FEDERAL ID #: 39-1777254
OPE ID #: 03220300
DUNS #: 877901496
NACCAS OWNER ID #: 01913

ROCK-STOCK, LLC
D/B/A THE PROFESSIONAL HAIR DESIGN ACADEMY
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

ROCK-STOCK, LLC
D/B/A THE PROFESSIONAL HAIR DESIGN ACADEMY

TABLE OF CONTENTS

K&A
KNUTTE & ASSOCIATES, P.C.

Certified Public Accountants
7900 S. Cass Avenue
Darien, Illinois 60561
(630) 960-3317
FAX (630) 960-9960
www.knutte.com

INDEPENDENT AUDITORS' REPORT

To the Members
Rock-Stock, LLC
d/b/a The Professional Hair Design Academy

Report on the Financial Statements

We have audited the accompanying financial statements of Rock-Stock, LLC d/b/a The Professional Hair Design Academy (a Wisconsin limited liability company) which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of income (loss) and members' equity and statements of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits 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 auditors' 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rock-Stock, LLC d/b/a The Professional Hair Design Academy as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2018, on our consideration of Rock-Stock, LLC's d/b/a The Professional Hair Design Academy 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 controls over financial reporting and 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 Rock-Stock, LLC's d/b/a The Professional Hair Design Academy internal control over financial reporting and compliance.

Knutte & Associates, P.C.

Darien, Illinois
April 16, 2018

ROCK-STOCK, LLC
D/B/A THE PROFESSIONAL HAIR DESIGN ACADEMY
BALANCE SHEETS
DECEMBER 31, 2017 AND 2016

ASSETS

	2017	2016
CURRENT ASSETS		
Cash	$ 377,207	$ 315,827
Accounts Receivable (Net of Allowance for Doubtful Accounts of $4,000, Respectively)	135,267	186,085
Prepaid Supplies	10,735	10,365
TOTAL CURRENT ASSETS	523,209	512,277
FIXED ASSETS		
Furniture and Equipment	174,914	176,200
Less -- Accumulated Depreciation	174,914	175,914
TOTAL FIXED ASSETS	0	286
TOTAL ASSETS	$ 523,209	$ 512,563

LIABILITIES AND MEMBERS' EQUITY

	2017	2016
CURRENT LIABILITIES		
Accounts Payable	$ 1,270	$ 12,285
Deferred Tuition	193,396	217,857
Accrued Liabilities	4,595	4,792
TOTAL CURRENT LIABILITIES	199,261	234,934
TOTAL LIABILITIES	199,261	234,934
MEMBERS' EQUITY	323,948	277,629
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 523,209	$ 512,563

See the Accompanying Notes to the Financial Statements.

ROCK-STOCK, LLC
D/B/A THE PROFESSIONAL HAIR DESIGN ACADEMY
STATEMENTS OF INCOME (LOSS) AND MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
REVENUE		
Tuition and Fees, Net of Refunds	$ 374,982	$ 386,139
Clinic	197,202	201,332
Retail	13,487	12,733
TOTAL REVENUE	585,671	600,204
OPERATING EXPENSES		
Educational Services	229,882	226,256
General and Administrative	135,003	148,959
Marketing and Admissions	31,042	57,595
Occupancy	144,361	143,718
Depreciation and Amortization	286	86,632
TOTAL OPERATING EXPENSES	540,574	663,160
INCOME (LOSS) FROM OPERATIONS	45,097	(62,956)
OTHER INCOME		
Interest Income	1,222	871
Gain on Termination of Franchise Agreement	0	10,000
Gain on Forgiveness of Related Party Payable	0	186
TOTAL OTHER INCOME	1,222	11,057
NET INCOME (LOSS)	46,319	(51,899)
MEMBERS' EQUITY,		
BEGINNING OF YEAR	277,629	329,528
END OF YEAR	$ 323,948	$ 277,629

See the Accompanying Notes to the Financial Statements.

