



ADVANCED WELDING INSTITUTE, LLC

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FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

For the Years Ended December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Member
Advanced Welding Institute, LLC

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Advanced Welding Institute, LLC (a Vermont limited liability company), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income and member's equity and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Advanced Welding Institute, LLC as of December 31, 2022 and 2021, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Advanced Welding Institute, LLC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

New Accounting Standard Adopted

As discussed in Notes 1 and 7 to the financial statements, the Company adopted the provisions of FASB Accounting Standards Codification (ASC) Topic 842, *Leases*, which supersedes prior lease accounting principles generally accepted in the United States of America under ASC Topic 840. The adoption of this Topic resulted in a change to the accounting for the Company's leases. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Advanced Welding Institute, LLC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Advanced Welding Institute, LLC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Advanced Welding Institute, LLC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Emphasis of Matter- Correction of Error

As discussed in Note 11 to the financial statements, certain errors resulting in misstatements of line of credit and member's equity as of December 31, 2021, were discovered by management of the Company during the current year. Accordingly, these amounts have been restated in the 2021 financial statements now presented. Our opinion is not modified with respect to these matters.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedule A on the calculation of the Title IV 90/10 revenue test is required by the U.S. Department of Education and schedule B on Financial Responsibility, is required by 34 C.F.R. Section 668.172 and 34 C.F.R. Appendix A to Subpart L of Part 668, and are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2023 on our consideration of Advanced Welding Institute, LLC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Advanced Welding Institute, LLC's internal control over financial reporting and compliance.

Sikich LLP

Naperville, Illinois
June 15, 2023

FINANCIAL STATEMENTS

ADVANCED WELDING INSTITUTE, LLC

BALANCE SHEETS

December 31, 2022 and 2021

	2022	Restated 2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 755,680	\$ 879,211
Accounts receivable, net	122,232	103,594
Inventory	4,500	4,050
Prepaid supplies	104,513	75,731
Prepaid expenses	10,145	11,226
	<hr/>	<hr/>
Total current assets	997,070	1,073,812
	<hr/>	<hr/>
PROPERTY, PLANT, AND EQUIPMENT		
Furniture and equipment	1,158,492	1,051,767
Leasehold improvements	458,414	435,232
Vehicles	208,569	193,150
	<hr/>	<hr/>
Subtotal	1,825,475	1,680,149
Less accumulated depreciation and amortization	(656,405)	(732,853)
	<hr/>	<hr/>
Net property, plant, and equipment	1,169,070	947,296
	<hr/>	<hr/>
TOTAL ASSETS	\$ 2,166,140	\$ 2,021,108

(This statement is continued on the following page.)

ADVANCED WELDING INSTITUTE, LLC

BALANCE SHEETS (Continued)

December 31, 2022 and 2021

	2022	Restated 2021
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 34,233	\$ 114,821
Notes payable, current portion	9,989	5,122
Deferred student tuition	469,953	347,376
Accrued liabilities	16,150	2,086
	<hr/>	
Total current liabilities	530,325	469,405
	<hr/>	
LONG-TERM LIABILITIES		
Notes payable, net of current portion	20,958	-
Line of credit	96,656	100,030
	<hr/>	
Total long-term liabilities	117,614	100,030
	<hr/>	
Total liabilities	647,939	569,435
	<hr/>	
MEMBER'S EQUITY	1,518,201	1,451,673
	<hr/>	
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$ 2,166,140	\$ 2,021,108
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See accompanying notes to financial statements.

