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**FIRST CLASS COSMETOLOGY SCHOOL, INC.**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

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**FIRST CLASS COSMETOLOGY SCHOOL, INC.**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Stockholder  
First Class Cosmetology School, Inc.  
306 State Street  
Beloit, WI 53511

### **Report On The Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of First Class Cosmetology School, Inc. (hereinafter referred to as "First Class Cosmetology School" or "the Institution"), which comprise the balance sheets as of December 31, 2022 and 2021 and the related statements of income, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of First Class Cosmetology School as of December 31, 2022 and 2021 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.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of First Class Cosmetology School, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the First Class Cosmetology School's ability to continue as a going concern for one year after the date that the financial statements are issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 First Class Cosmetology School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events considered in the aggregate that raise substantial doubt about First Class Cosmetology School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## ***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Financial Responsibility Supplemental Schedule, as required by 34 C.F.R. Section 668.172 and 34 C.F.R. Appendix A to Subpart L of Part 668, and the accompanying Note 12 on cohort default rate, Note 13 on related party transactions, Note 14 on the Institution's composite score, Note 15 on the Institution's calculation of its Title IV 90/10 revenue test, and Note 17 on cash reserve ratio (referred to as "other supplementary information") are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Financial Responsibility Supplemental Schedule and other supplementary information disclosed in the above-mentioned notes are the responsibility of management and were 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 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 of America. In our opinion, the Financial Responsibility Supplemental Schedule and other supplementary information are 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 have also issued our report dated May 23, 2023, on our consideration of First Class Cosmetology School's 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 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 the First Class Cosmetology School's 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 First Class Cosmetology School's internal control over financial reporting and compliance.



Ranjeet Koirala CPA PC

Irving, TX

May 23, 2023

**FIRST CLASS COSMETOLOGY SCHOOL**  
**BALANCE SHEETS**  
**AS OF DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b><u>Assets</u></b>		
<b><u>Current Assets</u></b>		
Cash and Cash Equivalents	\$ 264,119	\$ 251,091
Accounts Receivable - Students (Net)	54,978	107,663
Inventories	12,570	12,014
<b>Total Current Assets</b>	<b>331,667</b>	<b>370,768</b>
<b>Property &amp; Equipment, Net</b>	<b>386,176</b>	<b>253,429</b>
<b>Right of Use (ROU) Asset, Net</b>	<b>74,550</b>	<b>-</b>
<b>Total Assets</b>	<b>792,393</b>	<b>624,197</b>
<b><u>Liabilities &amp; Stockholder's Equity</u></b>		
<b><u>Current Liabilities</u></b>		
Accounts Payable & Accrued Expenses	80,305	21,099
Deferred Tuition	41,120	16,280
Current portion of Notes Payable	20,125	17,403
Current Portion of Lease Liability	19,784	-
<b>Total Current Liabilities</b>	<b>161,334</b>	<b>54,782</b>
<b><u>Long Term Liabilities</u></b>		
Notes Payable, Net of Current Portion	290,532	180,409
Lease Liability, Net of Current Portion	54,766	-
<b>Total Long Term Liabilities</b>	<b>345,298</b>	<b>180,409</b>
<b>Total Liabilities</b>	<b>506,632</b>	<b>235,191</b>
<b><u>Stockholder's Equity</u></b>		
Common Stock	1,000	1,000
<i>Authorized 100 Shares of \$10 par; Issued and Outstanding 100 Shares</i>		
Additional Paid in Capital	48,806	48,806
Retained Earnings	235,955	339,200
<b>Total Equity</b>	<b>285,761</b>	<b>389,006</b>
<b>Total Liabilities &amp; Stockholder's Equity</b>	<b>\$ 792,393</b>	<b>\$ 624,197</b>

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

**FIRST CLASS COSMETOLOGY SCHOOL**  
**STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

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	<u>2022</u>	<u>2021</u>
<b><u>Revenue</u></b>		
Earned Tuition and Fees	\$ 925,965	\$ 1,060,287
Clinic and Retail Income	143,416	125,998
Other Income	17,613	120,264
<b>Total Revenue</b>	<b><u>1,086,994</u></b>	<b><u>1,306,549</u></b>
<b><u>Expenses</u></b>		
Operating Expenses	449,437	416,987
Payroll & Payroll Taxes	444,482	453,434
Occupancy Expenses	88,626	72,261
General & Administrative	10,621	8,686
Depreciation and Amortization	71,707	67,548
<b>Total Expenses</b>	<b><u>1,064,873</u></b>	<b><u>1,018,916</u></b>
<b>Net Income Before Other Income/Expenses</b>	<b>22,121</b>	<b>287,633</b>
Interest Expenses	(10,641)	(12,184)
Interest Income	1,923	-
Gains on Disposal of Vehicle	21,027	-
<b>Net Income</b>	<b>\$ <u>34,430</u></b>	<b>\$ <u>275,449</u></b>

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

**FIRST CLASS COSMETOLOGY SCHOOL**  
**STATEMENTS OF STOCKHOLDER'S EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

Description	<i>Authorized 100 Shares of \$10 par, Issued and Outstanding 100 Shares</i>	Common Stock	Additional Paid in Capital	Retained Earnings	Total
<b>2021</b>					
Equity, Beginning	<i>100 Shares</i>	1,000	48,806	152,903	202,709
Net Income				275,449	275,449
Stockholder's (Distributions)				(89,152)	(89,152)
<b>Ending Balance</b>	<b>100 Shares</b>	<b>\$ 1,000</b>	<b>\$ 48,806</b>	<b>\$ 339,200</b>	<b>\$ 389,006</b>
<b>2022</b>					
Equity, Beginning	<i>100 Shares</i>	1,000	48,806	339,200	389,006
Net Income				34,430	34,430
Stockholder's (Distributions)				(137,675)	(137,675)
<b>Ending Balance</b>	<b>100 Shares</b>	<b>\$ 1,000</b>	<b>\$ 48,806</b>	<b>\$ 235,955</b>	<b>\$ 285,761</b>

