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THE INSTITUTE, INC.

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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 Stockholder
The Institute, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of The Institute, Inc. (the Company) (a Wisconsin corporation), which comprises the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, stockholders' 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 The Institute, Inc., 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 The Institute, Inc. 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 4 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; primarily resulting in the recognition of right-of-use assets and lease liabilities for operating 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 The Institute, Inc.'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 The Institute, Inc.'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 The Institute, Inc.'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.

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. The accompanying supplementary schedule C on Accreditation Financial Responsibility and Cash Reserves is required by The National Accrediting Commission of Career Arts & Sciences and is not a required part of 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 23, 2023 on our consideration of The Institute, Inc.'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 the effectiveness of The Institute, Inc.'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 Institute, Inc.'s internal control over financial reporting and compliance.

Sikich LLP

Naperville, Illinois
June 23, 2023

FINANCIAL STATEMENTS

THE INSTITUTE, INC.

BALANCE SHEETS

December 31, 2022 and 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,250,341	$ 1,801,316
Cash - restricted	-	2,983
Certificate of deposit	500,000	-
Accounts receivable, net	8,860	48,225
Inventory	56,501	43,306
Prepaid supplies	21,774	28,318
Prepaid expenses	9,515	27,651
Total current assets	1,846,991	1,951,799
PROPERTY, PLANT, AND EQUIPMENT		
Equipment	810,354	671,540
Leasehold improvements	589,522	614,100
Furniture and fixtures	349,260	347,168
Subtotal	1,749,136	1,632,808
Less accumulated depreciation and amortization	(1,254,724)	(1,117,082)
Net property, plant, and equipment	494,412	515,726
OTHER ASSETS		
Operating lease right-of-use assets	395,298	-
Total other assets	395,298	-
TOTAL ASSETS	$ 2,736,701	$ 2,467,525

(This statement is continued on the following page.)

THE INSTITUTE, INC.

BALANCE SHEETS (Continued)

December 31, 2022 and 2021

	2022	2021
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 238,160	$ 235,348
Due to related party	117,701	95,920
Deferred student tuition	577,434	554,243
Deferred income - Higher Education Emergency Relief Fund	-	2,983
Accrued liabilities	142,983	168,714
Operating lease liability, current portion	221,484	-
Deferred rent, current portion	-	11,352
Total current liabilities	1,297,762	1,068,560
LONG-TERM LIABILITIES		
Operating lease liability, net of current portion	209,712	-
Deferred rent, net of current portion	-	39,138
Total long-term liabilities	209,712	39,138
Total liabilities	1,507,474	1,107,698
STOCKHOLDER'S EQUITY		
Common stock, 9,000 shares of $.01 par value stock authorized, 1,000 shares issued and outstanding	10	10
Additional paid-in capital	208,754	108,754
Retained earnings	1,020,463	1,251,063
Total stockholder's equity	1,229,227	1,359,827
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$ 2,736,701	$ 2,467,525

See accompanying notes to financial statements.

THE INSTITUTE, INC.

STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2022 and 2021

	2022	2021
REVENUE		
Tuition and fees, net of refunds	$ 3,965,275	$ 3,981,861
Clinic	673,138	717,627
Retail	207,670	219,152
Total revenue	4,846,083	4,918,640
OPERATING EXPENSES		
Educational services	2,208,819	2,392,260
General and administrative	1,787,992	1,099,928
Marketing and admissions	230,104	390,822
Occupancy	720,020	688,575
Depreciation and amortization	137,642	91,964
Total operating expenses	5,084,577	4,663,549
Income (loss) from operations	(238,494)	255,091
OTHER INCOME		
Interest income	7,894	1,149
Total other income	7,894	1,149
NET INCOME (LOSS)	$ (230,600)	$ 256,240

See accompanying notes to financial statements.

THE INSTITUTE, INC.

STATEMENTS OF STOCKHOLDER'S EQUITY

For the Years Ended December 31, 2022 and 2021

	Shares of Common Stock Issued	Amount of Common Stock	Additional Paid-In Capital	Retained Earnings	Total
BALANCE, JANUARY 1, 2021	1,000	$ 10	$ 108,754	$ 994,823	$ 1,103,587
Net income	-	-	-	256,240	256,240
BALANCE, DECEMBER 31, 2021	1,000	10	108,754	1,251,063	1,359,827
Capital contribution	-	-	100,000	-	100,000
Net loss	-	-	-	(230,600)	(230,600)
BALANCE, DECEMBER 31, 2022	1,000	$ 10	$ 208,754	$ 1,020,463	$ 1,229,227

See accompanying notes to financial statements.