ADVANCED WELDING INSTITUTE, LLC

STATEMENTS OF INCOME AND MEMBER'S EQUITY

For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>Restated 2021</u>
REVENUE		
Tuition and fees, net of refunds	\$ 2,246,683	\$ 1,913,746
Retail	66,004	75,649
Gain on disposal of property	8,466	-
	<hr/>	<hr/>
Total revenue	2,321,153	1,989,395
	<hr/>	<hr/>
OPERATING EXPENSES		
Educational services	812,521	577,238
General and administrative	447,111	400,656
Marketing and admissions	185,679	107,447
Occupancy	208,398	178,688
Depreciation and amortization	122,751	100,215
Loss on disposal of fixed assets	-	6,098
	<hr/>	<hr/>
Total operating expenses	1,776,460	1,370,342
	<hr/>	<hr/>
Income from operations	544,693	619,053
	<hr/>	<hr/>
OTHER INCOME (EXPENSE)		
Interest income	187	176
Interest expense	(3,791)	(2,449)
	<hr/>	<hr/>
Total other income (expense)	(3,604)	(2,273)
	<hr/>	<hr/>
NET INCOME	541,089	616,780
	<hr/>	<hr/>
MEMBER'S EQUITY, BEGINNING OF YEAR	1,451,673	881,833
	<hr/>	<hr/>
Contributions	-	27,920
Distributions	(474,561)	(74,860)
	<hr/>	<hr/>
MEMBER'S EQUITY, END OF YEAR	<u>\$ 1,518,201</u>	<u>\$ 1,451,673</u>

See accompanying notes to financial statements.

ADVANCED WELDING INSTITUTE, LLC

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2022 and 2021

	2022	Restated 2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 541,089	\$ 616,780
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	122,751	100,215
(Gain) loss on disposal of fixed assets	(8,466)	6,098
Changes in certain assets and liabilities		
Accounts receivable	(18,638)	(38,139)
Inventory	(450)	(50)
Prepaid supplies	(28,782)	2,018
Prepaid expenses	1,081	9,399
Accounts payable	(80,588)	22,103
Due to related party	-	-
Deferred student tuition	122,577	50,140
Deferred income - CARES Act	14,064	(54,233)
Accrued liabilities	-	(11,119)
Total adjustments	123,549	86,432
Net cash from operating activities	664,638	703,212
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property	37,500	-
Payments for the purchase of property, plant, and equipment	(373,559)	(450,397)
Net cash from investing activities	(336,059)	(450,397)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayments on notes payable	(5,897)	(13,981)
Proceeds from issuance of debt	31,722	-
Principal repayments on line of credit	(176,874)	-
Advances on line of credit	173,500	100,030
Contribution from member	-	27,920
Distributions to member	(474,561)	(74,860)
Net cash from financing activities	(452,110)	39,109
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(123,531)	291,924
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	879,211	587,287
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 755,680	\$ 879,211
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 3,791	\$ 2,449
Income taxes paid	\$ -	\$ -

See accompanying notes to financial statements.

ADVANCED WELDING INSTITUTE, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Advanced Welding Institute, LLC (the Company) was formed under the laws of the State of Vermont in 2003. The Company operates welding schools in South Burlington, Vermont and Eagle River, Wisconsin.

Basis of Presentation

The Company has elected to apply the accounting alternative treatment for a private company for certain variable interest entities (VIEs) pursuant to with accounting principles generally accepted in the United States of America (USGAAP). As such, the Company has various related entities as discussed in Note 10, that the Company is not required to evaluate or apply VIE guidance and are not consolidated in the accompanying financial statements

Basis of Accounting

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

Cash and Cash Equivalents

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

The Company has deposits at one financial institution in excess of federally insured limits of approximately \$500,000 at December 31, 2022. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts Receivable

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

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

Allowance for Doubtful Accounts

The Company carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes the amount of the allowance for doubtful accounts based on history of past write-offs and collections and current credit conditions. Student receivables are written off as a charge against the allowance when deemed uncollectible which is usually within one year of students leaving their respective programs of study. The allowance for doubtful accounts is \$800 at December 31, 2022 and 2021. However, actual write-offs may exceed the allowance amount.

Inventory

Inventory is valued at the lower of cost or net realizable value with cost determined on a first-in, first-out (FIFO) basis. Inventories consist of clothing and various welding supplies.

Prepaid Supplies

Prepaid supplies consist of various materials and equipment used during instruction.

Property, Plant, and Equipment

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

	<u>Years</u>
Furniture and equipment	3-10
Vehicles	5
Leasehold improvements	15-40

Leasehold improvements are amortized over the shorter of the useful life or lease term. Leasehold improvements associated with a lease between entities under common control are amortized over the economic life. The net book value of leasehold improvements amortized over the economic life is \$414,590 at December 31, 2022. The remaining useful lives of these leasehold improvements is 40 years at December 31, 2022. Depreciation and amortization expense is \$122,751 and \$100,215 for the years ended December 31, 2022 and 2021, respectively.

