LOS ANGELES FILM SCHOOL, LLC

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

OPEID: 04037300

LOS ANGELES FILM SCHOOL, LLC
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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

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

Members
Los Angeles Film School, LLC
Hollywood, California

Report on the 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, 2023 and 2022, 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, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (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.

Members
Los Angeles Film School, LLC

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 March 22, 2024, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Orlando, Florida
March 22, 2024

LOS ANGELES FILM SCHOOL, LLC
BALANCE SHEETS
DECEMBER 31, 2023 AND 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 2,059,390	$ 921,709
Accounts Receivable, Net	14,378,780	15,274,993
Other Accounts Receivable	12,016	13,923
Inventories	3,599,263	3,421,127
Prepaid Expenses	3,295,226	2,523,196
Total Current Assets	23,344,675	22,154,948
DUE FROM RELATED PARTY	94,314	-
PROPERTY AND EQUIPMENT, NET	6,728,295	6,943,868
RIGHT-OF-USE ASSET - OPERATING	99,633,701	99,434,214
DEPOSITS AND OTHER ASSETS, NET	1,045,069	1,148,040
DUE FROM MEMBER	65,318	65,318
Total Assets	$ 130,911,372	$ 129,746,388
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Current Maturities of Notes Payable	$ 1,109,855	$ 1,195,938
Current Portion of Lease Liability	7,246,162	6,851,361
Due to Related Party	33,812	29,363
Accounts Payable	2,245,623	1,802,282
Accrued Expenses	5,877,604	5,098,136
Student Course Deposits and Funds Payable	1,796,902	2,278,794
Unearned Tuition Income	2,629,447	3,105,872
Total Current Liabilities	20,939,405	20,361,746
NOTES PAYABLE, NET	1,063,169	1,013,055
LEASE LIABILITY - OPERATING	92,387,539	92,851,507
Total Liabilities	114,390,113	114,226,308
COMMITMENT AND CONTINGENCY		
MEMBERS' EQUITY	16,521,259	15,520,080
Total Liabilities and Members' Equity	$ 130,911,372	$ 129,746,388

See accompanying Notes to Financial Statements.

LOS ANGELES FILM SCHOOL, LLC
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
REVENUES		
Tuition, Net	$ 89,511,537	$ 91,373,857
Student Fees	21,285,420	18,362,236
Other	308,753	360,452
Interest	109,496	57,044
Total Revenues	111,215,206	110,153,589
EXPENSES		
Direct Costs of Courses and Products Sold	39,733,331	37,132,764
Selling, General, and Administrative	71,318,233	69,351,720
Depreciation and Amortization	2,299,048	2,418,085
Interest	79,570	59,777
Total Expenses	113,430,182	108,962,346
NET EARNINGS (LOSS)	$ (2,214,976)	$ 1,191,243

See accompanying Notes to Financial Statements.

LOS ANGELES FILM SCHOOL, LLC
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2023 AND 2022

MEMBERS' EQUITY - JANUARY 1, 2022	$ 18,689,247
Member Distributions	(4,360,410)
Net Earnings	1,191,243
MEMBERS' EQUITY - DECEMBER 31, 2022	15,520,080
Member Contributions	5,187,480
Member Distributions	(1,971,325)
Net Loss	(2,214,976)
MEMBERS' EQUITY - DECEMBER 31, 2023	$ 16,521,259

See accompanying Notes to Financial Statements.