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



**FIRST CLASS COSMETOLOGY SCHOOL**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b><u>Cash Flows From Operating Activities</u></b>		
Net Income	\$ 34,430	\$ 275,449
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and Amortization	71,707	67,548
Gains on Disposal of Vehicle	(21,027)	-
<b><u>Changes in Operating Assets and Liabilities:</u></b>		
Accounts Receivable - Students (Net)	52,685	8,581
Inventories	(556)	(8,427)
Accounts Payable & Accrued Expenses	59,206	6,151
Deferred Tuition	24,840	(34,135)
Deferred Rent	-	(7,034)
<b>Cash Provided by by Operating Activities</b>	<b>221,285</b>	<b>308,133</b>
<b><u>Cash Flows From Investing Activities</u></b>		
Payments for Acquisition of Property & Equipment	(205,927)	(14,851)
Proceeds from Disposal of Vehicle	22,500	-
<b>Cash (Used in) Investing Activities</b>	<b>(183,427)</b>	<b>(14,851)</b>
<b><u>Cash Flows From Financing Activities</u></b>		
Notes Payable, Net of Current Portion	112,845	(21,089)
Stockholder's Distribution	(137,675)	(89,152)
<b>Cash (Used in) Financing Activities</b>	<b>(24,830)</b>	<b>(110,241)</b>
<b>Change In Cash and Cash Equivalents</b>	<b>13,028</b>	<b>183,041</b>
<b>Cash and Cash Equivalents, Beginning</b>	<b>251,091</b>	<b>68,050</b>
<b>Cash and Cash Equivalents, Ending</b>	<b>\$ 264,119</b>	<b>\$ 251,091</b>
<b><u>Supplementary Information:</u></b>		
<b><u>Cash Paid For:</u></b>		
Income Taxes	-	-
Interest Expenses	\$ 10,641	\$ 12,184

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

**FIRST CLASS COSMETOLOGY SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

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**NOTE 1: NATURE OF BUSINESS & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Incorporation**

First Class Cosmetology School, Inc. (“the Institution”) was incorporated under the laws of the state of Wisconsin in October 2003.

**Principal Activity**

The principal activity of the institution is to provide education and training on cosmetology and barbering to prepare students for their licensing. Its activities also include clinic and sales of products to students and customers and other miscellaneous sales.

**Educational Programs**

The Institution offers the following programs:

- Advanced Esthetics(150 Hours)
- Barbering (1000 Hours/Hybrid Distance Education )
- Barbering (1500 Hours/Hybrid Distance Education)
- Esthetics (600 Hours)
- Cosmetology (1550 Hours)
- Manicuring (350 Hours)
- Massage Therapy (750 Hours)
- Massage Therapy Hybrid (750 Hours/Hybrid Distance Education)

**Licenses and Accreditation**

First Class Cosmetology School, Inc (FCCS) is licensed by the State of Wisconsin Department of Safety and Professional Services.

The Institution is accredited with the National Accrediting Commission of Career Arts & Sciences (NACCAS).

The Institution is currently participating in the U.S. Department of Education Federal Title IV Student Financial Assistance Programs.

**Accreditation on Probation**

At a meeting held on October 21, 2020, the Board of Commissioners of the National Accrediting Commission of Career Arts & Sciences, Inc. (NACCAS) considered the record of the referenced institution regarding compliance with Standard VII, Criterion 1(f) (Standard of Financial Practices and Management). The Commission acted to Withdraw the institution's accreditation, with the right to appeal, for the Institution failed to maintain Cash Reserves Requirements as required by NACCAS (See Prior Finding 2019-001). During the withdrawal processing period, which includes the right to appeal, the institution's accreditation status with NACCAS shall remain as Accreditation on Probation.

**Appeal Notice**

In November 2020, the Institution submitted a notice of intent to appeal NACCAS commission’s decision to withdraw accreditation. The basis for appeal is that the Institution will submit a 12-month audited statement to demonstrate compliance with standard VII, Criterion 1.

**Current Status:**

The Board of Commissioners of the National Accrediting Commission of Career Arts & Sciences, Inc. (NACCAS) held the meeting on March 10, 2022 and reviewed the record of the institution process. Based upon its reviews of the process, the Commission has acted to remove the institution from probation.

**FIRST CLASS COSMETOLOGY SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

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**NOTE 1: NATURE OF BUSINESS & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***A) Basis of Accounting***

The Financial Statements are prepared on the accrual basis of accounting in accordance with the U.S. generally accepted accounting principles (GAAP). The financial statements and notes are representations of the Institution's management, who is responsible for their integrity and objectivity. The accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

***B) Revenue and Cost Recognition***

The Institution bills tuition throughout the period of enrollment and recognizes the revenue on a pro rata basis over the period of instruction. As of the end of the fiscal year, the Institution had tuition from academic periods where the associated revenue has not yet been earned in accordance with GAAP. Accordingly, these amounts have been recorded as unearned tuition in the accompanying balance sheets.

If a student withdraws from the Institution, the standards of the U.S. Department of Education, the state education authority, the accrediting commission that accredit the Institution and the Institution's own internal policies (collectively, "Refund Policies") limit a student's obligation for tuition and fees to the school depending on when the student withdraws during the period of enrollment. The greater the portion of the enrollment period that has elapsed at the time the student withdraws, the greater the student's obligation to the school. The Institution records revenue after applying all applicable refund policies.

***C) Cash and Cash Equivalents***

For purposes of reporting cash flows, cash equivalents include highly liquid assets with an original maturity of three months or less. Highly liquid assets include cash, federal funds and certificates of deposit.

***D) Concentrations of Credit Risk***

The Institution maintains its cash balances at various local financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation.

***E) Inventory***

Inventory consists of goods purchased primarily for resale to the students and clientele. It is stated at the lower cost or market.

***F) Property and Equipment***

Property and Equipment are stated at cost, net of accumulated depreciation. The cost of property and equipment is depreciated over the estimated useful lives of the related assets.

