



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

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FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

For the Years Ended December 31, 2023 and 2022



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ROCK-STOCK, LLC
D/B/A THE PROFESSIONAL HAIR DESIGN ACADEMY
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Rock-Stock, LLC d/b/a The Professional Hair Design Academy (a Wisconsin limited liability company), which comprises the balance sheet as of December 31, 2023, and the related statements of operations and members' equity and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rock-Stock, LLC d/b/a The Professional Hair Design Academy as of December 31, 2023, 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 for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Rock-Stock, LLC d/b/a The Professional Hair Design Academy 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.

Prior Period Financial Statements

The financial statements of Rock-Stock, LLC d/b/a The Professional Hair Design Academy as of December 31, 2022 were audited by Sikich LLP, whose report dated May 10, 2023, expressed an unmodified opinion of those financial statements. Effective as of April 30, 2024, Sikich LLP reorganized and transferred its attest practice to Sikich CPA LLC, a Virginia limited liability company.

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 Rock-Stock, LLC d/b/a The Professional Hair Design Academy's ability to continue as a going concern within one year after the date that the financial statements are available to be 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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards 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 Rock-Stock, LLC d/b/a The Professional Hair Design Academy'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 Rock-Stock, LLC d/b/a The Professional Hair Design Academy'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.

Report on Supplementary Information

Our audit as of and for the year ended December 31, 2023 was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedule A on the calculation of the Title IV 90/10 revenue test is required by the U.S. Department of Education and schedule B on Financial Responsibility, is required by 34 C.F.R. Section 668.172 and 34 C.F.R. Appendix A to Subpart L of Part 668, and are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying supplementary schedule C on Accreditation Financial Responsibility is required by The National Accrediting Commission of Career Arts & Sciences 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.

The audit as of and for the year ended December 31, 2022 was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedule A on the calculation of the Title IV 90/10 revenue test is required by the U.S. Department of Education and schedule B on Financial Responsibility, is required by 34 C.F.R. Section 668.172 and 34 C.F.R. Appendix A to Subpart L of Part 668, and are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying supplementary schedule C on Accreditation Financial Responsibility is required by The National Accrediting Commission of Career Arts & Sciences 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 by Sikich LLP 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 the opinion of Sikich LLP, the information was 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 20, 2024, on our consideration of Rock-Stock, LLC d/b/a The Professional Hair Design Academy'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Rock-Stock, LLC d/b/a The Professional Hair Design Academy'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 Rock-Stock, LLC d/b/a The Professional Hair Design Academy's internal control over financial reporting and compliance.

Sibich CPA LLC

Naperville, Illinois

May 20, 2024

FINANCIAL STATEMENTS

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

BALANCE SHEETS

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 669,985	\$ 502,352
Accounts receivable, net of allowance for credit losses of \$200 at December 31, 2023 and net of allowance for doubtful accounts of \$200 at December 31, 2022	6,508	7,555
Prepaid supplies	30,363	26,336
Prepaid expenses	2,361	8,581
	<hr/>	
Total current assets	709,217	544,824
	<hr/>	
PLANT, PROPERTY, AND EQUIPMENT		
Furniture and equipment	184,583	184,347
Less accumulated depreciation	(177,905)	(176,291)
	<hr/>	
Net plant, property, and equipment	6,678	8,056
	<hr/>	
TOTAL ASSETS	<u>\$ 715,895</u>	<u>\$ 552,880</u>

(This statement is continued on the following page.)

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

BALANCE SHEETS (Continued)

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 3,241	\$ 6,010
Deferred student tuition	89,420	59,232
Accrued liabilities	17,349	12,841
Total liabilities	110,010	78,083
MEMBERS' EQUITY		
Members' equity	605,885	474,797
Total members' equity	605,885	474,797
TOTAL LIABILITIES AND MEMBERS' EQUITY		
	\$ 715,895	\$ 552,880

See accompanying notes to financial statements.

