San Joaquin Valley College, Inc. and Subsidiaries

Consolidated Financial Statements

Year Ended December 31, 2016

Aldrich℠

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Aldrich.
Aldrich CPAs + Advisors LLP
7676 Hazard Center Drive, #1300
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of San Joaquin Valley College, Inc. and Subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of San Joaquin Valley College, Inc. (a California corporation) and Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of income and comprehensive income, changes in equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of San Joaquin Valley College, Inc. and Subsidiaries as of December 31, 2016, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Note 13 on San Joaquin Valley College, Inc.'s calculation of its Title IV 90/10 Revenue Test and Note 9 on related party transactions are required by the U. S. Department of Education and presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 31, 2017 on our consideration of San Joaquin Valley College, Inc.'s and Subsidiaries' internal control over financial reporting and on our tests of their 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 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 San Joaquin Valley College, Inc.'s and Subsidiaries' internal control over financial reporting and compliance.

Aldrich CPAs + Advisors LLP

San Diego, California
March 31, 2017

SAN JOAQUIN VALLEY COLLEGE, INC. AND SUBSIDIARIES
Consolidated Balance Sheet
December 31, 2016

ASSETS		
Current Assets:		
Cash	$	6,695,357
Marketable securities		1,814,496
Accounts receivable - students		19,678,088
Accounts receivable - other		200
Current portion of retail installment contracts		6,455,616
Inventory		875,477
Prepaid expenses		1,534,043
Total Current Assets		37,053,277
Other Assets:		
Deposits		382,135
Retail installment contracts, net of current portion		6,989,614
Property and equipment, net of accumulated depreciation		17,628,362
		25,000,111
	$	62,053,388
LIABILITIES AND EQUITY		
Current Liabilities:		
Current portion of long-term debt	$	1,049,259
Current portion of deferred rent		406,681
Accounts payable		1,586,571
Accrued salaries and wages		2,094,345
Accrued compensated absences		1,212,465
Stockholder distributions payable		430,000
Accrued other expenses		1,558,805
Unearned income		31,403,528
Total Current Liabilities		39,741,654
Long-Term Liabilities:		
Long-term debt, net of current portion		6,145,375
Deferred rent, net of current portion		741,388
		6,886,763
		46,628,417
Equity:		
Common stock		339
Additional paid-in capital		10,000
Accumulated other comprehensive loss		(117,924)
Retained earnings		10,098,380
Noncontrolling interest		5,434,176
		15,424,971
	$	62,053,388

See accompanying notes to consolidated financial statements.

SAN JOAQUIN VALLEY COLLEGE, INC. AND SUBSIDIARIES
Consolidated Statement of Income and Comprehensive Income
Year Ended December 31, 2016

Operating Income		$ 101,460,875
Operating Expenses:		
Course instruction materials and services		29,766,617
Student recruitment		13,572,995
Depreciation		2,253,814
General and administrative		51,974,956
		97,568,382
Income from Operations		3,892,493
Other Income (Expense):		
Rental income		8,400
Interest income		836,943
Other income		838,015
Interest expense		(371,584)
Other expense		(533,221)
		778,553
Income Before Income Taxes		4,671,046
Current Income Tax Benefit		(274,712)
Consolidated Net Income		4,945,758
Net Income Attributable to Noncontrolling Interest	743,246	
Net Income Attributable to San Joaquin Valley College, Inc. stockholders	4,202,512	
Other Comprehensive Income:		
Unrealized gain on marketable securities		41,363
Total Comprehensive Income		4,987,121
Comprehensive Income Attributable to Noncontrolling Interest		(743,246)
Comprehensive Income Attributable to San Joaquin Valley College, Inc. stockholders		$ 4,243,875

See accompanying notes to consolidated financial statements.

SAN JOAQUIN VALLEY COLLEGE, INC. AND SUBSIDIARIES
Consolidated Statement of Changes in Equity
Year Ended December 31, 2016

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Noncontrolling Interest	Total
Balance at December 31, 2015	$ 339	$ -	$ (159,287)	$ 9,092,544	$ 4,761,638	$ 13,695,234
Stockholder and Partner Contributions	-	10,000	-	-	50,000	60,000
Stockholder and Partner Distributions	-	-	-	(3,196,676)	(120,708)	(3,317,384)
Net Income	-	-	-	4,202,512	743,246	4,945,758
Other Comprehensive Income:						
Unrealized gain on marketable securities	-	-	41,363	-	-	41,363
Balance at December 31, 2016	$ 339	$ 10,000	$ (117,924)	$ 10,098,380	$ 5,434,176	$ 15,424,971

See accompanying notes to consolidated financial statements.

SAN JOAQUIN VALLEY COLLEGE, INC. AND SUBSIDIARIES
Consolidated Statement of Cash Flows
Year Ended December 31, 2016

