



THE INSTITUTE, INC.

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**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

For the Years Ended December 31, 2023 and 2022



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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. (a Wisconsin corporation), which comprises the balance sheet as of December 31, 2023, and the related statements of operations, stockholders' equity, and cash flows for the year 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, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements of The Institute, Inc. as of December 31, 2022 were audited by Sikich LLP, whose report dated June 23, 2023, expressed an unmodified opinion of those financial statements. Effective as of April 30, 2024, Sikich LLP reorganized and transferred its attest practice to Sikich CPA LLC, a Virginia limited liability company.

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 audit as of and for the year ended December 31, 2023 was 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 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 audit 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.

The audit as of and for the year ended December 31, 2022 was 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 is required by The National Accrediting Commission of Career Arts & Sciences and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements by Sikich LLP 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 the opinion of Sikich LLP, the information was 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 25 2024 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 CPA LLC

Naperville, Illinois
June 25, 2024

FINANCIAL STATEMENTS

THE INSTITUTE, INC.

BALANCE SHEETS

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 977,801	\$ 1,250,341
Certificate of deposit	500,000	500,000
Accounts receivable, net of allowance for credit losses of \$2,466 at December 31, 2023 and net of allowance for doubtful accounts of \$12,000 at December 31, 2022	34,275	8,860
Due from related party	1,995	-
Inventory	41,381	56,501
Prepaid supplies	28,302	21,774
Prepaid expenses	5,606	9,515
	<u>1,589,360</u>	<u>1,846,991</u>
PROPERTY, PLANT, AND EQUIPMENT		
Equipment	831,852	810,354
Leasehold improvements	773,944	589,522
Furniture and fixtures	416,038	349,260
	<u>2,021,834</u>	<u>1,749,136</u>
Subtotal	2,021,834	1,749,136
Less accumulated depreciation and amortization	(1,410,082)	(1,254,724)
	<u>611,752</u>	<u>494,412</u>
OTHER ASSETS		
Operating lease right-of-use assets	193,870	395,298
	<u>193,870</u>	<u>395,298</u>
TOTAL ASSETS	<u>\$ 2,394,982</u>	<u>\$ 2,736,701</u>

(This statement is continued on the following page.)

THE INSTITUTE, INC.

BALANCE SHEETS (Continued)

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 130,384	\$ 238,160
Due to related party	-	117,701
Deferred student tuition	537,117	577,434
Accrued liabilities	94,892	142,983
Operating lease liability, current portion	209,712	221,484
	<hr/>	<hr/>
Total current liabilities	972,105	1,297,762
LONG-TERM LIABILITIES		
Operating lease liability, net of current portion	-	209,712
	<hr/>	<hr/>
Total long-term liabilities	-	209,712
	<hr/>	<hr/>
Total liabilities	972,105	1,507,474
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	208,754
Retained earnings	1,214,113	1,020,463
	<hr/>	<hr/>
Total stockholder's equity	1,422,877	1,229,227
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY		
	<hr/> <hr/>	<hr/> <hr/>
	\$ 2,394,982	\$ 2,736,701

See accompanying notes to financial statements.

THE INSTITUTE, INC.

STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
REVENUE		
Tuition and fees, net of refunds	\$ 4,533,962	\$ 3,965,275
Clinic	745,582	673,138
Retail	170,449	207,670
	<hr/>	
Total revenue	5,449,993	4,846,083
	<hr/>	
OPERATING EXPENSES		
Educational services	2,527,822	2,208,819
General and administrative	1,407,921	1,787,992
Marketing and admissions	450,849	230,104
Occupancy	754,245	720,020
Depreciation and amortization	155,358	137,642
	<hr/>	
Total operating expenses	5,296,195	5,084,577
	<hr/>	
Income (loss) from operations	153,798	(238,494)
	<hr/>	
OTHER INCOME		
Interest income	40,352	7,894
	<hr/>	
Total other income	40,352	7,894
	<hr/>	
NET INCOME (LOSS)	<u>\$ 194,150</u>	<u>\$ (230,600)</u>

See accompanying notes to financial statements.