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

STATEMENTS OF OPERATIONS AND MEMBERS' EQUITY

For the Years Ended December 31, 2023 and 2022

	2023	2022
REVENUE		
Tuition and fees, net of refunds	\$ 576,461	\$ 454,159
Clinic	197,159	200,903
Retail	4,776	5,916
	778,396	660,978
OPERATING EXPENSES		
Educational services	292,313	224,831
General and administrative	199,726	130,973
Marketing and admissions	25,998	24,156
Occupancy	138,692	144,909
Depreciation	1,614	1,377
	658,343	526,246
Total operating expenses		
	120,053	134,732
Income from operations		
	11,035	2,786
INTEREST INCOME		
	131,088	137,518
NET INCOME		
MEMBERS' EQUITY, BEGINNING OF YEAR	474,797	756,052
Distributions	-	(418,773)
	\$ 605,885	\$ 474,797
MEMBERS' EQUITY, END OF YEAR		

See accompanying notes to financial statements.

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

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 131,088	\$ 137,518
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	1,614	1,377
Provision for credit losses	39,635	-
Changes in certain assets and liabilities		
Accounts receivable	(38,588)	(461)
Employee Retention Credit receivable	-	15,843
Prepaid supplies	(4,027)	(3,787)
Prepaid expenses	6,220	(847)
Accounts payable	(2,769)	(5,634)
Deferred student tuition	30,188	8,379
Accrued liabilities	4,508	5,747
Total adjustments	36,781	20,617
Net cash from operating activities	167,869	158,135
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for the purchase of property, plant, and equipment	(236)	-
Net cash from investing activities	(236)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions to members	-	(418,773)
Net cash from financing activities	-	(418,773)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	167,633	(260,638)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	502,352	762,990
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 669,985	\$ 502,352
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

See accompanying notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rock-Stock, LLC d/b/a The Professional Hair Design Academy (the Company) was formed under the laws of the State of Wisconsin on January 1, 1994. The Company operates a cosmetology school in Eau Claire, Wisconsin.

Basis of Presentation

The Company has elected to apply the accounting alternative treatment for a private company for certain variable interest entities (VIEs) pursuant to accounting principles generally accepted in the United States of America (USGAAP). As such, the Company has a related entity as discussed in Note 5, that the Company is not required to evaluate or apply VIE guidance and is not consolidated in the accompanying financial statements.

Basis of Accounting

The books of account are maintained on the accrual basis in accordance with USGAAP.

Cash and Cash Equivalents

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

The Company has deposits at a financial institution in excess of federally insured limits of approximately \$430,000 at December 31, 2023. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to trade accounts receivable. Accounts are considered delinquent when not collected within negotiated terms.

ROCK-STOCK, LLC
D/B/A THE PROFESSIONAL HAIR DESIGN ACADEMY
NOTES TO FINANCIAL STATEMENTS (Continued)

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses under ASC 326

The Company operates in the post-secondary education industry and its accounts receivables are primarily derived from contracts with students. At each balance sheet date, the Company recognizes an expected allowance for credit losses. In addition, also at each reporting date, this estimate is updated to reflect any changes in credit risk since the receivable was initially recorded. This estimate is calculated on a pooled basis where similar risk characteristics exist.

The allowance estimate is derived from a review of the Company's historical losses based on the student enrollment status as of each fiscal year end. This estimate is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by the Company. The Company believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses as the Company's portfolio segment have remained constant since the Company's inception.

The Company writes off receivables when students leave their respective programs of study. If any recoveries are made from any accounts previously written off, they will be recognized as an offset to credit loss expense in the year of recovery. The total amount of write-offs was \$200 for the year ended December 31, 2023.

Allowance for Doubtful Accounts under ASC 310

The Company carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes the amount of the allowance for doubtful accounts based on history of past write-offs and collections and current credit conditions. Student receivables are written off as a charge against the allowance when students leave their respective programs of study. The allowance for doubtful accounts is \$200 at December 31, 2022. However, actual write-offs may exceed the allowance amount.

Prepaid Supplies

Prepaid supplies consist of various cosmetology products used in the student clinic.

ROCK-STOCK, LLC
D/B/A THE PROFESSIONAL HAIR DESIGN ACADEMY
NOTES TO FINANCIAL STATEMENTS (Continued)

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. The Company does not have a formal capitalization policy. Depreciation is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Furniture and equipment	3-10

Depreciation expense is \$1,614 and \$1,377 for the years ended December 31, 2023 and 2022, respectively.

