

**MILWAUKEE CAREER COLLEGE, INC.**

**FINANCIAL STATEMENTS**

**AUGUST 31, 2022**

MILWAUKEE CAREER COLLEGE, INC.

FINANCIAL STATEMENTS

AUGUST 31, 2022

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## CASE | SABATINI

PROFESSIONAL ACCOUNTING,  
CONSULTING & BUSINESS  
ADVISORY SERVICES

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

### INDEPENDENT AUDITORS' REPORT

#### Opinion

We have audited the accompanying financial statements of Milwaukee Career College, Inc., which comprise the balance sheet as of August 31, 2022, and the related statements of income, changes in member's equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Milwaukee Career College, Inc. as of August 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### Basis of 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*, 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 Milwaukee Career College, Inc., and to meet our other ethical responsibilities, in accordance with 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 these 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 Milwaukee Career College, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are issued.

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### 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 Milwaukee Career College, Inc.'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 Milwaukee Career College, Inc.'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 audit was 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, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2023 on our consideration of Milwaukee Career College, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the effectiveness of Milwaukee Career College, Inc.'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 Milwaukee Career College, Inc.'s internal control over financial reporting and compliance.

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Certified Public Accountants  
Pittsburgh, PA  
January 23, 2023

MILWAUKEE CAREER COLLEGE, INC.

BALANCE SHEET

ASSETS

	<u>August 31,</u> <u>2022</u>
Current Assets	
Cash and cash equivalents	\$ 204,921
Restricted cash	183
Student accounts and notes receivable, current portion less allowance of \$191,550	451,380
Prepaid expenses	24,145
Inventory	<u>7,992</u>
Total Current Assets	688,621
Equipment and Improvements	
Computer equipment and software	446,790
Office furniture and equipment	466,467
Leasehold improvements	<u>582,994</u>
	1,496,251
Less accumulated depreciation and amortization	<u>(1,395,597)</u>
Net Property and Equipment	100,654
Other Assets	
Student notes receivable, net of current portion and allowance of \$86,450	<u>127,860</u>
Total Assets	<u>\$ 917,135</u>

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

## LIABILITIES AND SHAREHOLDER'S EQUITY

	<b>August 31,</b> <b>2022</b>
<b>Current Liabilities</b>	
Accounts payable and accrued liabilities	\$ 342,595
Deferred tuition	130,990
Current portion of notes payable	60,874
HEERF grant liability	183
<b>Total Current Liabilities</b>	<b>534,642</b>
<b>Long Term Liabilities</b>	
Notes payable, net of current portion	100,276
Deferred rent liability	154,769
<b>Total Long Term Liabilities</b>	<b>255,045</b>
<b>Total Liabilities</b>	<b>789,687</b>
<b>Shareholder's Equity</b>	
Common stock (\$1 par value; 20,000,000 shares authorized; and 7,024,708 shares issued and outstanding)	7,124,708
Additional paid-in capital	4,314,292
Retained deficit	(11,211,552)
Less: treasury stock at cost (100,000 shares)	(100,000)
<b>Total Shareholder's Equity</b>	<b>127,448</b>
<b>Total Liabilities and Shareholder's Equity</b>	<b>\$ 917,135</b>

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

MILWAUKEE CAREER COLLEGE, INC.

STATEMENT OF INCOME  
FOR THE YEAR ENDED

	<b>August 31, 2022</b>
Tuition and fees revenue	\$ 1,614,370
HEERF grant revenue	<u>110,643</u>
Total Operating Revenue	1,725,013
Operating Expenses	
Education	930,826
Administrative support	773,063
Admissions	213,481
Occupancy	<u>690,032</u>
Total Operating Expenses	<u>2,607,402</u>
Operating Loss	(882,389)
Other Income (Expense)	
Depreciation and amortization	(19,297)
Interest	(80,094)
Miscellaneous revenue	5,934
Net Other Income (Expense)	<u>(93,457)</u>
Net Loss Before Income Taxes	(975,846)
Income tax benefit	<u>-</u>
Net Loss	<u>\$ (975,846)</u>

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



MILWAUKEE CAREER COLLEGE, INC.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY  
FOR THE YEAR ENDED  
AUGUST 31, 2022

	Common Stock	Additional Paid-In Capital	Retained Deficit	Less Treasury Stock, at Cost	Total Shareholder's Equity
Balance at September 1, 2021	\$ 7,124,708	\$ 3,571,035	\$ (10,235,706)	\$ (100,000)	\$ 360,037
Additional Paid-In Capital Contributions		743,257			743,257
Net loss	-	-	(975,846)	-	(975,846)
Balance at August 31, 2022	\$ 7,124,708	\$ 4,314,292	\$ (11,211,552)	\$ (100,000)	\$ 127,448