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

Contract Assets and Liabilities

Contract assets consist of accounts receivable. Contract liabilities consist of deferred student tuition which is the unearned portion of tuition for which a student is contracted. Tuition revenue is recognized ratably over the term of instruction. The deferred student tuition amount was calculated using the actual students' tuition based on the number of scheduled months remaining in the program. This liability is liquidated when tuition revenue is recognized over the remainder of the program. Accounts receivable at January 1, 2021 was \$65,455, and deferred student tuition at January 1, 2021 was \$297,236.

Revenue Recognition

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

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

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

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

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

Revenue Recognition (Continued)

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

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

Government Grants

The Company analogized to International Accounting Standards (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*, to account for government grants. The Company recognizes the grant proceeds in income when any and all conditions are met. The Company recognizes the grant in the statement of income on a net basis as an offset against the related eligible expenses. Should the conditions not be met by the balance sheet date, proceeds will be recorded as deferred income and subsequently recorded on a gross basis in the statement of income.

Leases

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

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

Advertising Costs

Advertising costs are charged to operations when incurred. Advertising expense for the years ended December 31, 2022 and 2021 is \$40,644 and \$47,771, respectively.

Income Taxes

The Company operates as a limited liability company taxed as a subchapter S corporation. As such, income tax expense is not recorded. The net income for the Company flows through to the member and is taxed on his individual income tax return.

The Company files its tax returns with the U.S. federal and various state and local tax jurisdictions. With few exceptions, the Company is no longer subject to examinations by major tax jurisdictions for years prior to 2019.

Use of Estimates

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

New Pronouncements

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

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

Adoption of New Accounting Pronouncements

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, and associated ASUs related to Topic 842, which requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The new guidance requires that a lessee recognize assets and liabilities for leases, and recognition, presentation and measurement in the financial statements will depend on its classification as a finance or operating lease. In addition, the new guidance requires disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. Lessor accounting remains largely unchanged from legacy USGAAP but does contain some targeted improvements to align with the new revenue recognition guidance, *Revenue from Contracts with Customers (Topic 606)*, issued in 2014.

The Company adopted the new standard effective January 1, 2022, using the modified retrospective transition approach, applying the new standard to all leases existing at the date of initial adoption. In addition, the Company has elected the package of practical expedients permitted under the transition guidance within the new standard which does not require reassessment of prior conclusions related to contracts containing a lease, lease classification and initial direct lease costs. As an accounting policy election, the Company excluded short-term leases (term of 12 months or less) from the balance sheet and accounts for nonlease and lease components in a contract as a single component for all asset classes.

On March 27, 2023, FASB issued ASU No. 2023-01, *Leases (Topic 842): Common Control Arrangements*, which provides a practical expedient for private companies to use the written terms and conditions of a common control arrangement to determine whether a lease exists and the classification of and accounting for that lease. The ASU also requires the Company's leasehold improvements associated with the lease to be amortized over the useful life to the common control group (regardless of the lease term) as long as the lessee controls the use of the underlying asset through a lease. The Company has adopted this ASU concurrently with the adoption of Topic 842, *Leases*, as of January 1, 2022.

ADVANCED WELDING INSTITUTE, LLC
NOTES TO FINANCIAL STATEMENTS (Continued)

2. NOTES PAYABLE

The Company has the following notes payable at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
\$31,722 note payable to GM Financial dated November 23, 2022, payable in 36 monthly installments of \$966 inclusive of interest at 6.09%. Secured by a vehicle.	\$ 30,947	\$ -
\$23,630 note payable to GM Financial dated July 12, 2018, payable in 60 monthly installments of \$277 inclusive of interest at 1.90%. Secured by a vehicle. Paid off in 2022.	-	5,122
Total debt	30,947	5,122
Less current portion	9,989	3,194
TOTAL NOTES PAYABLE, NET OF CURRENT PORTION	<u>\$ 20,958</u>	<u>\$ 1,928</u>

