LOS ANGELES FILM SCHOOL, LLC

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

OPEID: 04037300

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INDEPENDENT AUDITORS' REPORT

OPEID: 04037300
E.I.N. 95-4725724

Members
Los Angeles Film School, LLC
Hollywood, California

Report on the Financial Statements

We have audited the accompanying financial statements of Los Angeles Film School, LLC (the Company), which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of operations, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 financial statements.

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

The Members
Los Angeles Film School, LLC

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2018, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Orlando, Florida
March 22, 2018

LOS ANGELES FILM SCHOOL, LLC
BALANCE SHEETS
DECEMBER 31, 2017 AND 2016

		2017		2016
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	$	649,667	$	1,130,821
Accounts Receivable, Net		8,728,109		6,138,961
Other Accounts Receivable		22,968		33,871
Current Maturities of Loans Receivable, Net		1,058,685		1,015,819
Inventories		1,130,939		1,430,854
Prepaid Expenses		561,354		300,041
Total Current Assets		12,151,722		10,050,367
DUE FROM RELATED PARTY, NET (SECURED)		7,390,116		5,898,119
LOANS RECEIVABLE, NET		283,915		391,403
PROPERTY AND EQUIPMENT, NET		5,048,373		3,982,200
DEPOSITS AND OTHER ASSETS, NET		506,337		502,364
DUE FROM MEMBER		30,000		30,000
Total Assets	$	25,410,463	$	20,854,453

See accompanying Notes to Financial Statements.

LOS ANGELES FILM SCHOOL, LLC
BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2017 AND 2016

	2017	2016
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Current Maturities of Notes Payable	$ 940,499	$ 614,264
Accounts Payable	575,405	1,235,184
Accrued Expenses	1,730,561	1,358,933
Student Course Deposits and Funds Payable	3,330,231	3,889,872
Unearned Tuition Income	1,770,669	2,068,960
Current Portion of Deferred Revenue	29,991	29,991
Total Current Liabilities	8,377,356	9,197,204
NOTES PAYABLE, NET	1,070,584	822,696
DEFERRED REVENUE, NET	152,452	182,443
Total Liabilities	9,600,392	10,202,343
COMMITMENT AND CONTINGENCY		
MEMBERS' EQUITY	15,810,071	10,652,110
Total Liabilities and Members' Equity	$ 25,410,463	$ 20,854,453

See accompanying Notes to Financial Statements.

LOS ANGELES FILM SCHOOL, LLC
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
REVENUES		
Tuition, Net	$ 56,502,442	$ 48,028,510
Student Fees	9,027,588	6,490,399
Other	542,009	526,051
Interest	93,217	78,909
Total Revenues	66,165,256	55,123,869
EXPENSES		
Direct Costs of Courses and Products Sold	18,105,121	16,245,511
Selling, General, and Administrative	39,124,821	33,006,244
Depreciation and Amortization	1,000,958	943,144
Interest	37,752	65,624
Total Expenses	58,268,652	50,260,523
NET EARNINGS	$ 7,896,604	$ 4,863,346

See accompanying Notes to Financial Statements.

LOS ANGELES FILM SCHOOL, LLC
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2017 AND 2016

MEMBERS' EQUITY - JANUARY 1, 2016	$ 6,956,128
Member Distributions	(1,167,364)
Net Earnings	4,863,346
MEMBERS' EQUITY - DECEMBER 31, 2016	10,652,110
Member Distributions	(2,738,643)
Net Earnings	7,896,604
MEMBERS' EQUITY - DECEMBER 31, 2017	$ 15,810,071

See accompanying Notes to Financial Statements.