THE INSTITUTE, INC.

STATEMENTS OF STOCKHOLDER'S EQUITY

For the Years Ended December 31, 2023 and 2022

	Shares of Common Stock Issued	Amount of Common Stock	Additional Paid-In Capital	Retained Earnings	Total
BALANCE, JANUARY 1, 2022	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
Stockholder distribution	-	-	-	(500)	(500)
Net income	-	-	-	194,150	194,150
BALANCE, DECEMBER 31, 2023	1,000	10	\$ 208,754	\$ 1,214,113	\$ 1,422,877

See accompanying notes to financial statements.

THE INSTITUTE, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 194,150	\$ (230,600)
Adjustments to reconcile net income (loss) to net cash from operating activities		
Depreciation and amortization	155,358	137,642
Provision for credit losses	60,760	
Noncash lease expense (cash in excess of operating lease expense)	(20,056)	35,898
Changes in certain assets and liabilities		
Accounts receivable	(86,175)	39,365
Due from related party	(1,995)	-
Inventory	15,120	(13,195)
Prepaid supplies	(6,528)	6,544
Prepaid expenses	3,909	18,136
Accounts payable	(107,776)	2,812
Due to related party	(117,701)	21,781
Deferred student tuition	(40,317)	23,191
Deferred income - Higher Education Emergency Relief Fund	-	(2,983)
Accrued liabilities	(48,091)	(25,731)
Deferred rent	-	(50,490)
	(193,492)	192,970
Total adjustments		
Net cash from operating activities	658	(37,630)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for purchase of certificate of deposit	-	(500,000)
Payments for the purchase of property, plant, and equipment	(272,698)	(116,328)
	(272,698)	(616,328)
Net cash from investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contributions	-	100,000
Distributions to stockholder	(500)	-
	(500)	100,000
Net cash from financing activities		
NET DECREASE IN CASH AND CASH EQUIVALENTS	(272,540)	(553,958)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,250,341	1,804,299
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 977,801	\$ 1,250,341
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.

THE INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

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 Subchapter 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 6, 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 \$1,269,000 at December 31, 2023. 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.

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 Credit Losses under ASC 326

The Company operates in the post-secondary education industry and its accounts receivables are primarily derived from contracts with students. At each balance sheet date, the Company recognizes an expected allowance for credit losses. In addition, also at each reporting date, this estimate is updated to reflect any changes in credit risk since the receivable was initially recorded. This estimate is calculated on a pooled basis where similar risk characteristics exist.

The allowance estimate is derived from a review of the Company's historical losses based on the student enrollment status as of each fiscal year end. This estimate is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by the Company. The Company believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses as the Company's portfolio segment have remained constant since the Company's inception.

The Company writes off receivables when students leave their respective programs of study. If any recoveries are made from any accounts previously written off, they will be recognized as an offset to credit loss expense in the year of recovery. The total amount of write-offs was \$60,760 for the year ended December 31, 2023.

Allowance for Doubtful Accounts under ASC 310

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. However, actual write-offs may exceed the allowance amount.

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

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:

	<u>Years</u>
Equipment	3-7
Leasehold improvements	7-20
Furniture and fixtures	5-7

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 \$185,409 at December 31, 2023. The remaining useful lives of these leasehold improvements is 10 to 18 years at December 31, 2023.

Depreciation and amortization expense is \$155,358 and \$137,642 for the years ended December 31, 2023 and 2022, 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, 2022 was \$48,225, and deferred student tuition at January 1, 2022 was \$554,243.

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

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.

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.

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

Revenue Recognition (Continued)

The transaction price is stated in the contract and known at the time of contract inception, as such there is variable consideration for situations when a student drops from a program based on the Company's refund policy 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.

Government Grants

The Company analogized to International Accounting Standards (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*, to account for government grants. The Company recognizes the grant proceeds in income when any and all conditions are met. The Company recognizes the grant in the statements 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 statements 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.

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

Leases (Continued)

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. If the implicit rate isn't readily determinable, the Company has elected to apply a risk free rate to determine the present value of the lease payments. 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.