ROCK-STOCK, LLC
D/B/A THE PROFESSIONAL HAIR DESIGN ACADEMY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Students and Customers	$ 612,028	$ 583,362
Interest Received	1,222	871
Paid to Suppliers and Employees	(551,870)	(565,224)
Interest Paid	0	0
Income Taxes Paid	0	0
NET CASH PROVIDED BY OPERATING ACTIVITIES	61,380	19,009
NET INCREASE IN CASH AND CASH EQUIVALENTS	61,380	19,009
CASH AND CASH EQUIVALENTS,		
BEGINNING OF YEAR	315,827	296,818
END OF YEAR	$ 377,207	$ 315,827
NON-CASH OPERATING ACTIVITIES		
Gain on Termination of Franchise Agreement	$ 0	$ 10,000
Gain on Forgiveness of Related Party Payable	0	186
TOTAL NON-CASH OPERATING ACTIVITIES	$ 0	$ 10,186

See the Accompanying Notes to the Financial Statements.

ROCK-STOCK, LLC
D/B/A THE PROFESSIONAL HAIR DESIGN ACADEMY
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net Income (Loss)	$ 46,319	$ (51,899)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided By Operating Activities		
Depreciation and Amortization	286	86,632
Gain on Forgiveness of Related Party Payable	0	(186)
Changes in Certain Assets and Liabilities		
Accounts Receivable	50,818	(17,619)
Prepaid Supplies	(370)	6,009
Accounts Payable	(11,015)	3,836
Deferred Tuition	(24,461)	(9,223)
Accrued Liabilities	(197)	1,459
Total Adjustments	15,061	70,908
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 61,380	$ 19,009

See the Accompanying Notes to the Financial Statements.

ROCK-STOCK, LLC
D/B/A THE PROFESSIONAL HAIR DESIGN ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rock-Stock, LLC d/b/a The Professional Hair Design Academy (the "Company") was formed in the state of Wisconsin on January 1, 1994. The Company operates a cosmetology school in Eau Claire. Prior to October 13, 2016, the Company did business as The Salon Professional Academy.

A) Basis of Accounting

The books of account are maintained on the accrual basis.

B) Cash and Cash Equivalents

For purposes of reporting cash flows, cash is defined as cash on hand, amounts held at financial institutions, and short-term highly liquid investments that are readily convertible to known amounts of cash. Investments with an original maturity of three months or less are considered short-term for these purposes.

The Company has deposits at a financial institution in excess of federally insured limits of approximately $150,000 and $70,000 at December 31, 2017 and 2016, respectively. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

C) Accounts Receivable and Deferred Tuition

The Company and its students enter into a contract for the Company to provide its training program for a fee. Accounts receivable are stated at net realizable value and represent the amount of the contract that has been billed and not yet paid. The Company earns tuition revenue as it provides education and training to the students measured in hours attended. That portion of the Company's programs, which it has not yet provided to the students, is recorded in the financial statements as deferred tuition.

D) Allowance for Doubtful Accounts

The Company carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes the amount of its allowance for doubtful accounts based on a history of past write-offs and collections and current credit conditions.

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D) Allowance for Doubtful Accounts (Continued)

Student receivables are written-off as a charge against the allowance when students graduate or drop from their respective programs of study. The allowance for doubtful accounts at December 31, 2017 and 2016 is $4,000, respectively.

E) Furniture and Equipment

Furniture and equipment are stated at cost. Expenditures for maintenance and repairs are charged to expense as incurred, whereas renewals and betterments that extend the lives of property are capitalized. Depreciation of furniture and equipment is computed using the straight-line method over varying useful lives. Depreciation expense for the years ended December 31, 2017 and 2016 is $286 and $1,046, respectively.

F) Income Taxes

The Company is organized as a limited liability company taxed as a partnership. As such, net income flows through to the members and is taxed on their individual income tax returns. As a result, no provision for income taxes is made on the financial statements.

The Company files its tax returns with the U.S. federal and various state and local tax jurisdictions. With few exceptions, the Company is no longer subject to examinations by major tax jurisdictions for the years prior to 2014.