LOS ANGELES FILM SCHOOL, LLC
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Students	$ 56,251,241	$ 51,560,958
Cash Received from Other Sources	512,018	496,061
Cash Paid to Suppliers and Employees	(49,276,094)	(44,860,062)
Interest Received	93,217	78,909
Interest Paid	(37,752)	(65,624)
Net Cash Provided by Operating Activities	7,542,630	7,210,242
CASH FLOWS FROM INVESTING ACTIVITIES		
Repayments Received on Advances to Employee, Net	-	4,035
Advances to Related Parties, Net	(3,891,997)	(4,046,459)
Repayments Received on Loans Receivable	101,832	116,281
Purchases of Property and Equipment	(2,069,099)	(1,778,762)
Net Cash Used by Investing Activities	(5,859,264)	(5,704,905)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds From Borrowings on Notes Payable	1,316,116	1,238,164
Repayments of Borrowings on Notes Payable	(741,993)	(2,978,890)
Member Distributions	(2,738,643)	(1,167,364)
Net Cash Used by Financing Activities	(2,164,520)	(2,908,090)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(481,154)	(1,402,753)
Cash and Cash Equivalents - Beginning of Year	1,130,821	2,533,574
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 649,667	$ 1,130,821

See accompanying Notes to Financial Statements.

LOS ANGELES FILM SCHOOL, LLC
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
RECONCILIATION OF NET EARNINGS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net Earnings	$ 7,896,604	$ 4,863,346
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,000,958	943,144
Loss on Sale of Property and Equipment	1,968	2,595
Noncash Rental Expense	2,400,000	2,400,000
Bad Debt Provision	5,796,467	2,714,594
Change in Accounts Receivable	(8,422,825)	(4,227,120)
Change in Other Accounts Receivable	10,903	31,477
Change in Inventories	299,915	(441,869)
Change in Prepaid Expenses	(261,313)	(23,884)
Change in Deposits and Other Assets, Net	(3,973)	(181,697)
Change in Bank Overdraft	-	(978,984)
Change in Accounts Payable	(659,779)	662,622
Change in Accrued Expenses	371,628	209,434
Change in Student Course Deposits and Funds Payable	(559,641)	1,291,505
Change in Unearned Tuition Income	(298,291)	(24,931)
Change in Deferred Revenue	(29,991)	(29,990)
Net Cash Provided by Operating Activities	$ 7,542,630	$ 7,210,242

NONCASH INVESTING AND FINANCING ACTIVITY:

During the years ended December 31, 2017 and 2016, the Company issued $310,346 and $387,131, respectively, in student loans which reduced trade accounts receivable (see Note 2).

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Los Angeles Film School, LLC (the Company), formed in 1999, offers a variety of bachelor and/or associates' degrees in the fields of film, recording arts, music production, game production and design, computer animation, and entertainment business, and is located in Hollywood, California. The Company is licensed by the Bureau for Private Post-Secondary Education and is accredited by the Accrediting Commission of Career Schools and Colleges, an accrediting agency recognized by the United States Department of Education.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

The Company maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits; however, the Company has not experienced any losses in such accounts.

Trade Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are stated net of an allowance for doubtful accounts. The Company estimates the allowance for doubtful accounts based on an analysis of specific students, taking into consideration the age of past due accounts and an assessment of the student's ability to pay. Accounts are considered past due when payments due are not made in accordance with the terms of the contract. Accounts are written off upon management's determination that such amounts are uncollectible. The Company's refund policy is based on the percentage of the program that the student completed, and includes a provision that a student is liable for 100% of the tuition billed once 60% or more of the scheduled days in the then current payment period for the respective program has been completed.

A summary of the changes in the allowance for doubtful accounts follows:

	2017	2016
Beginning Balance	$ 5,602,549	$ 4,295,995
Current Year Provision	5,523,334	2,211,596
Write Offs of Accounts	(1,901,248)	(905,042)
Ending Balance	$ 9,224,635	$ 5,602,549

Inventories

Inventories consist of books, supplies and computers and are stated at the lower of cost or market. The average cost method is utilized.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable and Allowance for Loan Losses

Loans are stated at unpaid principal balances, less an allowance for loan losses.

Interest income generally is not recognized on specific impaired loans, if any, unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other impaired loans, if any, is recognized only to the extent of interest payments received.

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, trends in historical loss experience, specific impaired loans, economic conditions, and other risks inherent in the portfolio. Allowances for impaired loans are generally determined based on the present value of estimated cash flows. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries.