Leases typically contain rent escalators 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 non-lease 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. Additionally, for certain equipment leases, the portfolio approach is applied to account for the operating lease ROU assets and lease liabilities. In the statements of operations, lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

Advertising Costs

Advertising costs are charged to operations when incurred. Advertising expense for the years ended December 31, 2023 and 2022 is \$117,937 and \$110,905, respectively.

Income Taxes

The Company operates as a subchapter 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.

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

Income Taxes (Continued)

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 2020.

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.

Adoption of New Accounting 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 recoverable, 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 adopted the standard effective January 1, 2023. The impact of the adoption was not considered material to the financial statements and primarily resulted in new/enhanced disclosures only.

2. HIGHER EDUCATION EMERGENCY RELIEF FUND

In April 2021, the Company received approval for grants totaling \$159,392 through 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 year ended December 31, 2022.

THE INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue for the years ended December 31, 2023 and 2022 is as follows:

Nature of Services

	<u>2023</u>	<u>2022</u>
Tuition revenues	\$ 3,847,953	\$ 3,374,507
Kit revenues	686,009	590,768
Clinic revenues	745,582	673,138
Retail revenues	170,449	207,670
TOTAL REVENUE - CONTRACTS WITH CUSTOMERS	<u>\$ 5,449,993</u>	<u>\$ 4,846,083</u>

Timing of Revenue Recognition

	<u>2023</u>	<u>2022</u>
Services transferred over time	\$ 3,847,953	\$ 3,374,507
Goods and services transferred at a point in time	1,602,040	1,471,576
TOTAL REVENUE - CONTRACTS WITH CUSTOMERS	<u>\$ 5,449,993</u>	<u>\$ 4,846,083</u>

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.

THE INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS

4. LEASE COMMITMENTS

The Company has an operating lease for its facility. The Company's lease has a remaining lease term of one year. 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 statements of operations for the years ended December 31, 2023 and 2022 and are summarized as follows:

<u>Lease Cost</u>	<u>2023</u>	<u>2022</u>
Operating lease cost	\$ 203,927	\$ 203,927
Short-term lease cost	246,039	246,039
TOTAL LEASE COST	\$ 449,966	\$ 449,966

Supplemental cash flow information:

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

	<u>2023</u>	<u>2022</u>
Operating cash flows from operating leases	\$ 223,983	\$ 207,168

The following table summarizes the lease-related assets and liabilities recorded in the balance sheets at December 31, 2023 and 2022:

<u>Lease Position</u>	<u>2023</u>	<u>2022</u>
Operating lease right-of-use assets	\$ 193,870	\$ 395,298
Operating lease liability, current	\$ 209,712	\$ 221,484
Operating lease liability, net of current portion	-	209,712
TOTAL OPERATING LEASE LIABILITIES	\$ 209,712	\$ 431,196

THE INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS

4. LEASE COMMITMENTS (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	2023	2022
Weighted-average remaining lease term (years)		
Operating leases	1.0	2.0
Weighted-average discount rate		
Operating leases	0.78 %	0.78%

The following table provides the maturities of lease liabilities at December 31, 2023:

Maturity of Lease Liabilities at December 31,	Operating Leases
2024	\$ 210,450
Total future undiscounted lease payments	210,450
Less interest	(738)
PRESENT VALUE OF LEASE LIABILITIES	\$ 209,712

5. RETIREMENT PLAN

The Company sponsors a 401(k) plan for certain employees. During the years ended December 31, 2023 and 2022, the Company made discretionary contributions of \$3,518 and \$6,000, respectively.

6. 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, 2023 and 2022 are as follows:

Due from Related Party

The Company is owed \$1,995 from SLB Day Spa, Inc, a subsidiary of Skin Institute & Day Spa, Inc., the parent company at December 31, 2023, for advances made less repayments. The amount is unsecured, interest-free, and due on demand.

6. RELATED PARTY TRANSACTIONS (Continue)

Due to Related Party

The Company owed \$117,701 to SLB Day Spa, Inc., a subsidiary of Skin Institute & Day Spa, Inc., the parent company at December 31, 2022, for advances made less repayments. The amount was unsecured, interest-free, and paid in full.