Cash Flows from Operating Activities:		
Net income attributable to San Joaquin Valley College, Inc. stockholders	$	4,202,512
Adjustments to reconcile net income attributable to San Joaquin Valley College, Inc. stockholders to net cash provided by operating activities:		
Net income attributable to noncontrolling interest		743,246
Depreciation		2,253,814
Gain on disposal of property and equipment		(151,773)
Benefit for deferred taxes		(320,000)
Changes in operating assets and liabilities:		
Accounts receivable - students		(580,934)
Accounts receivable - other		32,076
Retail installment contracts		401,513
Inventory		199,426
Prepaid expenses		(121,774)
Accounts payable		(1,545,370)
Accrued salaries and wages		(482,666)
Accrued compensated absences		(20,505)
Accrued other expenses		(29,527)
Unearned income		5,651,905
Deferred rent		(122,596)
Net Cash Provided by Operating Activities		10,109,347
Cash Flows from Investing Activities:		
Purchases of marketable securities		(48,302)
Refund of deposits		29,613
Purchases of property and equipment		(1,683,513)
Proceeds from sale of property and equipment		632,965
Net Cash Used by Investing Activities		(1,069,237)
Cash Flows from Financing Activities:		
Payments of long-term debt		(4,683,040)
Stockholder and partner contributions		60,000
Stockholder and partner distributions		(2,887,384)
Net Cash Used by Financing Activities		(7,510,424)
Net Increase in Cash		1,529,686
Cash, beginning		5,165,671
Cash, ending	$	6,695,357
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$	384,349
Income taxes paid		45,288
		429,637
Supplemental Disclosure of Noncash Financing Activities:		
Accrued stockholder distributions	$	430,000

See accompanying notes to consolidated financial statements.

Note 1 - Organization and Summary of Significant Accounting Policies

Nature of Operations
As a private junior college accredited by the Western Association of Schools and Colleges, San Joaquin Valley College, Inc. (College) is in the business of providing degree-granting courses. It currently operates fourteen campuses located in Visalia, Fresno (main campus and aviation school), Bakersfield, Madera, Hanford, Modesto, Rancho Cordova, Ontario, Victor Valley, Temecula, Antelope Valley, San Diego, and Delano. The College also provides education through on-line operations. Perry Enterprises (Partnership) was formed to hold real property which it rents to the College. The two partners in the Partnership are the majority stockholders of the College. Long-term debt of the Partnership is guaranteed by the stockholders. Air Perry, LLC (Air Perry) was formed to hold an airplane that is leased to the College and the Partnership. Air Perry is a single member LLC whose sole member is the College. Perry Brothers Enterprises, LLC (Perry Bros.) was formed to hold real property which is rented to the College. The two members of Perry Bros. are the majority stockholders of the College. Long-term debt of the Partnership is guaranteed by the stockholders. Perry 802, LLC (Perry 802) was formed to hold real property that is rented to the College. The two members of Perry 802 are the majority stockholders of the College.

Principles of Consolidation
The consolidated financial statements include the accounts of the College, the Partnership, Air Perry, Perry Bros., and Perry 802 (collectively, the Company). All significant intercompany transactions and balances have been eliminated.

Comprehensive Income
The Company reports comprehensive income in accordance with generally accepted accounting principles. The purpose of reporting comprehensive income is to report all changes in equity of an enterprise that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owners.

Revenue Recognition
The College recognizes tuition income for each student ratably over the duration of each class. Tuition income charged to the student but not yet earned is recorded as unearned income. Therefore, tuition is earned and income is recognized as a student attends class and progresses toward graduation.

Marketable Securities
The Company classifies its investments in marketable securities into one of three categories: held to maturity, available for sale or trading. All marketable securities of the Company have been categorized as available for sale. Available for sale investments are stated at fair value in the consolidated financial statements, with unrealized gains and losses reported as a separate component of equity.

Accounts and Retail Installment Contracts Receivable
Accounts and retail installment contracts receivable are recorded at actual amounts billed. An allowance for doubtful accounts and a corresponding recognition of bad debt expense is recorded to adjust the receivables to estimated net realizable value. Based upon a periodic review, accounts are written off against the allowance when they are deemed to be uncollectible.

The provision for uncollectible retail installment contracts has been estimated based on a percentage of accounts receivable that reflects historical actual bad debts and current conditions. Accounts receivable – students is due from various student financial aid, therefore, management believes all amounts are fully collectible. No allowance for doubtful accounts is considered necessary at December 31, 2016.

Inventory
Inventory consists primarily of textbooks. The items are valued at the lower of cost (specific identification method) or market.

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Property and Equipment
The Company capitalizes all expenditures for property and equipment in excess of $1,000. Property and equipment are recorded at cost. Expenditures for maintenance and repairs are charged to expense as incurred. Renewals and betterments that materially extend the life of the assets are capitalized. Depreciation is provided using straight-line and accelerated methods over estimated useful lives of the assets of three to 39 years.

Deferred Rent
Rent expense for operating leases is recorded on a straight-line basis over the term of the lease with the resulting deferral recorded as a liability on the consolidated balance sheet.

Income Taxes
The College has elected to be taxed under the provisions of subchapter S of the internal revenue code. Earnings and losses are included in the personal income tax returns of the stockholders and taxed depending on their personal tax strategies. Accordingly, the College does not incur federal income tax obligations. Income of the College is subject to California franchise tax. Income or loss of the Partnership, Air Perry, Perry Bros., and Perry 802 is that of the individual partners and members for federal income tax purposes. Accordingly, no provision for federal income taxes is made in the accompanying consolidated financial statements. For state income tax purposes, the Partnership, Air Perry, Perry Bros., and Perry 802 are subject to income tax. Accordingly, a provision for state income taxes is made in the consolidated financial statements. The Company recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision. The deferred tax liability is related to the unrecognized built-in gains tax that the College could be subject to at the corporate level.

The Company follows accounting standards related to the recognition of uncertain tax positions. These standards provide detailed guidance for financial statement recognition, measurement and disclosure of uncertain tax positions taken or expected to be taken on the income tax returns. The Company will record a liability for uncertain tax positions when it is more likely than not that a tax position would not be sustained if examined by the taxing authority. Management has determined that the Company does not have any uncertain tax positions as of December 31, 2016.

Advertising
The cost of advertising is expensed as it is incurred.

Use of Estimates
The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value Measurements
Accounting standards provide the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques 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 are described below:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

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

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Fair Value Measurements, continued

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used during 2016 from prior years.