Contract Assets and Liabilities

Contact assets consist of accounts receivable. Contract liabilities consist of deferred student tuition which is the unearned portion of tuition for which a student is contracted. The deferred student tuition amount was calculated using the actual students' tuition based on the number of hours remaining in the program. This liability is liquidated when tuition revenue is recognized over the remainder of the program. Accounts receivable at January 1, 2022 was \$7,094, and deferred student tuition at January 1, 2022 was \$50,853.

Revenue Recognition

The Company identifies a contract for revenue recognition when there is approval and commitment from both parties, the rights of the parties and payment terms are identified, the contract has commercial substance and the collectability of consideration is probable. The Company evaluates each contract to determine the number of distinct performance obligations in the contract, which requires the use of judgment. The Company's contracts include promises for educational services and course materials which are distinct performance obligations. The Company provides clinic services and sells retail product to the general public.

ROCK-STOCK, LLC
D/B/A THE PROFESSIONAL HAIR DESIGN ACADEMY
NOTES TO FINANCIAL STATEMENTS (Continued)

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Tuition revenue is primarily derived from postsecondary education services provided to students. Generally, tuition and other fees are paid upfront and recorded in deferred student tuition in advance of the date when education services are provided to the student. A tuition receivable is recorded for the portion of tuition not paid in advance. In some instances, installment billing is available to students which reduces the amount of cash consideration received in advance of performing the service. The contractual terms and conditions associated with installment billing indicate that the student is liable for the total contract price; therefore, mitigating the Company's exposure to losses associated with nonpayment. The Company determined the installment billing does not represent a significant financing component.

Tuition revenue is recognized ratably over the instruction period. The Company generally uses the time elapsed method, an input measure, as it best depicts the simultaneous consumption and delivery of tuition services. Revenue associated with distinct course materials is recognized at the point of time when control transfers to the student, generally when the materials are delivered to the student. Revenue associated with clinic services is recognized at the point of time when the service is performed. Revenue associated with retail sales is recognized at the point in time when control transfers to the customer, which is at the point of sale.

The Company's refund policy may permit students who do not complete a course to be eligible for a refund for the portion of the course they did not attend. Refunds generally result in a reduction of deferred revenue during the period that the student drops or withdraws from a class.

The transaction price is stated in the contract and known at the time of contract inception, as such there is variable consideration for situations when a student drops from a program based on the Company's refund policy and additional charges if a student requires additional hours to complete the program beyond the contracted end date. The Company believes that its experience with these situations is of little predictive value, because the future performance of students is dependent on each individual and the amount of variable consideration is highly susceptible to factors outside of the Company's influence. Accordingly, no variable consideration has been included in the transaction price or recognized as income until the constraint has been eliminated. Revenue is allocated to each performance obligation based on its standalone selling price. Any discounts within the contract are allocated across all performance obligations unless observable evidence exists that the discount relates to a specific performance obligation or obligations in the contract. The Company generally determines standalone selling prices based on prices charged to students. The Company excludes from revenue taxes assessed by a governmental authority as these are agency transactions collected on their behalf from the customer.

ROCK-STOCK, LLC
D/B/A THE PROFESSIONAL HAIR DESIGN ACADEMY
NOTES TO FINANCIAL STATEMENTS (Continued)

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Significant judgments include the allocation of the contract price across performance obligations, the methodology for earning tuition ratably over the instruction period, estimates for the amount of variable consideration included in the transaction price as well as the determination of the impact of the constraints preventing the variable consideration from being recognized in revenue.

Leases

The Company determines whether an arrangement is a lease at the inception of the arrangement based on the terms and conditions in the contract. A contract contains a lease if there is an identified asset and the Company has the right to control the asset. The Company uses the written terms and conditions of a related party arrangement between entities under common control to determine whether that arrangement contains a lease.

Leases with an initial term of 12 months or less are not recorded on the balance sheet and lease expense is recognized on a straight-line basis over the lease term.