G) Advertising Costs

Advertising costs, except for costs associated with direct-response advertising, are charged to operations when incurred. The costs of direct-response advertising are capitalized and amortized over the period during which future benefits are expected to be received. At December 31, 2017 and 2016, the Company has no costs associated with direct-response advertising. Advertising expense for the years ended December 31, 2017 and 2016 is $24,130 and $47,757, respectively.

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H) Use of Estimates

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

NOTE 2 - RELATED PARTY TRANSACTIONS

The Company 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 Company 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. The following is a summary of all related party transactions:

Rent - The Company rents its facility on a month-to-month basis from Huntwood, LLC, owned by William D. and Jeanne Rauckman, eighty percent members. Rent expense is $110,400 for the years ended December 31, 2017 and 2016, respectively.

Disclosure of immaterial transactions 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.

NOTE 3 - FRANCHISE FEE

The Company paid $250,497 in franchise fees to operate as a Salon Professional Academy. The fee was amortized on a straight line basis over ten years. During 2016, the Company terminated its relationship and the franchise fee was fully amortized. Amortization expense is $85,586 for the year ended December 31, 2016.

ROCK-STOCK, LLC
D/B/A THE PROFESSIONAL HAIR DESIGN ACADEMY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 4 - ECONOMIC DEPENDENCY

The Company received a significant portion of its revenue from Title IV sources for the years ended December 31, 2017 and 2016. Continuing participation in Title IV programs requires compliance with numerous federal regulations. Future non-compliance with these regulations, or a change in the laws governing these programs, would severely impact the operations of the Company.

NOTE 5 - OTHER DISCLOSURES

A) Attestation of Revenue Sources

The Company 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 Company 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 Company to meet the 90 percent limitation for two consecutive years will result in the loss of the Company'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 December 31, 2017, the Company's cash basis calculation is:

Adjusted Student Title IV Revenue	**Amount Disbursed**	**Adjusted Amount**
Subsidized Loan	$ 142,923	$ 142,923
Unsubsidized Loan	112,693	112,693
Federal Pell Grant	144,339	144,339
Student Title IV Revenue	399,955	399,955
Revenue Adjustment		(78,550)
Title IV funds returned for a student under 34 C.F.R. §668.22		(4,352)
Adjusted Student Title IV Revenue		$ 317,053

NOTE 5 - OTHER DISCLOSURES (CONTINUED)

A) Attestation of Revenue Sources (Continued)

Student Non-Title IV Revenue			
Grant funds for the student from non-Federal public agencies or private sources independent of the institution	$ 750		
Funds provided for the student under a contractual arrangement with Federal, State, or local government agency for the purpose of providing job training to low-income individuals	0		
Funds used by student from savings plan for educational expenses established by or on behalf of the student that qualify for special tax treatment under the Internal Revenue Code	0		
Institutional Scholarships disbursed to the student	0		
Student payments on current charges	87,539		
Student Non-Title IV Revenue	$ 88,289		
Revenue from Other Sources			
Activities conducted by the school that are necessary for education and training (34 C.F.R. §668.28(a)(3)(ii))	$ 197,202		
Funds paid by a student, 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))	0		
Allowable student payments plus allowable amounts from account receivable or institutional loan sales less any required payments under a recourse agreement	0		
Revenue from Other Sources	$ 197,202		
Total Non-Title IV Revenue			285,491
Total Revenue			$ 602,544
Numerator	317,053		
Denominator	602,544		53%

For the fiscal year ended December 31, 2016, the Company received $275,381 of revenues from Title IV programs out of $560,629 of eligible cash basis revenue totaling 49%.

NOTE 5 - OTHER DISCLOSURES (CONTINUED)

A) Attestation of Revenue Sources (Continued)

As more than ten percent of revenue is received outside the Student Financial Assistance Programs, the Company is in compliance with this eligibility requirement for the years ended December 31, 2017 and 2016, respectively.