Mutual Funds: Valued at quoted market prices in active markets, which represent the net asset value of shares held by the Company at year end.

The carrying value of cash, receivables, and payables approximates fair value as of December 31, 2016, due to the relative short maturities of these instruments.

Subsequent Events

The Company has evaluated subsequent events through March 31, 2017, which is the date the consolidated financial statements were available to be issued.

Note 2 - Marketable Securities

Marketable securities consist of the following and are categorized in the fair value hierarchy as follows at December 31, 2016:

	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Bank Loan	$ 232,158	$ -	$ -	$ 232,158
High Yield Bonds	244,991	-	-	244,991
Intermediate-Term Bond	511,811	-	-	511,811
Long/Short Equity	50,942	-	-	50,942
Market Neutral	52,913	-	-	52,913
Multialternative	21,872	-	-	21,872
Nontraditional Bond	45,532	-	-	45,532
Short-Term Bond	375,365	-	-	375,365
World Bond	278,912	-	-	278,912
	$ 1,814,496	$ -	$ -	$ 1,814,496

Unrealized gains of $41,363 have been reported as an other comprehensive gain for the year ended December 31, 2016.

Note 3 - Retail Installment Contracts

The College has entered into financing arrangements with some of its students. Retail installment contracts consist of the following:

Current, net of allowance for doubtful accounts of $200,106	$ 6,455,616
Long-term, net of allowance for doubtful accounts of $3,034,745	6,989,614
	$ 13,445,230

Note 4 - Property and Equipment

Property and equipment consist of the following:

Land	$	4,353,976
Buildings		13,702,772
Furniture and office equipment		7,383,052
Leasehold improvements		5,040,108
Transportation equipment		2,052,138
Classroom equipment		8,401,560
Construction in progress		36,602
		40,970,208
Less accumulated depreciation		(23,341,846)
	$	17,628,362

Note 5 - Long-Term Debt

Long-term debt consists of the following:

Comerica Bank, secured by all Company personal property assets, payable in monthly installments of $39,382 including interest at the Daily Adjusting LIBOR rate plus the applicable margin, currently 4.35%, matures December 2018	$	4,411,966
Bank of America, secured by real estate, payable in monthly installments of $4,132 including a variable rate of interest, currently 3.50%, matures April 2033		616,188
Wells Fargo Bank, secured by real estate, payable in monthly installments of $2,999, including interest at 4.125%, matures October 2044		595,081
Comerica Bank, secured by all Company personal property assets, payable in monthly installments of $3,500 plus interest at the Daily Adjusting LIBOR rate plus the applicable margin, currently at 2.70%, matures June 2019		528,500
Comerica Bank, secured by all Company personal property assets, payable in monthly installments of $62,500 plus interest at the Daily Adjusting LIBOR rate plus the applicable margin, currently 3.95%, matures August 2017		500,000
Wells Fargo Bank, secured by real estate, payable in monthly installments of $4,260, including interest at 3.25%, matures June 2036		279,044
Bank of America, secured by real estate, payable in monthly installments of $8,463 including a variable rate of interest, currently 3.28%, matures April 2018		132,316
Madera Capital, payable in monthly installments of $3,505, including interest at 2.32%, matures March 2020		131,539
		7,194,634
Less current portion		(1,049,259)
	$	6,145,375

Note 5 - Long-Term Debt, continued

Principal payments of long-term debt are due as follows:

Year Ending December 31,		
2017	$	1,049,259
2018		4,327,330
2019		574,530
2020		102,330
2021		95,088
Thereafter		1,046,097
	$	7,194,634

Note 6 - Operating Leases

The Company conducts its Visalia campus operations in facilities it leases from related parties, Robert and Shirley Perry, under a fifteen-year noncancellable, renewable lease which will expire March 2023. Rental expense was approximately $523,064 for the year ended December 31, 2016.

The Company leases various office space and equipment. Some of these leases are on a month-to-month basis. However, several leases are on an extended contract expiring at various dates through September 2027 with escalating rental payments. The payments are being amortized over the life of the leases on a straight-line basis as deferred rent.

Total rental expense, including month-to-month rentals, was approximately $6,700,000 for the year ended December 31, 2016.

Future minimum lease payments required under the above operating leases are as follows:

Year Ending December 31,		
2017	$	6,602,981
2018		5,150,701
2019		4,179,648
2020		2,655,812
2021		1,080,070
Thereafter		2,401,707
	$	22,070,919

Note 7 - Defined Contribution Retirement Plan

The Company sponsors a defined contribution profit sharing plan covering substantially all of its employees. The 401(k) element allows employees to elect to contribute to the plan up to a specified percent of their salaries, subject to specified limits of the law. The plan also provides for a discretionary matching provision. Employer contributions are discretionary and are determined annually by management. Employer contributions to the plan were $100,000 for the year ended December 31, 2016.

Note 8 – Advertising

Advertising expense was $7,968,930 for the year ended December 31, 2016.

Note 9 - Related Party Transactions

The Company participates in the Student Financial Aid (SFA) under the Title IV programs administered by the U. S. Department of Education pursuant to the Higher Education Act of 1965, as amended (HEA). The Company 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. Notes receivable - related parties were collateralized and fully secured by real property. The value of the real property exceeded the amount of the notes receivable. The College had notes receivable of $4,498,971 due from subsidiaries that have been eliminated from the consolidated financial statements.

Note 10 - Contingencies

The Company is occasionally engaged in legal proceedings incidental to its normal business activities. In the opinion of management, these proceedings are not material relative to the Company's financial position.