Advertising Costs

Advertising costs are charged to operations when incurred. Advertising expense for the years ended December 31, 2023 and 2022 is \$13,352 and \$13,768, respectively.

Income Taxes

The Company operates as a limited liability company taxed as a partnership. As such, income tax expense is not recorded. The net income for the Company flows through to its members and is taxed on their individual income tax returns.

The Company files its tax returns with the U.S. federal and various state and local tax jurisdictions. With few exceptions, the Company is no longer subject to examinations by major tax jurisdictions for years prior to 2020.

Use of Estimates

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

ROCK-STOCK, LLC
D/B/A THE PROFESSIONAL HAIR DESIGN ACADEMY
NOTES TO FINANCIAL STATEMENTS (Continued)

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)*, to introduce the current expected credit losses methodology for estimating allowances for credit losses. The new guidance makes targeted improvements to the accounting for credit losses and applies to all financial instruments carried at amortized cost (including loans held for investment and held to maturity debt securities, as well as trade receivables, notes receivable, reinsurance recoverable, and receivables that related to repurchase agreements and securities lending agreements). In November 2018, FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326 Financial Instruments - Credit Losses*, to mitigate transition complexity by amending the effecting date for nonpublic entities fiscal to years beginning after December 15, 2022 and interim periods within fiscal years beginning after December 15, 2022.

The Company adopted the standard effective January 1, 2023. The impact of the adoption was not considered material to the financial statements and primarily resulted in new/enhanced disclosures only.

2. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue for the years ended December 31, 2023 and 2022 is as follows:

	2023	2022
<u>Nature of Services</u>		
Tuition revenues	\$ 516,439	\$ 411,797
Kit revenues	60,022	42,362
Clinic revenues	197,159	200,903
Retail revenues	4,776	5,916
	<hr/>	<hr/>
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	\$ 778,396	\$ 660,978
	<hr/>	<hr/>
<u>Timing of Revenue Recognition</u>		
Services transferred over time	\$ 516,439	\$ 411,797
Goods and services transferred at a point in time	261,957	249,181
	<hr/>	<hr/>
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	\$ 778,396	\$ 660,978
	<hr/>	<hr/>

ROCK-STOCK, LLC
D/B/A THE PROFESSIONAL HAIR DESIGN ACADEMY
NOTES TO FINANCIAL STATEMENTS (Continued)

2. REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

The Company offers programs of study that typically take up to 54 weeks to complete. Students come from a wide variety of backgrounds. Many of the students receive federal financial aid under programs authorized by Title IV of the Higher Education Act of 1965, as amended (HEA) to fund their programs of study. For disbursing financial aid, the programs are broken up into payment periods, and financial aid is typically disbursed at the start of a payment period. Qualitative economic factors that affect revenue recognition and cash flows include student attendance, program content, instructor availability, and willingness of the general public to participate in the clinic.

The Company receives a significant portion of its revenue from Title IV sources. Continuing participation in Title IV programs requires compliance with numerous federal regulations. Future noncompliance with these regulations, or a change in the laws governing these programs, would severely impact the operations of the Company.

3. LEASE COMMITMENTS

The Company has an operating lease for its facility. The Company's lease has a remaining lease term of one year or less. The Company's lease agreement does not contain any material restrictive covenants.

The components of lease expense for the operating lease is included in the line items of the statements of operations and members' equity for the years ended December 31, 2023 and 2022 and are summarized as follows:

Lease Cost	2023	2022
Operating lease cost	\$ 110,400	\$ 110,400

Supplemental cash flow information:

Cash paid for amounts included in the measurement of lease liabilities:

	2023	2022
Operating cash flows from operating leases	\$ 110,400	\$ 110,400

4. RETIREMENT PLAN

The Company sponsors a SIMPLE IRA plan for certain employees. During the years ended December 31, 2023 and 2022, the Company made matching contributions of \$5,649 and \$1,992, respectively.