THE INSTITUTE, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (230,600)	$ 256,240
Adjustments to reconcile net income (loss) to net cash from operating activities		
Depreciation and amortization	137,642	91,964
Noncash lease expense	35,898	-
Changes in certain assets and liabilities		
Accounts receivable	39,365	80,893
Inventory	(13,195)	(4,725)
Prepaid supplies	6,544	(316)
Prepaid expenses	18,136	3,489
Accounts payable	2,812	105,108
Due to related party	21,781	91,886
Deferred student tuition	23,191	(33,740)
Deferred income - Higher Education Emergency Relief Fund	(2,983)	(82,033)
Accrued liabilities	(25,731)	(16,677)
Deferred rent	(50,490)	4,638
Total adjustments	192,970	240,487
Net cash from operating activities	(37,630)	496,727
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for purchase of certificate of deposit	(500,000)	-
Proceeds from sale of property, plant, and equipment	-	17,895
Payments for property, plant, and equipment	(116,328)	(205,320)
Net cash from investing activities	(616,328)	(187,425)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contributions	100,000	-
Net cash from financing activities	100,000	-
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(553,958)	309,302
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR	1,804,299	1,494,997
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR	$ 1,250,341	$ 1,804,299
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH,		
Cash and cash equivalents	$ 1,250,341	$ 1,801,316
Restricted cash	-	2,983
TOTAL CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	$ 1,250,341	$ 1,804,299
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -
NONCASH INVESTING AND FINANCING ACTIVITIES		
Operating lease assets obtained in exchange for lease liabilities	$ 595,028	$ -
TOTAL NONCASH INVESTING AND FINANCING ACTIVITIES	$ 595,028	$ -

See accompanying notes to financial statements.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Institute, Inc. (the Company) was incorporated under the laws of the State of Wisconsin in September 1999. The Company is a Qualified Sub-chapter S Corporation Subsidiary (QSSS) of The Skin Institute & Day Spa, Inc. The Company operates two schools offering post-secondary education in cosmetology, barbering, esthetics, manicuring, and massage therapy: The Institute of Beauty and Wellness in Milwaukee, Wisconsin and Aveda Institute Madison in Madison, 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 accounting principles generally accepted in the United States of America (USGAAP). As such, the Company has various related entities as discussed in Note 7, 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 the 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 a financial institution in excess of federally insured limits of approximately $1,521,000 and $1,576,000 at December 31, 2022 and 2021, respectively. 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.

The $2,983 of restricted cash shown on the balance sheet at December 31, 2021, is grant proceeds from the Higher Education Emergency Relief Fund (HEERF) that is required to be provided to students for expenses related to the disruption of campus operations due to coronavirus.

Certificates of Deposit

Certificates of deposits are investments with original maturities greater than three months and carried at cost which approximates fair value.

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

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.

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 within two years after they graduate from their respective fields of study. The allowance for doubtful accounts is $12,000 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 various cosmetology products.

Prepaid Supplies

Prepaid supplies consist of various cosmetology products used in the student clinic.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. The Company has a capitalization threshold of $1,000. Depreciation and amortization is computed using the straight-line method over the following estimated useful lives:

	Years
Equipment	3-7
Leasehold improvements	7-20
Furniture and fixtures	5-7

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

Property, Plant, and Equipment (Continued)

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 $191,854 at December 31, 2022. The remaining useful lives of these leasehold improvements is 11 to 19 years at December 31, 2022. Depreciation and amortization expense is $137,642 and $91,964 for the years ended December 31, 2022 and 2021, respectively.

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. The deferred student tuition amount was calculated using the actual students' tuition based on the number of hours 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 $129,118, and deferred student tuition at January 1, 2021 was $587,983.

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 and course materials which are distinct performance obligations. The Company provides clinic services and 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.

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

Revenue Recognition (Continued)

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 distinct course materials is recognized at the point of time when control transfers to the student, generally when the materials are delivered to the student. Revenue associated with clinic services is recognized at the point of time when the service is performed. 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.

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 and additional charges if a student requires additional hours to complete the program beyond the contracted end date. 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 allocation of the contract price across performance obligations, 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.

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

Government Grants

The Company analogized to 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 operations 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 operations.

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 contains a lease.

Right-of-use (ROU) assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date or adoption date based on the present value of lease payments over the remaining lease term. For the Company's related party leases, if any, the rate implicit in the lease is required to be used to determine the present value of lease payments, as that rate is readily determinable. For the Company's third-party leases, the rate implicit in the lease is not readily determinable, and the Company has elected to apply a risk free rate to determine the present value of lease payments. Lease terms include options to extend the lease when it is reasonably certain those options will be exercised. Leases with an initial term of 12 months or less are not recorded on the balance sheet, and lease expense is recognized on a straight-line basis over the lease term. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that Management will exercise the option.