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

MILWAUKEE CAREER COLLEGE, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED

	<u>August 31,</u> <u>2022</u>
Cash Flows from Operating Activities	
Net loss	\$ (975,846)
Adjustments to reconcile net loss to net cash used in operating activities:	
Provision for doubtful accounts	(33,000)
Depreciation and amortization	19,297
Decrease (increase) in:	
Student accounts receivable	227,034
Student notes receivable	75,678
Increase (decrease) in:	
Accounts payable and accrued liabilities	147,645
Deferred tuition	(82,930)
Deferred rent liability	81,169
Total Net Operating Adjustments	<u>434,893</u>
Net Cash Used in Operating Activities	<u>(540,953)</u>
Cash Flows from Investing Activities	
Purchase of Equipment and Improvements	<u>(99,471)</u>
Net Cash Used in Investing Activities	<u>(99,471)</u>
Cash Flows from Financing Activities	
Equity investment from shareholder	743,257
Reduction in restricted cash - net HEERF disbursements	(110,460)
Proceeds from notes payable	71,387
Principal repayments of notes payable	<u>(97,287)</u>
Net Cash Provided by Financing Activities	<u>606,897</u>
Net Decrease in Cash and Cash Equivalents	(33,527)
Cash, cash equivalents, and restricted cash at beginning of year	<u>238,631</u>
Cash, Cash Equivalents, and Restricted Cash at End of Year	<u>\$ 205,104</u>
Supplemental Disclosures of Cash Flow Information:	
Cash paid during the year for interest	<u>\$ 85,916</u>

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

# MILWAUKEE CAREER COLLEGE, INC.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1 – NATURE OF OPERATIONS

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

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Accounting

These financial statements are presented in accordance with accounting principles which are generally accepted in the United States of America (otherwise known as Generally Accepted Accounting Principles or GAAP). The Institute has presented these financial statements in accordance with the accrual basis of accounting.

#### Cash and Cash Equivalents

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

#### Student Accounts and Notes Receivable and Allowance for Doubtful Accounts

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

#### Inventory

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

#### Equipment and Improvements

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

In accordance with FASB Accounting Standards Codification (ASC) 360, *Property Plant and Equipment*, long-lived assets held and used are evaluated for possible impairment whenever events or changes in circumstances indicate that impairment may have occurred. If such events or changes in circumstances are present and the asset's carrying value exceeds the estimated undiscounted future cash flows expected to be generated by that asset, an impairment loss is recognized to the extent the asset's carrying value exceeds fair value. No impairment losses have been recorded as of August 31, 2022.

**MILWAUKEE CAREER COLLEGE, INC.**

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

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

Depreciation and Amortization

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

Deferred Rent Liability

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

Student Revenue Recognition and Unearned Tuition Liability

Revenue from student tuition is deferred at the time of invoicing and is recognized ratably over the length of the academic program, taking into consideration estimated institutional scholarships and tuition adjustments due to withdrawals. Tuition adjustments for students who withdraw are calculated in accordance with state and accrediting agency standards. Revenue from textbook and student toolkit sales are recognized at the time of the sale, as that is when the student obtains control of those academic supplies.

Tuition and related fees which have been invoiced but for which classroom, clinic and externship instruction has not yet been provided are recognized as unearned tuition liability after netting the amount of related tuition billings less receipts. Payments received from or on behalf of students prior to enrollment are also recorded as a liability. These liabilities increase when students are billed or payments are received, and these liabilities decrease as instruction is delivered to students.

Advertising Costs

Advertising costs are expensed as incurred and are reported in the accompanying statement of income. Total advertising expense for the year ended August 31, 2022 was approximately \$79,000.

Financial Instruments Fair Value Measurements

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

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

MILWAUKEE CAREER COLLEGE, INC.

NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

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

Financial Instruments Fair Value Measurements – (Continued)

Level 2 – Inputs to the valuation methodology include;

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

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

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

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

Recent Accounting Pronouncements

Accounting for Leases

In 2016, the Financial Accounting Standards Board published Topic 842 which will revise the accounting for leases. Topic 842 affects every organization that leases assets (Lessee). The Lessee will be required to recognize on its balance sheet a right-of-use asset and a lease liability for all leases in which the lease term exceeds one year. Topic 842 is effective for fiscal years beginning after December 15, 2021. The Company is currently assessing the provisions of Topic 842 and the impact that it will have on its financial statements.