Property and Equipment and Depreciation

Property and equipment are stated at cost. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the respective assets.

Revenue Recognition

The Company recognizes revenue ratably over the period of its courses. Amounts unearned as of the balance sheet date are included in "Unearned Tuition Income" in the accompanying balance sheets.

Advertising Costs

The Company expenses advertising costs as incurred. Total advertising costs are included in "Selling, General, and Administrative" expenses in the accompanying statements of operations and amounted to $8,872,839 and $7,751,633 for the years ended December 31, 2017 and 2016, respectively.

Income Taxes

All tax effects of the Company's income or loss are passed through to the members; therefore, the accompanying financial statements contain no provision for income taxes.

The Company evaluates its tax positions for uncertainties on a regular basis and has determined it has no uncertain tax positions as of December 31, 2017 and 2016. The Company recognizes accrued interest and penalties, if any, associated with uncertain tax positions in "Selling, General, and Administrative" expenses in the accompanying statements of operations.

The Company files returns of partnership income in the United States federal jurisdiction and the state of California.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of 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.

Subsequent Events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through March 22, 2018, the date the financial statements were available to be issued.

NOTE 2 LOANS RECEIVABLE

The Company issues uncollateralized loans to students based on financial need. Loans receivable are funded through institutional resources with the majority guaranteed by third parties. The loans receivable require varying monthly payments of principal and interest at rates ranging from 7% to 12% based on the origination dates of the loans and the students' graduation dates. The loans mature at varying dates through 2028. As further discussed in Note 1, allowances for loan losses are established based on, among other things, prior collection experience, and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At December 31, 2017 and 2016, net loans receivable represented 5% and 7% of total assets, respectively.

Loans receivable consisted of the following at December 31:

	2017	2016
Loans Receivable	$ 5,837,397	$ 5,628,886
Less: Allowance for Loan Losses:		
Beginning Balance	4,221,664	3,750,625
Current Year Provision	273,133	502,998
Current Year Write-offs	-	(31,959)
Ending Balance	4,494,797	4,221,664
Loans Receivable, Net	1,342,600	1,407,222
Less: Current Maturities	(1,058,685)	(1,015,819)
Net Noncurrent Portion	$ 283,915	$ 391,403

NOTE 2 LOANS RECEIVABLE (CONTINUED)

At December 31, 2017 and 2016, the following amounts were past due under the terms of the respective loan receivables:

	1-60 Days	60-90 Days	90+ days	Total
December 31, 2017	$ 23,194	$ 14,184	$ 3,714,462	$ 3,751,840
December 31, 2016	$ 10,999	$ 5,736	$ 3,010,117	$ 3,026,852

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31:

	2017	2016
Leasehold Improvements	$ 5,081,890	$ 4,575,301
Equipment	10,335,176	9,627,157
Furniture, Fixtures, and Equipment	7,446,662	6,798,192
Library	32,465	32,465
Telephone and Software	1,332,244	1,266,052
Vehicles	20,500	20,500
Construction in Progress	439,136	301,993
Total Property and Equipment	24,688,073	22,621,660
Less: Accumulated Depreciation and Amortization	(19,639,700)	(18,639,460)
Property and Equipment, Net	$ 5,048,373	$ 3,982,200

Depreciation and amortization expense amounted to $1,000,958 and $943,144 for the years ended December 31, 2017 and 2016, respectively.

