease is recorded as deferred rent liability. This credit will offset the effect of scheduled future rent increases on net income.

Advertising Costs

Advertising costs are expensed as incurred and are reported in the accompanying statement of income. Total advertising expense for the year ended August 31, 2017 was approximately \$79,000.

Financial Instruments Fair Value Measurements

FASB Codification ASC 820, Fair Value Measurements, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques which are used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB Codification ASC 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; and
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Use of Estimates in the Preparation of Financial Statements

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

MILWAUKEE CAREER COLLEGE, INC.

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Subsequent Events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through February 13, 2018, the date the financial statements were available to be issued.

NOTE 3 – CONCENTRATION AND CREDIT RISKS

The Company, at times, has cash deposits which exceed \$250,000 in various accounts at one bank. The Federal Deposit Insurance Corporation insures only the first \$250,000 of funds at member banks.

The Company draws students primarily from the local area identified in Note 1. Many of the Company's students are eligible for federal government loan and grant programs which are administered by the Company, but which are disbursed to the students or directly to the Company on behalf of the student. These receivables, as well as unfunded amounts due from the students, are unsecured.

The Securities Investor Protection Corporation provides limited protection for the first \$500,000 of funds at member brokerages in the event that the brokerage fails. At times, the Company may have marketable securities balances which exceed that amount.

NOTE 4 – CERTIFICATE OF DEPOSIT

The Company owns a certificate of deposit which has a balance of \$44,435 and a maturity date of November 11, 2017 and earns interest at a rate of 0.40%. The certificate of deposit is valued at its face value plus interest accrued through August 31, 2017. The method described more fully in Note 2 may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The following table sets forth by level within the fair value hierarchy, the Company's certificates of deposit at fair value.

	Assets at Fair Value as of			
	August 31, 2017			
	Level 1	Level 2	Level 3	Total
Certificate of deposit	\$ -	\$ 44,435	\$ -	\$ 44,435
Total assets at fair value	\$ -	\$ 44,435	\$ -	\$ 44,435

MILWAUKEE CAREER COLLEGE, INC.

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

NOTE 4 – CERTIFICATE OF DEPOSIT (CONTINUED)

At August 31, 2017, the Company recorded the following balances for its certificate of deposit:

	Amortized Cost	Net Unrealized Gains / (Losses)	Fair Market Value
Certificate of deposit	\$ 44,435	\$ -	\$ 44,435
Total assets at fair value	\$ 44,435	\$ -	\$ 44,435

NOTE 5 – CAPITALIZED LEASE OBLIGATIONS

The Company has acquired equipment with costs of \$29,655 through a noncash capitalized lease transaction during the year ended August 31, 2014. The net book value of equipment acquired through the lease was \$5,931 at August 31, 2017. Following is a schedule of future minimum lease payments required under the terms of the lease, together with the present value of the net minimum lease payments.

<u>Year Ending August 31,</u>	
2018	\$ 6,748
Total minimum lease payments	6,748
Less amount representing interest	(397)
Present value of net minimum lease payments	6,351
Less current portion	(6,351)
Long-term portion	\$ -

MILWAUKEE CAREER COLLEGE, INC.

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

NOTE 6 – OPERATING LEASES

The Company leases its classroom and office facilities under a non-cancelable operating lease that expires on December 31, 2020. The lease base rental rate is subject to predetermined inflationary escalation, and it may be cancelled by the landlord upon twelve months written notice. Minimum required lease payments for the next five years and thereafter are as follows:

<u>Year Ending August 31,</u>	
2018	\$ 723,764
2019	723,764
2020	773,653
2021	<u>262,296</u>
	<u>\$ 2,483,477</u>

The amount charged to operations under the operating leases for the year ended August 31, 2017 was approximately \$704,000.

NOTE 7 – RETIREMENT PLAN

The Company sponsors a 401(k) retirement savings plan for all eligible employees as defined by the Plan. The employees may contribute up to the lesser of 100% of their compensation or the maximum dollar amount allowable annually under Internal Revenue Code limits. The Company, at its option, may also make contributions to the Plan on behalf of its participants. For the year ended August 31, 2017, the Company contributed \$11,797 to the Plan.

NOTE 8 – INCOME TAXES

The Company files a consolidated federal income tax return with its parent, which has no operations of its own. The Company provides for deferred income taxes under the asset and liability method of accounting. This method requires the recognition of deferred income taxes, based upon the tax consequences of “temporary differences” by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The deferred taxes represent the future tax return consequences of the differences between the basis of certain assets and liabilities for financial and tax reporting.

As of August 31, 2017, the Company has federal and state net operating loss carry forwards approximating \$7,964,000 and \$7,932,000 respectively; which may be carried forward to offset future taxable income for periods of up to 20 and 15 years, respectively. The Company has recorded a valuation reserve equal to 90% of its deferred tax asset balances which existed at August 31, 2016 and August 31, 2017.

