

LOS ANGELES FILM SCHOOL, LLC
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021
OPEID: 04037300



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**LOS ANGELES FILM SCHOOL, LLC
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
BALANCE SHEETS	4
STATEMENTS OF OPERATIONS	5
STATEMENTS OF CHANGES IN MEMBERS' EQUITY	6
STATEMENTS OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	8
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	20



INDEPENDENT AUDITORS' REPORT

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

Members
Los Angeles Film School, LLC
Hollywood, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Los Angeles Film School, LLC (the Company), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2022 the Company adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-of-use asset and corresponding liability for all operating and finance leases with lease terms greater than one year. Our opinion is not modified with respect to this matter.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). And the standards applicable to financial audits contained in *Government Auditing Standards*, issue by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company 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.

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 Company's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' 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 auditors' 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 GAAS 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 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 GAAS 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 Company'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 Company'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.

Members
Los Angeles Film School, LLC

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2023, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Orlando, Florida
May 24, 2023

LOS ANGELES FILM SCHOOL, LLC
BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

ASSETS	2022	2021
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 921,709	\$ 3,829,516
Accounts Receivable, Net	15,274,993	14,690,644
Other Accounts Receivable	13,923	10,472
Current Maturities of Loans Receivable, Net	-	739,762
Inventories	3,421,127	4,805,932
Prepaid Expenses	2,523,196	3,536,788
Total Current Assets	22,154,948	27,613,114
DUE FROM RELATED PARTY	-	225,792
LOANS RECEIVABLE, NET	-	102,390
PROPERTY AND EQUIPMENT, NET	6,943,868	7,744,467
RIGHT-OF-USE ASSET - OPERATING	99,434,214	99,190,390
DEPOSITS AND OTHER ASSETS, NET	1,148,040	972,363
DUE FROM MEMBER	65,318	65,318
Total Assets	\$ 129,746,388	\$ 135,913,834
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Current Maturities of Notes Payable	\$ 1,195,938	\$ 1,404,388
Current Portion of Lease Liability - Operating	6,851,361	6,802,128
Due to Related Party	29,363	-
Accounts Payable	1,802,282	3,337,785
Accrued Expenses	5,098,136	5,777,558
Student Course Deposits and Funds Payable	2,278,794	2,632,259
Unearned Tuition Income	3,105,872	3,105,320
Total Current Liabilities	20,361,746	23,059,438
NOTES PAYABLE, NET	1,013,055	1,409,960
LEASE LIABILITY - OPERATING	92,851,507	92,755,189
Total Liabilities	114,226,308	117,224,587
COMMITMENT AND CONTINGENCY		
MEMBERS' EQUITY	15,520,080	18,689,247
Total Liabilities and Members' Equity	\$ 129,746,388	\$ 135,913,834

See accompanying Notes to Financial Statements.

LOS ANGELES FILM SCHOOL, LLC
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
REVENUES		
Tuition, Net	\$ 91,373,857	\$ 95,750,562
Student Fees	18,362,236	19,926,631
Other	360,452	263,405
Interest	57,044	51,249
Total Revenues	110,153,589	115,991,847
EXPENSES		
Direct Costs of Courses and Products Sold	37,126,599	36,151,640
Selling, General, and Administrative	69,357,885	66,208,450
Depreciation and Amortization	2,418,085	2,454,533
Interest	59,777	78,603
Total Expenses	108,962,346	104,893,226
NET EARNINGS	\$ 1,191,243	\$ 11,098,621

See accompanying Notes to Financial Statements.

**LOS ANGELES FILM SCHOOL, LLC
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2022 AND 2021**

MEMBERS' EQUITY - JANUARY 1, 2021	\$ 18,342,480
Member Distributions	(10,751,854)
Net Earnings	<u>11,098,621</u>
MEMBERS' EQUITY - DECEMBER 31, 2021	18,689,247
Member Distributions	(4,360,410)
Net Earnings	<u>1,191,243</u>
MEMBERS' EQUITY - DECEMBER 31, 2022	<u><u>\$ 15,520,080</u></u>

See accompanying Notes to Financial Statements.