NOTE 4 NOTES PAYABLE

Notes payable consisted of the following as of December 31:

Description	2017	2016
Various notes payable to a bank, monthly payments ranging from $522 to $21,966, including interest at rates ranging from 1.95% to 3.22%, collateralized by certain equipment, guaranteed by an affiliate, assumption agreement with member and related party, maturing at various dates through December 2022.	$ 2,011,083	$ 1,436,960
Total Notes Payable	2,011,083	1,436,960
Less: Current Maturities	(940,499)	(614,264)
Net Noncurrent Portion	$ 1,070,584	$ 822,696

NOTE 4 NOTES PAYABLE (CONTINUED)

Future maturities of notes payable are as follows:

Year Ending December 31,	Amount
2018	$ 940,499
2019	691,151
2020	294,303
2021	41,881
2022	43,249
Total	$ 2,011,083

NOTE 5 OPERATING LEASES

The Company is party to noncancellable operating lease agreements for its office and classroom facilities (see Note 6). Future minimum lease payments under these agreements are as follows:

Year Ending December 31,	Amount
2018	$ 6,137,417
2019	2,595,373
2020	245,331
2021	244,934
2022	249,833
Thereafter	768,394
Total	$ 10,241,283

Total rent expense of $8,447,332 and $8,323,510 for the years ended December 31, 2017 and 2016, respectively, includes amounts related to the above lease agreements and additional amounts for short-term equipment rentals.

NOTE 6 RELATED PARTY TRANSACTIONS

The Company participates in Federal programs authorized by Title IV of the Higher Education Act of 1965, as amended (HEA), which are administered by the U.S. Department of Education. The 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. The following information is required by the U.S. Department of Education and is presented for purposes of additional analysis and is not a required part of the basic financial statements.

NOTE 6 RELATED PARTY TRANSACTIONS (CONTINUED)

The Company leases part of its office and classroom facilities from a limited liability limited partnership, the indirect partners of which are the same as the majority of the indirect members of the Company. Rental payments under the lease amounted to $2,701,856 and $2,647,669 for the years ended December 31, 2017 and 2016, respectively. The lease also provides that annual rent may be increased up to 2.5% if there is a 1.0% increase in gross revenues of the Company over revenues recognized for the year ended December 31, 2004, on a cumulative basis. The lease expires in December 2019 and has an option for two renewals of 15 and 10 years, respectively. Future minimum lease payments related to this lease are included in Note 5.

The Company leases part of its office and classroom facilities from a corporation, the indirect members of which are the same as the majority of the indirect members of the Company. Rental payments under the lease amounted to $3,517,204 and $3,448,239 for the years ended December 31, 2017 and 2016, respectively. The lease expires in December 2018 and automatically renews for additional two-year terms unless either party gives 90 days advanced written notice. Future minimum lease payments related to this lease are included in Note 5.

The Company leases part of its office and classroom facilities from a limited liability company, the indirect members of which are the same as the majority of the indirect members of the Company. Rental payments under the lease amounted to $226,282 and $220,762 for the years ended December 31, 2017 and 2016, respectively. The lease also provides that annual rent may be increased up to 2.5% if there is a 1.0% increase in gross revenues of the Company over revenues recognized for the year ended December 31, 2010, on a cumulative basis, for the first seven anniversary dates and 2.0% for each subsequent anniversary date thereafter. The lease expires in January 2026, and has an option for two renewals of 15 and 10 years, respectively. Future minimum lease payments related to this lease are included in Note 5.

During the years ended December 31, 2017 and 2016, the Company made advances to and received advances from affiliated companies. The indirect members and stockholders of these related entities are the same as some of the indirect members of the Company. The net amount of the advances due from (to) these affiliated companies totaled $168,543 and $59,903 at December 31, 2017 and 2016, respectively, and are included in the accompanying balance sheets as “Due from (to) Related Parties, Net.” These advances are noninterest bearing, have no stated repayment terms, unsecured, and are expected to be settled within the next 12 months.

NOTE 6 RELATED PARTY TRANSACTIONS (CONTINUED)

During the years ended December 31, 2017 and 2016, the Company made advances to and received advances from an affiliated company. The indirect members and stockholders of the related entity are the same as some of the indirect members of the Company. The net amount of the advance due from the affiliate company totaled $7,221,573 and $5,838,216 at December 31, 2017 and 2016, respectively, and are included in the accompanying balance sheets as “Due from Related Party, Net (Secured)” These advances are noninterest bearing, have no stated repayment terms, and are not expected to be settled within the next 12 months. As of December 31, 2017, the balance due from related party is secured by substantially all assets of the related party, certain LLC membership interests of an affiliated entity up to $1,575,000 and future distributions to certain members from an affiliate entity up to $525,000.

