

Fiegen & Bisenius, Inc. d/b/a Capri College

Dubuque, Iowa

Financial Report

	EIN Numbers	OPE ID Numbers	DUNS Numbers
Dubuque, IA	1-420921245A3	007588	087119756
Cedar Rapids, IA	1-420921245A1	020903	087119814
Davenport, IA	1-420921245A5	007717	089983613

For the Year Ended
June 30, 2012

McGladrey LLP
Certified Public Accountants

Contents

Independent Auditor's Report on the Financial Statements	1
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Financial Statements	
Balance sheets	2 – 3
Statements of income	4
Statements of stockholders' equity	5
Statements of cash flows	6
Notes to financial statements	7 – 11

Independent Auditor's Report on the Supplementary Information	12
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Supplementary Information	
Income statement information	13

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	14 – 15
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Independent Auditor's Report

To the Board of Directors
Fiegen & Bisenius, Inc.
d/b/a Capri College
Dubuque, Iowa

We have audited the accompanying balance sheets of Fiegen & Bisenius, Inc. d/b/a Capri College as of June 30, 2012 and 2011, and the related statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fiegen & Bisenius, Inc. d/b/a Capri College as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying Note 6 on the College's calculation of its Title IV 90/10 revenue test 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. 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic 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 basic 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 basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our reports for the years ended June 30, 2012 and 2011 dated November 28, 2012 and December 20, 2011, respectively, on our consideration of Fiegen & Bisenius, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of those reports 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 internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

McGladrey LLP

Dubuque, Iowa
November 28, 2012

**Fiegen & Bisenius, Inc.
d/b/a Capri College**

**Balance Sheets
June 30, 2012 and 2011**

Assets	2012	2011
Current Assets:		
Cash and cash equivalents	\$ 1,907,932	\$ 1,962,654
Receivables:		
Trade, less allowance for doubtful accounts 2012 and 2011 \$25,000	95,208	105,412
Other	192,719	173,265
Current portion of long-term note receivable	98,000	-
Inventories	156,687	77,031
Prepaid expenses	1,978	2,504
Total current assets	2,452,524	2,320,866
Cash Value of Life Insurance	45,149	43,818
Long-Term Note Receivable	-	105,000
Property and Equipment:		
Land	453,207	453,207
Buildings and leasehold improvements	3,404,235	3,283,128
Equipment	663,845	642,307
	4,521,287	4,378,642
Less accumulated depreciation	2,068,597	1,891,253
	2,452,690	2,487,389
Other Assets, tax deposit	110,990	79,245
	\$ 5,061,353	\$ 5,036,318

See Notes to Financial Statements.

Liabilities and Stockholders' Equity	2012	2011
Current Liabilities:		
Accounts payable	\$ 103,945	\$ 143,937
Accrued expenses	356,785	337,010
Tuition income and fees collected in advance	575,711	831,995
Total current liabilities	1,036,441	1,312,942
Long-Term Debt	1,350,000	1,100,000
Stockholders' Equity:		
Capital stock, common, no par value; stated value 2012 and 2011 \$1.67 per share; authorized and issued 2012 and 2011, 6,000 shares	10,000	10,000
Additional paid-in capital	50,000	50,000
Retained earnings	2,614,912	2,563,376
	2,674,912	2,623,376
	\$ 5,061,353	\$ 5,036,318

Fiegen & Bisenius, Inc.
d/b/a Capri College

Statements of Income
Years Ended June 30, 2012 and 2011

	2012	2011
Revenue:		
Net sales	\$ 2,849,898	\$ 2,898,979
Tuition income	4,306,050	4,669,981
Rents	8,195	12,800
	<u>7,164,143</u>	<u>7,581,760</u>
Cost of sales and services	<u>4,178,057</u>	4,274,656
Gross profit	2,986,086	3,307,104
Selling and administrative expenses	<u>1,723,101</u>	<u>1,623,433</u>
Operating income	1,262,985	1,683,671
Other income (expense):		
Gain on disposal of property and equipment	-	946
Financial income, interest	900	3,546
Interest expense	(153)	(1,556)
Net income	<u>\$ 1,263,732</u>	<u>\$ 1,686,607</u>

See Notes to Financial Statements.