***G) Advertising Costs***

Advertising costs, except for 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 to be received. There were no direct-response advertising costs for the current fiscal year.

**FIRST CLASS COSMETOLOGY SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 1: NATURE OF BUSINESS & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***H) Leases***

Leases are defined by the Institution as the right to use an underlying asset. The Institution recognizes a lease liability and an intangible right-of-use asset at the beginning of a lease unless the lease is considered a short-term lease or transfers ownership of the underlying asset. Right-of-use lease assets are measured based on the net present value of the future lease payments at inception, using the weighted average cost of capital, which approximate the incremental borrowing rate. The Institution calculates the amortization of the discount rate on the lease liability and reports that amount as outflow of resources. Payments are allocated first to accrued interest liability and then to the lease liability.

***I) 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 at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

***J) Concentration of Economic Dependency***

The Institution derives a significant portion of its revenue from student financial assistance originating from the U.S. Department of Education's Title IV Higher Education Act of 1965. For the students to receive financial assistance at the Institution, it must maintain eligibility requirements established by the U.S. Department of Education.

***K) Subsequent Events***

The Institution evaluates subsequent events through the date of this report. No material subsequent events have occurred that require recognition or disclosure in these financial statements.

***L) Uncertain Tax Positions***

The Institution accounts for uncertain tax positions in accordance with FASB ASC 740. Tax returns are subject to examination by the IRS for three years after they were filed. Currently, the Institution is not aware of any such examinations.

**FIRST CLASS COSMETOLOGY SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

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**NOTE 1: NATURE OF BUSINESS & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***M) Fair Value Measurement***

The Institution reports its qualified assets and liabilities in accordance with the Fair Value Measurements and Disclosure Standards and accounting principles generally accepted in the United States. These standards define fair value, establish a framework for measuring fair value, and expand disclosures about fair value measurements. This policy establishes a Fair Value framework that prioritizes the inputs and assumptions used to measure fair value. The three levels of the fair value hierarchy and a description of the valuation techniques used for instruments measured at fair value are as follows:

- Level 1- Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date.
- Level 2- Pricing inputs other than quoted prices included in Level 1, which are either directly observable or that can be derived or supported from observable data as of the reporting date.
- Level 3- Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are generally less observable from objective sources. These inputs may be used with internally developed techniques that result in management's best estimate of fair value.

A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. The Institution's qualifying assets or liabilities are recorded at fair value using Level 1 inputs.

***N) Reclassification***

The presentation of certain prior-year balances has been reclassified to conform to the current year's presentation.

**FIRST CLASS COSMETOLOGY SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

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**NOTE 2: ACCOUNTS RECEIVABLE, BAD DEBTS & DEFERRED TUITION**

Accounts Receivable at the balance sheet date consist of amounts related to revenue from current or former students for classes that have been completed, or obligations of current students for tuition in progress for which payment has not been received in accordance with GAAP. If a student withdraws from the Institution, the standards of the U.S. Department of Education, the state education authority, the accrediting commission that accredit the Institution and the Institution's own internal policies (collectively, "Refund Policies") limit a student's obligation for tuition and fees to the school depending on when the student withdraws during the period of enrollment. The greater the portion of the enrollment period that has elapsed at the time the student withdraws, the greater the student's obligation to the school. The Institution records revenue after applying all applicable refund policies.

***Allowance for Doubtful Accounts***

The Institution maintains an allowance for doubtful accounts and has established a reserve based on the likelihood of collection. Bad debts are written off using an allowance account. As of December 31, 2022 and 2021 the allowance for doubtful accounts were \$2,900 and \$5,700 respectively.

***Accounts Receivable & Deferred Tuition***

Upon student admission, the contract price is recorded in a subsidiary ledger. As the student progresses through the program, the institution earns the contract tuition ratably. Accounts receivable represent balances owed to the school for education provided but not yet paid for. Deferred tuition represents payments paid on account in excess of amounts earned for tuition.

***Contract vs Accrual***

As of December 31, 2022 and 2021 the following table represents the remaining contracts vs. the accrual method reported in accordance with GAAP.

<u>2022</u>	<b>Contract</b>	<b>Accrual</b>	<b>Contract Vs Accrual</b>
Deferred Tuition	\$ 57,878	\$ 41,120	\$ 16,758
Accounts Receivable, Gross	\$ 74,636	\$ 57,878	\$ 16,758
Less: Allowance for Doubtful Accounts		\$ (2,900)	
<b>Accounts Receivable, Net</b>		<u><b>\$ 54,978</b></u>	
<u>2021</u>	<b>Contract</b>	<b>Accrual</b>	<b>Contract Vs Accrual</b>
Deferred Tuition	\$ 61,655	\$ 16,280	\$ 45,375
Accounts Receivable, Gross	\$ 158,738	\$ 113,363	\$ 45,375
Less: Allowance for Doubtful Accounts		(5,700)	
<b>Accounts Receivable, Net</b>		<u><b>\$ 107,663</b></u>	

**FIRST CLASS COSMETOLOGY SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

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**NOTE 3: INVENTORY**

Inventory consists of goods purchased primarily for resale to the students and clientele. It is stated at the lower cost or market. As of December 31, 2022 and 2021 the Inventory Balances available for resale were \$12,570 and \$12,014 respectively.

**NOTE 4: PROPERTY, PLANT & EQUIPMENT**

Property and equipment are recorded at cost. Depreciation and amortization of property and equipment, including assets recorded as capital leases, are provided on the straight-line and accelerated methods over their estimated useful lives. The useful lives of fixed assets ranges from three to fifteen years. Maintenance and repairs, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred.