Note 11 - Concentrations of Credit Risk

Cash
The Company maintains their cash balances in several financial institutions that are insured by the Federal Deposit Insurance Corporation. At December 31, 2016, the Company's total uninsured balance was $6,026,839. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

Educational Income
The College's tuition charges are generally funded by various federal, state and local agencies in the form of student loans and grants. Most of the funds are provided over the duration of each applicable course. The funding is subject to annual reviews by various agencies involved and to ongoing changes in federal and state legislation.

Federal legislation has established financial responsibility ratios, and the Rule 90/10 Revenue Test for cash receipts compliance (Note 13), that must be maintained in order to retain Title IV student loans and grant funding, a significant source of College revenue. In addition, student loan default rates are monitored and student loan funding can be lost temporarily by any institution that exceeds allowable student default rates for three consecutive years. The College carefully monitors proper compliance with regulatory guidelines and maintains communication with Department of Education personnel in order to properly interpret regulations and stay in compliance with changes in federal requirements.

Note 12 - Income Taxes

The components of income tax benefit are as follows:

Current:		
State	$	45,288
Deferred income tax benefit		(320,000)
	$	(274,712)

Due to the passage of time, the deferred tax liability related to the conversion from a C-corporation to an S-corporation has expired.

Note 13 - Rule 90/10 Revenue Test

The Department of Education enforces the Rule 90/10 Revenue Test, which provides that an institution receiving Title IV and HEA program funding used to satisfy tuition, fees and other institutional charges to students, monitor the percentage of these funds to total funds received from all sources for tuition, fees and other institutional charges for eligible programs. The percentage of Title IV and HEA program funding cannot exceed 90% of the total funds received from all sources.

Note 13 - Rule 90/10 Revenue Test, continued

A summary of revenues received for the year ended December 31, 2016 from all sources for eligible program funding follows:

	Amount Disbursed	Adjusted Amount	
Student Title IV Revenue			
Subsidized Loan	$ 20,731,687	$ 20,731,687	
Unsubsidized Loan up to pre-ECASLA Loan Limits	28,229,292	28,229,292	
Federal Pell Grant	26,748,139	26,748,139	
FSEOG (subject to matching reduction, see Section 3, Adjustments to Student Title IV Revenue, item 1)	415,813	415,813	
Federal Work Study applied to tuition and fees (subject to matching reduction)	-	-	
Federal Direct PLUS Loan	6,458,024	6,458,024	
All Other Title IV Loans and Grants - ACG	-	-	
Student Title IV Revenue	$ 82,582,955	$ 82,582,955	
Revenue Adjustment:			
If the amount of funds applied first plus Student Title IV revenue is more than tuition and fees, then reduce Title IV revenue by the amount over tution and fees.		(1,159,259)	
Adjusted Student Title IV Revenue		$ 81,423,697	
Student Non-Title IV Revenue			
Grant funds for the student from non-Federal public agencies or private sources independent of the institution	$ 110,401		
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	193,134		
Funds used by a student from savings plans for educational expenses established on or behalf of the student that qualify for special tax treatment under the Internal Revenue	-		
Institutional scholarships disbursed to the student	-		
Amount of Unsubsidized Loan Over the pre-ECASLA Loan Limits	-		
Student Payments	17,020,555		
Student Non-Title IV Revenue	$ 17,324,090		
Revenue from Other Sources			
Activities conducted by the institution that are necessary for education and training	$ -		
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	-		
Total Revenue from Other Sources	$ -		
Adjusted Title IV Revenue		$ 81,423,697	
Adjusted Title IV Revenue + Adjusted Student Non-Title IV Revenue + Total Revenue from Other Sources		$ 98,747,787	82.46%

Note 14 - Common Stock

The Company is authorized to issue 100,000 shares of common stock, consisting of 90,000 shares of Series A common stock and 10,000 shares of Series B common stock. Series B common stock includes all rights, preferences, and privileges of Series A common stock, except for the right to vote. The Company has 2,772 shares of Series A common stock and 308 shares of Series B common stock outstanding at December 31, 2016. The shares have a par value of $.11.

Note 15 - Noncontrolling Interest

Below is a summary of the noncontrolling interest's balance sheet at December 31, 2016:

		Perry Enterprises, Perry Brothers Enterprises, LLC, and Perry 802, LLC
Current Assets	$	1,488,630
Property and Equipment, net		14,544,795
	$	16,033,425
Current Liabilities	$	1,088,314
Long-Term Liabilities		10,403,458
Equity		4,541,653
	$	16,033,425

Below is a summary of the noncontrolling interest's statement of income for the year ended December 31, 2016:

		Perry Enterprises, Perry Brothers Enterprises, LLC, and Perry 802, LLC
Rental Income	$	2,014,494
Operating Expenses		(763,532)
Interest Expense		(455,150)
Other		(52,566)
Net Income	$	743,246

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INDEPENDENT AUDITORS' 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
of San Joaquin Valley College, Inc. and Subsidiaries

We have audited, 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, the consolidated financial statements of San Joaquin Valley College, Inc. and Subsidiaries (collectively, the Company), which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statement of income and comprehensive income, changes in equity, and cash flows, for the year then ended December 31, 2016, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 31, 2017.