5. RELATED PARTY TRANSACTIONS

The Company participates in federal programs authorized by Title IV of the HEA, which are administered by the U.S. Department of Education. The Company must comply with regulations promulgated under the HEA. Those regulations require that all related party transactions be disclosed, regardless of their materiality to the financial statements. Related party transactions for the years ended December 31, 2023 and 2022 are as follows:

Facility Lease

The Company leases its facility from Huntwood, LLC, a company owned 40% by 60% member William D. Rauckman and 40% by 40% member Jeanne Rauckman. Rent expense for the years ended December 31, 2023 and 2022 is \$110,400.

6. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after year end but before financial statements are issued or are available to be issued. These events and transactions either provide additional evidence about conditions that existed at year end, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events), or provide evidence about conditions that did not exist at year end but arose after that date (that is, nonrecognized subsequent events).

Management has evaluated subsequent events through May 20, 2024, which was the date that these financial statements were available for issuance, and determined that there were no significant nonrecognized subsequent events through that date.

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**INDEPENDENT AUDITOR'S 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**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America 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 Rock-Stock, LLC d/b/a The Professional Hair Design Academy, which comprise the balance sheet as of December 31, 2023, and the related statements of operations and members' 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 20, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rock-Stock, LLC d/b/a The Professional Hair Design Academy'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 Rock-Stock, LLC d/b/a The Professional Hair Design Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Rock-Stock, LLC d/b/a The Professional Hair Design Academy'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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rock-Stock, LLC d/b/a The Professional Hair Design Academy'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 statements. Such tests included compliance tests as set forth in the 2023 edition of the U.S. Department of Education's *Guide for Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and 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 Rock-Stock, LLC d/b/a The Professional Hair Design Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rock-Stock, LLC d/b/a The Professional Hair Design Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sikich CPA LLC

Naperville, Illinois
May 20, 2024

SUPPLEMENTARY INFORMATION

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

SUPPLEMENTARY SCHEDULES

For the Years Ended December 31, 2023 and 2022

A. ATTESTATION OF REVENUE SOURCES

The Company derives a substantial portion of its revenues from Federal educational assistance received directly by the school or by its students. To continue to participate in the programs authorized by Title IV of the HEA, the Company must comply with the regulations promulgated under the HEA. The regulations require a proprietary school to derive at least 10% of its cash basis revenues for each fiscal year from sources other than Federal funds. If a school receives more than 90% of its cash basis revenues from Federal funds during its fiscal year, the school becomes provisionally certified for the next two fiscal years. If a school fails to satisfy this 90/10 requirement for two consecutive years, the school will lose its ability to participate in Title IV programs.

For the fiscal year ended December 31 2023, the Company's cash basis calculation is:

	Amount Disbursed	Adjusted Amount
STUDENT TITLE IV REVENUE		
Title IV Credit Balance Carried Over from Prior Year	\$ 319	\$ 319
Federal Direct Loan	303,562	303,562
Federal Pell Grant	181,359	181,359
	<hr/>	<hr/>
Total Student Title IV Revenue	485,240	485,240
	<hr/>	<hr/>
Revenue Adjustment and Refunds Paid to Students	-	(91,994)
	<hr/>	<hr/>
Adjusted Student Title IV Revenue	485,240	393,246

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

SUPPLEMENTARY SCHEDULES (Continued)

For the Years Ended December 31, 2023 and 2022

A. ATTESTATION OF REVENUE SOURCES (Continued)

	Amount Disbursed	Adjusted Amount
STUDENT/OTHER FEDERAL FUNDS PAID		
DIRECTLY TO STUDENTS		
Veteran's Affairs / GI Bill	\$ -	\$ -
Federal Funds 1	-	-
Federal Funds 2	-	-
Total Student/Other Federal Funds Paid Directly to Students	-	-
Revenue Adjustment	-	-
Adjusted Student/Other Federal Funds Paid Directly to Students	-	-
STUDENT/OTHER FEDERAL FUNDS PAID		
DIRECTLY TO THE INSTITUTION		
Veteran's Affairs / GI Bill	16,693	16,693
Federal Funds 3	-	-
Federal Funds 4	-	-
Federal Portion of Other Funds	-	3,950
Total Student/Other Federal Funds Paid Directly to the Institution	16,693	20,643
Revenue Adjustment	-	-
Adjusted Student/Other Federal Funds Paid Directly to the Institution	16,693	20,643
Adjusted Student Federal Revenue	\$ 501,933	\$ 413,889