Accounting for Credit Losses

In November 2019, FASB issued ASU 2019-10 *Financial Instruments – Credit Losses* (Topic 326), which deferred the effective date for ASU 2016-13 *Financial Instruments – Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instrument*. ASU 2016-13 was published to apply a “current expected credit loss” concept to the recognition of Allowance for Doubtful Accounts for student Accounts Receivable and Notes Receivable, in addition to other types of financial instruments. The amended effective date for ASU 2016-13 is for fiscal years beginning after December 15, 2022. The Company is currently assessing the provisions of Topic 326 and the impact that it will have on its financial statements.

# MILWAUKEE CAREER COLLEGE, INC.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

#### Accounting for Income Taxes

In December 2019, FASB issued ASU 2019-12 *Income Taxes* (Topic 740) *Simplifying the Accounting for Income Taxes*. ASU 2019-12 was published to remove exceptions to Income Tax accounting arising from uncommon circumstances, and to clarify that franchise and similar taxes which are partially based on income should be accounted for as Income Taxes. The effective date for ASU 2019-12 is for fiscal years beginning after December 15, 2021. The Company is currently assessing the provisions of Topic 740 and the impact it will have on its financial statements.

#### Subsequent Events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through January 23, 2023, the date the financial statements were available to be issued.

### NOTE 3 – CONCENTRATION AND CREDIT RISKS

The Company, at times, has cash deposits which exceed \$250,000 in various accounts at one bank. The Federal Deposit Insurance Corporation insures only the first \$250,000 of funds at U.S. member banks. At times, the Company has foreign currency deposits in Sumitomo Mitsui Bank in Japan. Although Sumitomo Mitsui Bank is a member of the Deposit Insurance Corporation of Japan, which insures Japanese bank deposits, foreign currency deposits are exempt from Deposit Insurance Corporation of Japan coverage.

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

### NOTE 4 – LIQUIDITY AND SUBSEQUENT EVENTS

In response to recent losses, management has taken action in a variety of ways to ensure that the Institution maintains adequate liquidity and financial resources. These actions include the following:

The Institution's Parent company demonstrated its confidence in the Institution by investing \$743,257 of additional equity in the Company during the fiscal year ended August 31, 2022, and an additional \$246,628 in November 2022.

The Institution's President demonstrated his confidence in the Institution by personally guaranteeing the notes payable which are more fully described in Note 8.

On February 17, 2021, the Institution's Parent company executed an agreement pledging to provide up to \$7 million of debt or equity funding to the Institution if needed; the Parent company renewed this pledge on February 3, 2022. The Parent company held cash and marketable securities balances approximating \$9.9 million at December 31, 2022.

MILWAUKEE CAREER COLLEGE, INC.

NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

NOTE 5 – REVENUE RECOGNITION

The Financial Accounting Standards Board Accounting Standards Codification Topic 606 *Revenue from Contracts with Customers* accounting standard creates a five-step model for determining when it is appropriate to recognize revenue:

- 1) Identify the terms of the contract, which involves students enrolled in accredited post-secondary academic programs for the majority of the Company’s revenues.
- 2) Identify the various performance obligations of the contract. The Institute’s enrollment agreement contracts with students consist of two performance obligations – delivery of textbooks and other student supplies, and delivery of classroom, clinic and externship academic instruction.
- 3) Determining the transaction price of each type of performance obligation, giving appropriate effect to variable reductions in the amount of consideration expected to be received, such as institutional scholarships and tuition adjustments due to withdrawals.
- 4) Allocating the transaction price among the separate performance obligations.
- 5) Identifying when each performance obligation has been satisfied by the Institute, which determines when the Company recognizes revenue.

The Institute’s primary source of revenue arises from enrollment contracts with students. These enrollment contracts give rise to two separate performance obligations, 1) the sale of textbooks and other academic supplies whose revenue is recognized at the distinct “point-in-time” at which they are delivered, and 2) academic instruction which is recognized ratably during the extended “period-of-time” over which instruction is delivered. A secondary source of revenue may arise from providing clinic services to the public in one or more of the academic fields of instruction which are provided to students. Clinic revenues, if provided, are recognized at the distinct “point-in-time” at which they are delivered to the public. The table shown below identifies the Company’s revenues for the period presented in the accompanying Statement of Income, disaggregated into their “period-of-time” and “point-in-time” components.