Internal Control over Financial Reporting

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

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 San Joaquin Valley College, Inc.'s and Subsidiaries' consolidated financial statements are free of material misstatement, we performed tests of their 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.*

Purpose of this Report

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

Aldrich CPAs + Advisors LLP

San Diego, California
March 31, 2017

San Joaquin Valley College, Inc. and Subsidiaries

Consolidated Financial Statements

Year Ended December 31, 2017

Aldrich

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Aldrich CPAs + Advisors LLP
7676 Hazard Center Drive, #1300
San Diego, California 92108

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of San Joaquin Valley College, Inc. and Subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of San Joaquin Valley College, Inc. (a California corporation) and Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2017, and the related consolidated statements of income and comprehensive income, changes in equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of San Joaquin Valley College, Inc. and Subsidiaries as of December 31, 2017, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Note 13 on San Joaquin Valley College, Inc.'s calculation of its Title IV 90/10 Revenue Test and Note 9 on related party transactions are required by the U. S. Department of Education and presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 30, 2018 on our consideration of San Joaquin Valley College, Inc.'s and Subsidiaries' internal control over financial reporting and on our tests of their 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 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 San Joaquin Valley College, Inc.'s and Subsidiaries' internal control over financial reporting and compliance.

Aldrich CPAs + Advisors LLP

San Diego, California
March 30, 2018

SAN JOAQUIN VALLEY COLLEGE, INC. AND SUBSIDIARIES
Consolidated Balance Sheet
December 31, 2017

ASSETS		
Current Assets:		
Cash	$	8,577,413
Marketable securities		1,839,439
Accounts receivable - students		20,521,566
Accounts receivable - other		40,993
Current portion of retail installment contracts		5,970,087
Inventory		1,211,002
Prepaid expenses		1,475,649
Total Current Assets		39,636,149
Other Assets:		
Deposits		420,571
Retail installment contracts, net of current portion		5,798,547
Property and equipment, net of accumulated depreciation		16,772,341
		22,991,459
	$	62,627,608
LIABILITIES AND EQUITY		
Current Liabilities:		
Current portion of long-term debt	$	1,027,674
Current portion of deferred rent		360,920
Accounts payable		2,249,273
Accrued salaries and wages		3,876,750
Accrued compensated absences		1,274,615
Accrued other expenses		1,195,511
Unearned income		28,657,620
Total Current Liabilities		38,642,363
Long-Term Liabilities:		
Long-term debt, net of current portion		6,436,612
Deferred rent, net of current portion		490,643
		6,927,255
		45,569,618
Equity:		
Common stock		339
Additional paid-in capital		10,000
Accumulated other comprehensive loss		(79,194)
Retained earnings		11,072,719
Noncontrolling interest		6,054,126
		17,057,990
	$	62,627,608

See accompanying notes to consolidated financial statements.

SAN JOAQUIN VALLEY COLLEGE, INC. AND SUBSIDIARIES

Consolidated Statement of Income and Comprehensive Income

Year Ended December 31, 2017

Operating Income		$ 101,253,928
Operating Expenses:		
Course instruction materials and services		29,486,530
Student recruitment		11,519,791
Depreciation		1,785,949
General and administrative		54,043,571
		96,835,841
Income from Operations		4,418,087
Other Income (Expense):		
Rental income		5,600
Interest income		742,515
Other income		783,850
Interest expense		(314,918)
Realized losses on marketable securities		(12,768)
Other expense		(890,152)
		314,127
Income Before Income Taxes		4,732,214
Income Tax Expense- current, state		67,526
Consolidated Net Income		4,664,688
Net Income Attributable to Noncontrolling Interest	841,462	
Net Income Attributable to San Joaquin Valley College, Inc. stockholders	3,823,226	
Other Comprehensive Income:		
Unrealized gain on marketable securities		25,962
Reclassification adjustment of losses recognized in net income		12,768
		38,730
Total Comprehensive Income		4,703,418
Comprehensive Income Attributable to Noncontrolling Interest		(841,462)
Comprehensive Income Attributable to San Joaquin Valley College, Inc. stockholders		$ 3,861,956

See accompanying notes to consolidated financial statements.

SAN JOAQUIN VALLEY COLLEGE, INC. AND SUBSIDIARIES
Consolidated Statement of Changes in Equity
Year Ended December 31, 2017

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Noncontrolling Interest	Total
Balance at December 31, 2016	$ 339	$ 10,000	$ (117,924)	$ 10,098,380	$ 5,434,176	$ 15,424,971
Stockholder and Partner Distributions	-	-	-	(2,848,887)	(221,512)	(3,070,399)
Net Income	-	-	-	3,823,226	841,462	4,664,688
Other Comprehensive Income:						
Unrealized gain on marketable securities	-	-	25,962	-	-	25,962
Reclassification adjustment for losses realized in net income	-	-	12,768	-	-	12,768
						38,730
Balance at December 31, 2017	$ 339	$ 10,000	$ (79,194)	$ 11,072,719	$ 6,054,126	$ 17,057,990

See accompanying notes to consolidated financial statements.

SAN JOAQUIN VALLEY COLLEGE, INC. AND SUBSIDIARIES
Consolidated Statement of Cash Flows
Year Ended December 31, 2017

Cash Flows from Operating Activities:		
Net income attributable to San Joaquin Valley College, Inc. stockholders	$	3,823,226
Adjustments to reconcile net income attributable to San Joaquin Valley College, Inc. stockholders to net cash provided by operating activities:		
Net income attributable to noncontrolling interest		841,462
Depreciation		1,785,949
Realized loss on marketable securities		12,768
Loss on disposal of property and equipment		15,777
Changes in operating assets and liabilities:		
Accounts receivable - students		(843,478)
Accounts receivable - other		(40,793)
Retail installment contracts		1,676,596
Inventory		(335,525)
Prepaid expenses		58,394
Accounts payable		662,702
Accrued salaries and wages		1,782,405
Accrued compensated absences		62,150
Accrued other expenses		(363,294)
Unearned income		(2,745,908)
Deferred rent		(296,506)
Net Cash Provided by Operating Activities		6,095,925
Cash Flows from Investing Activities:		
Purchases of marketable securities		(44,656)
Proceeds from marketable securities		45,675
Payment of deposits		(38,436)
Purchases of property and equipment		(970,382)
Proceeds from sale of property and equipment		24,677
Net Cash Used by Investing Activities		(983,122)
Cash Flows from Financing Activities:		
Proceeds from long-term debt		1,503,761
Payments of long-term debt		(1,234,109)
Payments of accrued dividends		(430,000)
Stockholder and partner distributions		(3,070,399)
Net Cash Used by Financing Activities		(3,230,747)
Net Increase in Cash		1,882,056
Cash, beginning		6,695,357
Cash, ending	$	8,577,413
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$	314,999
Income taxes paid	$	43,000

See accompanying notes to consolidated financial statements.

