

AMERICAN CAREER COLLEGE, INC.

OPE ID NO. 02241800

Financial Statements

For the Years Ended December 31, 2009 and 2008

with

Independent Auditors' Report

CONFIDENTIAL

ACC-000065

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AMERICAN CAREER COLLEGE, INC.
Statements of Income and Retained Earnings
For the Years Ended December 31, 2009 and 2008

	2009	2008
Revenues	\$ 61,309,786	\$ 50,713,299
Costs and expenses:		
Course materials, services and instruction	<small>Redacted by HELP Committee</small>	<small>Redacted by HELP Committee</small>
Selling and promotion	7,750,905	8,637,779
General and administrative	<small>Redacted by HELP Committee</small>	<small>Redacted by HELP Committee</small>
Facilities	<small>Redacted by HELP Committee</small>	<small>Redacted by HELP Committee</small>
Depreciation and amortization	<small>Redacted by HELP Committee</small>	<small>Redacted by HELP Committee</small>
Total costs and expenses	43,731,535	43,579,176
Income from operations	17,578,251	7,134,123
Other income (expense):		
Interest income	<small>Redacted by HELP Committee</small>	<small>Redacted by HELP Committee</small>
Interest expense		
Other income		
Total other expense	<small>Redacted by HELP Committee</small>	<small>Redacted by HELP Committee</small>
Income before provision for income taxes	17,337,277	7,062,511
Provision for income taxes	(175,000)	(155,800)
Net income	17,162,277	6,906,711
Retained earnings, beginning of year	<small>Redacted by HELP Committee</small>	<small>Redacted by HELP Committee</small>
Distributions to stockholder	(16,300,000)	(5,953,000)
Retained earnings, end of year	\$	\$

See notes to financial statements

Redacted by HELP Committee

NOTE 6 – INCOME TAXES

The provision for income taxes has been computed based on current and estimated future income tax liabilities.

The stockholder of the Company has elected to operate the Company as a Subchapter S Corporation. As such, the income and expenses of the Company pass through directly to the stockholder and are reported on the individual income tax return. The Company is subject to a California franchise tax of 1.5% of taxable income. The provision for income taxes as shown on the accompanying statement of income and retained earnings consists entirely of current state income taxes.

Deferred income taxes result primarily from the use of the cash basis of reporting for income tax purposes.

Redacted by HELP Committee

Redacted by HELP Committee

NOTE 8 – RELATED PARTY TRANSACTIONS

During the years ended December 31, 2009 and 2008, the Company charged management fees of \$9,067,433 and \$4,819,612, respectively, to educational institutions owned by the Company's stockholder. The management fee is reflected as a reduction of general and administrative expenses in the accompanying statements of income and retained earnings.

During the years ended December 31, 2009 and 2008, the Company charged rent and other facility related expenses to an educational institution owned by the Company's stockholder of \$283,466 and \$325,096, respectively. These fees are reflected as a reduction of facilities expense in the accompanying statements of income and retained earnings. The Company also paid rent and other facility expenses to an educational institution owned by the Company's stockholder of \$166,125 during the year ended December 31, 2008. This amount is reflected in facilities expense in the accompanying statements of income and retained earnings.

The Company advances and receives funds to/from educational institutions owned by the Company's stockholder. No interest was charged or received on amounts advanced during the years ended December 31, 2009 and 2008. Amounts advanced as of December 31, 2009 and 2008, were \$898,509 and \$570,000, respectively, and have no stipulated repayment provisions.

Also see Note 7 regarding additional related party transactions.

Redacted by HELP Committee

NOTE 10 – CONCENTRATION OF CREDIT RISK AND REGULATORY CONSIDERATIONS

At December 31, 2009 and 2008, the Company had deposits with banks in excess of the federally insured amount.

The Company participates in Government Student Financial Assistance Programs (Title IV) administered by the U.S. Department of Education (ED) for the payment of student tuitions. Substantial portions of the revenue and collection of ending accounts receivable as of December 31, 2009 and 2008, are dependent upon the Company's continued participation in the Title IV programs. Institutions participating in Title IV programs may not receive more than 90% of tuition collections (90/10 revenue test as defined in regulation) from Title IV sources in order to maintain eligibility for participation in such programs. For the years ended December 31, 2009 and 2008, the Company's tuition cash collections from Title IV programs were 78.7% and 80.6%, respectively. ED requires an institution to provide additional information with respect to its 90/10 revenue test. Reference is made to the accompanying supplementary information on page 14 with respect to additional disclosures required by ED.

Institutions participating in Title IV programs are also required by ED to demonstrate financial responsibility. ED determines an institution's financial responsibility through the calculation of a composite score based upon certain financial ratios as defined in regulations. Institutions receiving a composite score of 1.5 or greater are considered fully financially responsible. Institutions receiving a composite score between 1.0 and 1.4 are subject to additional monitoring and institutions receiving a score below 1.0 are required to submit financial guarantees in order to continue participation in the Title IV programs. As of December 31, 2009 and 2008, and for each of the years then ended, the Company's composite score was 1.6.