Revenue Recognized Over a Period of Time:	
Tuition, supplies and fees	\$ 1,564,196
Revenue Recognized At a Point in Time:	
Textbooks and other academic supplies	<u>50,174</u>
Total Tuition and Fees Revenue	<u><u>\$ 1,614,370</u></u>

MILWAUKEE CAREER COLLEGE, INC.

NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

**NOTE 6 – RETIREMENT PLAN**

The Company sponsors a 401(k) retirement savings plan for all eligible employees as defined by the Plan. The employees may contribute up to the lesser of 100% of their compensation or the maximum dollar amount allowable annually under Internal Revenue Code limits. The Company, at its option, may also make discretionary contributions to the Plan on behalf of its participants. For the year ended August 31, 2022, the Company contributed \$20,100 to the Plan.

**NOTE 7 – OPERATING LEASES**

The Company leases its classroom and office facilities under a non-cancelable operating lease that expires on December 31, 2025. The lease base rental rate is subject to predetermined inflationary escalation, and it may be cancelled by the landlord upon twelve months written notice. The lease is guaranteed by the president of the Company.

Minimum required lease payments for the next five years and thereafter are as follows:

<u>Year Ending August 31,</u>	
2023	675,434
2024	723,434
2025	723,434
2026	241,144
	<u>\$ 2,363,446</u>

The amount charged to operations under the operating leases for the year ended August 31, 2022 was approximately \$679,000.



MILWAUKEE CAREER COLLEGE, INC.

NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

NOTE 8 – NOTES PAYABLE AND NONCASH TRANSACTION

Notes payable liability consists of the following at August 31, 2022:

Term loan due in 84 monthly payments of \$1,454, including interest at an annual rate of 15.2%. The note, which is secured by principally all of the Institute's assets, is personally guaranteed by the Institute's President.	\$ 63,524
Term loan due in 315 payments of \$288 each business day, including interest at an annual rate of 20.2%. The note, which is secured by accounts receivable balances created during the loan term, is personally guaranteed by the Institute's President.	48,978
Term loan due in 96 monthly payments of \$938, including interest at an annual rate of 16.43%. The note, which is secured by principally all of the Institute's assets, is personally guaranteed by the Institute's President.	48,648
	<u>161,150</u>
Less current portion	<u>(60,874)</u>
	<u>\$ 100,276</u>

Future payment obligations of notes payable by year consist of the following amounts:

2023	\$ 60,874
2024	13,883
2025	16,203
2026	18,911
2027	22,072
Thereafter	29,207
	<u>\$ 161,150</u>

Noncash Transaction

In March 2022, the Institution refinanced a loan by replacing the loan whose maturity had not yet been reached with a new loan with identical terms. The transaction resulted in a noncash transaction which increased the principal balance by \$51,568.

**MILWAUKEE CAREER COLLEGE, INC.**

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

**NOTE 9 – INCOME TAXES**

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

As of August 31, 2022, the Company has federal and state net operating loss carry forwards approximating \$9.3 million and \$9.3 million respectively, which may be carried forward to offset future taxable income indefinitely and up to 15 years, respectively.

At August 31, 2022, the Company’s deferred tax assets and liabilities consisted of allowance for doubtful accounts on student accounts and notes receivable, deferred rent liability, accumulated depreciation on fixed assets, and substantial net operating loss carryforwards. Management has determined that a 100% Valuation Allowance is appropriate for the deferred tax assets, and accordingly no deferred tax asset is recognized in the accompanying Balance Sheet. Consistent with that estimate, the Institute recognized no current or deferred income tax benefit in the accompanying Statement of Income.

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

**NOTE 10 – 90/10 CALCULATION**

Milwaukee Career College, Inc. derives a substantial portion of its revenues from financial aid received by its students under programs authorized by Title IV of the HEA, which are administered by the U.S. Department of Education. To continue to participate in the programs, the Institute must comply with the regulations promulgated under the HEA. The regulations restrict the proportion of cash receipts for tuition, fees, and other institutional charges from eligible programs to not be more than 90 percent from Title IV programs. The failure of the Institute to meet the 90 percent limitation for two consecutive years will result in the loss of the Institute’s ability to participate in Title IV programs. If a school receives more than 90 percent of its revenue from Title IV programs during its fiscal year, the school becomes provisionally certified for the next two fiscal years. This information is required by the U.S. Department of Education and is presented for purposes of additional analysis and is not a required part of the basic financial statements. For the fiscal year ended August 31, 2022, the Institute’s cash basis calculation is:

**MILWAUKEE CAREER COLLEGE, INC.**

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

**NOTE 10 – 90/10 CALCULATION – (CONTINUED)**

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

Sum of Adjusted Student Title IV Revenue  
+Sum of Student Non-Title IV Revenue  
+Total Revenue from Other Sources