Note 1 - Organization and Summary of Significant Accounting Policies

Nature of Operations
As a private junior college accredited by the Western Association of Schools and Colleges, San Joaquin Valley College, Inc. (College) is in the business of providing degree-granting courses. It currently operates fourteen campuses located in Visalia, Fresno (main campus and aviation school), Bakersfield, Madera, Hanford, Modesto, Rancho Cordova, Ontario, Victor Valley, Temecula, Antelope Valley, Delano, and Porterville. The College also provides education through on-line operations. Perry Enterprises (Partnership) was formed to hold real property which it rents to the College. The two partners in the Partnership are the majority stockholders of the College. Long-term debt of the Partnership is guaranteed by the stockholders. 1977 Holdings, LLC (1977 Holdings) was formed to hold an airplane that is leased to the College and the Partnership. 1977 Holdings is a single member LLC whose sole member is the College. Perry Brothers Enterprises, LLC (Perry Bros.) was formed to hold real property which is rented to the College. The two members of Perry Bros. are the majority stockholders of the College. Long-term debt of Perry Bros. is guaranteed by the stockholders. Perry 802, LLC (Perry 802) was formed to hold real property that is rented to the College. The two members of Perry 802 are the majority stockholders of the College.

Principles of Consolidation
The consolidated financial statements include the accounts of the College, the Partnership, 1977 Holdings, Perry Bros., and Perry 802 (collectively, the Company). All significant intercompany transactions and balances have been eliminated.

Comprehensive Income
The Company reports comprehensive income in accordance with generally accepted accounting principles. The purpose of reporting comprehensive income is to report all changes in equity of an enterprise that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owners.

Revenue Recognition
The College recognizes tuition income for each student ratably over the duration of each class. Tuition income charged to the student but not yet earned is recorded as unearned income. Therefore, tuition is earned and income is recognized as a student attends class and progresses toward graduation.

Marketable Securities
The Company classifies its investments in marketable securities into one of three categories: held to maturity, available for sale or trading. All marketable securities of the Company have been categorized as available for sale. Available for sale investments are stated at fair value in the consolidated financial statements, with unrealized gains and losses reported as a separate component of equity.

Accounts and Retail Installment Contracts Receivable
Accounts and retail installment contracts receivable are recorded at actual amounts billed. An allowance for doubtful accounts and a corresponding recognition of bad debt expense is recorded to adjust the receivables to estimated net realizable value. Based upon a periodic review, accounts are written off against the allowance when they are deemed to be uncollectible.

The provision for uncollectible retail installment contracts has been estimated based on a percentage of accounts receivable that reflects historical actual bad debts and current conditions. Accounts receivable – students is due from various student financial aid sources, therefore, management believes all amounts are fully collectible. No allowance for doubtful accounts is considered necessary at December 31, 2017.

Inventory
Inventory consists primarily of textbooks. The items are valued at the lower of cost (specific identification method) or net realizable value.

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Property and Equipment
The Company capitalizes all expenditures for property and equipment in excess of $5,000. Property and equipment are recorded at cost. Expenditures for maintenance and repairs are charged to expense as incurred. Renewals and betterments that materially extend the life of the assets are capitalized. Depreciation is provided using straight-line and accelerated methods over estimated useful lives of the assets of three to 39 years.

Deferred Rent
Rent expense for operating leases is recorded on a straight-line basis over the term of the lease with the resulting deferral recorded as a liability on the consolidated balance sheet.

Income Taxes
The College has elected to be taxed under the provisions of subchapter S of the internal revenue code. Earnings and losses are included in the personal income tax returns of the stockholders and taxed depending on their personal tax strategies. Accordingly, the College does not incur federal income tax obligations. Income of the College is subject to California franchise tax. Income or loss of the Partnership, 1977 Holdings, Perry Bros., and Perry 802 is that of the individual partners and members for federal income tax purposes. Accordingly, no provision for federal income taxes is made in the accompanying consolidated financial statements. For state income tax purposes, the Partnership, 1977 Holdings, Perry Bros., and Perry 802 are subject to income tax. Accordingly, a provision for state income taxes is made in the consolidated financial statements. The Company recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision. The deferred tax liability is related to the unrecognized built-in gains tax that the College could be subject to at the corporate level.

The Company follows accounting standards related to the recognition of uncertain tax positions. These standards provide detailed guidance for financial statement recognition, measurement and disclosure of uncertain tax positions taken or expected to be taken on the income tax returns. The Company will record a liability for uncertain tax positions when it is more likely than not that a tax position would not be sustained if examined by the taxing authority. Management has determined that the Company does not have any uncertain tax positions as of December 31, 2017.

Advertising
The cost of advertising is expensed as it is incurred.

Use of Estimates
The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value Measurements
Accounting standards provide the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques 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 are described below:

> Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
>
> Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.
>
> Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Fair Value Measurements, continued
A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used during 2017 from prior years.