The major classifications of property and equipment As of December 31, 2022 and 2021 consisted of the following:

	<b>2022</b>	<b>2021</b>
Leasehold Improvements	\$ 434,827	\$ 425,327
Vehicle	163,712	130,578
Equipment	155,654	135,856
Computers and Accessories	65,135	65,135
Construction in Progress	99,298	-
<b>Gross Property &amp; Equipment</b>	<b>918,626</b>	<b>756,896</b>
Less: Accumulated Depreciation & Amortization	(532,450)	(503,467)
<b>Property &amp; Equipment, Net</b>	<b>386,176</b>	<b>253,429</b>
 Depreciation & Amortization	 \$ 71,707	 \$ 67,548

**Disposal / Retirement**

Upon retirement or sale, the cost of assets disposed of, and the related accumulated depreciation, are removed from the accounts and any resulting gain or loss is recorded as other income. As of December 31, 2022, the Company has Gains on disposal of Assets \$21,027.

**Capitalization**

Expenditures for maintenance and repairs are charged to expenses, whereas major betterments are capitalized. The Institution capitalizes property and equipment with a useful life of greater than one year for costs in excess of \$500.

**FIRST CLASS COSMETOLOGY SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

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**NOTE 5: ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts Payable and Accrued Expenses as of December 31, 2022 and 2021 were as detailed below

	<u>2022</u>	<u>2021</u>
Accounts Payable	\$ 16,625	\$ 10,889
Payroll Accrued	10,001	7,093
Credit Card Payable	40,679	2,479
Sales Tax Payable	568	604
Interest Payable	12,432	-
HEERF Funds Payable	-	34
<b>Total</b>	<b>\$ 80,305</b>	<b>\$ 21,099</b>



**FIRST CLASS COSMETOLOGY SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

**NOTE 6: NOTES PAYABLE**

The Institution has following notes payable as of December 31, 2022 and 2021:

Description	2022			2021		
	Short Term	Long Term	Total	Short Term	Long Term	Total
\$47,230.50 note payable to Chrysler Capital towards purchase of 2020 Chrysler Pacifica, Payable in 60 monthly installments of \$788 to \$797 inclusive of interest at 0% through July 2023. Secured by vehicle.	9,446	20,074	29,520	9,446	27,775	37,221
Small Business Administration (SBA) EIDL loan of \$150,000 effective date May 22, 2020 bearing an interest rate of 3.75%, 30 years loan, created as part of the relief efforts related to COVID-19 and administered by the . REpayment of loan will begin twelve (12) months from the date of the promissory note. Monthly installment of the loan including principal and interest is \$731. The loan is secured by current and future business assets of the Institution.	2,476	147,524	150,000	2,582	147,418	150,000
\$30,070 note payable to Jeep Cherokee, Ally Financial dated April 14, 2017. Payable in 75 monthly installments of \$612 inclusive of interest at 5.15% through July 2023. Secured by vehicle.	-	-	-	5,375	5,216	10,591
Vehicle Loan of \$48,553 note payable to Trust financial dated December 31, 2021. Payable in 78 monthly installments of \$834.42 inclusive of interest at 4.93% through February 14, 2022 . Secured by vehicle.	7,821	40,732	48,553	-	-	-
Commercial construction loan of \$82,584, note payable to SENB Bank dated November 25, 2022. Payable in 60 monthly installments of \$793.66 inclusive of interest at 6.99% through December 25, 2022. Secured by Property. An Unlimited Unsecured Corporate Guarantee Dated January 2, 2020 Executed By First Class Cosmetology, Inc	382	82,202	82,584			
<b>Total</b>	<b>\$20,125</b>	<b>\$290,532</b>	<b>\$310,657</b>	<b>\$17,403</b>	<b>\$180,409</b>	<b>\$197,812</b>

**FIRST CLASS COSMETOLOGY SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

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**NOTE 6: NOTES PAYABLE (CONTD.)**

Future maturities of notes payable as of December 31, 2022 are as follows:

Year	Short Term	Long Term	Amount
2023	\$20,125	-	\$20,125
2024	-	25,632	\$25,632
2025	-	26,884	\$26,884
2026	-	17,033	\$17,033
2027	-	17,847	\$17,847
Thereafter	-	203,136	\$203,136
	<b>\$20,125</b>	<b>290,532</b>	<b>\$310,657</b>

**LINE OF CREDIT**

The Institution established a \$20,000 revolving operating line of credit with SENB Bank on October 24th, 2019. The line was fully available throughout the year but has not been used since it was established, and as of December 31, 2022 and 2021 remained at a zero balance. The maturity date of the line was October 24, 2022 and has been renewed through October 24, 2024. This is executed between Michael D Jero and Charlotte J Jero, husband and wife as joint tenants and SENB bank and secured by real estate mortgage on the property located at 14059 Black Stone Dr, South Beloit, IL 61080.

**PAYCHECK PROTECTION PROGRAM (PPP)**

The Institution applied for, and received \$80,345 in January 2021 towards the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration (SBA). The loan accrues 1% interest, but payments are not required to begin for six months after the funding of the loan. The institution applied for the forgiveness of the loan. As of August 26, 2021, the loan received by the institution PPP loan as a part of the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration (SBA), was confirmed for waiver to the effect of \$80,345. As of December 31, 2021 there is no balance outstanding towards the PPP loan. This has been recognized as income and reported under "Other Income" under statements of income.

**FIRST CLASS COSMETOLOGY SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

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**NOTE 7: LETTER OF CREDIT**

The Institution's financial statements for the fiscal year ended December 31, 2018 yielded a composite score of 1.1 out of a possible 3.0. The minimum score of 1.5 is necessary to meet the requirement of the financial standards. The institution failed to meet the standards of financial responsibility as described in 34 CFR § 668.172. In view of its failure to meet the financial responsibility standards, the Institution elected to participate in the Title IV, HEA programs by choosing zone alternatives (34 CFR § 668.175(d)(2) effective October 8, 2019.