B) Composite Score

In order to participate in the SFA Program, a school must demonstrate that it is financially responsible. One of the general standards for proprietary schools is the composite score standard in 34 CFR 668.171(b). The composite score combines different measures of fundamental elements of financial health to yield a single measure of a school's overall financial health. The Company's composite scores are calculated as follows:

	2017	2016
Primary Reserve Ratio	0.900	0.900
Equity Ratio	1.200	1.200
Net Income Ratio	0.900	(0.300)
Sum of All Ratios	3.000	1.800
Composite Score	3.0	1.8

As the composite scores are between 1.5 to 3.0, the Company is considered financially responsible under this general standard for the years ended December 31, 2017 and 2016, respectively.

This information is presented for the purposes of additional analysis and is not a required part of the basic financial statements**.**

C) Gainful Employment

Effective July 1, 2015, the U.S. Department of Education (the "Department") has issued regulations requiring schools to demonstrate that its programs lead to gainful employment for its students. For each program offered by the school, the Department calculates debt to earnings rates using the debt and earnings of students who completed the program during a specified cohort period.

NOTE 5 - OTHER DISCLOSURES (CONTINUED)

C) Gainful Employment (Continued)

Scores are categorized as follows:

Pass	Programs whose graduates have annual loan payments less than or equal to 8% of total earnings ("Annual Rate") OR less than or equal to 20% of discretionary earnings ("Discretionary Rate").
Zone	Programs that have rates calculated but are neither passing nor failing.
Fail	Programs whose graduates have annual loan payments greater than 12% of total earnings AND greater than 30% of discretionary earnings.

As an alternative calculation during the transition period, transitional draft rates are computed using the median loan debt of students who completed the program in the most recently completed award year, rather than the specified cohort period. The Department then assesses each program's compliance using the lower of the standard or transitional rates.

A program becomes ineligible for Title IV funding if it fails two of any three consecutive award years for which rates were calculated or has a combination of zone and failing rates for four consecutive award years for which rates were calculated.

The Company's 2016 gainful employment debt-to-earnings rates for debt measure year (DMYR) 2015, the first year calculated by the Department, are as follows:

CIP	Program	Standard Rates		Transitional Rates		Result
		Annual	Discretionary	Annual	Discretionary	
12.0401	Cosmetology	6.17	471.79	N/A	N/A	Pass
51.3501	Massage Therapy	3.09	100.00	N/A	N/A	Pass

This information is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

NOTE 5 - OTHER DISCLOSURES (CONTINUED)

D) Accreditation Requirements

Financial Responsibility:

In order to demonstrate financial responsibility with The National Accrediting Commission of Career Arts & Sciences (“NACCAS”), the Company either has to meet the requirements set forth by the US Department of Education in accordance with section 34 CFR 668.171 or have a current ratio of current assets to current liabilities of one to one or greater; a positive tangible net worth; and a profit in the most recent accounting year or in two of the most recent three accounting years. For the years ended December 31, 2017 and 2016, the Company meets the first requirement with composite scores of 3.0 and 1.8, respectively, as calculated in Note 5, Part B.

The secondary requirements are as follows:

	2017	2016
Current Ratio	2.63 : 1	2.18 : 1
Tangible Net Worth	$ 323,948	$ 277,629
Profit in Most Recent Accounting Year or Two of the Most Recent Three Accounting Years?	Yes	No

Cash Reserves:

NACCAS requires that accredited institutions have at least 3% of Net Revenue in reserves (based on the net revenues in the previous year’s audited financials). Reserves shall consist of cash and/or cash equivalents as defined by *U.S. Generally Accepted Accounting Principles,* or any documented commercial line of credit issued to the Company.

The Company may demonstrate compliance with this requirement by increasing its reserves over a three-year period as follows:

A. The Company should (but is not required to) demonstrate that at least 1% of Net Revenue in reserves for audited financial statements with year ending dates between July 1, 2017 and June 30, 2018.

NOTE 5 - OTHER DISCLOSURES (CONTINUED)

D) Accreditation Requirements (Continued)

Cash Reserves (Continued):

B. The Company must demonstrate at least 2% of Net Revenue in reserves for audited financial statements with year ending dates between July 1, 2018 and June 30, 2019.