Mutual Funds: Valued at quoted market prices in active markets, which represent the net asset value of shares held by the Company at year end.

The carrying value of cash, receivables, and payables approximates fair value at December 31, 2017, due to the relative short maturities of these instruments.

Subsequent Events
The Company has evaluated subsequent events through March 30, 2018, which is the date the consolidated financial statements were available to be issued.

Note 2 - Marketable Securities

Marketable securities consist of the following and are categorized in the fair value hierarchy as follows at December 31, 2017:

	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Intermediate-Term Bond	$ 538,360	$ -	$ -	$ 538,360
Short-Term Bond	379,414	-	-	379,414
World Bond	288,744	-	-	288,744
High Yield Bonds	267,389	-	-	267,389
Bank Loan	241,345	-	-	241,345
Market Neutral	54,286	-	-	54,286
Long/Short Equity	49,869	-	-	49,869
Multialternative	20,032	-	-	20,032
	$ 1,839,439	$ -	$ -	$ 1,839,439

Unrealized gains of $25,962 have been reported as an other comprehensive gain for the year ended December 31, 2017.

Note 3 - Retail Installment Contracts

The College has entered into financing arrangements with some of its students. Retail installment contracts consist of the following:

Current, net of allowance for doubtful accounts of $205,722	$ 5,970,087
Long-term, net of allowance for doubtful accounts of $2,819,105	5,798,547
	$ 11,768,634

Note 4 - Property and Equipment

Property and equipment consist of the following:

Land	$	4,353,976
Buildings		13,702,772
Furniture and office equipment		7,480,298
Leasehold improvements		5,615,688
Transportation equipment		2,112,524
Classroom equipment		8,519,553
Construction in progress		78,897
		41,863,708
Less accumulated depreciation		(25,091,367)
	$	16,772,341

Note 5 - Long-Term Debt

Long-term debt consists of the following:

Comerica Bank, secured by all Company personal property assets, payable in monthly installments of $39,382 including interest at the Daily Adjusting LIBOR rate plus the applicable margin, currently 4.35%, matures December 2028	$	4,125,637
Comerica Bank, secured by all Company personal property assets, payable in monthly installments of $21,432 plus interest at the Daily Adjusting LIBOR rate plus the applicable margin, currently 4.95%, matures November 2020		715,692
Comerica Bank, secured by all Company personal property assets, payable in monthly installments of $23,570 plus interest at the Daily Adjusting LIBOR rate plus the applicable margin, currently 4.86%, matures February 2020		601,668
Bank of America, secured by real estate, payable in monthly installments of $4,284 including a variable rate of interest, currently 4.00%, matures April 2033		588,505
Wells Fargo Bank, secured by real estate, payable in monthly installments of $2,999, including interest at 4.125%, matures October 2044		583,425
Comerica Bank, secured by all Company personal property assets, payable in monthly installments of $3,500 plus interest at the Daily Adjusting LIBOR rate plus the applicable margin, currently at 2.70%, matures June 2019		486,500
Wells Fargo Bank, secured by real estate, payable in monthly installments of $4,260, including interest at 3.75%, matures June 2036		237,100

Note 5 - Long-Term Debt, continued

Madera Capital, payable in monthly installments of $3,505, including interest at 2.32%, matures March 2020		92,114
Bank of America, secured by real estate, payable in monthly installments of $8,474 including a variable rate of interest, currently 3.55%, matures April 2018		33,645
		7,464,286
Less current portion		(1,027,674)
	$	6,436,612

Principal payments of long-term debt at December 31, 2017 are due as follows:

Year Ending December 31,		
2018	$	1,027,674
2019		1,396,557
2020		703,429
2021		434,452
2022		453,284
Thereafter		3,448,890
	$	7,464,286

Note 6 - Operating Leases

The Company conducts its Visalia campus operations in facilities it leases from related parties, under a fifteen-year noncancellable, renewable lease which will expire March 2023. Rental expense was approximately $528,360 for the year ended December 31, 2017.

The Company leases various office space and equipment. Some of these leases are on a month-to-month basis. However, several leases are on an extended contract expiring at various dates through September 2027 with escalating rental payments. The payments are being amortized over the life of the leases on a straight-line basis as deferred rent.

Total rental expense, including month-to-month rentals, was approximately $8,700,000 for the year ended December 31, 2017.

Future minimum lease payments at December 31, 2017 required under the above operating leases are as follows:

Year Ending December 31,		
2018	$	5,883,345
2019		4,855,298
2020		3,027,520
2021		1,479,248
2022		1,406,712
Thereafter		2,077,236
	$	18,729,359

Note 7 - Defined Contribution Retirement Plan

The Company sponsors a defined contribution profit sharing plan covering substantially all of its employees. The 401(k) element allows employees to elect to contribute to the plan up to a specified percent of their salaries, subject to specified limits of the law. The plan also provides for a discretionary matching provision. Employer contributions are discretionary and are determined annually by management. Employer contributions to the plan were $100,000 for the year ended December 31, 2017.

Note 8 – Advertising

Advertising expense was $6,346,262 for the year ended December 31, 2017.

Note 9 - Related Party Transactions

The Company participates in the Student Financial Aid (SFA) under the Title IV programs administered by the U. S. Department of Education pursuant to the Higher Education Act of 1965, as amended (HEA). The Company 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. Notes receivable - related parties were collateralized and fully secured by real property. The value of the real property exceeded the amount of the notes receivable. The College had notes receivable of $4,350,198 due from subsidiaries that have been eliminated from the consolidated financial statements.