The Institution's compliance audit indicated late refunds were made to 17.7% of the students identified during the compliance audit review. Therefore, the institution was required to submit an irrevocable letter of credit (LOC) acceptable and payable to the Secretary, equal to 25% of the refunds that were made or should have been made for the fiscal year ended December 31, 2018. Based upon the total dollars refunded, the letter of credit should be in the amount of \$8,127. Accordingly, the Institution posted a letter of credit to USDOE through Gateway Community Bank for an amount of \$8,127 on January 3, 2019 that expires on January 12, 2021. Based on the USDOE's letter dated January 2020, the Institution replaced this with another irrevocable letter of credit issued on January 29, 2020 through SENB Bank which expires on January 12, 2023. The above LOC is issued based on the demand line of credit obtained from SENB Bank on January 29, 2020. This is secured by unlimited personal guaranty of Charlotte J Jero and a real estate mortgage dated March 16, 2015 and modified on March 16, 2018 on the property located at 14059 Black Stone Dr, South Beloit, IL 61080.

**NOTE 8: STOCKHOLDER'S EQUITY**

As of December 31, 2022 and 2021, the Stockholder's equity were as detailed below:

<b><u>Stockholder's Equity</u></b>	<b><u>2022</u></b>	<b><u>2021</u></b>
Beginning of Year	\$ 389,006	\$ 202,709
Net Income	34,430	275,449
Stockholder's (Distributions)	<u>(137,675)</u>	<u>(89,152)</u>
<b>End of Year</b>	<b>\$ 285,761</b>	<b>\$ 389,006</b>

**FIRST CLASS COSMETOLOGY SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

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**NOTE 9: LEASE OBLIGATIONS**

**306 State StreetBeloit, WI 52511**

The Institution leases this facilities from Charlotte Jero, Stockholder, a related party on a month-to-month basis.

**302 State StreetBeloit, WI 52511**

The Institution leases this additional premises from Haynes Properties, LLC, an unrelated party, starting September 17, 2022, through July 30, 2026 with a base monthly rent of \$1,814.

**Occupancy Expenses**

For the years ended December 31, 2022 and 2021 occupancy expenses comprised of the following:

	<u>2022</u>	<u>2021</u>
Rent	\$ 52,320	\$ 43,200
Utilities	18,478	14,353
Repair & Maintenance	17,828	14,708
<b>Total</b>	<b>\$ 88,626</b>	<b>\$ 72,261</b>

**Future Minimum Lease**

The future lease payments as of December 31, 2022 were as follows:

<u>Year</u>	<u>Amount</u>
2023	\$ 21,876
2024	22,204
2025	22,537
2026	13,278
	<u>\$ 79,895</u>

**Right of Use (ROU)**

As of December 31, 2022, Right of Use (ROU) consisted of the following:

Right of Use (ROU)-Office Space	\$ 80,981
Less: Accumulated Amortization	(6,431)
<b>Right of Use, net</b>	<b>\$ 74,550</b>

**Lease Liability**

Lease liability as of December 31, 2022 was \$ 74,550 comprising \$ 19,784 current portion and \$ 54,766 long term portion respectively.

**FIRST CLASS COSMETOLOGY SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

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**NOTE 10: INCOME TAXES**

The Institution elected to file S Chapter Corporation for federal and state income tax purposes. As an S Corporation, no federal income tax expense has been recorded for the Institution. The Stockholder of the Institution reports their respective share of the Institution's taxable income on their individual tax returns.

**NOTE 11: REFUNDS AND REPAYMENTS TO THE U.S. DEPARTMENT OF EDUCATION**

As of December 31, 2022 and 2021, there were no unpaid refunds to the U.S. Department of Education or to lenders who issued SFA loans. Accordingly, part of the current liabilities consists of repayment obligations. The institution processes and posts students' refunds within 45 days from the date a student withdraws or is terminated from the institution.

**NOTE 12: COHORT DEFAULT RATE**

According to the USDOE, an Institution is not considered to be administratively capable, if its cohort default rate for Federal Stafford/SLD Loan or for Direct Loans made to students for attendance at the school equals or exceeds 30% for the three most recent financial years, or if the most recent cohort default rate is greater than 40%. The Institution must continue to have a default management plan in effect if it equals or exceeds these thresholds. The Institution has 3-year Cohort Default Rates of 2.9% (FY2019) published online by the USDOE.

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

**NOTE 13: RELATED PARTY TRANSACTIONS**

The Institution participates in the Student Financial Aid (SFA) under the Title IV programs administered by the U.S. Department of Education pursuant to the Higher Education Act of 1965, as amended. The Institution 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.

**Stockholder's Distribution**

For the years ended December 31, 2022 and 2021, there were Stockholder's Distribution of \$137,675 and \$89,152 respectively.

**Facility Lease**

The Organization leases its facilities located at 306 State Street Beloit, WI 52511 on a month-to-month basis from Charlotte Jero, Stockholder. Rent expenses for the years ended December 31, 2022 and 2021 were \$45,963 and \$43,200 respectively.

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.

**FIRST CLASS COSMETOLOGY SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

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**NOTE 14: FINANCIAL RESPONSIBILITY COMPOSITE SCORE**

The U.S. Department of Education determines an Institution to be financially responsible if the Institution has a composite score of at least 1.5, the Institution has sufficient cash reserves to make the required refunds, including the return of Title IV funds (these requirements are known as the *refund reserve standards*), the Institution is current in its debt payments, and the Institution is meeting all of its financial obligations, including making required refunds, including the return of Title IV funds and making repayments to cover FSA program debts and liabilities. For an Institution to participate in any Title IV, HEA program, the Institution must be financially responsible (34 C.F.R. § 668.171(a)). An Institution that is not financially responsible because its composite score is between 1.0 and 1.4 but meets all other standards of financial responsibility may participate in the Title IV programs under the Zone Alternative, as described in 34 C.F.R. § 668.175(d). In general, Institutions participating under the Zone Alternative receive a letter from ED notifying the Institution of this condition of its participation. These Institutions are required to use the cash monitoring or reimbursement payment method of funding (34 C.F.R. § 668.175(d)(2)(i)).