Fiegen & Bisenius, Inc.
d/b/a Capri College

Statements of Stockholders' Equity
Years Ended June 30, 2012 and 2011

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance, June 30, 2010	\$ 10,000	\$ 50,000	\$ 2,143,330	\$ 2,203,330
Net income	-	-	1,686,607	1,686,607
Dividends on common stock	-	-	(1,266,561)	(1,266,561)
Balance, June 30, 2011	10,000	50,000	2,563,376	2,623,376
Net income	-	-	1,263,732	1,263,732
Dividends on common stock	-	-	(1,212,196)	(1,212,196)
Balance, June 30, 2012	\$ 10,000	\$ 50,000	\$ 2,614,912	\$ 2,674,912

See Notes to Financial Statements.

Fiegen & Bisenius, Inc.
d/b/a Capri College

Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities:		
Net income	\$ 1,263,732	\$ 1,686,607
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	177,344	180,522
(Gain) on disposal of property and equipment	-	(946)
Changes in assets and liabilities:		
(Increase) in receivables	(9,250)	(23,245)
(Increase) decrease in notes receivables	7,000	(105,000)
(Increase) decrease in inventories	(79,656)	85,891
Decrease in prepaid expenses	526	18,145
(Decrease) in accounts payable and accrued expenses	(20,217)	(956)
Increase (decrease) in tuition income and fees collected in advance	(256,284)	67,370
Net cash provided by operating activities	1,083,195	1,908,388
Cash Flows from Investing Activities:		
Purchase of property and equipment	(142,645)	(116,716)
Proceeds from sale of property and equipment	-	23,700
(Increase) in cash value of life insurance	(1,331)	(595)
(Payment) of tax deposit	(31,745)	(20,173)
Net cash used in investing activities	(175,721)	(113,784)
Cash Flows from Financing Activities:		
Proceeds from long-term borrowing	1,550,000	1,600,000
Principal payments on long-term borrowing	(1,300,000)	(1,100,000)
Cash dividends paid	(1,212,196)	(1,266,561)
Net cash used in financing activities	(962,196)	(766,561)
Increase (decrease) in cash and cash equivalents	(54,722)	1,028,043
Cash and cash equivalents:		
Beginning	1,962,654	934,611
Ending	\$ 1,907,932	\$ 1,962,654
Supplemental Disclosure of Cash Flow Information,		
cash paid for interest	\$ 153	\$ 1,556

See Notes to Financial Statements.

**Fiegen & Bisenius, Inc.
d/b/a Capri College**

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of business:

Fiegen & Bisenius, Inc. d/b/a Capri College operates schools of cosmetology and other vocational courses in eastern Iowa. Students of Capri College participate in various U.S. government sponsored programs for student aid. The U.S. Department of Education requires that proprietary institutions of higher education attended by students who receive such aid maintain certain financial criteria relating to operating income, net worth, asset to liability ratios and percentage of revenue derived from U.S. government program funds.

Significant accounting policies:

Accounting estimates: The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, 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.

Cash and cash equivalents: Cash in excess of daily requirements is invested in financial institutions in amounts which frequently exceed federally insured limits. Management does not believe it is exposed to significant credit risk on cash and cash equivalents. For purposes of reporting cash flows, the College includes all cash accounts which are not subject to withdrawal restrictions or penalties as cash and cash equivalents.

Trade receivables: Trade receivables are carried at the amount of tuition earned in excess of tuition paid. Receivables are less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

Trade receivables, for current students, are considered to be past due if any portion of the receivable balance is outstanding for more than 30 days after the billing date. Interest may be charged on trade receivables that are outstanding for more than 30 days after the billing date and is recognized as it is collected.