Future maturities of long-term debt are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2023	\$ 9,989
2024	10,614
2025	10,344
TOTAL	<u>\$ 30,947</u>

3. LINE OF CREDIT

The Company has a \$100,000 line of credit with Peoples State Bank originally dated September 15, 2020. On August 15, 2022, the credit line was increased to \$250,000 with a maturity date of August 15, 2024. Advances on the line bear interest at the Wall Street Journal Prime rate. The interest is 7.75% at December 31, 2022. The outstanding balance on the line is \$96,656 and \$100,030 at December 31, 2022 and 2021, respectively.

4. PAYCHECK PROTECTION PROGRAM LOAN

In February 2021, the Company received approval for a \$134,538 note payable through the Paycheck Protection Program (PPP) under the Coronavirus Aid, Relief, and Economic Securities (CARES) Act. All or a portion of this note may be forgiven under the terms of the CARES Act depending on the use of the funds. The Company accounted for this loan as a government grant. The Company recognized the government grant in income on a net basis as an offset against the related eligible expenses and the loan was forgiven during the year ended December 31, 2021.

5. HIGHER EDUCATION EMERGENCY RELIEF FUND

In March 2020, the Company received approval for two grants totaling \$46,587 through the Higher Education Emergency Relief Fund (HEERF) as part of the CARES Act. No less than 50% of these funds are required to be provided to students for expenses related to the disruption of campus operations due to coronavirus. The remaining funds can be used to cover costs associated with significant changes to the delivery of instruction due to the coronavirus. The Company recognized the grants in income on a net basis as an offset against the related eligible expenses during the year ended December 31, 2021.

In April 2021, the Company received approval for grants totaling \$67,270 through HEERF II as part of the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) and HEERF III as part of the American Rescue Plan (ARP). These funds are required to be provided to students for expenses related to the disruption of campus operations due to coronavirus. The Company recognized the grants in income on a net basis as an offset against the related eligible expenses during the year ended December 31, 2021.

6. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
<u>Nature of Services</u>		
Tuition and fees - transferred over time	\$ 2,246,683	\$ 1,913,746
Retail revenues	66,004	75,649
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	\$ 2,312,687	\$ 1,989,395

ADVANCED WELDING INSTITUTE, LLC
NOTES TO FINANCIAL STATEMENTS (Continued)

6. REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

Timing of Revenue Recognition

	<u>2022</u>	<u>2021</u>
Services transferred over time	\$ 2,246,683	\$ 1,913,746
Goods and services transferred at a point in time	66,004	75,649
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	<u>\$ 2,312,687</u>	<u>\$ 1,989,395</u>

The Company offers programs of study that typically take up to 15-24 weeks to complete. Students come from a wide variety of backgrounds. Many of the students receive federal financial aid under programs authorized by Title IV of the Higher Education Act of 1965, as amended (HEA) to fund their programs of study. For disbursing financial aid, the programs are broken up into payment periods, and financial aid is typically disbursed at the start of a payment period. Qualitative economic factors that affect revenue recognition and cash flows include student attendance, program content, instructor availability and willingness of the general public to participate in the clinic.

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

7. LEASE COMMITMENTS UNDER ASC 842

The Company has operating leases for its facilities. The Company's leases have remaining lease terms of one year or less. The Company's lease agreements do not contain any material restrictive covenants.

The components of lease expense for operating leases are included in the occupancy expense line items of the income statement for the year ended December 31, 2022 and are summarized as follows:

<u>Lease Cost</u>	<u>Year Ended December 31, 2022</u>
Short-term lease cost	\$ 120,000
TOTAL LEASE COST	<u>\$ 120,000</u>

8. LEASE COMMITMENTS UNDER ASC 840

South Burlington, Vermont

The Company leases this facility on a month-to-month basis.

Eagle River, Wisconsin

The Company leases this campus on a month-to-month basis from Eagle River Properties, LLC, a company owned by member, Rick Irick.

Total rent expense under ASC 840 for the year ended December 31, 2021 is \$120,000.