**Composite score**

The composite score standard combines different measures of fundamental elements of financial responsibility to yield a single measure of a school's overall financial responsibility. This score, which has not been calculated by the U.S. Department of Education, currently is in fiscal year ended December 31, 2022 is as detailed below:

	Ratio	Weight	Weighted Ratio
Primary Reserve	2.2203	30%	0.6661
Equity	2.1638	40%	0.8655
Net Income	2.0330	30%	0.6099
<b>Composite Score</b>			<b>2.1</b>

This ratio was 3.0 in 2021. This information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

**FIRST CLASS COSMETOLOGY SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

**NOTE 15: 90/10 REVENUE TEST**

First Class Cosmetology School 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, First Class Cosmetology School must comply with the regulations promulgated under HEA. According to 34 C.F.R. § 668.28(c)(i) if an Institution does not derive at least 10 percent of its revenue from sources other than Title IV program funds for two consecutive fiscal years, it loses its eligibility to participate in the Title IV programs for at least two fiscal years. For any fiscal year an Institution does not derive at least 10 percent of its revenue from sources other than Title IV program funds, it becomes provisionally certified under 34 C.F.R. § 668.13(c)(1)(ii) for two fiscal years after the fiscal year it fails to satisfy the revenue requirement (34 C.F.R. § 668.28(c)(2)). The Institution must notify ED no later than 45 days after the end of its fiscal year that it failed to meet the 90/10 revenue requirement (34 C.F.R. § 668.28(c)(3)). An eligible Institution may have no more than 90 percent of its cash revenues derived from Title IV program funds for two consecutive years or it loses its eligibility. If the Institution has one year above 90 percent, it becomes provisionally certified for two fiscal years.

**Current Year**

For the fiscal year ended December 31, 2022 First Class Cosmetology School received \$686,343 of Title IV funds, and total eligible cash receipts of \$1,076,846 resulting in 63.73%

**Previous Year**

For the fiscal year ended December 31, 2021 First Class Cosmetology School received \$840,634 of Title IV funds, and total eligible cash receipts of \$1,180,283 resulting in 71.22%

**90-10 Analysis: Revenue By Source- Cash Basis**

<b><u>Adjusted Student Title IV Revenue</u></b>	<b><u>2022</u></b>	<b><u>2021</u></b>
Subsidized Loan	\$ 226,124	\$ 322,871
Unsubsidized loan	238,114	282,641
Plus Loan	62,161	38,988
Pell	353,437	369,909
<b>Total Draws</b>	<b>879,836</b>	<b>1,014,409</b>
Title IV funds Refunded/Returned	(36,460)	(4,979)
<b>Total Student Title IV Revenue</b>	<b>\$ 843,376</b>	<b>1,009,430</b>
Revenue Adjustment	(157,033)	(168,796)
<b>Total</b>	<b>686,343</b>	<b>840,634</b>
 <b><u>Student Non Title IV Revenue</u></b>		
Student Payments	247,087	213,651
<b>Total</b>	<b>247,087</b>	<b>213,651</b>
 <b><u>Revenues From Other Sources</u></b>		
Clinic / Training Activities	143,416	125,998
<b>Total Receipts</b>	<b>\$ 1,076,846</b>	<b>\$ 1,180,283</b>
<b>90/10 Ratio</b>	<b>63.73%</b>	<b>71.22%</b>

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.

**FIRST CLASS COSMETOLOGY SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

**NOTE 16: PROFITABILITY, ACID TEST, AND TANGIBLE NET WORTH**

**Profitability**

The Institution's profitability for the current and previous years were as follows:

<b>Description</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Total Revenue	\$ 1,109,944	\$ 1,306,549	\$ 1,004,964
Total Expenses (excluding Taxes)	(1,075,514)	(1,031,100)	(910,082)
Net Income(Profit) Before Taxes	34,430	275,449	94,882
Tax Expenses	-	-	-
<b>Net Income(Loss) After Taxes</b>	<b>\$ 34,430</b>	<b>\$ 275,449</b>	<b>\$ 94,882</b>

**Acid Test Ratio**

As of December 31, 2022 and 2021 the Institution's acid test ratio were as detailed below:

<b>Description</b>	<b>2022</b>	<b>2021</b>
Quick Assets*	\$ 319,097	\$ 358,754
Current Liabilities	161,334	54,782
<b>Acid Test Ratio</b>	<b>1.98:1</b>	<b>6.55:1</b>

\* Includes cash and cash equivalents and accounts receivable

**Tangible Net worth**

The tangible net worth of the Institution as of December 31, 2022 and 2021 were as detailed below:

<b>Description</b>	<b>2022</b>	<b>2021</b>
Total Assets	\$ 792,393	\$ 624,197
Less: Total Liabilities	(506,632)	(235,191)
Equity	285,761	389,006
Less: Unsecured Related Party Receivables	-	-
<b>Tangible Net Worth</b>	<b>\$ 285,761</b>	<b>\$ 389,006</b>

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



**FIRST CLASS COSMETOLOGY SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

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**NOTE 17: CASH RESERVE REQUIREMENTS**

Institutions are required to restrict a 3 Percent ( % ) of net revenues for reserves under NACCAS Policy VII.03. Institutions must show stability on a graduated scale as follows:

For Accredited Institutions

<u>Fiscal Year Ending Between</u>	<u>% of Net Revenue in Reserve</u>	<u>Required Reserve Amount</u>
July 1, 2019 and thereafter	3%	\$ 39,196
<u>For Institutions applying for Initial Accreditation</u>		
At the time of application	3%	N/A
<u>Reserve Requirements</u>		<u>In Compliance</u>
(i) Maintained average reserve balance 9 of 12 prior months in the fiscal year		Yes
(ii) Maintained required reserve level for 90 days prior to fiscal year end.		Yes

**FIRST CLASS COSMETOLOGY SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

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**NOTE 18: NEW PRONOUNCEMENTS**

**Leases**

On February 25, 2016, FASB issued Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842). The objective of this ASU is to increase transparency and comparability in financial reporting by requiring balance sheet recognition of leases and note disclosure of certain information about lease arrangements. This ASU codifies FASB Accounting Standards Codification (ASC) 842, Leases, and makes conforming amendments to other FASB ASC topics. Under the new provisions, all lessees will report a right-of-use asset and a liability for the obligation to make payments for all leases with the exception of those leases with a term of 12 months or less. ASU No. 2016-02, as amended by ASU No. 2020-05, is effective for nonpublic entities for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022. Management has adopted this standard and implemented an effective fiscal year ending December 31, 2022.