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

SUPPLEMENTARY SCHEDULES (Continued)

For the Years Ended December 31, 2023 and 2022

A. ATTESTATION OF REVENUE SOURCES (Continued)

	Amount Disbursed	Adjusted Amount
STUDENT NON-FEDERAL REVENUE		
Grant funds for the student from non-Federal public agencies or private sources independent of the institution		
Grant Funds 1	\$ 3,950	\$ -
Grant Funds 2	-	-
Grant Funds 3	-	-
Grant Funds 4	-	-
Funds provided for the student under a contractual arrangement with a Federal, State, or local 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 under the Internal Revenue Code	-	-
Qualified institutional scholarships disbursed to students	-	-
Student payments	-	-
Third Party Loans	-	-
Third Party Loans-Related Party/Institutional Loans	-	-
ISA Institutional or Related Party	-	-
ISA	-	-
Student Cash	223,622	223,622
Student Non-Federal Revenue	227,572	223,622
Revenue Adjustment	-	(13,287)
Adjusted Student Non-Federal Revenue	\$ 227,572	\$ 210,335

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

SUPPLEMENTARY SCHEDULES (Continued)

For the Years Ended December 31, 2023 and 2022

A. ATTESTATION OF REVENUE SOURCES (Continued)

	Amount Disbursed	Adjusted Amount
REVENUE FROM OTHER SOURCES		
Activities conducted by the institution that are necessary for education and training	\$ 197,159	\$ 197,159
Funds paid to the institution by, or on behalf of, students for education and training in qualified non-Title IV eligible programs	-	-
Revenue from other sources	197,159	197,159
Adjusted Student Non-Federal Revenue	227,572	210,335
Adjusted Student Non-Federal Revenue and Revenue from Other Sources	424,731	407,494
Adjusted Student Federal Revenue	501,933	413,889
Total Federal and Non-Federal Revenue	\$ 926,664	\$ 821,383
Adjusted Student Federal Revenue		\$ 413,889
Adjusted Student Federal Revenue + Sum of Non-Federal Revenue and Revenue from Other Sources		\$ 821,383
90/10 Percentage		50.39%

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

SUPPLEMENTARY SCHEDULES (Continued)

For the Years Ended December 31, 2023 and 2022

A. ATTESTATION OF REVENUE SOURCES (Continued)

As more than 10% of revenue is received outside Student Federal Revenue, the Company is in compliance with this eligibility requirement for the year ended December 31, 2023.

For the fiscal year ended December 31, 2022, the Company received \$329,097 of revenues from Title IV programs out of \$674,459 of eligible cash basis revenue totaling 48.79%. As more than 10% of revenue is received outside Title IV programs, the Company is in compliance with this eligibility requirement for the year ended December 31, 2022.

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

SUPPLEMENTARY SCHEDULES (Continued)

For the Years Ended December 31, 2023 and 2022

B. FINANCIAL RESPONSIBILITY

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

The required disclosure of the components of the composite score for the year ended December 31, 2023 are below:

Primary Reserve Ratio

	<u>Adjusted Equity</u>		
Balance sheet - total members' equity	Total equity	\$	605,885
N/A	Secured and unsecured related party receivables and/or other related party assets	\$	-
N/A	Unsecured related party receivables and/or other related party assets		-
Balance sheet - property, plant, and equipment, net	Property, plant, and equipment, net - including construction in progress	6,678	
Table 1 - Line A	Property, plant, and equipment, net - including pre-implementation less any construction in progress		-
Table 1 - Line B	Property, plant, and equipment, net - post-implementation less any construction in progress with outstanding debt for original purchase with debt		-
Table 1 - Line D	Property, plant, and equipment, net - post-implementation less any construction in progress with outstanding debt for original purchase without debt		6,678

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

SUPPLEMENTARY SCHEDULES (Continued)

For the Years Ended December 31, 2023 and 2022

B. FINANCIAL RESPONSIBILITY (Continued)

Primary Reserve Ratio (Continued)