9. RETIREMENT PLAN

The Company offers a SIMPLE IRA with a matching contribution up to 3% of the annual salary for all employees. The Company's contribution to the plan is \$11,178 and \$9,335 for the years ended December 31, 2022 and 2021, respectively.

10. RELATED PARTY TRANSACTIONS

The Company participates in federal programs authorized by Title IV of the HEA, which are administered by the U.S. Department of Education. The Company must comply with regulations promulgated under the HEA. Those regulations require that all related party transactions be disclosed, regardless of their materiality to the financial statements. Related party transactions for the years ended December 31, 2022 and 2021 are as follows:

Facility Lease

The Company leases its Eagle River facility from Eagle River Properties, LLC, a company owned by member, Richard Irick, on a month-to-month basis. See Note 8 for details. Rent expense is \$57,600 for the years ended December 31, 2022 and 2021, respectively.

11. RESTATEMENT

The line of credit and member's equity has been restated as of December 31, 2021 to reflect the correction of the line of credit which was incorrectly recorded. Management discovered that these areas were incorrectly recorded for the year ended December 31, 2021.

ADVANCED WELDING INSTITUTE, LLC
NOTES TO FINANCIAL STATEMENTS (Continued)

11. RESTATEMENT (Continued)

	As Previously Reported	Restated
BALANCE SHEET AT DECEMBER 31, 2021		
Line of credit	\$ -	\$ 100,030
Total current liabilities	469,405	569,435
Total liabilities	469,405	569,435
Member's equity	1,551,703	1,451,673
 STATEMENT OF INCOME AND MEMBER'S EQUITY FOR THE YEAR ENDED DECEMBER 31, 2021		
Contributions	\$ 127,950	\$ 27,920
Member's equity, end of year	1,551,703	1,451,673
 STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2021		
Advances online of credit	\$ -	\$ 100,030
Contribution from member	127,950	27,920

12. SUBSEQUENT EVENTS

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

Management has evaluated subsequent events through June 15, 2023, which was the date that these financial statements were available for issuance, and determined that there were no significant nonrecognized subsequent events through that date.

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**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Member
Advanced Welding Institute, LLC

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 Advanced Welding Institute, LLC, which comprise the balance sheet as of December 31, 2022 and the related statements of income and member’s equity and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated June 15, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Advanced Welding Institute, LLC’s internal control over financial reporting (internal control) as a basis for designing 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 Advanced Welding Institute, LLC’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Advanced Welding Institute, LLC’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item FS 2022-01 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Advanced Welding Institute, LLC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. Such tests included compliance tests as set forth in the *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.

Entity's Response to Finding

Government Auditing Standards require the auditor to perform limited procedures on the Advanced Welding Institute, LLC's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. Advanced Welding Institute, LLC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Advanced Welding Institute, LLC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Advanced Welding Institute, LLC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sibich LLP

Naperville, Illinois
June 15, 2023

ADVANCED WELDING INSTITUTE, LLC

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2022

FS 2022-01 - Correction of an error (Material Weakness)

Criteria: Management bears the responsibility for presenting the Company's financial statements in accordance with USGAAP.

Condition: The Company must present financial statements in accordance with USGAAP.

Cause: The Company did not properly record a line of credit.

Effect: The accounting records included a material error that required a proposed audit adjustment that needed to be made to the accounting records in order for the financial statements to be fairly stated in accordance with USGAAP.

Recommendation: We recommend management increase oversight over all balances and adjustments to determine the accounting records are fairly stated in accordance with USGAAP.

Management Corrective Action Plan: Management has reviewed and approved the proposed prior period adjustment. The financial statements have been restated as of December 31, 2021 to reflect the correction of errors.

SUPPLEMENTARY SCHEDULES

ADVANCED WELDING INSTITUTE, LLC

SUPPLEMENTARY SCHEDULES

For the Year Ended December 31, 2022

A. ATTESTATION OF REVENUE SOURCES

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% from Title IV programs. The failure of the Company to meet the 90% 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% of its revenue from Title IV programs during its fiscal year, the school becomes provisionally certified for the next two fiscal years.