LOS ANGELES FILM SCHOOL, LLC
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Students	\$ 99,291,202	\$ 105,203,385
Cash Received from Other Sources	360,452	318,833
Cash Paid to Suppliers and Employees	(96,246,178)	(91,916,431)
Interest Received	57,044	51,249
Interest Paid	(59,777)	(78,603)
Net Cash Provided by Operating Activities	3,402,743	13,578,433
CASH FLOWS FROM INVESTING ACTIVITIES		
Advances (to) from Related Parties, Net	255,155	(158,991)
Repayments Received on Loans Receivable	17,546	48,746
Purchases of Property and Equipment	(1,617,486)	(2,129,872)
Net Cash Used by Investing Activities	(1,344,785)	(2,240,117)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds From Borrowings on Notes Payable	821,884	1,322,076
Repayments of Borrowings on Notes Payable	(1,427,239)	(1,581,880)
Member Distributions	(4,360,410)	(10,751,854)
Net Cash Used by Financing Activities	(4,965,765)	(11,011,658)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,907,807)	326,658
Cash and Cash Equivalents - Beginning of Year	3,829,516	3,502,858
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 921,709	\$ 3,829,516
RECONCILIATION OF NET EARNINGS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net Earnings	\$ 1,191,243	\$ 11,098,621
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,418,085	2,454,533
Loss on Sale or Disposal of Property and Equipment	-	55,428
Bad Debt Provision	10,895,364	10,010,168
Change in Accounts Receivable	(10,655,107)	(11,456,455)
Change in Other Accounts Receivable	(3,451)	18,965
Change in Inventories	1,384,805	2,513,352
Change in Prepaid Expenses	1,013,592	(1,614,787)
Change in Deposits and Other Assets, Net	(175,677)	(235,455)
Change in Accounts Payable	(1,535,503)	(303,610)
Change in Accrued Expenses	(679,422)	634,535
Change in Student Course Deposits and Funds Payable	(353,465)	(69,106)
Change in Unearned Tuition Income	552	530,486
Change in Lease Liability and Right of Use Asset	(98,273)	(58,242)
Net Cash Provided by Operating Activities	\$ 3,402,743	\$ 13,578,433

See accompanying Notes to Financial Statements.

**LOS ANGELES FILM SCHOOL, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Cash and Cash Equivalents

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

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

Trade Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are stated net of an allowance for doubtful accounts. The Company estimates the allowance for doubtful accounts based on an analysis of specific students, taking into consideration the age of past due accounts and an assessment of the student's ability to pay. Accounts are considered past due when payments due are not made in accordance with the terms of the contract. Accounts are written off upon management's determination that such amounts are uncollectible.

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

	2022	2021
Beginning Balance	\$ 22,838,024	\$ 17,054,400
Current Year Provision	10,070,758	9,991,062
Write Offs of Accounts	(3,193,244)	(4,207,438)
Ending Balance	<u>\$ 29,715,538</u>	<u>\$ 22,838,024</u>

Inventories

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

Loans Receivable and Allowance for Loan Losses

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

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

LOS ANGELES FILM SCHOOL, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable and Allowance for Loan Losses (Continued)

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

During the year ended December 31, 2022, the Company closed the loan portfolio and wrote off the net book value of any remaining loans.

Property and Equipment and Depreciation

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

Revenue Recognition and Related Contract Assets and Liabilities

The Company's revenues consist primarily of tuition and student fee revenue arising from education services provided in the form of classroom instruction and online courses. Tuition revenue is deferred and recognized ratably over the period of instruction, which may vary depending on the program chosen and range from 18 months to 38 months. The Company charges students on a semester basis (16 weeks) throughout the course of their program. At the start of each semester, the Company records a liability for academic services to be provided (contract liability) and a receivable for tuition due from students (contract asset). Some students may be eligible for institutional scholarships, which are deferred and recognized as a reduction of revenue when earned.