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, 2023 and 2022 for the lease of its Milwaukee facility.

Management Fee

During the years ended December 31, 2023 and 2022, the Company paid \$290,584 and \$291,859, respectively, to Skin Institute & Day Spa, Inc., parent company for management fees.

7. 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 25, 2024, 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, 2023, 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 25, 2024.

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 2023 edition of the U.S. Department of Education's *Guide for Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and 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 CPA LLC

Naperville, Illinois
June 25, 2024

SUPPLEMENTARY SCHEDULES

THE INSTITUTE, INC.

SUPPLEMENTARY SCHEDULES

For the Years Ended December 31, 2023 and 2022

A. ATTESTATION OF REVENUE SOURCES

The Institute, Inc. derives a substantial portion of its revenues from Federal educational assistance received directly by the school or by its students. To continue to participate in the programs authorized by Title IV of the HEA, The Institute, Inc. must comply with the regulations promulgated under the HEA. The regulations require a proprietary school to derive at least 10% of its cash basis revenues for each fiscal year from sources other than Federal funds. If a school receives more than 90% of its cash basis revenues from Federal funds during its fiscal year, the school becomes provisionally certified for the next two fiscal years. If a school fails to satisfy this 90/10 requirement for two consecutive years, the school will lose its ability to participate in Title IV programs.

For the fiscal year ended December 31 2023, the Company's cash basis calculation is:

	Amount Disbursed	Adjusted Amount
STUDENT TITLE IV REVENUE		
Title IV Credit Balance Carried Over from Prior Year	\$ -	\$ -
Federal Direct Loan	1,795,601	1,795,601
Federal Pell Grant	848,324	848,324
FSEOG (subject to matching reduction)	-	-
FWS (subject to matching reduction)	-	-
Total Student Title IV Revenue	2,643,925	2,643,925
Revenue Adjustment and Refunds Paid to Students	-	(163,924)
Adjusted Student Title IV Revenue	2,643,925	2,480,001

THE INSTITUTE, INC.

SUPPLEMENTARY SCHEDULES (Continued)

For the Years Ended December 31, 2023 and 2022

A. ATTESTATION OF REVENUE SOURCES (Continued)

	Amount Disbursed	Adjusted Amount
STUDENT/OTHER FEDERAL FUNDS PAID DIRECTLY TO STUDENTS		
Veteran's Affairs / GI Bill	\$ 5,791	\$ 5,791
Federal Funds 1	-	-
Federal Funds 2	-	-
Total Student/Other Federal Funds Paid Directly to Students	5,791	5,791
Revenue Adjustment	-	(743)
Adjusted Student/Other Federal Funds Paid Directly to Students	5,791	5,048
STUDENT/OTHER FEDERAL FUNDS PAID DIRECTLY TO THE INSTITUTION		
Veteran's Affairs / GI Bill	31,660	31,660
Federal Funds 3	-	-
Federal Funds 4	-	-
Federal Portion of Other Funds	-	-
Total Student/Other Federal Funds Paid Directly to the Institution	31,660	31,660
Revenue Adjustment	-	(3,619)
Adjusted Student/Other Federal Funds Paid Directly to the Institution	31,660	28,041
Adjusted Student Federal Revenue	\$ 2,681,376	\$ 2,513,090

THE INSTITUTE, INC.

SUPPLEMENTARY SCHEDULES (Continued)

For the Years Ended December 31, 2023 and 2022

A. ATTESTATION OF REVENUE SOURCES (Continued)

	Amount Disbursed	Adjusted Amount
STUDENT NON-FEDERAL REVENUE		
Grant funds for the student from non-Federal public agencies or private sources independent of the institution		
Grant Funds 1	\$ -	\$ -
Grant Funds 2	-	-
Grant Funds 3	-	-
Grant Funds 4	-	-
 Funds provided for the student under a contractual arrangement with a Federal, State, or local 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	 -	 -
 Qualified institutional scholarships disbursed to students	 -	 -
 Student payments	 128,265	 128,265
Third Party Loans	-	-
Third Party Loans - Related Party/Institutional Loans	-	-
ISA Institutional or Related Party	-	-
ISA	-	-
Student Cash	1,727,224	1,727,224
	1,855,489	1,855,489
 Revenue Adjustment	 -	 97,383
	1,855,489	1,952,872
 Adjusted Student Non-Federal Revenue	 \$ 1,855,489	 \$ 1,952,872

THE INSTITUTE, INC.