For the fiscal year ended December 31, 2022, the Company's cash basis calculation is:

	<u>Amount Disbursed</u>	<u>Adjusted Amount</u>
Adjusted Student Title IV Revenue		
Subsidized loans	\$ 157,910	\$ 157,910
Unsubsidized loans	102,011	102,011
PLUS loans	330,571	330,571
Federal Pell grants	183,574	183,574
Student Title IV Revenue	<u>\$ 774,066</u>	774,066
Revenue adjustment		(62,497)
Title IV funds returned for a student under 34 C.F.R. §668.22		<u>(8,391)</u>
Adjusted Student Title IV Revenue		703,178

ADVANCED WELDING INSTITUTE, LLC

SUPPLEMENTARY SCHEDULES (Continued)

For the Year Ended December 31, 2022

A. ATTESTATION OF REVENUE SOURCES (Continued)

Student Non-Title IV Revenue

Grant funds for the student from nonfederal public agencies or private sources independent of the school	\$	299,814
Funds provided for the student under a contractual arrangement with federal, state, or local government agency for the purpose of providing job training to low-income individuals		137,936
Funds used by student from savings plans for educational expenses established by or on behalf of the student that qualify for special treatment under the Internal Revenue Code		101,733
School scholarships disbursed to the student		-
Student repayments on current charges		1,003,976
		1,003,976
Student Non-Title IV Revenue	\$	1,543,459

Revenue from Other Sources

Activities conducted by the school that are necessary for education and training (34 C.F.R. §668.28(a)(3)(ii))	\$	-
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 (34 C.F.R. §668.28(a)(3)(iii))		-
Allowable student payments plus allowable amounts from account receivable or institutional loan sales less any required payments under a recourse agreement		-
		-
Revenue from Other Sources	\$	-

Total Non-Title IV Revenue		\$ 1,543,459
Total Revenue		\$ 2,246,637
Numerator	\$ 703,178	
Denominator	\$ 2,246,637	31.30%

For the fiscal year ended December 31, 2021, the Company received \$ 454,153 of revenues from Title IV programs out of \$ 1,979,456 of eligible cash basis revenue totaling 23%.

ADVANCED WELDING INSTITUTE, LLC

SUPPLEMENTARY SCHEDULES (Continued)

For the Year Ended December 31, 2022

A. ATTESTATION OF REVENUE SOURCES (Continued)

As more than 10% of revenue is received outside the Student Financial Assistance (SFA) Programs, the Company is in compliance with this eligibility requirement for the year ended December 31, 2022.

B. FINANCIAL RESPONSIBILITY

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

The required disclosure of the components of the composite score for the year ended December 31, 2022 are below:

Primary Reserve Ratio

	<u>Adjusted Equity</u>	
Balance sheet - member's equity	Total equity	\$ 1,518,201
N/A	Secured and unsecured related party receivables and/or other related party assets	\$ -
N/A	Unsecured related party receivables and/or other related party assets	-
Balance sheet - net fixed assets	Property, plant, and equipment, net - including construction in progress	1,169,070
Table 1 - Line A	Property, plant, and equipment, net - including pre-implementation less any construction in progress	132,159
Table 1 - Line B	Property, plant, and equipment, net - post-implementation less any construction in progress with outstanding debt for original purchase with debt	56,048
Table 1 - Line D	Property, plant, and equipment, net - post-implementation less any construction in progress with outstanding debt for original purchase without debt	980,863

ADVANCED WELDING INSTITUTE, LLC

SUPPLEMENTARY SCHEDULES (Continued)

For the Year Ended December 31, 2022

B. FINANCIAL RESPONSIBILITY (Continued)

Primary Reserve Ratio (Continued)

	<u>Adjusted Equity (Continued)</u>	
N/A	Construction in progress	\$ -
N/A	Intangible assets	-
N/A	Post-employment and defined pension plan liabilities	-
Balance sheet - notes payable and line of credit	Long-term debt - for long-term purposes and construction in process debt	\$ 127,603
Table 2 - Line A	Long-term debt for long-term purposes pre-implementation	-
Table 2 - Line B	Qualified long-term debt for long-term purposes post-implementation for purchase of property, plant, and equipment	30,947
N/A	Line of credit for construction in process	-
N/A	Lease right-of-use assets - pre-implementation	-
N/A	Lease right-of-use assets - post-implementation	-
N/A	Lease right-of-use liabilities - pre-implementation	-
N/A	Lease right-of-use liabilities - post-implementation	-
Statement of income and member's equity - total operating expenses and interest expenses	Total expenses and losses	1,780,251