Advances made to a member of the Company amounted to $30,000 as of December 31, 2017 and 2016, and are included in “Due from Member” in the accompanying balance sheets. These advances are noninterest bearing, have no stated repayment terms, and are not expected to be repaid within the next 12 months.

The Company is a party to a facilities use agreement with a limited liability company, the indirect members of which are the same as the indirect members of the Company. The facilities use agreement provides a fixed monthly rental fee of $200,000 per month for the use of the limited liability company’s classroom facilities and equipment. The facilities use agreement shall continue monthly until cancelled by either party pursuant to the terms of the agreement. Rental fees under this agreement totaled $2,400,000 for each of the years ended December 31, 2017 and 2016.

During 2014, the Company entered into an agreement with a limited liability company, the indirect owners of which are the same as some of the indirect owners of the Company, for the right to license its learning management system and related buildings and services. The agreement contains a variable fee schedule based, in part, on the number of users, expires in February 2024, and provides for automatic renewals for 10 years. Fees paid under this agreement totaled $318,461 and $198,293 for the years ended December 31, 2017 and 2016, respectively.

NOTE 7 MEMBERS’ EQUITY

The Company is a limited liability company with an aggregate of 10,752,689 member units, of which 10,000,000 units are outstanding. The operating agreement provides that the Company shall have perpetual existence unless dissolved pursuant to the terms of the agreement. It also states that no member shall have any personal liability to the Company, other members or creditors of the Company for the debts, liabilities, commitments, or any other obligations of the Company except as otherwise required by law and specifically identified in the limited liability agreement. The Company’s profits and losses are allocated, and distributions to members are calculated, in accordance with the limited liability agreement.

NOTE 8 COMMITMENTS AND CONTINGENCIES

The Company is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of the ultimate liability (if any) with respect to any actions not covered by insurance will not materially affect the financial position of the Company.

During 2014, the Company entered into an agreement with an unrelated third party to independently own and operate an “English as a Second Language” program on its campus. The Company received $299,905 from the third party to fund the build out of the classroom and lab space to be used for the program. The $299,905 is amortized over 10 years and any unamortized portion is refundable upon early termination of the agreement. The agreement provides, among other things, that the third party pay a percentage, as defined in the agreement, of its gross tuition income to the Company at the close of each session for use of the facilities.

The Company will provide a promotional allowance, as defined in the agreement, to the third party for students recruited to the Company from the program. The agreement expires in February 2024 and may be terminated pursuant to the provisions of the agreement. During the years ended December 31, 2017 and 2016, the Company received rental income in the amount of $78,412 and $130,029, respectively, for facilities use as described in the agreement. The Company made no significant payment to the third party in 2017 and 2016.

During the year, the Company underwent a program review by the Department of Education. As of our report date, the program review is still ongoing.

NOTE 9 EMPLOYEE BENEFIT PLAN

The Company has a 401(k) compensation and incentive plan (the Plan) for the benefit of its employees. Employees are eligible to participate in the Plan after completing one year of continuous employment and attaining 21 years of age. The Company contributes an amount equal to 20% of the employee’s contribution based on a maximum of 5% of the employee’s compensation. The Company’s contribution to the Plan amounted to $49,078 and $38,134 for the years ended December 31, 2017 and 2016, respectively.

NOTE 10 TITLE IV 90/10 REVENUE REQUIREMENT

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

The Company's cash basis computation is as follows for the years ended December 31:

	2017		2016	
	Amount	Percent	Amount	Percent
Non-Title IV Source Revenue	$ 19,636,954	34.91%	$ 17,908,761	34.35%
Title IV Source Revenue	36,614,287	65.09%	34,227,167	65.65%
Total Cash Basis Revenue	$ 56,251,241	100.00%	$ 52,135,928	100.00%

NOTE 10 TITLE IV 90/10 REVENUE REQUIREMENT (CONTINUED)