Student fees consist primarily of fees for textbooks, technology kits and technology fees. Student fees are recognized over the applicable semester in which they are billed, except for technology kit fees which are recognized when the kits are provided or shipped to the students.

All tuition and fees are due at the start of the semester. Any amounts paid in excess of tuition and fees billed are recorded as a liability and included in Student Course Deposits and Funds Payable (contract liability) on the balance sheet, which totaled \$2,278,794, \$2,632,259 and \$2,701,365 as of December 31, 2022, 2021 and 2020, respectively. Revenues earned but not yet received are included in Accounts Receivable, Net (contract asset) on the balance sheet, which totaled \$15,274,993, \$14,690,644, and \$13,225,251 as of December 31, 2022, 2021 and 2020, respectively. Tuition billed and received in advance of being earned is recorded net of unearned institutional scholarships and included as Unearned Tuition Income (contract liability) on the balance sheet, which totaled \$3,105,872, \$3,105,320, and \$2,574,834 as of December 31, 2022, 2021 and 2020, respectively.

LOS ANGELES FILM SCHOOL, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition and Related Contract Assets and Liabilities (Continued)

The Company has an institutional refund policy which provides for a pro rata refund of monies paid for institutional charges for students who have completed 60% or less of the enrollment period (semester) in which the student withdrawals based on the number of days enrolled and attended. There is no refund available to the student if the student withdrawals after completing more than 60% of the enrollment period.

Advertising Costs

The Company expenses advertising costs as incurred. Total advertising costs are included in “Selling, General, and Administrative” expenses in the accompanying statements of operations and amounted to \$19,375,378 and \$19,425,492 for the years ended December 31, 2022 and 2021, respectively.

Income Taxes

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

The Company evaluates its tax positions for uncertainties on a regular basis and has determined it has no uncertain tax positions as of December 31, 2022 and 2021. The Company recognizes accrued interest and penalties, if any, associated with uncertain tax positions in “Selling, General, and Administrative” expenses in the accompanying statements of operations.

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

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in right-of-use (ROU) assets – operating and lease liability – operating in the statements of financial position.

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. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term using discount rates based on the Company’s incremental borrowing rate. Lease terms include optional renewal periods. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The Company has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the statements of financial position.

LOS ANGELES FILM SCHOOL, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

Adoption of New Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-02, *Leases* (Topic 842). This new standard is intended to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Company adopted the requirements of the guidance effective January 1, 2022, and has elected to apply the provisions of this standard to the beginning of the earliest comparative period presented.

The Company has elected to adopt practical expedients available in the year of adoption. These practical expedients do not require reassessment of expired or existing leases and permit the use of hindsight in determining lease terms.

Subsequent Events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through May 24, 2023, the date the financial statements were available to be issued.

NOTE 2 LOANS RECEIVABLE

The Company issued uncollateralized loans to students based on financial need. Loans receivable were funded through institutional resources with some loans guaranteed by third-parties. The loans receivable required varying monthly payments of principal and interest at rates ranging from 7% to 12% based on the origination dates of the loans and the students' graduation dates. The loans matured at varying dates through 2029. As further discussed in Note 1, allowances for loan losses were established based on, among other things, prior collection experience, and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. During the year ended December 31, 2022, the Company closed the loan program and wrote off the net book value of any remaining loans. As of December 31, 2021, net loans receivable represented 2% of total assets.

LOS ANGELES FILM SCHOOL, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 2 LOANS RECEIVABLE (CONTINUED)

Loans receivable consisted of the following at December 31:

	<u>2022</u>	<u>2021</u>
Loans Receivable	\$ -	\$ 3,827,964
Less: Allowance for Loan Losses:		
Beginning Balance	2,985,812	3,046,533
Current Year Provision	824,606	19,106
Current Year Write-offs	<u>(3,810,418)</u>	<u>(79,827)</u>
Ending Balance	<u>-</u>	<u>2,985,812</u>
Loans Receivable, Net	-	842,152
Less: Current Maturities	-	<u>(739,762)</u>
Net Noncurrent Portion	<u>\$ -</u>	<u>\$ 102,390</u>