After a student is no longer enrolled with the institution and after a grace period, interest is charged on trade receivables and is recognized as it is collected. Trade receivables are considered to be past due if a payment is not made within 30 days of termination date. Losses on trade receivables charged to expense were \$35,681 and \$34,280 for the years ended June 30, 2012 and 2011, respectively.

Inventories: Inventories are valued at the lower of cost (first-in, first-out method) or market.

Property and equipment and depreciation methods: Property and equipment is carried at cost. Buildings and improvements are depreciated primarily by the straight-line method at rates based on estimated useful lives from 5 to 40 years. Equipment is depreciated primarily by the use of accelerated methods at rates based on estimated useful lives from 5 to 7 years.

**Fiegen & Bisenius, Inc.
d/b/a Capri College**

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Revenue recognition and tuition income collected in advance: Tuition income is recognized ratably over each student's scheduled calendar days of instruction. Management believes this accounting method is appropriate as it is consistent with Department of Education refund policy. Tuition income and fees collected in advance represent the part of the tuition fees which have been collected but have not been recognized as income. Sales and service revenue is recognized upon delivery of goods and performance of services.

Advertising costs: Advertising costs are expensed as incurred. Total advertising expenses were \$337,237 and \$289,989 for the years ended June 30, 2012 and 2011, respectively.

Subsequent events: The College has evaluated subsequent events through November 28, 2012, the date the financial statements were available to be issued, in preparing the financial statements and notes thereto.

Note 2. Income Tax Matters

The College, with consent of its stockholders, has elected to be taxed under sections of federal and state income tax laws, which provide that, in lieu of corporation income taxes, the stockholders account for the College's income, deductions, losses and credits. Therefore, these statements do not include any provision for corporate income taxes. The College intends to make cash distributions to the stockholders in amounts sufficient to pay income taxes related to the College's taxable income.

Management evaluated the College's tax positions in accordance with the accounting guidance for uncertainty in income taxes and concluded that the College has taken no uncertain tax positions that require adjustment to the financial statements. With few exceptions, the College is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2008.

Note 3. Pledged Assets, Long-Term Debt and Guarantee

Notes payable as of June 30, 2012 and 2011 are as follows:

	2012	2011
Line of credit, bank, with maximum borrowings of \$600,000, an interest rate on borrowings equal to the prime rate as published by <u>The Wall Street Journal</u> with a minimum rate of 5% (effective rate is 5% as of June 30, 2012). This agreement expires November 2013 and is collateralized by first security interest in substantially all assets of the College and personally guaranteed by the officer-stockholder.	\$ 600,000	\$ 600,000
Note payable, related party, with interest at a rate of 1.5%, due in one lump-sum payment in November 2012. Note was paid in full in July 2011.	-	500,000
Note payable, related party, with interest at a rate of 1.5%, due in one lump-sum payment in November 2013. Subsequent to year-end, a payment of \$400,000 was made by the College.	750,000	-
	1,350,000	1,100,000
Less current maturities	-	-
Long-term portion	\$ 1,350,000	\$ 1,100,000

**Fiegen & Bisenius, Inc.
d/b/a Capri College**

Notes to Financial Statements

Note 4. Lease Commitments, Total Rental Expense and Related Party Transactions

Fiegen & Bisenius, Inc. leases a facility in Davenport from a related party, Fiegen L.C., under a noncancelable agreement, which expires August 2017. The College paid approximately \$228,000 to Fiegen L.C. for the years ended June 30, 2012 and 2011.