	<b>Amount Disbursed</b>	<b>Adjusted Amount</b>	
<b>Adjusted student Title IV revenue:</b>			
Subsidized Loan	\$ 360,389	\$ 360,389	
Unsubsidized Loan up to pre-ECASLA loan limits	474,032	474,032	
PLUS Loan	-	-	
Federal Pell Grant	430,407	430,407	
FSEOG (subject to matching reduction)	18,453	<u>13,840</u>	
<b>Student Title IV revenue</b>		<b>1,278,668</b>	
<b>Revenue adjustment</b> Reduce Student Title IV Revenue by the amount in excess of Tuition and Fees		(33,316)	
Reduce Title IV Revenue for Title IV Funds returned for a student under 34 C.F.R. § 668.22 withdrawals		<u>(226,519)</u>	
<b>Adjusted Student Title IV revenue</b>		<b><u>\$ 1,018,833</u></b>	62.74%
<b>Student Non-Title IV Revenue</b>			
Grant funds for the students from non-Federal public agencies or private sources independent of the Institution	\$ 9,410		
Funds provided for the student under a contractual arrangement with a government agency for the purpose of providing job training to low-income individuals	-		
Funds used by a student from savings plans for educational expenses established by or on behalf of the student that qualify for special tax treatment by the IRS	-		
Eligible cash school scholarships disbursed to the student	-		
Student payments on current charges	595,537		
<b>Student Non- Title IV revenue</b>	<b><u>\$ 604,947</u></b>		
<b>Revenue from Other Sources (Totals for the Fiscal Year)</b>			
Activities conducted by the school that are necessary for education and training (34 C.F.R. § 668.28(a)(3)(ii))	\$ -		
Funds paid by or on behalf of a student by a party other than the school for an education or training program that is not eligible (34 C.F.R. § 668.28(a)(3)(iii))	-		
Allowable student payments + allowable amounts from account receivable or institutional loan sales - any required payments under a recourse agreement	-		
<b>Revenue from Other Sources</b>	<b><u>\$ -</u></b>		
<b>Total Non-Title IV Revenue (Student Non-Title IV Revenue + Revenue from Other Sources)</b>		<b><u>\$ 604,947</u></b>	37.26%
<b>Total Revenue (Adjusted Student Title IV Revenue + Student Non-Title IV Revenue + Revenue from Other Sources)</b>		<b><u>\$ 1,623,780</u></b>	100.00%

# MILWAUKEE CAREER COLLEGE, INC.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 11 – RELATED PARTY TRANSACTIONS AND SUBSEQUENT EVENT

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

As more fully described in Note 4, the Institution's shareholder invested \$743,257 of additional equity in Milwaukee Career College, Inc. during the fiscal year ended August 31, 2022, and an additional \$246,628 contribution of equity in November 2022.

As more fully described in Note 8, the Institution's president has personally guaranteed several notes payable owed by the Institution.

### NOTE 12 – REGULATORY AND SUBSEQUENT EVENTS

#### Regulatory Agency Review

To participate in the Title IV Programs, an institution is subject to extensive regulation and periodic reviews by federal and state governmental agencies and the Institution's accrediting body. An institution must be authorized to offer its programs of instruction by the relevant agencies of the state in which it is located, accredited by an accrediting agency recognized by the DOE and certified as eligible by the DOE. On a periodic basis, an institution must be re-approved by these agencies to continue to receive Title IV Funds. An institution must also demonstrate its compliance with the Higher Education Act as amended (HEA) and related regulations published by the DOE on an ongoing basis. Political and budgetary concerns can significantly affect the Title IV Programs and Congress must reauthorize the HEA and funding for its financial aid programs periodically. As of August 31, 2022, the Institute was properly authorized by the regulatory agencies which govern its eligibility, and no regulatory reviews were being conducted by the respective agencies.

#### Loan Cohort Default Rate

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

The Institute's most recent official cohort default rates, published by the United States Department of Education, are 2.0%.

# MILWAUKEE CAREER COLLEGE, INC.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 12 – REGULATORY AND SUBSEQUENT EVENTS – (CONTINUED)

#### Financial Responsibility Composite Ratio

Under the federal regulations mentioned above, the DOE calculates the Institution's composite score based on a three-factor financial responsibility ratio. An institution which does not meet the DOE's minimum composite score of 1.5 can demonstrate financial responsibility by meeting the "zone alternative" or posting a letter of credit in favor of the DOE. The "zone alternative" includes a delayed method of cash funding for Title IV Aid, and the providing of additional information to the DOE, upon request. As of and for the year ended August 31, 2022, the Institute had a composite score equal to 0.1 out of a possible score of 3.0.