NOTE 3 PROPERTY AND EQUIPMENT

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

	<u>2022</u>	<u>2021</u>
Leasehold Improvements	\$ 7,330,188	\$ 7,476,881
Equipment	13,740,549	13,469,521
Furniture, Fixtures, and Equipment	12,559,891	11,644,838
Library	32,465	32,465
Telephone and Software	2,036,667	2,009,982
Vehicles	47,487	47,487
Construction in Progress	<u>673,574</u>	<u>122,161</u>
Total Property and Equipment	<u>36,420,821</u>	<u>34,803,335</u>
Less: Accumulated Depreciation and Amortization	<u>(29,476,953)</u>	<u>(27,058,868)</u>
Property and Equipment, Net	<u>\$ 6,943,868</u>	<u>\$ 7,744,467</u>

Depreciation and amortization expense amounted to \$2,418,085 and \$2,454,533 for the years ended December 31, 2022 and 2021, respectively.

NOTE 4 NOTES PAYABLE

Notes payable consisted of the following as of December 31:

<u>Description</u>	<u>2022</u>	<u>2021</u>
Various notes payable to a bank, monthly payments ranging from \$685 to \$28,830, including interest at rates ranging from 1.98% to 6.15%, collateralized by certain equipment, assumption agreement with member and related party, maturing at various dates through December 2025	<u>\$ 2,208,993</u>	<u>\$ 2,814,348</u>
Less: Current Maturities	<u>(1,195,938)</u>	<u>(1,404,388)</u>
Net Noncurrent Portion	<u>\$ 1,013,055</u>	<u>\$ 1,409,960</u>

LOS ANGELES FILM SCHOOL, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 4 NOTES PAYABLE (CONTINUED)

Future maturities of notes payable are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2023	\$ 1,195,938
2024	722,452
2025	290,603
Total	<u>\$ 2,208,993</u>

NOTE 5 OPERATING LEASES

The Company leases its office and classroom facilities under long-term, non-cancelable lease agreements (see Note 6). The leases expire at various dates through 2032 and provide for renewal options ranging from five to twenty years. In the normal course of business, it is expected that these leases will be renewed. In addition, the agreements generally require the Company to pay real estate taxes, insurance, and repairs.

Future minimum lease payments under these agreements, including all future renewal periods, are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2023	\$ 7,324,550
2024	7,134,364
2025	6,008,043
2026	6,010,908
2027	6,013,830
Thereafter	175,851,006
Total	<u>\$ 208,342,701</u>

Total rent expense of \$10,171,331 and \$10,006,140 for the years ended December 31, 2022 and 2021, respectively, includes future minimum lease payments from the table above, payments for operating expenses incurred by the lessors and additional amounts for short-term equipment rentals.

The following table provides quantitative information concerning the Company's leases, which includes amounts related to the above lease agreements and additional amounts for short-term equipment rentals.

	<u>2022</u>	<u>2021</u>
Operating Lease Cost	\$ 7,423,369	\$ 7,271,500
Nonlease Component: Operating Expenses	3,317,490	3,288,184
Sublease Income	(569,528)	(553,544)
Total Lease Cost	<u>\$ 10,171,331</u>	<u>\$ 10,006,140</u>
Operating Cash Flows Used for Operating Leases	<u>\$ 10,269,604</u>	<u>\$ 10,064,382</u>
Weighted Average Remaining Lease Term - Operating Leases (Years)	<u>27.2</u>	<u>28.0</u>
Weighted Average Discount Rate - Operating Leases	<u>5.0%</u>	<u>5.0%</u>