ADVANCED WELDING INSTITUTE, LLC

SUPPLEMENTARY SCHEDULES (Continued)

For the Year Ended December 31, 2022

B. FINANCIAL RESPONSIBILITY (Continued)

Equity Ratio

	Modified Equity	
Balance sheet - member's equity	Total equity	\$ 1,518,201
N/A	Lease right-of-use assets - pre-implementation	-
N/A	Lease right-of-use liabilities - pre-implementation	-
N/A	Intangible assets	-
N/A	Secured and unsecured related party receivables and/or other related party assets	\$ -
N/A	Unsecured related party receivables and/or other related party assets	-
	Modified Assets	
Balance sheet - total assets	Total assets	2,166,140
N/A	Lease right-of-use assets - pre-implementation	-
N/A	Intangible assets	-
N/A	Secured and unsecured related party receivables and/or other related party assets	-
N/A	Unsecured related party receivables and/or other related party assets	-

Net Income Ratio

Statement of income and member's equity - net income	Income before taxes	\$ 541,089
Statement of income and member's equity - total revenue	Total revenues and gains	2,321,340

ADVANCED WELDING INSTITUTE, LLC

SUPPLEMENTARY SCHEDULES (Continued)

For the Year Ended December 31, 2022

B. FINANCIAL RESPONSIBILITY (Continued)

Table 1 - Net Property, Plant, and Equipment

A	Pre-implementation property, plant, and equipment		\$	132,159
B	Post-implementation property, plant, and equipment			56,048
	Vehicles	\$	56,048	
	Furniture		-	
	Computers		-	
C	Construction in progress			-
D	Post-implementation property, plant, and equipment			<u>980,863</u>
	TOTAL		\$	<u>1,169,070</u>

A - This is the ending balance on the last financial statement submission prior to the implementation of the regulations - less any depreciation or disposals.

B - This is the balance of assets purchased after the implementation of the regulations that was purchased by obtaining debt.

C - Asset value of the construction in progress.

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

ADVANCED WELDING INSTITUTE, LLC

SUPPLEMENTARY SCHEDULES (Continued)

For the Year Ended December 31, 2022

B. FINANCIAL RESPONSIBILITY (Continued)

Table 2 - Long-Term Debt for Long-Term Purposes

A	Pre-implementation long-term debt		\$	-
B	Allowable post-implementation long-term debt			30,947
	Vehicles	\$	30,947	
	Furniture		-	
	Computers		-	
C	Construction in progress - debt			-
D	Long-term debt not for the purchase of property, plant, and equipment or liability greater than assets value			<u>96,656</u>
	TOTAL		\$	<u>127,603</u>

A - This is the ending balance of the last financial statement submission prior to the implementation of the regulations - less in repayments.

B - This is the lesser of actual outstanding debt of each assets or the value of the asset. See Note 2 to the attached basic financial statements for terms of the debt involved.

C - All debt associated with construction in progress up to the asset value for construction in process is included.

D - Long-term debt not for the purchase of property, plant, and equipment. See Notes 2 and 3 to the attached basic financial statements for terms of the debt involved.

ADVANCED WELDING INSTITUTE, LLC

SUPPLEMENTARY SCHEDULES (Continued)

For the Year Ended December 31, 2022

B. FINANCIAL RESPONSIBILITY (Continued)

The Company's composite score is calculated as follows:

Primary reserve ratio	0.900
Equity ratio	1.200
Net income ratio	<u>0.900</u>
 SUM OF ALL RATIOS	 <u><u>3.000</u></u>
 COMPOSITE SCORE	 <u><u>3.0</u></u>

As the composite score is between 1.5 and 3.0, the Company is considered financially responsible under this general standard for the year ended December 31, 2022.