Leases typically contain rent escalators over the lease term and lease expense is recognized on a straight-line basis over the lease term. Tenant incentives used to fund leasehold improvements are recognized when earned and reduce the ROU assets related to the lease. The tenant incentives are amortized through the ROU asset as reductions of rent expense over the lease term.

The Company has lease agreements with lease and non-lease components, which are accounted for as a single lease component for all asset classes. For arrangements accounted for as a single lease component, there may be variability in future lease payments as the amount of the nonlease components is typically revised from one period to the next. These variable lease payments, which are primarily comprised of common areas maintenance, utilities and real estate taxes, are recognized in operating expenses in the period in which the obligation for those payments was incurred. In the statements of operations, lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

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 $110,905 and $143,425, respectively.

Income Taxes

The Company operates as a sub-chapter S corporation. As such, income tax expense is not recorded. The net income for the Company flows through to the stockholder of its parent company and is taxed on her 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 of 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.

2. HIGHER EDUCATION EMERGENCY RELIEF FUND

In April 2021, the Company received approval for grants totaling $159,392 through the Higher Education Emergency Relief Fund (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 years ended December 31, 2022 and 2021.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

Nature of Services

	2022	2021
Tuition revenues	$ 3,374,507	$ 3,382,864
Kit revenues	590,768	598,997
Clinic revenues	673,138	717,627
Retail revenues	207,670	219,152
TOTAL REVENUE - CONTRACTS WITH CUSTOMERS	$ 4,846,083	$ 4,918,640

Timing of Revenue Recognition

	2022	2021
Services transferred over time	$ 3,374,507	$ 3,382,864
Goods and services transferred at a point in time	1,471,576	1,535,776
TOTAL REVENUE - CONTRACTS WITH CUSTOMERS	$ 4,846,083	$ 4,918,640

The Company offers programs of study that typically take up to 52 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.

4. LEASE COMMITMENTS UNDER ASC 842

The Company has an operating lease for its facility. The Company's lease has a remaining lease terms of three years. Some leasing arrangements require variable payments that are dependent on usage, output, or may vary for other reasons, such as insurance and tax payments. The variable lease payments are not determinable at the commencement of the lease and are not included in the lease measurements of the initial ROU asset or lease liability. The Company's lease agreements do not contain any material restrictive covenants.

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

Lease Cost	Year Ended December 31, 2022
Operating lease cost	$ 203,927
Short-term lease cost	246,039
TOTAL LEASE COST	$ 449,966

Supplemental cash flow information:

Cash paid for amounts included in the measurement of lease liabilities:

	Year Ended December 31, 2022
Operating cash flows from operating leases	$ 207,168

The following table summarizes the lease-related assets and liabilities recorded in the balance sheet at December 31, 2022:

Lease Position	December 31, 2022
Operating lease right-of-use assets	$ 395,298
Operating lease liability, current	$ 221,484
Operating lease liability, net of current portion	209,712
TOTAL OPERATING LEASE LIABILITIES	$ 431,196

4. LEASE COMMITMENTS UNDER ASC 842 (Continued)

The Company utilizes the risk free interest rate in determining the present value of lease payments unless the implicit rate is readily determinable.

Lease Term and Discount Rate	Year Ended December 31, 2022
Weighted-average remaining lease term (years)	
Operating leases	2.0
Weighted-average discount rate	
Operating leases	0.78%

The following table provides the maturities of lease liabilities at December 31, 2022:

Maturity of Lease Liabilities at December 31, 2022	Operating Leases
2023	$ 223,983
2024	210,450
Total future undiscounted lease payments	434,433
Less interest	(3,237)
PRESENT VALUE OF LEASE LIABILITIES	$ 431,196

5. LEASE COMMITMENTS UNDER ASC 840

Milwaukee, Wisconsin

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

Madison, Wisconsin

The Company leases this facility under a 119-month noncancelable operating lease through December 31, 2024. Monthly rent is $15,219 with annual increases, plus common area maintenance charges. The lease called for discounted rent for the first nine months of the lease.

Deferred rent in the accompanying balance sheet at December 31, 2021 results from the straight-line recognition of rent expense over the terms of the lease agreement. Total rent expense under ASC 840 for the year ended December 31, 2021 is $450,000.