The total minimum rental commitment as of June 30, 2012 is due in future years as follows:

Year ending June 30:		
2013	\$	228,000
2014		228,000
2015		228,000
2016		228,000
2017		228,000
Thereafter		38,000
	\$	<u>1,178,000</u>

The College leases automobiles from one of the owners under month-to-month leases. Total rent expense for these vehicles was \$14,040 for the years ended June 30, 2012 and 2011. The College owes \$20,708 and \$23,953 as of June 30, 2012 and 2011, respectively, for supplies purchased from a related party, State Beauty Supply, which is included in accounts payable. The College purchased approximately \$323,553 and \$298,990 from a related party vendor, State Beauty Supply, during the years ended June 30, 2012 and 2011, respectively. These amounts have been included in cost of sales and services on the College's statements of income. The College also has a receivable from State Beauty Supply of \$33,946 and \$19,348 as of June 30, 2012 and 2011, respectively. The College has an unsecured loan receivable from one of the owners, for \$98,000 and \$105,000 as of June 30, 2012 and 2011, respectively, for financing with no stated interest rate. Subsequent to year-end, the College declared a dividend in the amount of \$1,046,341, of which \$948,341 to be paid in cash and \$98,000 will repay the note receivable from one of the owners. The College has a payable to a related party, M&M Fiegen, for \$4,500 and \$9,350 as of June 30, 2012 and 2011, respectively, for supplies. The College purchased approximately \$8,886 and \$5,659, from a related party during the years ended June 30, 2012 and 2011, respectively. There is also a receivable from the same related party for \$32,984 and \$31,375 as of June 30, 2012 and 2011, respectively, for health insurance and supplies.

Note 5. Employee Benefit Plan

Fiegen & Bisenius, Inc. has a profit-sharing plan with 401(k) provisions, covering substantially all of the employees of the College. The College contributes 3% of employee wages for all eligible employees under the 401(k) provisions and may also make discretionary profit-sharing contributions. Contributions to the plan for the years ended June 30, 2012 and 2011 were \$61,394 and \$56,483, respectively.

**Fiegen & Bisenius, Inc.
d/b/a Capri College**

Notes to Financial Statements

Note 6. Title IV 90/10 Revenue Information

In accordance with 34 CFR Section 668.14(b)(16), the Title IV program funds are limited to 90% of total revenue for the year on a cash basis.

The calculation for the College is as follows:

	Location: Dubuque, Iowa		
	Entity No.: 1-420921245A3		
	Amount	Adjusted	
	Disbursed	Amount	
Adjusted student Title IV revenue			
Subsidized loans	\$ 441,927	\$ 441,927	
Unsubsidized loan up to pre-ECASLA loan limits	355,598	355,598	
Federal Pell Grant	411,788	411,788	
FSEOG (subject to matching reduction)	20,462	15,347	
Federal work-study applied to tuition and fees	-	-	
Student Title IV revenue		<u>1,224,660</u>	
Revenue adjustment		(217,068)	
Adjusted student Title IV revenue		<u>\$ 1,007,592</u>	
Student non-Title IV revenue			
Grant funds for the student from non-federal public agencies or private sources independent of the institution	15,477		
Funds provided for the student under a contractual arrangement with a federal, state or local government agency for the purpose of providing job training to low-income individuals	3,712		
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	-		
Institutional scholarships disbursed to the student	34,866		
Amounts of unsubsidized loan over the pre-ECASLA loan limits	-		
Student payments	81,995		
Student non-Title IV revenue	<u>\$ 136,050</u>		
Revenues from other sources (totals for the fiscal year)			
Activities conducted by the institution that are necessary for education and training	\$ 664,580		
Funds paid to the institution by, or on behalf of, students for education and training in qualified non-Title IV eligible programs	-		
The net present value (NPV) of institutional loans disbursed to students	-		
Revenues from other sources	<u>\$ 664,580</u>		
Sum of adjusted student Title IV revenue	\$ 1,007,592		
Sum adjusted student Title IV revenue + sum of student non-Title IV revenue + total revenue from other sources	\$ 1,808,222		55.72%