**Revenue Recognition**

On May 28, 2014, the FASB completed its Revenue Recognition project by issuing Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). The new guidance establishes the principles to report useful information to users of financial statements about the nature, timing, and uncertainty of revenue from contracts with customers. The entity applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019.

**NOTE 19: SUPPLEMENTARY INFORMATION**

The information provided on pages 27 to 31 are for additional information purposes only. This information is not a required part of the basic financial statements but is supplementary information as required by the U.S. Department of Education.



Ranjeet Koirala CPA PC  
Certified Public Accountants

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**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** *(No Material Weaknesses Identified, No Significant Deficiencies Identified, No Reportable Instances of Noncompliance or Other Matters Identified)*

### **INDEPENDENT AUDITOR'S REPORT**

To the Stockholder  
First Class Cosmetology School, Inc.  
306 State Street  
Beloit, WI 52511

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 First Class Cosmetology School, which comprise the balance sheet as of December 31, 2022 and the related statement of income, changes in stockholder's equity and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 23, 2023.

#### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered First Class Cosmetology School's internal control over financial reporting (internal control) as a basis for designing 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 First Class Cosmetology School's internal control. Accordingly, we do not express an opinion on the effectiveness of First Class Cosmetology School'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 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 or significant deficiencies may exist that were not identified.

#### **REPORT ON COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether First Class Cosmetology School'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 financial statement. Such tests included compliance tests as set forth in the 2016 edition of 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* or the Guide.

#### **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 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.



Ranjeet Koirala CPA PC  
Irving, TX  
May 23, 2023

**FIRST CLASS COSMETOLOGY SCHOOL**  
**FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE**  
**DECEMBER 31, 2022**

Lines		<b>Primary Reserve Ratio:</b>		
		<b>Adjusted Equity</b>		
25	Balance Sheet - Total Equity	Total equity		\$ 285,761
5,6	Balance Sheet - All Related party receivable from affiliate, net and Related party note*	Secured and Unsecured related party receivables and/or other related party assets	-	
5	Balance Sheet - Related party receivable, net and Receivable from affiliate, net and Related party note	Unsecured related party receivables and/or other related party assets		-
7	Balance Sheet - Property, Plant and Equipment, net	Property, plant and equipment, net		386,176
FS Note line 7A	Balance Sheet - Property, Plant and Equipment, net - pre-implementation	Property, plant and equipment, net - pre-implementation	147,929	
FS Note line 7B	Note of the Financial Statements -Balance Sheet - Property, Plant and Equipment, net - post-implementation with outstanding debt for original purchase	Property, plant and equipment, net - post-implementation with outstanding debt for original purchase with debt	122,427	
FS Note line 7D	Note of the Financial Statements Balance Sheet - Property, Plant and Equipment, net - post-implementation without outstanding debt for original purchase	Property, plant and equipment, net - post-implementation without outstanding debt for original purchase with debt	16,522	
FS Note line 7C	Note of the Financial Statements Balance Sheet - Property, Plant and Equipment - Construction in progress	Construction in progress	99,298	
8	Balance Sheet - Lease right-of-use-asset	Lease right-of-use-asset		74,550
FS Note line 8A	Note of Financial Statements - Balance Sheet - Lease right-of-use asset pre-implementation	Lease right-of-use asset - pre-implementation		
FS Note line 8B	Note of Financial Statements - Balance Sheet - Lease right-of-use asset post-implementation	Lease right-of-use asset - post-implementation	74,550	
9	Balance Sheet - Goodwill	Intangible Assets		
20	Balance Sheet - Post-employment and pension liability	Post-employment and defined pension plan liabilities		
17,18	Balance Sheet - Notes payable and Line of Credit and Line of Credit for Construction in process	Long-term debt - for long-term purposes and Construction in process debt		310,657
FS Note line 17A,18A	Balance Sheet - Notes payable and Line of Credit and Line of Credit for Construction in process	Long-term debt for long-term purposes pre-implementation	23,928	
FS Note line 17B,18B	Balance Sheet - Notes payable and Line of Credit for purchase of Property, Plant and Equipment	Qualified Long-term debt for long-term purposes post-implementation for purchase of Property, Plant and Equipment	113,303	
FS Note line 17C,18C	Balance Sheet - Notes payable and Line of Credit for Construction in progress	Line of Credit for Construction in progress	82,584	
15	Balance Sheet - Lease right-of-use assets liability	Lease right-of-use asset liability		74,550
FS Note line 15A	Balance Sheet - Lease right-of-use assets liability	Pre-implementation right-of-use liability		
FS Note line 15B	Balance Sheet - Lease right-of-use assets liability	Post-implementation right-of-use liability	74,550	
31,32,33,34,35,37,39,40	Statement of (Loss) Income - Total Operating Expenses, Interest Expense, Loss on Impairment of Assets and Loss on Disposal of Assets	Total Expenses and Losses:		\$ 1,075,514