Note 10 - Contingencies

The Company is occasionally engaged in legal proceedings incidental to its normal business activities. In the opinion of management, these proceedings are not material relative to the Company's financial position.

Note 11 - Concentrations of Credit Risk

Cash
The Company maintains their cash balances in several financial institutions that are insured by the Federal Deposit Insurance Corporation. At December 31, 2017, the Company's total uninsured balance was $8,151,721. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

Educational Income
The College's tuition charges are generally funded by various federal, state and local agencies in the form of student loans and grants. Most of the funds are provided over the duration of each applicable course. The funding is subject to annual reviews by various agencies involved and to ongoing changes in federal and state legislation.

Federal legislation has established financial responsibility ratios, and the Rule 90/10 Revenue Test for cash receipts compliance (Note 13), that must be maintained in order to retain Title IV student loans and grant funding, a significant source of College revenue. In addition, student loan default rates are monitored and student loan funding can be lost temporarily by any institution that exceeds allowable student default rates for three consecutive years. The College carefully monitors proper compliance with regulatory guidelines and maintains communication with Department of Education personnel in order to properly interpret regulations and stay in compliance with changes in federal requirements.

Note 12 - Rule 90/10 Revenue Test

The Department of Education enforces the Rule 90/10 Revenue Test, which provides that an institution receiving Title IV and HEA program funding used to satisfy tuition, fees and other institutional charges to students, monitor the percentage of these funds to total funds received from all sources for tuition, fees and other institutional charges for eligible programs. The percentage of Title IV and HEA program funding cannot exceed 90% of the total funds received from all sources.

Note 12 - Rule 90/10 Revenue Test, continued

A summary of revenues received for the year ended December 31, 2017 from all sources for eligible program funding follows:

	Amount Disbursed	Adjusted Amount
Student Title IV Revenue		
Subsidized Loan	$ 19,102,593	$ 19,102,593
Unsubsidized Loan up to pre-ECASLA Loan Limits	27,746,336	27,746,336
Federal Pell Grant	25,096,495	25,096,495
FSEOG (subject to matching reduction, see Section 3, Adjustments to Student Title IV Revenue, item 1)	537,340	537,340
Federal Work Study applied to tuition and fees (subject to matching reduction)	-	-
Federal Direct PLUS Loan	6,372,321	6,372,321
All Other Title IV Loans and Grants - ACG	-	-
Student Title IV Revenue	$ 78,855,085	$ 78,855,085
Revenue Adjustment:		
If the amount of funds applied first plus Student Title IV revenue is more than tuition and fees, then reduce Title IV revenue by the amount over tution and fees.		(691,907)
Title IV funds returned for a student under 34 C.F.R § 668.22 (withdrawal), reduce Student Title IV Revenue		(3,547,072)
Adjusted Student Title IV Revenue		$ 74,616,106
Student Non-Title IV Revenue		
Grant funds for the student from non-Federal public agencies or private sources independent of the institution	$ 202,915	
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	291,724	
Funds used by a student from savings plans for educational expenses established on or behalf of the student that qualify for special tax treatment under the Internal Revenue	-	
Institutional scholarships disbursed to the student	-	
Amount of Unsubsidized Loan Over the pre-ECASLA Loan Limits	-	
Student Payments	17,630,815	
Student Non-Title IV Revenue	$ 18,125,454	
Revenue from Other Sources		
Activities conducted by the institution that are necessary for education and training	-	
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	-	
Total Revenue from Other Sources	$ -	

Adjusted Title IV Revenue		$ 74,616,106	80.46%
Adjusted Title IV Revenue + Adjusted Student Non-Title IV Revenue + Total Revenue from Other Sources		$ 92,741,560	

Note 13 - Common Stock

The Company is authorized to issue 100,000 shares of common stock, consisting of 90,000 shares of Series A common stock and 10,000 shares of Series B common stock. Series B common stock includes all rights, preferences, and privileges of Series A common stock, except for the right to vote. The Company has 2,772 shares of Series A common stock and 308 shares of Series B common stock outstanding at December 31, 2017. The shares have a par value of $.11.

Note 14 - Noncontrolling Interest

Below is a summary of the noncontrolling interest's balance sheet at December 31, 2017:

	Perry Enterprises, Perry Brothers Enterprises, LLC, and Perry 802, LLC
Current Assets	$ 1,321,864
Property and Equipment, net	13,918,876
	$ 15,240,740
Current Liabilities	$ 705,477
Long-Term Liabilities	9,794,818
Equity	4,740,445
	$ 15,240,740

Below is a summary of the noncontrolling interest's statement of income for the year ended December 31, 2017:

	Perry Enterprises, Perry Brothers Enterprises, LLC, and Perry 802, LLC
Rental Income	$ 2,020,340
Operating Expenses	(723,034)
Interest Expense	(421,671)
Other	(34,173)
Net Income	$ 841,462

Aldrich.

Aldrich CPAs + Advisors LLP
7676 Hazard Center Drive, #1300
San Diego, California 92108

Independent Auditors' 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
of San Joaquin Valley College, Inc. and Subsidiaries

We have audited, 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, the consolidated financial statements of San Joaquin Valley College, Inc. and Subsidiaries (collectively, the Company), which comprise the consolidated balance sheet as of December 31, 2017, and the related consolidated statement of income and comprehensive income, changes in equity, and cash flows, for the year then ended December 31, 2017, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 30, 2018.

Internal Control over Financial Reporting

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

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 San Joaquin Valley College, Inc.'s and Subsidiaries' consolidated financial statements are free of material misstatement, we performed tests of their 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*.

Purpose of this Report

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

Aldrich CPAs + Advisors LLP

San Diego, California
March 30, 2018