LOS ANGELES FILM SCHOOL, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 6 RELATED PARTY TRANSACTIONS

The Company participates in Federal programs authorized by Title IV of the Higher Education Act of 1965, as amended (HEA), which are administered by the U.S. Department of Education. The Company must comply with the regulations promulgated under the HEA. Those regulations require that all related party transactions be disclosed, regardless of their materiality to the financial statements. The following information is required by the U.S. Department of Education and is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Company leases part of its office and classroom facilities from a limited liability limited partnership, the indirect partners of which are the same as the majority of the indirect members of the Company. Rental payments under the lease amounted to \$2,984,377 and \$2,921,413 for the years ended December 31, 2022 and 2021, respectively. The lease also provides that annual rent may be increased up to 2.5% if there is a 1.0% increase in gross revenues of the Company over revenues recognized for the year ended December 31, 2017, on a cumulative basis. The lease expires in December 2032 and has an option for two renewals of 15 and 10 years, respectively. Future minimum lease payments related to this lease are included in Note 5.

The Company leases part of its office and classroom facilities from a limited liability limited partnership, the indirect members of which are the same as the majority of the indirect members of the Company. Rental payments under the lease amounted to \$5,955,926 and \$5,839,143 for the years ended December 31, 2022 and 2021, respectively. The lease also provides that annual rent may be increased up to 2.5% if there is a 1.0% increase in gross revenues of the Company over revenues recognized for the year ended December 31, 2017, on a cumulative basis. The lease expires in December 2032 and has an option for two renewals of 15 and 10 years, respectively. Future minimum lease payments related to this lease are included in Note 5.

The Company leases part of its office and classroom facilities from a limited liability company, the indirect members of which are the same as the majority of the indirect members of the Company. Rental payments under the lease amounted to \$251,058 and \$246,135 for the years ended December 31, 2022 and 2021, respectively. The lease also provides that annual rent may be increased up to 2.5% if there is a 1.0% increase in gross revenues of the Company over revenues recognized for the year ended December 31, 2010, on a cumulative basis, for the first seven anniversary dates and 2.0% for each subsequent anniversary date thereafter. The lease expires in December 2025 and has an option for two renewals of 15 and 10 years, respectively. Future minimum lease payments related to this lease are included in Note 5.

The Company leases certain property for general office use from a limited liability company, the indirect members of which are the same as the majority of the indirect members of the Company. Rental payments under the lease amounted to \$137,973 and \$137,254 for the years ended December 31, 2022 and 2021, respectively. The lease expired in December 2022 and has options for three renewals of five years each. The first renewal option was exercised effective January 1, 2023. Rent expense increases 2% per year for any renewal periods. Future minimum lease payments related to this lease are included in Note 5.

LOS ANGELES FILM SCHOOL, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 6 RELATED PARTY TRANSACTIONS (CONTINUED)

During the years ended December 31, 2022 and 2021, the Company made advances to and received advances from affiliated companies. The indirect members and stockholders of these related entities are the same as some of the indirect members of the Company. The net amount of the advances due from (to) these affiliated companies totaled \$29,363 and \$225,792 at December 31, 2022 and 2021, respectively, and are included in the accompanying balance sheets as “Due from Related Party”. These advances are noninterest bearing, unsecured, have no stated repayment terms, and are expected to be settled within the next 12 months.

Advances made to a member of the Company amounted to \$65,318 as of December 31, 2022 and 2021, and are included in “Due from Member” in the accompanying balance sheets. These advances are noninterest bearing, have no stated repayment terms, and are not expected to be repaid within the next 12 months.

During 2014, the Company entered into an agreement with a limited liability company, the indirect owners of which are the same as some of the indirect owners of the Company, for the right to license its learning management system and related buildings and services. The agreement contains a variable fee schedule based, in part, on the number of users, expires in February 2024, and provides for automatic renewals for 10 years. Fees paid under this agreement totaled \$597,678 and \$626,517 for the years ended December 31, 2022 and 2021, respectively.