**FIRST CLASS COSMETOLOGY SCHOOL**  
**FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE**  
**DECEMBER 31, 2022**

Lines		<b><u>Equity Ratio:</u></b>		
		<b><u>Modified Equity</u></b>		
25	Balance Sheet - Total Equity	Total Equity		\$ 285,761
9	Balance Sheet - Goodwill	Intangible Assets		
5,6	Balance Sheet - All Related party receivable from affiliate, net and Related party note*	Secured and Unsecured related party receivables and/or other related party assets		
5	Balance Sheet - Related party receivable, net and Receivable from affiliate, net and Related party note	Unsecured related party receivables and/or other related party assets		
		<b><u>Modified Assets</u></b>		
12	Balance Sheet - Total Assets	Total Assets		\$ 792,393
9	Balance Sheet - Goodwill	Intangible Assets		
5,6	Balance Sheet - All Related party receivable from affiliate, net and Related party note*	Secure and Unsecured related party receivables and/or other related party assets		
5	Balance Sheet - Related party receivable, net and Receivable from affiliate, net and Related party note	Unsecured related party receivables and/or other related party assets		
Lines		<b><u>Net Income Ratio:</u></b>		
43	Statement of (Loss) Income - Net Income Before Income Taxes	<b>Income Before Taxes</b>		<b>\$ 34,430</b>
30, 38,41	Statement of (Loss) Income - Total Revenue, Interest income, Gain on Disposal of assets	<b>Total Revenues and Gains</b>		<b>\$ 1,109,944</b>

**FIRST CLASS COSMETOLOGY SCHOOL**  
**FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE**  
**DECEMBER 31, 2022**

Line	Balance Sheet		Line	Statement of (Loss) Income	
1	Cash and Cash Equivalents	\$ 264,119	27	Tuition And Fees, Net of Refunds	925,965
2	Accounts Receivable, Net	54,978	28	Clinic And Retail Income	143,416
3	Prepaid Expenses	-	29	Other Income	17,613
4	Inventories	12,570	30	<b>Total Revenue</b>	<b>\$ 1,086,994</b>
5	Related party receivable	-		<b>Operating Expenses &amp; Other Deductions</b>	
6	Related party receivable, secured	-	31	Operating Expenses	449,437
7	Property & Equipment	386,176	32	Payroll & Payroll Taxes	444,482
8	Lease right-of-use assets, net	74,550	33	Occupancy Expenses	88,626
9	Goodwill	-	34	General & Administrative	10,621
10	Security Deposit	-	35	Depreciation and Amortization	71,707
11	Deferred Tax Asset	-	36	<b>Total Operating Expenses</b>	<b>\$ 1,064,873</b>
12	<b>Total Assets</b>	<b>\$ 792,393</b>		<b>Operating Income (Loss)</b>	<b>22,121</b>
13	Accounts Payable / Accrued Expenses	80,305		<b>Other Income (Expense)</b>	
14	Deferred Tuition	41,120	37	Interest expense	(10,641)
15	Leases right-of-use asset liability	74,550	38	Interest income	1,923
16	Line of credit - operating	-	39	Loss on impairment of assets	-
17	Line of credit - for long term purposes	-	40	Loss on disposal of assets	-
18	Note Payable	310,657	41	Gain on disposal of assets	21,027
19	Deferred Rent	-	42	<b>Total Other Income (Expense)</b>	<b>\$12,309</b>
20	Post-employment and pension liability	-	43	Net Income Before Income Taxes	34,430
21	<b>Total Liabilities</b>	<b>\$ 506,632</b>	44	Income Taxes	-
	<b>Stockholder's Equity</b>		45	<b>Net Income (Loss)</b>	<b>\$ 34,430</b>
22	Common Stock	1,000			
23	Additional Paid In Capital	48,806			
24	Retained Earnings	235,955			
25	<b>Total Stockholder's Equity</b>	<b>285,761</b>			
26	<b>Total Liabilities and Stockholder's Equity</b>	<b>\$ 792,393</b>			

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<u>Calculating the Composite Score</u>	Lines		Ratio	Strength Factor	Weight	Composite Score	
*Primary Reserve Ratio = Adjusted Equity	25-5-9-(7+8)+(M15+M17+M18)+20	\$ 119,400	0.1110	20	2.220	30%	0.6661
/ Total Expenses and Losses	31+32+33+34+35-37-39-40	1,075,514					
*Equity Ratio = Modified Equity	25-5-9	285,761	0.3606	6	2.164	40%	0.8655
/Modified assets	12-5-9	792,393					
Net Income Ratio = Income Before Taxes	43	34,430	0.0310	1	2.033	30%	0.6099
Total Revenue and Gains	27+28+29+38+41	\$ 1,109,944					
				33.3			2.1415
					<b>Total Composite Score</b>		<b>2.1</b>



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**Note for Line 7 - Net Property, Plant and Equipment**

A.	Pre-Implementation Property, Plant and Equipment		\$ 147,929
B.	Post-Implementation Property, Plant and Equipment		122,427
	Leasehold Improvements	-	
	Equipment	35,230	
	Automobile	87,197	
C.	Construction in progress		99,298
D.	Post-Implementation Property, Plant and Equipment		16,522
	Total		\$ 386,176

A This is the ending balance on the last financial statement submission prior to the implementation of the regulations-Less any depreciation or disposals

B This is the balance of assets purchased after the implementation of the regulations that was purchased by obtaining debt

C Asset value of construction in progress

D Post-Implementation Property, Plant & Equipment with no outstanding debt

**Note for Line 8 - Lease right -of-use-assets**

A.	Lease right-of-use assets - pre-implementation		-
B.	Lease right-of-use assets - post-implementation		74,550
	Total		\$ 74,550

**Note for Line 15 - Lease right -of-use-asset liability**

A.	Lease right-of-use assets liability - pre-implementation		-
B.	Lease right-of-use assets liability - post-implementation		74,550
	Total		\$ 74,550

**Note for Line 17 &18 - Long-term debt for long term purposes**

A.	Pre-Implementation Long-Term Debt		23,928
B.	Post-Implementation Long-Term Debt		113,303
	Leasehold Improvements	-	
	Equipment	35,230	
	Automobile	78,073	
C.	Construction in progress - Debt		82,584
D.	Long-term debt not for the purchase of Property, Plant and Equipment or liability greater than assets value		90,842
	Total		\$ 310,657

A This is the ending balance on the last financial statement submission prior to the implementation of the regulations-Less any repayments.

B This is the lessor of actual outstanding debt of each asset or the value of the asset

C All debt associated with construction in progress up to the asset value for construction in process

D Long term debt not for the purchase of Property, Plant & Equipment