#### DOE Letter of Credit

On December 19, 2022, the Company issued an irrevocable letter of credit in favor of the DOE in the amount of \$37,386. The letter of credit, which expires August 31, 2024, was issued in response to the DOE's 2021 Final Audit Determination letter dated July 27, 2022, relating to Late Refunds. The Company is required to adjust the letter of credit annually to an amount equal to 25% of the total of the most recent fiscal year's refunds to the DOE. The letter of credit must be renewed until the Company has two consecutive Title IV Compliance Audit Reports with lower than a 5% late refund rate.

#### Borrower Defense to Repayment

On March 15, 2019, the DOE published an Electronic Announcement "Guidance Concerning Some Provisions of the 2016 Borrower Defense to Repayment Regulations", to advise schools how to comply with those Borrower Defense to Repayment (BDR) amendments. On September 23, 2019, further revisions to BDR were published in the Federal Register; these revisions generally take effect July 1, 2020, although earlier application is permitted for select portions. These two BDR amendments govern its pre-dispute arbitration clauses for BDR matters, revise the process through which a student could request discharge of FDL loans incurred after June 30, 2017, and identifies several "triggering events" which could result in the DOE assessing letters of credit against the Institution. In addition, the September 2019 revisions updated the definition of the Financial Responsibility Ratio's numerical inputs to address changes in generally accepted accounting principles and to clarify the definition of long-term debt.

#### COVID-19 National Emergency Regulatory Waivers

In response to the COVID-19 pandemic, Congress passed a series of legislative relief bills in March, April, and December 2020, including the CARES Act and CRRSAA Act. These laws, and supplemental guidance published by the DOE, included temporary waivers of various regulations governing Distance Education and elements of student financial aid, such as Satisfactory Academic Progress, R2T4, SEOG, FWS, and Federal Student Loan repayment. The Institution has not yet fully assessed the effect of COVID-19 or government relief efforts.

MILWAUKEE CAREER COLLEGE, INC.

NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

**NOTE 13 – CARES ACT, CRRSAA ACT, and American Heroes Act HEERF GRANTS**

In March 2020, The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was enacted, followed by the Coronavirus Response and Relief Supplemental Appropriations Act (“CRRSAA Act”) in December 2020, and the American Heroes Act in March 2021. All three of those laws provided for funding to post-secondary Institutions and their students under a provision of both laws called the Higher Education Emergency Relief Fund (“HEERF”). In accordance with FASB Accounting Standards Codification Topic 958-605, HEERF grant proceeds are recognized as Restricted Cash and HEERF grant liability upon their receipt. When the eligibility requirements of the grants are fulfilled, the applicable balance of the Restricted Cash and HEERF grant liability are eliminated, and the Institution recognizes conditional grant revenue.

HEERF Student Pass-through Grants

Through August 31, 2022, the Institution has been awarded up to \$324,405 of HEERF funds to be provided solely to eligible students for expenses related to the disruption of their on-campus education, including the cost of course materials, technology to facilitate online instruction, housing, food, health care and child care. Student pass-through grant proceeds cannot be retained by the Institution for any reason, and only students who are eligible to participate in academic programs governed by section 484 of the Higher Education Act of 1965 are eligible to receive the grants. The post-secondary Institution is responsible for determining supplemental eligibility criteria for the HEERF pass-through grants, and for disbursing the grants to eligible students and maintaining appropriate records.

During the fiscal year ending August 31, 2022, the Institution disbursed \$121,000 of HEERF Student pass-through grant funding which it awarded to students who met the CARES Act and institutional eligibility requirements. These disbursements are in addition to \$144,046 of HEERF grant disbursements to students made by the Institution prior to the fiscal year ended August 31, 2022.

HEERF Grants to the Institution

In July 2020, the Institution was awarded up to \$144,046 of HEERF funds which the Institution may retain for expenses incurred after March 12, 2020 due to the disruption of campus operations associated with changing to an online instruction modality. During the fiscal year ending August 31, 2020, the Institution received \$144,046 of Institution Grants, all of which it retained as reimbursement for eligible school expenses by August 31, 2022. The annual eligible amounts retained by the Institution are as follows for the past three fiscal years ended August 31: 2020 - \$5,805; 2021 - \$27,598; 2022 - \$110,643; those amounts are recognized as HEERF grant revenue in the Statements of Income for the applicable years.