5. LEASE COMMITMENTS UNDER ASC 840 (Continued)

Madison, Wisconsin (Continued)

The operating lease right-of-use assets for these leases that the Company entered into prior to December 15, 2018 is $395,298 at December 31, 2022, and the operating lease liability for these leases that the Company entered into prior to December 15, 2018 is $431,196 at December 31, 2022.

6. RETIREMENT PLAN

The Company sponsors a 401(k) plan for certain employees. During the years ended December 31, 2022 and 2021, the Company made discretionary contributions of $6,000 and $5,579, respectively.

7. 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:

Due to Related Party

The Company owes $117,701 and $95,920 to SLB Day Spa, Inc., a subsidiary of Skin Institute & Day Spa, Inc., the parent company at December 31, 2022 and 2021, respectively, for advances made less repayments. The amount is unsecured, interest-free, and due on demand.

Rent

The Company paid $246,039 to SLH Properties, LLC, a company owned by Susan Haise, stockholder of Skin Institute & Day Spa, Inc., the parent company, for the years ended December 31, 2022 and 2021 for the lease of its Milwaukee facility.

Management Fee

During the years ended December 31, 2022 and 2021, the Company paid $291,859 and $0, respectively, to Skin Institute & Day Spa, Inc., parent company for management fees

8. 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 23, 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 Stockholder
The Institute, Inc.

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 The Institute, Inc., which comprise the balance sheet as of December 31, 2022, and the related statements of operations, stockholder'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 23, 2023.

Report on Internal Control over Financial Reporting

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Institute, Inc.'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 2016 edition of 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 and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Institute, Inc.'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 Institute, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sikich LLP

Naperville, Illinois
June 23, 2023

SUPPLEMENTARY SCHEDULES

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:

	Amount Disbursed	Adjusted Amount
Adjusted Student Title IV Revenue		
Subsidized loans	$ 679,893	$ 679,893
Unsubsidized loans	946,444	946,444
PLUS loans	191,883	191,883
Federal Pell grants	719,966	719,966
Student Title IV Revenue	$ 2,538,186	2,538,186
Revenue adjustment		(174,503)
Title IV funds returned for students under 34 C.F.R. §668.22		(85,988)
Adjusted Student Title IV Revenue		2,277,695

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	$ -	
Funds provided for the student under a contractual arrangement with federal, state, or local government agencies for the purpose of providing job training to low-income individuals	-	
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	-	
School scholarships disbursed to the students	-	
Student payments	1,708,328	
Student Non-Title IV Revenue	$ 1,708,328	
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))	$ 673,138	
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	$ 673,138	
Total Non-Title IV Revenue		$ 2,381,466
Total Revenue		$ 4,659,161
Numerator	$ 2,277,695	48.89%
Denominator	$ 4,659,161	

For the fiscal year ended December 31, 2021, the Company received $2,230,011 of revenues from Title IV programs out of $4,698,544 of eligible cash basis revenue totaling 47%.

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 years ended December 31, 2022 and 2021.

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 financial responsibility standard in 34 CFR 668.171(b). The financial responsibility 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 financial responsibility for the year ended December 31, 2022 are below:

Primary Reserve Ratio

	Adjusted Equity		
Balance sheet - total stockholder's equity	Total equity		$ 1,229,227
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 - property, plant, and equipment, net	Property, plant, and equipment, net - including construction in progress	494,412	
Table 1 - Line A	Property, plant, and equipment, net - including pre-implementation less any construction in progress		254,094
N/A	Property, plant, and equipment, net - post-implementation less any construction in progress with outstanding debt for original purchase with debt		-
Table 1 - Line D	Property, plant, and equipment, net - post-implementation less any construction in progress with outstanding debt for original purchase without debt		240,318

B. FINANCIAL RESPONSIBILITY (Continued)

Primary Reserve Ratio (Continued)

	Adjusted Equity (Continued)		
N/A	Construction in progress		$ -
N/A	Intangible assets		-
N/A	Post-employment and defined pension plan liabilities		-
N/A	Long-term debt - for long-term purposes and construction in process debt	$ -	
N/A	Long-term debt for long-term purposes pre-implementation		-
N/A	Qualified long-term debt for long-term purposes post-implementation for purchase of property, plant, and equipment		-
N/A	Line of credit for construction in process		-
Table 3 - Line A	Lease right-of-use assets – pre-implementation		395,298
Table 3 - Line B	Lease right-of-use assets – post-implementation		-
Table 4 - Line A	Lease right-of-use liabilities – pre-implementation		431,196
Table 4 - Line B	Lease right-of-use liabilities – post-implementation		-
Statements of operation - total operating expenses	Total expenses and losses		5,084,577