AMERICAN CAREER COLLEGE, INC.
Supplementary Information
(Information Required by the U.S. Department of Education)
December 31, 2009 and 2008

Institution's Calculation of 90/10 Revenue Test

American Career College, Inc. (the Institution) derives a substantial portion of its revenues from Student Financial Aid (SFA) received by its students under the Title IV programs administered by the U.S. Department of Education pursuant to the Higher Education Act of 1965, as amended (HEA). To continue to participate in the SFA programs the Institution must comply with the regulations promulgated under HEA. The regulations restrict the proportion of cash receipts for tuition and fees from eligible programs to not more than 90 percent from the Title IV programs. In July 2008, modifications to the regulations were made with respect to amounts to be included in the 90 percent calculations including temporary provisions related to certain Title IV funds received and institutional loans made to students. The modifications also allow for the inclusion of funds received for certain qualifying non-Title IV programs. In addition, the modifications included provisions for institutions that do not comply with the 90 percent rule for a single fiscal year, whereby such institutions would be placed on provisional certification status for a period of two years. Institutions that do not comply with the 90 percent rule for two consecutive fiscal years are subject to the loss of their ability to participate in the SFA programs.

In October 2009, HEA amended the regulations with respect to the disclosure requirements to the 90 percent calculations and allowed institutions to implement the new and amended provisions. The amended provisions require an institution to disclose the dollar amount of the numerator and denominator of its 90 percent calculation as well as the individual revenue amounts by fund source received by the Institution.

For the year ended December 31, 2009, the Institution's 90/10 revenue test percentages were computed as follows:

Revenue by Source

Adjusted Student Title IV Revenue:	
Subsidized Loan	\$ 13,583,010
Unsubsidized Loan up to pre-ECASLA Loan Limits	12,870,647
Plus Loan	3,530,937
Federal Pell Grant	15,822,813
FSEOG	<u>401,097</u>
Student Title IV Revenue	46,208,504
Revenue Adjustment	<u>(94,053)</u>
Adjusted Student Title IV Revenue	<u>\$ 46,114,451</u>

Student Non-Title IV Revenue:

Grant funds for the student from non-Federal public agencies or private sources independent of the institution	\$ 534,706	
Funds provided for the student under a contractual arrangement with a Federal, State, or local government agency for the purpose of providing job training	641,299	
Amount of Unsubsidized Loan Over the pre-ECASLA Loan Limits	5,680,927	
Student payments	<u>5,691,520</u>	
Student Non-Title IV Revenue	12,548,452	
Revenue Adjustment	<u>(97,812)</u>	
Adjusted Student Non-Title IV Revenue	<u>\$12,450,640</u>	
<u>Adjusted Student Title IV Revenue</u>	<u>\$46,114,451</u>	78.7%
Adjusted Student Title IV Revenue + Adjusted Student Non-Title IV Revenue	\$58,565,091	

For the year ended December 31, 2008, the Institution's 90/10 revenue test percentages were computed as follows:

Title IV funds received	\$ 42,545,274
Total eligible cash receipts	\$ 52,760,667
Percentage Title IV	80.6%

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 financial statements.

Related Party Transactions

American Career College, Inc. (the Institution) participates in Student Financial Aid (SFA) under the Title IV programs administered by the U.S. Department of Education pursuant to the Higher Education Act of 1965, as amended (HEA). The Institution must comply with the regulations promulgated under HEA. Those regulations require that all related party transactions be disclosed, regardless of their materiality to the financial statements.

Distributions to Stockholder – During the years ended December 31, 2009 and 2008, the Institution paid distributions to its stockholder of \$16,300,000 and \$5,953,000, respectively.

Facility leases – The Institution leases its operating facilities and equipment from entities which are owned by the Institution's stockholder. Facility rent expense during the years ended December 31, 2009 and 2008, paid to entities owned by the Institution's stockholder was approximately \$2,612,000 and \$1,878,000, respectively.

Equipment leases – The Institution leases certain equipment under non-cancelable operating leases from an entity which is owned by the Institution's stockholder. Equipment rental expense during the years ended December 31, 2009 and 2008, paid to the entity owned by the Institution's stockholder was approximately \$150,000 and \$354,000, respectively.

Management Fees – During the years ended December 31, 2009 and 2008, the Institution charged management fees of \$9,067,433 and \$4,819,612, respectively, to educational institutions owned by the Institution's stockholder. The management fee is reflected as a reduction of general and administrative expenses in the accompanying statements of income and retained earnings.

Facilities expense – During the years ended December 31, 2009 and 2008, the Institution charged rent and other facility related expenses to an educational institution owned by the Institution's stockholder of \$283,466 and \$325,096, respectively. These fees are reflected as a reduction of facilities expense in the accompanying statements of income and retained earnings. The Institution also paid rent and other facility expenses of \$166,125 to an educational institution owned by the Institution's stockholder during the year ended December 31, 2008. This amount is reflected in facilities expense in the accompanying statements of income and retained earnings.

Due from affiliate – The Institution advances and receives funds to/from an educational institution owned by the Company's stockholder. No interest was charged or received on amounts advanced during the years ended December 31, 2009 and 2008. Amounts advanced as of December 31, 2009 and 2008, were \$898,509 and \$570,000, respectively, and have no stipulated repayment provisions.

Guarantor of bank debt – The Institution serves as a co-guarantor on \$17,703,128 of bank debt of other educational institutions owned by the Institution's stockholder.

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 financial statements.