NOTE 7 MEMBERS' EQUITY

The Company is a limited liability company with an aggregate of 10,752,689 member units, of which 10,000,000 units are outstanding. The outstanding units are comprised of 8,611,111 common units and 1,388,889 convertible preferred units, both of which have voting rights of one vote per unit. The convertible preferred units are subject to a contingent Put Right, as defined in the Limited Liability Company Agreement (the Agreement). The Put Right, if exercised, would cause certain indirect members of the Company to acquire all outstanding convertible preferred units. The Company may elect or may be required to acquire all outstanding convertible preferred units in place of the indirect members of the Company pursuant to the terms of the LLC Agreement.

The holders of convertible preferred units are entitled to receive an 8% aggregate rate of return (the Preference Amount) on their applicable capital contributions, reduced by distributions and certain other payments received by the holders, as defined in the LLC Agreement. The Preference Amount is payable upon exercise of the Put Right, Mandatory Conversion of the convertible preferred units or a liquidity event, as defined in the LLC Agreement. At December 31, 2022, the Preference Amount is \$4,203,229.

LOS ANGELES FILM SCHOOL, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 7 MEMBERS' EQUITY (CONTINUED)

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

NOTE 8 COMMITMENTS AND CONTINGENCIES

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

NOTE 9 EMPLOYEE BENEFIT PLAN

The Company has a 401(k) compensation and incentive plan (the Plan) for the benefit of its employees. Employees are eligible to participate in the Plan after completing one year of continuous employment and attaining 21 years of age. The Company contributes an amount equal to 20% of the employee's contribution based on a maximum of 5% of the employee's compensation. The Company's contribution to the Plan amounted to \$101,212 and \$91,855 for the years ended December 31, 2022 and 2021, respectively.

NOTE 10 DEFERRED COMPENSATION PLAN

The Company participates in an elective deferred compensation plan (the Deferred Compensation Plan) available to certain employees. The plan is administered by a limited liability limited company, the indirect partners of which are the same as the majority of the indirect members of the Company (the Administrator). Amounts contributed to the Deferred Compensation Plan are discretionary and payable to the employees pursuant to provisions contained in the Deferred Compensation Plan agreement. The assets in the Deferred Compensation Plan are held by the Administrator. Deferred compensation expense was \$124,000 for the year ended December 31, 2022. There was no deferred compensation expense for the year ended December 31, 2021.

**LOS ANGELES FILM SCHOOL, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 11 TITLE IV 90/10 REVENUE REQUIREMENT

The Company derives a substantial portion of its revenues from financial aid received by its students under programs authorized by Title IV of the HEA, which are administered by the U.S. Department of Education. To continue to participate in the programs, the Company must comply with the regulations promulgated under the HEA. The regulations restrict the proportion of cash receipts for tuition, fees, and other institutional charges from eligible programs to not be more than 90% 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. This information is required by the U.S. Department of Education and is presented for purposes of additional analysis and is not a required part of the basic financial statements.

	2022		2021	
	Amount	Percent	Amount	Percent
Non-Title IV Source Revenue	\$ 33,008,883	33.24 %	\$ 33,866,182	32.19 %
Title IV Source Revenue	66,282,319	66.76	71,337,203	67.81
Total Cash Basis Revenue	<u>\$ 99,291,202</u>	<u>100.00 %</u>	<u>\$ 105,203,385</u>	<u>100.00 %</u>

**LOS ANGELES FILM SCHOOL, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 11 TITLE IV 90/10 REVENUE REQUIREMENT (CONTINUED)

The following is a breakdown of Title IV and Non-Title IV revenue by source for the year ended December 31, 2022:

	2022	
	Amount Disbursed	Adjusted Amount
Adjusted Student Title IV Revenue:		
Subsidized Loans	\$ 22,570,323	\$ 22,570,323
Unsubsidized Loans up to Pre-ECASLA Loan Limits	35,865,920	35,865,920
Federal Pell Grants	29,153,418	29,153,418
FSEOG	1,287,460	965,595
Federal Work Study Applied to Tuition and Fees	-	-
Student Title IV Revenue		88,555,256
Revenue Adjustment:		
Student Title IV Revenue in Excess of Tuition and Fees		(16,090,878)
Title IV Funds Returned For Student Withdrawals		(6,182,059)
Adjusted Student Title IV Revenue		\$ 66,282,319
 Student Non-Title IV Revenue:		
Grant Funds For the Student from Non-Federal Public Agencies or Private Sources Independent of the School	\$ 17,315,519	
Funds Provided For the Student Under a Contractual Arrangement With a Federal, State, or Local Government Agency For the Purpose of Providing Job Training to Low-Income Individuals	-	
Funds Used by a Student From Savings Plans For Educational Expenses Established by or on Behalf of the Student That Qualify For Special Tax Treatment Under the Internal Revenue Code	-	
School Scholarships Disbursed to the Student	-	
Student Payments on Current Charges	15,693,364	
Student Non-Title IV Revenue	33,008,883	
 Revenue from Other Sources:		
Activities Conducted by the Institution that are Necessary for Education and Training	-	
Funds Paid by a Student, or on Behalf of a Student by a Party Other Than the School For an Education or Training Program That is Not Eligible	-	
Allowable Student Payments Plus Allowable Amounts From Account Receivable or Institutional Loan Sales Minus Any Required Payments Under a Recourse Agreement	-	
Revenue from Other Sources	-	
Total Non-Title IV Source Revenue		33,008,883
Total Cash Basis Revenue		\$ 99,291,202

**LOS ANGELES FILM SCHOOL, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 11 TITLE IV 90/10 REVENUE REQUIREMENT (CONTINUED)

The following is a breakdown of Title IV and Non-Title IV revenue by source for the year ended December 31, 2021:

	2021	
	Amount Disbursed	Adjusted Amount
Adjusted Student Title IV Revenue:		
Subsidized Loans	\$ 23,554,660	\$ 23,554,660
Unsubsidized Loans up to Pre-ECASLA Loan Limits	38,698,148	38,698,148
Federal Pell Grants	29,893,031	29,893,031
FSEOG	945,150	708,863
Federal Work Study Applied to Tuition and Fees	-	-
Student Title IV Revenue		92,854,702
Revenue Adjustment:		
Student Title IV Revenue in Excess of Tuition and Fees		(15,637,212)
Title IV Funds Returned For Student Withdrawals		(5,880,287)
Adjusted Student Title IV Revenue		\$ 71,337,203
 Student Non-Title IV Revenue:		
Grant Funds for the Students from Non-Federal Public Agencies or Private Sources Independent of the School	\$ 16,821,671	
Funds Provided For the Student Under a Contractual Arrangement With a Federal, State, or Local Government Agency For the Purpose of Providing Job Training to Low-Income Individuals	-	
Funds Used by a Student From Savings Plans For Educational Expenses Established by or on Behalf of the Student That Qualify For Special Tax Treatment Under the Internal Revenue Code	-	
School Scholarships Disbursed to the Student	-	
Student Payments on Current Charges	17,044,511	
Student Non-Title IV Revenue	33,866,182	
 Revenue from Other Sources:		
Activities Conducted by the Institution that are Necessary for Education and Training	-	
Funds Paid by a Student, or on Behalf of a Student by a Party Other Than the School For an Education or Training Program That is Not Eligible	-	
Allowable Student Payments Plus Allowable Amounts From Account Receivable or Institutional Loan Sales Minus Any Required Payments Under a Recourse Agreement	-	
Revenue from Other Sources	-	
Total Non-Title IV Source Revenue		33,866,182
Total Cash Basis Revenue		\$ 105,203,385



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

Members
Los Angeles Film School, LLC
Hollywood, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Los Angeles Film School, LLC (the Company), which comprise the balance sheet as of December 31, 2022, and the related statements of operations, changes in members' equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 24, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (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 Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

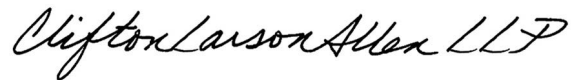
Members
Los Angeles Film School, LLC

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.

Purpose of this Report

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



CliftonLarsonAllen LLP

Orlando, Florida
May 24, 2023