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PROFESSIONAL ACCOUNTING,  
CONSULTING & BUSINESS  
ADVISORY SERVICES

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

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

**Independent Auditor's Report**

105 BRADFORD ROAD  
SUITE 300  
WEXFORD, PA 15090

TELEPHONE: (724) 940-9444  
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We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Milwaukee Career College, Inc., which comprise the balance sheet as of August 31, 2022, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Milwaukee Career College, Inc.'s basic financial statements, and have issued our report thereon dated January 23, 2023.

**Internal Control over Financial Reporting**

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

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

To the Shareholder  
Milwaukee Career College, Inc.  
Page 2

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

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Milwaukee Career College, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such tests included compliance tests as set forth in the *Guide for Audits of Proprietary Schools and for Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs*, issued by the U.S. Department of Education, Office of Inspector General (the Guide) including those relating to related parties and percentage of revenue derived from Title IV programs. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* or the Guide and which is described in the accompanying schedule of findings and questioned costs as finding 2022-01.

#### Milwaukee Career College, Inc.'s Response to Finding

Milwaukee Career College, Inc.'s response to the finding identified in our audit is described in the accompanying Management Response to the Finding in the Schedule of Findings and Questioned Costs.

#### Purpose of this Report

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

*Case | Sabatini*

Certified Public Accountants  
Pittsburgh, PA  
January 23, 2023



## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

### **Finding 2022-01: 90/10 Revenue Percentage**

#### **Condition:**

Milwaukee Career College, Inc. required assistance in its calculation of the 90/10 revenue percentage to the level of precision required by the September 30, 2016 DOE Audit Guide; the Institution's 90/10 rate is less than 90%.

#### **Criteria:**

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 for two fiscal years after the fiscal year it fails to satisfy the revenue requirement. An 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. A proprietary Institution must disclose in a note to the financial statements the percentage of its revenues derived from Title IV program funds. The note must also report the dollar amount of the numerator and denominator of its 90/10 ratio as well as the individual revenue amounts identified in Section 2 of Appendix C to Subpart B of Part 668 of the regulations. The 90/10 calculation presented in the notes to the financial statements must be performed by the Institution.

#### **Cause:**

Need for assistance with mathematical calculations at the required level of precision.

#### **Effect:**

The Institution calculated a 90/10 rate of 62.11%, which was incorrect. The percentage of revenue derived from Title IV program funds for the twelve-month period ended August 31, 2022 for Milwaukee Career College, Inc., as reported in footnote 10, is 62.74%.

#### **Recommendation:**

We recommend that the Institution strengthen their procedures to ensure that, in the future, the 90/10 revenue calculation is completed accurately and is mathematically correct.

#### **Views of Responsible Officials:**

Management concurs with this finding.

**SUPPLEMENTAL SCHEDULE**

MILWAUKEE CAREER COLLEGE, INC.

FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE  
As of and for the Year Ended August 31, 2022

		<b>Primary Reserve Ratio:</b>		
		<u>Adjusted Equity</u>		
BS - Line 28	Balance Sheet - Total Shareholder's Equity	Total Equity		127,448
BS - N/A	Balance Sheet - N/A. All Secured and Unsecured related party receivables and/or other related party assets	Secured and Unsecured related party receivables and/or other related party assets	-	
BS - N/A	Balance Sheet - N/A	Unsecured related party receivables and/or other related party assets		-
BS - Line 12	Balance Sheet - All Net Property and Equipment	Property, plant and equipment, net - including construction in progress	100,654	
Note 1 to Supplemental Schedule Line 1	Note 1 to the Supplemental Schedule - Pre-implementation property and equipment, net	Property, plant and equipment, net - pre-implementation less any construction in progress		5,218
Note 1 to Supplemental Schedule Line 2	Note 1 to the Supplemental Schedule - Post-implementation property and equipment, net for original purchase with debt	Property, plant and equipment, net - post implementation less any construction in progress with outstanding debt for original purchase with debt		-
Note 1 to Supplemental Schedule Line 3	Note 1 to the Supplemental Schedule - Post-implementation property and equipment, net for original purchase without debt	Property, plant and equipment, net - post implementation less any construction in progress with outstanding debt for original purchase without debt		95,436
Note 1 to Supplemental Schedule Line 4	Note 1 to the Supplemental Schedule - Construction in progress	Construction in progress		-
Note 2 to Supplemental Schedule	Note 2 to the Supplemental Schedule - N/A. All Lease right-of-use asset	Lease right-of-use asset	-	
Note 2 to Supplemental Schedule	Note 2 to the Supplemental Schedule - N/A	Lease right-of-use asset - pre-implementation		-
Note 2 to Supplemental Schedule	Note 2 to the Supplemental Schedule - N/A	Lease right-of-use asset - post-implementation		-
BS - N/A	Balance Sheet - N/A	Intangible assets		-
BS - N/A	Balance Sheet - N/A	Post-employment and defined pension plan liabilities		-
BS - N/A	Balance Sheet - N/A. All Long-term debt - for long-term purposes and Construction in process debt	Long-term debt - for long-term purposes and Construction in process debt	-	
BS - N/A	Balance Sheet - N/A	Long-term debt for long-term purposes pre-implementation		-
BS - N/A	Balance Sheet - N/A	Qualified Long-term debt for long-term purposes post-implementation for purchase of Property, Plant, and Equipment		-
BS - N/A	Balance Sheet - N/A	Line of Credit for Construction in process		-
Note 2 to Supplemental Schedule	Note 2 to the Supplemental Schedule - N/A. All Lease right-of-use asset liability	Lease right-of-use asset liability	-	
Note 2 to Supplemental Schedule	Note 2 to the Supplemental Schedule - N/A	Pre-Implementation right-of-use leases		-
Note 2 to Supplemental Schedule	Note 2 to the Supplemental Schedule - N/A	Post-Implementation right-of-use leases		-
IS - Line 8,10,11	Income Statement - Total Operating Expenses, Depreciation and amortization, Interest	<b>Total Expenses and Losses</b>		2,706,793