C. The Company must demonstrate at least 3% of Net Revenues in reserves for audited financial statements with year ending dates of July 1, 2019 and thereafter.

Average Reserve Balance - In each fiscal year, the Company must maintain the required reserve balance for (a) the 90 days prior to the fiscal year end and (b) at least nine of the twelve months in that fiscal year.

1% of Net Revenue for the year ended December 31, 2016.	$	6,113
Maintained the required reserve for 90 days prior to December 31, 2017.		Yes
Maintained the required reserve balance of for at least nine of the twelve months during the year ended December 31, 2017.		Yes

This information is required by NACCAS and presented for the purposes of additional analysis and is not a required part of the basic financial statements.

NOTE 6 - RETIREMENT PLAN

The Company offers a SIMPLE IRA plan for eligible employees that includes an employer match of employee deferrals up to three percent of compensation for the year. Matching contributions totaled $4,065 and $4,169 for the years ended December 31, 2017 and 2016, respectively.

NOTE 7 - SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2017, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is April 16, 2018, the date the financial statements were available to be issued.

K&A
KNUTTE & ASSOCIATES, P.C.

Certified Public Accountants
7900 S. Cass Avenue
Darien, Illinois 60561
(630) 960-3317
FAX (630) 960-9960
www.knutte.com

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AUDITS OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITORS' REPORT

To the Members
Rock-Stock, LLC
d/b/a The Professional Hair Design Academy

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of Rock-Stock, LLC d/b/a The Professional Hair Design Academy which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of income (loss) and members' equity and statements of cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated April 16, 2018.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered Rock-Stock, LLC's d/b/a The Professional Hair Design Academy internal control over financial reporting 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 Rock-Stock, LLC's d/b/a The Professional Hair Design Academy internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Rock-Stock, LLC's d/b/a The Professional Hair Design Academy 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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses as items FS 2017-01/2016-01 and FS 2016-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rock-Stock, LLC's d/b/a The Professional Hair Design Academy 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 audits, 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* or the Guide.

Entity's Response to Findings

Rock-Stock, LLC's d/b/a The Professional Hair Design Academy response to the findings identified in our audits are described in the accompanying schedule of findings and questioned costs. Rock-Stock, LLC's d/b/a The Professional Hair Design Academy response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely 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 Rock-Stock, LLC's d/b/a The Professional Hair Design Academy internal control over financial reporting 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 over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

Knutte & Associates, P.C.

Darien, Illinois
April 16, 2018

ROCK-STOCK, LLC
D/B/A THE PROFESSIONAL HAIR DESIGN ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

FS 2017-01 and 2016-01 - Accounting Records Maintained on the Cash Basis (Material Weaknesses)

Criteria:

Management bears the responsibility for presenting the Company's financial statements, including disclosures, in accordance with *Generally Accepted Accounting Principles (GAAP).*

Condition:

The Company must present financial statements in accordance with *Generally Accepted Accounting Principles (GAAP)*. The Company did not record the required accrual entries in the accounting records.

Cause:

The Company's internal financial reporting is done on the cash basis.

Effect:

The accounting records are not fairly stated in accordance with accounting principles *Generally Accepted in the United States of America*.

Recommendation:

The accounting records should be prepared on the accrual basis.

Management Response and Corrective Action:

Management has reviewed and approved the proposed audit adjustments and disclosures.

FS 2016-02 - Limited Controls over Preparation of Financial Statements (Material Weakness)

Criteria:

Management bears the responsibility for presenting the Company's financial statements, including disclosures, in accordance with *Generally Accepted Accounting Principles (GAAP).*

Condition:

Personnel qualified to prepare the financial statements, including all required disclosures, are not available.

Cause:

The Company does not have the resources to employ high level accounting personnel.

Effect:

Material errors in the financial statements and disclosures may go undetected.

Recommendation:

We recommend that management review and approve the proposed audit adjustments and footnote disclosures. We also recommend that review procedures be performed by an individual possessing an understanding of relevant accounting principles.

Management Corrective Action Plan:

Management has reviewed and approved the proposed audit adjustments and disclosures.