SUPPLEMENTARY SCHEDULES (Continued)

For the Years Ended December 31, 2023 and 2022

A. ATTESTATION OF REVENUE SOURCES (Continued)

	Amount Disbursed	Adjusted Amount
REVENUE FROM OTHER SOURCES		
Activities conducted by the institution that are necessary for education and training	\$ 704,521	\$ 704,521
Funds paid to the institution by, or on behalf of, students for education and training in qualified non-Title IV eligible programs	176,089	182,089
Revenue from other sources	880,610	886,610
Adjusted Student Non-Federal Revenue	1,855,489	1,952,872
Adjusted Student Non-Federal Revenue and Revenue from Other Sources	2,736,099	2,839,482
Adjusted Student Federal Revenue	2,681,376	2,513,090
Total Federal and Non-Federal Revenue	\$ 5,417,475	\$ 5,352,572
Adjusted Student Federal Revenue		\$ 2,513,090
Adjusted Student Federal Revenue + Sum of Non-Federal Revenue and Revenue from Other Sources		\$ 5,352,572
90/10 Percentage		46.95%

THE INSTITUTE, INC.

SUPPLEMENTARY SCHEDULES (Continued)

For the Years Ended December 31, 2023 and 2022

A. ATTESTATION OF REVENUE SOURCES (Continued)

As more than 10% of revenue is received outside Student Federal Revenue, the Company is in compliance with this eligibility requirement for the year ended December 31, 2023.

For the fiscal year ended December 31, 2022, the Company received \$2,277,695 of revenues from Title IV programs out of \$4,659,161 of eligible cash basis revenue totaling 48.89%. As more than 10% of revenue is received outside Title IV programs, the Company is in compliance with this eligibility requirement for the year ended December 31, 2022.

THE INSTITUTE, INC.

SUPPLEMENTARY SCHEDULES (Continued)

For the Years Ended December 31, 2023 and 2022

B. FINANCIAL RESPONSIBILITY

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

The required disclosure of the components of the composite score for the year ended December 31, 2023 are below:

Primary Reserve Ratio

	<u>Adjusted Equity</u>		
Balance sheet - total shareholders' equity	Total equity	\$	1,422,877
Balance sheet - due from related party	Secured and unsecured related party receivables and/or other related party assets	\$	1,995
Balance sheet - due from related party	Unsecured related party receivables and/or other related party assets		1,995
Balance sheet - property, plant, and equipment, net	Property, plant, and equipment, net - including construction in progress		611,752
Table 1 - Line A	Property, plant, and equipment, net - including pre-implementation less any construction in progress		-
Table 1 - Line B	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		611,752

THE INSTITUTE, INC.

SUPPLEMENTARY SCHEDULES (Continued)

For the Years Ended December 31, 2023 and 2022

B. FINANCIAL RESPONSIBILITY (Continued)

Primary Reserve Ratio (Continued)

		<u>Adjusted Equity (Continued)</u>
N/A	Construction in progress	\$ -
N/A	Intangible assets	-
N/A	Post-employment and defined pension plan liabilities	-
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	-
Table 3 - Line B	Lease right-of-use assets - post-implementation	193,870
Table 4 - Line A	Lease right-of-use liabilities - pre-	-
Table 4 - Line B	Lease right-of-use liabilities - post-implementation	193,870
Statement of operations - total operating expenses	Total expenses and losses	5,296,195

THE INSTITUTE, INC.