Location: Cedar Rapids, Iowa		Location: Davenport, Iowa	
Entity No.: 1-420921245A1		Entity No.: 1-420921245A5	
Amount Disbursed	Adjusted Amount	Amount Disbursed	Adjusted Amount
\$ 588,626	\$ 588,626	\$ 499,096	\$ 499,096
604,544	604,544	445,712	445,712
542,730	542,730	455,670	455,670
15,011	11,258	8,915	6,686
-	-	-	-
	<u>1,747,158</u>		<u>1,407,164</u>
	<u>(273,659)</u>		<u>(200,368)</u>
	<u>\$ 1,473,499</u>		<u>\$ 1,206,796</u>
21,908		16,321	
10,350		9,095	
-		-	
22,641		18,160	
-		-	
120,424		63,349	
<u>\$ 175,323</u>		<u>\$ 106,925</u>	
\$ 792,445		\$ 641,513	
-		-	
-		-	
<u>\$ 792,445</u>		<u>\$ 641,513</u>	
<u>\$ 1,473,499</u>	60.36%	<u>\$ 1,206,796</u>	61.72%
\$ 2,441,267		\$ 1,955,234	



**Independent Auditor's Report
on the Supplementary Information**

To the Board of Directors
Fiegen & Bisenius, Inc.
d/b/a Capri College
Dubuque, Iowa

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information 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 audits 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.

McGladrey LLP

Dubuque, Iowa
November 28, 2012

Fiegen & Bisenius, Inc.
d/b/a Capri College

Income Statement Information
Year Ended June 30, 2012

Combining Statement of Income, by Location	Dubuque, Iowa	Cedar Rapids, Iowa	Davenport, Iowa	Totals
Revenue:				
Net sales	\$ 904,107	\$ 1,079,591	\$ 866,200	\$ 2,849,898
Tuition income	1,194,599	1,744,468	1,366,983	4,306,050
Rents	-	4,850	3,345	8,195
	2,098,706	2,828,909	2,236,528	7,164,143
Cost of sales and services	1,189,705	1,467,261	1,521,091	4,178,057
Gross profit	909,001	1,361,648	715,437	2,986,086
Selling and administrative expenses	521,749	654,214	547,138	1,723,101
Operating income	387,252	707,434	168,299	1,262,985
Other income (expense):				
Financial income, interest				900
Interest expense				(153)
Net income				\$ 1,263,732



**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 Board of Directors
Fiegen & Bisenius, Inc.
d/b/a Capri College
Dubuque, Iowa

We have audited the financial statements of Fiegen & Bisenius, Inc., d/b/a Capri College (College) as of and for the year ended June 30, 2012, and have issued our report thereon, dated November 28, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

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 to those charged with governance.

Our consideration of internal control over financial reporting was for the limited purposes described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described below, that we consider to be a significant deficiency in internal control over financial reporting.

12-A

Finding: The College has inadequate segregation of duties in place over the cash disbursement/purchasing transaction cycle which allows one individual to handle a transaction from inception to completion.

Condition: A certain individual is capable of controlling and accessing the cash disbursement/purchasing cycle.

Cause: There are a limited number of staff working in the accounting office which makes it difficult to maintain proper segregation of duties.

Context: Pervasive to cash disbursements.

Effect: Transaction errors or misappropriation of assets could occur and not be detected in a timely manner.

Recommendation: We recommend the proper segregation of duties be put in place in order to obtain adequate segregation of duties.

Response and corrective action plan: Management believes the risk related to segregation of duties is minimal as the individual who performs these duties is a minority owner of the College. Segregation of duties is limited to the cash disbursement/purchasing transaction cycle and has no effect on the administration of Student Financial Aid. Due to the size of the College, management does not believe that it would be feasible to hire additional staff and has chosen not to correct.

The College's response to the finding identified in our audit is described above. We did not audit the College's response and, accordingly, we express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of 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. 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*.

We noted a certain matter that we reported to management of the College in a separate letter dated November 28, 2012.

This report is intended solely for the information and use of management, others within the entity and the U.S. Department of Education and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey LLP

Dubuque, Iowa
November 28, 2012