The following is a breakdown of Title IV and Non-Title IV revenue by source for the year ended December 31, 2017:

	2017	
	Amount Disbursed	Adjusted Amount
Adjusted Student Title IV Revenue:		
Subsidized Loans	$ 12,378,755	$ 12,378,755
Unsubsidized Loans up to Pre-ECASLA Loan Limits	23,943,641	23,943,641
Federal Pell Grants	12,752,737	12,752,737
FSEOG	281,063	210,797
Federal Work Study Applied to Tuition and Fees	-	-
Student Title IV Revenue		49,285,930
Revenue Adjustment:		
Student Title IV Revenue in Excess of Tuition and Fees		(8,532,427)
Title IV Funds Returned For Student Withdrawals		(4,139,216)
Adjusted Student Title IV Revenue		$ 36,614,287
Student Non-Title IV Revenue:		
Grant Funds For the Student from Non-Federal Public Agencies or Private Sources Independent of the School	$ 8,337,619	
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	-	
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	-	
School Scholarships Disbursed to the Student	-	
Student Payments on Current Charges	11,299,335	
Student Non-Title IV Revenue	19,636,954	
Revenue from Other Sources:		
Activities Conducted by the Institution that are Necessary for Education and Training	-	
Funds Paid by a Student, or on Behalf of a Student by a Party Other Than the School For an Education or Training Program That is Not Eligible	-	
Allowable Student Payments Plus Allowable Amounts From Account Receivable or Institutional Loan Sales Minus Any Required Payments Under a Recourse Agreement	-	
Revenue from Other Sources	-	
Total Non-Title IV Source Revenue		19,636,954
Total Cash Basis Revenue		$ 56,251,241

NOTE 10 TITLE IV 90/10 REVENUE REQUIREMENT (CONTINUED)

The following is a breakdown of Title IV and Non-Title IV revenue by source for the year ended December 31, 2016:

	2016	
	Amount Disbursed	Adjusted Amount
Adjusted Student Title IV Revenue:		
Subsidized Loans	$ 11,055,343	$ 11,055,343
Unsubsidized Loans up to Pre-ECASLA Loan Limits	21,757,556	21,757,556
Federal Pell Grants	11,295,592	11,295,592
FSEOG	155,023	116,267
Federal Work Study Applied to Tuition and Fees	-	-
Student Title IV Revenue		44,224,758
Revenue Adjustment:		
Student Title IV Revenue in Excess of Tuition and Fees		(7,083,272)
Title IV Funds Returned For Student Withdrawals		(2,914,319)
Adjusted Student Title IV Revenue		$ 34,227,167
Student Non-Title IV Revenue:		
Grant Funds For the Student from Non-Federal Public Agencies or Private Sources Independent of the School	$ 6,767,843	
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	-	
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	-	
School Scholarships Disbursed to the Student	-	
Student Payments on Current Charges	11,140,918	
Student Non-Title IV Revenue	17,908,761	
Revenue from Other Sources:		
Activities Conducted by the Institution that are Necessary for Education and Training	-	
Funds Paid by a Student, or on Behalf of a Student by a Party Other Than the School For an Education or Training Program That is Not Eligible	-	
Allowable Student Payments Plus Allowable Amounts From Account Receivable or Institutional Loan Sales Minus Any Required Payments Under a Recourse Agreement	-	
Revenue from Other Sources	-	
Total Non-Title IV Source Revenue		17,908,761
Total Cash Basis Revenue		$ 52,135,928

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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*

Members
Los Angeles Film School, LLC
Hollywood, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Los Angeles Film School, LLC (the Company), which comprise the balance sheet as of December 31, 2017, and the related statements of operations, changes in members' equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 22, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control over financial reporting* 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 over financial reporting, 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 over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Members
Los Angeles Film School, LLC

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such tests included compliance tests as set forth in the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs*, issued by the U.S. Department of Education, Office of Inspector General (the Guide) including those relating to related parties and percentage of revenue derived from Title IV programs. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the Guide.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting 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 over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Orlando, Florida
March 22, 2018