MILWAUKEE CAREER COLLEGE, INC.

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

NOTE 8 – INCOME TAXES – (CONTINUED)

The provision (credit) for income taxes is comprised of the following:

Current:		
Federal	\$	-
State		
Total Current		<u>-</u>
Deferred:		
Federal		400
State		<u>100</u>
Total Deferred		<u>500</u>
	\$	<u>500</u>

At August 31, 2017, the Company's deferred tax assets and liabilities consisted of the following:

Deferred tax assets:	
Operating loss carry forwards	\$ 3,335,000
Student accounts and notes receivable	
allowance for doubtful accounts	124,000
Charitable contribution carry forwards	-
Equipment and Improvements	
accumulated depreciation	89,000
Deferred rent expense liability	<u>102,000</u>
Gross deferred tax assets	3,650,000
Less valuation allowance	<u>(3,284,900)</u>
Net deferred tax assets	<u>365,100</u>
Net deferred tax asset	<u>\$ 365,100</u>

The Company's federal income tax returns remain subject to examination by the Internal Revenue Service for three years after filing, and its state income tax returns remain subject to examination by state taxing authorities for three years after filing.

MILWAUKEE CAREER COLLEGE, INC.

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

NOTE 9 – 90/10 CALCULATION

Milwaukee Career College, Inc. derives a substantial portion of its revenues from financial aid received by its students under programs authorized by Title IV of the HEA, which are administered by the U.S. Department of Education. To continue to participate in the programs, the Institute must comply with the regulations promulgated under the HEA. The regulations restrict the proportion of cash receipts for tuition, fees, and other institutional charges from eligible programs to not be more than 90 percent from Title IV programs. The failure of the Institute to meet the 90 percent limitation for two consecutive years will result in the loss of the Institute's ability to participate in Title IV programs. If a school receives more than 90 percent of its revenue from Title IV programs during its fiscal year, the school becomes provisionally certified for the next two fiscal years. This information is required by the U.S. Department of Education and is presented for purposes of additional analysis and is not a required part of the basic financial statements. For the fiscal year ended August 31, 2017, the Institute's cash basis calculations is:

MILWAUKEE CAREER COLLEGE, INC.

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

NOTE 9 – 90/10 CALCULATION – (CONTINUED)

The sum of Adjusted Student Title IV Revenue = 90/10 Revenue Percentage

Sum of Adjusted Student Title IV Revenue

+Sum of Student Non-Title IV Revenue

+Total Revenue from Other Sources

	Amount Disbursed	Adjusted Amount	
Adjusted student Title IV revenue:			
Subsidized Loan	\$ 648,158	\$ 648,158	
Unsubsidized Loan up to pre-ECASLA loan limits	1,031,029	1,031,029	
PLUS Loan	5,266	5,266	
Federal Pell Grant	826,324	826,324	
FSEOG (subject to matching reduction)	25,148	18,861	
Student Title IV revenue		2,529,638	
Revenue adjustment Reduce Student Title IV Revenue by the amount in excess of Tuition and Fees		(48,565)	
Reduce Title IV Revenue for Title IV Funds returned for a student under 34 C.F.R. § 668.22 withdrawals		(237,108)	
Adjusted Student Title IV revenue		\$ 2,243,965	76.88%
Student Non-Title IV Revenue			
Grant funds for the students from non-Federal public agencies or private sources independent of the Institution	\$ 823		
Funds provided for the student under a contractual arrangement with a government agency for the purpose of providing job training to low-income individuals	-		
Funds used by a student from savings plans for educational expenses established by or on behalf of the student that qualify for special tax treatment by the IRS	-		
Eligible cash school scholarships disbursed to the student	-		
Student payments on current charges	674,186		
Student Non- Title IV revenue	\$ 675,009		
Revenue from Other Sources (Totals for the Fiscal Year)			
Activities conducted by the school that are necessary for education and training (34 C.F.R. § 668.28(a)(3)(ii))	\$ -		
Funds paid by or on behalf of a student by a party other than the school for an education or training program that is not eligible (34 C.F.R. § 668.28(a)(3)(iii))	-		
Allowable student payments + allowable amounts from account receivable or institutional loan sales - any required payments under a recourse agreement	-		
Revenue from Other Sources	\$ -		
Total Non-Title IV Revenue (Student Non-Title IV Revenue + Revenue from Other Sources)		\$ 675,009	23.12%
Total Revenue (Adjusted Student Title IV Revenue + Student Non-Title IV Revenue + Revenue from Other Sources)		\$ 2,918,974	100.00%

MILWAUKEE CAREER COLLEGE, INC.