MILWAUKEE CAREER COLLEGE, INC.

FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE – (CONTINUED)

As of and for the Year Ended August 31, 2022

**Equity Ratio:**

		<u>Modified Equity</u>		
BS - Line 28	Balance Sheet - Total Shareholder's Equity	Total equity		127,448
Note 2 to Supplemental Schedule	Note 2 to the Supplemental Schedule - N/A	Pre-Implementation right-of-use leases		-
Note 2 to Supplemental Schedule	Note 2 to the Supplemental Schedule - N/A	Lease right-of-use asset - pre-implementation		-
BS - N/A	Balance Sheet - N/A	Intangible assets		-
BS - N/A	Balance Sheet - N/A. All Secured and Unsecured related party receivables and/or other related party assets	Secured and Unsecured related party receivable and/or other related party assets	-	
BS - N/A	Balance Sheet - N/A	Unsecured related party receivables and/or other related party assets		-
		<u>Modified Assets</u>		
BS - Line 14	Balance Sheet - Total Assets	Total assets		917,135
Note 2 to Supplemental Schedule	Note 2 to the Supplemental Schedule - N/A	Lease right-of-use asset - pre-implementation		-
BS - N/A	Balance Sheet - N/A	Intangible assets		-
BS - N/A	Balance Sheet - N/A. All Secured and Unsecured related party receivables and/or other related party assets	Secured and Unsecured related party receivable and/or other related party assets	-	
BS - N/A	Balance Sheet - N/A	Unsecured related party receivables and/or other related party assets		-

**Net Income Ratio:**

IS - Line 14	Statement of Income - Net Loss Before Income Taxes	<u>Income Before Taxes</u>		(975,846)
IS - Line 3,12	Statement of Income - Total Operating Revenue, and Miscellaneous revenue	<u>Total Revenues and Gains</u>		1,730,947

MILWAUKEE CAREER COLLEGE, INC.

NOTES TO THE SUPPLEMENTAL SCHEDULE – (CONTINUED)

As of and for the Year Ended August 31, 2022

NOTE 1 – PROPERTY AND EQUIPMENT

A summary of Pre-implementation and Post-implementation Net Property and Equipment is as follows as of August 31:

	<u>2022</u>
Pre-implementation property and equipment, net	\$ 5,218
Post-implementation property and equipment, net for original purchase with debt	-
Post-implementation property and equipment, net for original purchase without debt	95,436
Construction in progress	<u>-</u>
Net property and equipment, as reported on the accompanying Balance Sheet	<u>\$ 100,654</u>

NOTE 2 – LEASE RIGHT-OF-USE ASSET AND LIABILITY

In June 2020, FASB deferred the effective date of Topic 842 *Leases* to fiscal years beginning on or after December 15, 2021. As more fully described in the “Recent Accounting Pronouncements” section of Note 2 of the accompanying audited Financial Statements, the Institution has not yet adopted the lease accounting changes for Topic 842, and therefore it has \$0 Lease Right-of-Use Asset and \$0 Lease Right-of-Use Liability as of August 31, 2022.