	<u>Adjusted Equity (Continued)</u>	
N/A	Construction in progress	\$ -
N/A	Intangible assets	-
N/A	Post-employment and defined pension plan liabilities	-
N/A	Long-term debt - for long-term purposes and construction in process debt	\$ -
N/A	Long-term debt for long-term purposes pre-implementation	-
N/A	Qualified long-term debt for long-term purposes post-implementation for purchase of property, plant, and equipment	-
N/A	Line of credit for construction in process	-
N/A	Lease right-of-use assets - pre-implementation	-
N/A	Lease right-of-use assets - post-implementation	-
N/A	Lease right-of-use liabilities - pre-implementation	-
N/A	Lease right-of-use liabilities - post-implementation	-
Statement of operations and members' equity - total operating expenses	Total expenses and losses	658,343

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

SUPPLEMENTARY SCHEDULES (Continued)

For the Years Ended December 31, 2023 and 2022

B. FINANCIAL RESPONSIBILITY (Continued)

Equity Ratio

			Modified Equity
Balance sheet - members' equity	Total equity	\$	605,885
N/A	Lease right-of-use assets - pre-implementation		-
N/A	Lease right-of-use liabilities - pre-implementation		-
N/A	Intangible assets		-
N/A	Secured and unsecured related party receivables and/or other related party assets	\$	-
N/A	Unsecured related party receivables and/or other related party assets		-

			Modified Assets
Balance sheet - total assets	Total assets		715,895
N/A	Lease right-of-use assets - pre-implementation		-
N/A	Intangible assets		-
N/A	Secured and unsecured related party receivables and/or other related party assets	-	
N/A	Unsecured related party receivables and/or other related party assets		-

Net Income Ratio

Statement of operations and members' equity - net income	Income before taxes	\$	131,088
Statement of operations and members' equity - total revenue and interest income	Total revenues and gains		789,431

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

SUPPLEMENTARY SCHEDULES (Continued)

For the Years Ended December 31, 2023 and 2022

B. FINANCIAL RESPONSIBILITY (Continued)

Table 1 - Net Property, Plant, and Equipment

A	Pre-implementation property, plant, and equipment	\$	-
B	Post-implementation property, plant, and equipment		-
	Leasehold improvements	\$	-
	Equipment		-
	Furniture and fixtures		-
C	Construction in progress		-
D	Post-implementation property, plant, and equipment		<u>6,678</u>
	TOTAL	\$	<u><u>6,678</u></u>

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 the construction in progress.

D - Post-implementation property, plant, and equipment with no outstanding debt.

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

SUPPLEMENTARY SCHEDULES (Continued)

For the Years Ended December 31, 2023 and 2022

B. FINANCIAL RESPONSIBILITY (Continued)

The Company's composite scores are calculated as follows:

	2023	2022
Primary reserve ratio	0.900	0.900
Equity ratio	1.200	1.200
Net income ratio	0.900	0.900
SUM OF ALL RATIOS	3.000	3.000
COMPOSITE SCORE	3.0	3.0

As the composite scores are between 1.5 and 3.0, the Company is considered financially responsible under this general standard for the years ended December 31, 2023 and 2022.

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

SUPPLEMENTARY SCHEDULES (Continued)

For the Years Ended December 31, 2023 and 2022

C. ACCREDITATION FINANCIAL RESPONSIBILITY AND CASH RESERVES

Financial Responsibility

In order to demonstrate financial responsibility with The National Accrediting Commission of Career Arts & Sciences (NACCAS), the Company either has to meet the requirements set forth by the U.S. Department of Education in accordance with section 34 CFR 668.171 or have a current ratio of current assets to current liabilities of one to one or greater; a positive tangible net worth; and a profit in the most recent accounting year. For the years ended December 31, 2023 and 2022, the Company demonstrates compliance by meeting the first requirement with composite scores of 3.0, as calculated in supplementary schedule B.

The secondary requirements are as follows:

	2023	2022
Current ratio	6.45: 1	6.98:1
Tangible net worth	\$ 605,885	\$ 474,797
Profit in most recent accounting year?	Yes	Yes