SUPPLEMENTARY SCHEDULES (Continued)

For the Years Ended December 31, 2023 and 2022

B. FINANCIAL RESPONSIBILITY (Continued)

Equity Ratio

	Modified Equity		
Balance sheet - stockholders' equity	Total equity	\$	1,422,877
Table 3 - Line A	Lease right-of-use assets - pre-implementation		-
Table 4 - Line A	Lease right-of-use liabilities - pre-		-
N/A	Intangible assets		-
Balance sheet - due from related party	Secured and unsecured related party receivables and/or other related party assets	\$	1,995
Balance sheet - due from related party	Unsecured related party receivables and/or other related party assets		1,995

Modified Assets

Balance sheet - total assets	Total assets		2,394,982
Table 3 - Line A	Lease right-of-use assets - pre-implementation		-
N/A	Intangible assets		-
Balance sheet - due from related party	Secured and unsecured related party receivables and/or other related party assets	1,995	
Balance sheet - due from related party	Unsecured related party receivables and/or other related party assets		1,995

Net Income Ratio

Statement of operations - net income	Income before taxes	\$	194,150
Statement of operations - total revenue and interest income	Total revenues and gains		5,490,345

THE INSTITUTE, INC.

SUPPLEMENTARY SCHEDULES (Continued)

For the Years Ended December 31, 2023 and 2022

B. FINANCIAL RESPONSIBILITY (Continued)

Table 1 - Net Property, Plant, and Equipment

A	Pre-implementation property, plant, and equipment	\$	-
B	Post-implementation property, plant, and equipment		-
	Leasehold improvements	\$	-
	Equipment		-
	Furniture and fixtures		-
C	Construction in progress		-
D	Post-implementation property, plant, and equipment		<u>611,752</u>
	TOTAL	\$	<u>611,752</u>

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

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

C - Asset value of the construction in progress.

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

THE INSTITUTE, INC.

SUPPLEMENTARY SCHEDULES (Continued)

For the Years Ended December 31, 2023 and 2022

B. FINANCIAL RESPONSIBILITY (Continued)

Table 2 - Lease Right-of-Use Assets

A Lease right-of-use assets - pre-implementation	\$ -
B Lease right-of-use assets - post-implementation	<u>193,870</u>
TOTAL	<u><u>\$ 193,870</u></u>

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.

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. See Note 3 to the attached basic financial statements for terms of the leases involved.

Table 4 - Lease Right-of-Use Liabilities

A Lease right-of-use liabilities - pre-implementation	\$ -
B Lease right-of-use liabilities - post-implementation	193,870
C Lease right-of-use liabilities - post-implementation in excess of right-of-use asset	<u>15,842</u>
TOTAL	<u><u>\$ 209,712</u></u>

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.

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. See Note 3 to the attached basic financial statements for terms of the leases involved.

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.

THE INSTITUTE, INC.

SUPPLEMENTARY SCHEDULES (Continued)

For the Years Ended December 31, 2023 and 2022

B. FINANCIAL RESPONSIBILITY (Continued)

The Company's composite scores are calculated as follows:

	2023	2022
Primary reserve ratio	0.900	0.900
Equity ratio	1.200	1.200
Net income ratio	0.653	(0.175)
SUM OF ALL RATIOS	<u>2.753</u>	<u>1.925</u>
COMPOSITE SCORE	<u>2.8</u>	<u>1.9</u>

As the composite scores are between 1.5 and 3.0, the Company is considered financially responsible under this general standard for the years ended December 31, 2023 and 2022.

THE INSTITUTE, INC.

SUPPLEMENTARY SCHEDULES (Continued)

For the Years Ended December 31, 2023 and 2022

C. ACCREDITATION FINANCIAL RESPONSIBILITY

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, 2023 and 2022, the Company demonstrates compliance by meeting the first requirement with composite scores of 2.8 and 1.9, respectively, as calculated in supplementary schedule B.

The secondary requirements are as follows:

	<u>2023</u>	<u>2022</u>
Current ratio*	<u>1.63 : 1</u>	<u>1.42: 1</u>
Tangible net worth*	<u>\$ 1,420,882</u>	<u>\$ 1,229,227</u>
Profit in most recent accounting year?	Yes	Yes

* Unsecured related party receivables are excluded from the calculation.