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

NOTE 10 – RELATED PARTY TRANSACTIONS

The Institute participates in Federal programs authorized by Title IV of the Higher Education Act of 1965, as amended (HEA), which are administered by the U.S. Department of Education. The Institute must comply with the regulations promulgated under the HEA. Those regulations require that all related party transactions be disclosed, regardless of their materiality to the financial statements. This information is required by the U.S. Department of Education and is presented for purposes of additional analysis and is not a required part of the basic financial statements.

There were no related party transactions for the fiscal year ended August 31, 2017.

NOTE 11 – REGULATORY AND SUBSEQUENT EVENT

Regulatory Agency Review

To participate in the Title IV Programs, an institution is subject to extensive regulation and periodic reviews by federal and state governmental agencies and the Institution's accrediting body. An institution must be authorized to offer its programs of instruction by the relevant agencies of the state in which it is located, accredited by an accrediting agency recognized by the DOE and certified as eligible by the DOE. On a periodic basis, an institution must be re-approved by these agencies to continue to receive Title IV Funds. An institution must also demonstrate its compliance with the Higher Education Act as amended (HEA) and related regulations published by the DOE on an ongoing basis. Political and budgetary concerns can significantly affect the Title IV Programs and Congress must reauthorize the HEA and funding for its financial aid programs periodically. As of August 31, 2017, the Institute was properly authorized by the regulatory agencies which govern its eligibility, and no regulatory reviews were being conducted by the respective agencies.

On November 16, 2015, the Company issued a letter of credit (LOC) for \$44,435 in favor of the Department of Education. This LOC was collateralized by a certificate of deposit in the amount of \$44,435 as more fully described in Note 4. The letter of credit expired on November 25, 2017 in accordance with the original maturity date instructions of the DOE.

The Department of Education placed the Institution on Provisional Certification as a result of the Institution submitting the required GE Transitional Certification on January 15, 2016, which was after the required deadline of December 31, 2015.

MILWAUKEE CAREER COLLEGE, INC.

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

NOTE 11 – REGULATORY AND SUBSEQUENT EVENT – (CONTINUED)

Loan Cohort Default Rate

Current Regulations have been established which impose limitations on institutions whose former students default on the repayment of their federally guaranteed or funded student loans above specific rates (cohort default rate). An institution whose three-year cohort default rate equals or exceeds 30% for three consecutive years will no longer be eligible to participate in the Federal Direct Loan Program or the Pell Grant Program. An institution whose cohort default rates exceed 40% will lose its eligibility to participate in the Federal Direct Loan Program.

The Institute's most recent official cohort default rates, published by the United States Department of Education, are 20%.

Financial Responsibility Composite Ratio

Under the federal regulations mentioned above, the DOE calculates the Institution's composite score based on a three factor financial responsibility ratio. An institution which does not meet the DOE's minimum composite score of 1.5 can demonstrate financial responsibility by meeting the "zone alternative" or posting a letter of credit in favor of the DOE. The "zone alternative" includes a delayed method of cash funding for Title IV Aid, and the providing of additional information to the DOE, upon request. As of August 31, 2017, the Institute had a composite score equal to 1.9 out of a possible score of 3.0.

Gainful Employment Regulations

On October 31, 2014, the U.S. Department of Education published final regulations defining the measures which determine whether a post-secondary academic program leads to gainful employment in a recognized occupation. An academic program whose graduates have median debt levels whose annual loan payments exceed 12% of total wages and 30% of defined discretionary wages for two out of three consecutive years will lose Title IV eligibility. Programs whose graduates have median debt levels with annual loan payments between 8% and 12% of total wages, or between 20% and 30% of discretionary wages, for four consecutive years will also lose Title IV eligibility. On June 30, 2017, the U.S. Department of Education announced plans to consider revisions to the Gainful Employment regulations, and extended the deadline for certain portions of the regulations to July 1, 2018.

On January 9, 2017, the DOE published the 2015 Gainful Employment rates. All of the Institution's academic programs which are subject to the Gainful Employment regulations earned passing Debt to Earnings Annual Rates, below 8%.



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PROFESSIONAL ACCOUNTING,
CONSULTING & BUSINESS
ADVISORY SERVICES

February 13, 2018

To the Shareholder
Milwaukee Career College, Inc.
Milwaukee, Wisconsin

**REPORT 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**

Independent Auditor's Report

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We have audited, in accordance with the auditing standards generally accepted in the United States of America 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 Milwaukee Career College, Inc., which comprise the balance sheet as of August 31, 2017, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Milwaukee Career College, Inc.'s basic financial statements, and have issued our report thereon dated February 13, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Milwaukee Career College, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Milwaukee Career College, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Milwaukee Career College, Inc.'s 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 a 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 Milwaukee Career College, Inc.'s financial statements are free from 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 results of that testing, and not to provide an opinion on the effectiveness of the Milwaukee Career College, Inc.'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.



Certified Public Accountants
Pittsburgh, PA
February 13, 2018