B. FINANCIAL RESPONSIBILITY (Continued)

Equity Ratio

	Modified Equity		
Balance sheet - total stockholder's equity	Total equity		$ 1,229,227
Table 3 - Line A	Lease right-of-use assets – pre-implementation		395,298
Table 4 - Line A	Lease right-of-use liabilities – pre-implementation		431,196
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		2,736,701
Table 3 - Line A	Lease right-of-use assets – pre-implementation		395,298
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

Statements of operations - net income	Loss before taxes	$ (230,600)
Statements of operations - total revenue and interest income	Total revenues and gains	4,853,977

B. FINANCIAL RESPONSIBILITY (Continued)

Table 1 - Net Property, Plant, and Equipment

A	Pre-implementation property, plant, and equipment		$ 254,094
B	Post-implementation property, plant, and equipment		-
	Vehicles	$ -	
	Furniture	-	
	Computers	-	
C	Construction in progress		-
D	Post-implementation property, plant, and equipment		240,318
	TOTAL		$ 494,412

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.

Table 2 - Lease Right-of-Use Assets

A	Lease right-of-use assets - pre-implementation	$ 395,298
B	Lease right-of-use assets - post-implementation	-
	TOTAL	$ 395,298

A - This is the ending balance of the right-of-use assets related to all leases the Company entered into or modified prior to December 15, 2018. See Note 4 to the attached basic financial statements for terms of the leases involved.

B - This is the ending balance of the right-of-use assets related to all leases the Company entered into or modified on or after December 15, 2018

B. FINANCIAL RESPONSIBILITY (Continued)

Table 3 - Lease Right-of-Use Liabilities

A	Lease right-of-use liabilities - pre-implementation	$ 431,196
B	Lease right-of-use liabilities - post-implementation	-
C	Lease right-of-use liabilities - post-implementation - in excess of right of use asset	-
	TOTAL	$ 431,196

A - This is the ending balance of the right-of-use assets related to all leases the Company entered into or modified prior to December 15, 2018. See Note 4 to the attached basic financial statements for terms of the leases involved.

B - This is the ending balance of the right-of-use liabilities related to all leases the Company entered into or modified on or after December 15, 2018 up to the amount of the corresponding right-of-use assets.

C - This is the ending balance of the right-of-use liabilities related to all leases the Company entered into or modified on or after December 15, 2018 in excess of the corresponding right-of-use assets.

B. FINANCIAL RESPONSIBILITY (Continued)

The Company's financial responsibility are calculated as follows:

	2022	2021
Primary reserve ratio	0.900	0.900
Equity ratio	1.200	1.200
Net income ratio	(0.175)	0.820
SUM OF ALL RATIOS	1.925	2.920
COMPOSITE SCORE	1.9	2.9

As the financial responsibility scores are between 1.5 and 3.0, the Company is considered financially responsible under this general standard for the years ended December 31, 2022 and 2021.

C. ACCREDITATION FINANCIAL RESPONSIBILITY AND CASH RESERVES

Financial Responsibility

In order to demonstrate financial responsibility with The National Accrediting Commission of Career Arts & Sciences (NACCAS), the Company either has to meet the requirements set forth by the U.S. Department of Education in accordance with section 34 CFR 668.171 or have a current ratio of current assets to current liabilities of one to one or greater; a positive tangible net worth; and a profit in the most recent accounting year. For the years ended December 31, 2022 and 2021, the Company demonstrates compliance by meeting the first requirement with financial responsibility scores of 1.9 and 2.9, respectively, as calculated in supplementary schedule B.

The secondary requirements are as follows:

	2022	2021
Current ratio	1.42: 1	1.83: 1
Tangible net worth	$ 1,229,227	$ 1,359,827
Profit in most recent accounting year ?	No	Yes

C. ACCREDITATION FINANCIAL RESPONSIBILITY AND CASH RESERVES (Continued)

Cash Reserves

NACCAS requires that accredited institutions have at least 3% of net revenue in reserves (based on the net revenues in the previous year's audited financials). Reserves shall consist of cash and/or cash equivalents as defined by USGAAP, or any documented commercial line of credit issued to the Company.

Average Reserve Balance - In each fiscal year, the Company must maintain the required reserve balance for (a) the 90 days prior to the fiscal year end and (b) at least 9 of the 12 months in that fiscal year.

	2022	2021
REVENUES		
Percentage of net revenue	3%	3%
Dollar amount of net revenue	$ 4,918,640	$ 4,232,709
RESERVES		
Reserve amount	$ 147,559	$ 126,981
Maintained 90 days prior to year end?	Yes	Yes
Maintained 9 out of 12 months in fiscal year?	Yes	Yes