LOS ANGELES FILM SCHOOL, LLC
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Students	$ 100,323,613	$ 99,291,202
Cash Received from Other Sources	308,753	360,452
Cash Paid to Suppliers and Employees	(100,531,457)	(96,246,178)
Interest Received	109,496	57,044
Interest Paid	(79,570)	(59,777)
Net Cash Provided by Operating Activities	130,835	3,402,743
CASH FLOWS FROM INVESTING ACTIVITIES		
Advances (to) from Related Parties, Net	(89,865)	255,155
Repayments Received on Loans Receivable	-	17,546
Purchases of Property and Equipment	(2,083,475)	(1,617,486)
Net Cash Used by Investing Activities	(2,173,340)	(1,344,785)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds From Borrowings on Notes Payable	1,235,726	821,884
Repayments of Borrowings on Notes Payable	(1,271,695)	(1,427,239)
Member Contributions	5,187,480	-
Member Distributions	(1,971,325)	(4,360,410)
Net Cash Provided (Used) by Financing Activities	3,180,186	(4,965,765)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,137,681	(2,907,807)
Cash and Cash Equivalents - Beginning of Year	921,709	3,829,516
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,059,390	$ 921,709
RECONCILIATION OF NET EARNINGS (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net Earnings (Loss)	$ (2,214,976)	$ 1,191,243
Adjustments to Reconcile Net Earnings (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,299,048	2,418,085
Bad Debt Provision	10,411,240	10,895,364
Change in Accounts Receivable	(9,515,027)	(10,655,107)
Change in Other Accounts Receivable	1,907	(3,451)
Change in Inventories	(178,136)	1,384,805
Change in Prepaid Expenses	(772,030)	1,013,592
Change in Deposits and Other Assets, Net	102,971	(175,677)
Change in Accounts Payable	443,341	(1,535,503)
Change in Accrued Expenses	779,468	(679,422)
Change in Student Course Deposits and Funds Payable	(481,892)	(353,465)
Change in Unearned Tuition Income	(476,425)	552
Change in Lease Liability & Right-of-Use Asset	(268,654)	(98,273)
Net Cash Provided by Operating Activities	$ 130,835	$ 3,402,743

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Los Angeles Film School, LLC (the Company), formed in 1999, offers a variety of bachelor and/or associates' degrees in the fields of film, 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 Credit Losses

Accounts receivable are stated net of an allowance for credit losses. The Company estimates the allowance for credit losses based on a combination of historical loss experience, current economic conditions, and forward-looking information. The Company also performs 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 credit losses follows:

	2023	2022
Beginning Balance	$ 29,715,538	$ 22,838,024
Current Year Credit Loss Provision	10,411,240	10,070,758
Write Offs of Accounts, net of Recoveries	(1,888,315)	(3,193,244)
Ending Balance	$ 38,238,463	$ 29,715,538

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.

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 $1,796,902, $2,278,794, and $2,632,259 as of December 31, 2023, 2022, and 2021, respectively. Revenues earned but not yet received are included in Accounts Receivable, Net (contract asset) on the balance sheet, which totaled $14,378,780, $15,274,993, and $14,690,644 as of December 31, 2023, 2022, and 2021, 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 $2,629,447, $3,105,872, and $3,105,320 as of December 31, 2023, 2022, and 2021, respectively.

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 $20,330,574 and $19,375,378 for the years ended December 31, 2023 and 2022, 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, 2023 and 2022. 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.

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

The Company has adopted the current expected credit losses (CECL) methodology for estimating credit losses on financial assets effective January 1, 2023, utilizing the modified retrospective transition method. The adoption of this standard did not have a material impact on the Company's financial statements.

Subsequent Events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through March 22, 2024, the date the financial statements were available to be issued.

NOTE 2 PROPERTY AND EQUIPMENT

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

	2023	2022
Leasehold Improvements	$ 7,399,263	$ 7,330,188
Equipment	14,561,175	13,740,549
Furniture, Fixtures, and Equipment	13,508,312	12,559,891
Library	32,465	32,465
Telephone and Software	2,104,299	2,036,667
Vehicles	47,487	47,487
Construction in Progress	851,296	673,574
Total Property and Equipment	38,504,297	36,420,821
Less: Accumulated Depreciation and Amortization	(31,776,002)	(29,476,953)
Property and Equipment, Net	$ 6,728,295	$ 6,943,868

Depreciation and amortization expense amounted to $2,299,048 and $2,418,085 for the years ended December 31, 2023 and 2022, respectively.

NOTE 3 NOTES PAYABLE

Notes payable consisted of the following as of December 31:

Description	2023	2022
Various notes payable to a bank, monthly payments ranging from $318 to $24,403, including interest at rates ranging from 1.98% to 6.96%, collateralized by certain equipment, guaranteed by an affiliate, assumption agreement with member and related party, maturing at various dates through December 2028	$ 2,173,024	$ 2,208,993
Total Notes Payable	2,173,024	2,208,993
Less: Current Maturities	(1,109,855)	(1,195,938)
Net Noncurrent Portion	$ 1,063,169	$ 1,013,055

Future maturities of notes payable are as follows:

Year Ending December 31,	Amount
2024	$ 1,109,855
2025	704,948
2026	351,078
2027	3,456
Thereafter	3,687
Total	$ 2,173,024

NOTE 4 OPERATING LEASES

The Company leases its office and classroom facilities under long-term, non-cancelable lease agreements (see Note 5). 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:

Year Ending December 31,	Amount
2024	$ 7,276,975
2025	6,147,845
2026	6,147,845
2027	6,147,845
Thereafter	179,889,125
Total Lease Payments	205,609,635
Less: Amount Representing Interest	(105,975,934)
Present Value of Minimum Lease Payments	99,633,701
Less: Current Maturities	(7,246,162)
Net Noncurrent Portion	$ 92,387,539

NOTE 4 OPERATING LEASES (CONTINUED)

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.

	2023	2022
Operating Lease Cost	$ 7,418,183	$ 7,423,369
Nonlease Component: Operating Expenses	3,365,016	3,317,490
Sublease Income	(586,480)	(569,528)
Total Lease Cost	$ 10,196,719	$ 10,171,331
Operating Cash Flows Used for Operating Leases	$ 9,928,065	$ 10,269,604
Weighted Average Remaining Lease Term - Operating Leases (Years)	26.4	27.2
Weighted Average Discount Rate - Operating Leases	5.0%	5.0%

NOTE 5 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. Total lease expense under the lease amounted to $3,044,064 and $2,984,377 for the years ended December 31, 2023 and 2022, 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 4.

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. Total lease expense under the lease amounted to $6,075,043 and $5,955,926 for the years ended December 31, 2023 and 2022, 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 4.

NOTE 5 RELATED PARTY TRANSACTIONS (CONTINUED)

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. Total lease expense under the lease amounted to $256,079 and $251,058 for the years ended December 31, 2023 and 2022, 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 4.

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. Total lease expense under the lease amounted to $137,684 and $137,973 for the years ended December 31, 2023 and 2022, 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 4.

During the years ended December 31, 2023 and 2022, 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 $60,502 and ($29,363) at December 31, 2023 and 2022, respectively, and are included in the accompanying balance sheets as “Due from (to) 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, 2023 and 2022, 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 $534,997 and $597,678 for the years ended December 31, 2023 and 2022, respectively.

NOTE 6 MEMBERS' EQUITY

The Company is a limited liability company with an aggregate of 10,000,000 member units. 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, a mandatory conversion event or a liquidity event, as defined in the LLC Agreement.

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 7 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.

The Company received notification of borrower defense to repayment applications. The applications do not result in a liability to the Company; however, the Company will contest and respond to each application individually with supporting evidence.

NOTE 8 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 $115,704 and $101,212 for the years ended December 31, 2023 and 2022, respectively.

NOTE 9 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 $31,000 and $124,000 for the years ended December 31, 2023 and 2022, respectively.

NOTE 10 TITLE IV 90/10 REVENUE REQUIREMENT

The Company 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 Company must comply with the regulations promulgated under the HEA. The regulations require a proprietary school to derive at least 10 percent of its cash basis revenues for each fiscal year from sources other than Federal funds. If a school receives more than 90 percent 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. The below information for the year ended December 31, 2023 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.

	Amount	Percent
Adjusted Student Federal Revenue	$ 87,313,628	86.17 %
Sum of Non-Federal Revenue and Revenue from Other Sources	14,008,283	13.83
Total Cash Basis Revenue	$ 101,321,911	100.00 %

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

The following is a breakdown of Title IV and Non-Title IV revenue by source for the year ended December 31, 2023:

Revenue Category	Amount Disbursed	Adjusted Amount
Student Title IV Revenue:		
Title IV Credit Balance Carried Over from Prior Year	$ -	$ -
Federal Direct Loan	54,671,809	54,671,809
Federal Plus Loan	5,900,676	5,900,676
Federal Pell Grant	32,731,020	32,731,020
FSEOG (subject to matching reduction)	1,027,166	770,375
Total Student Title IV Revenue	94,330,671	94,073,880
Student Title IV Revenue in Excess of Tuition and Fees	-	(16,891,451)
Title IV Funds Returned For Student Withdrawals	-	(6,627,825)
Total Adjusted Student Title IV Revenue	$ 94,330,671	$ 70,554,604
Student/Other Federal Funds Paid Directly to Student:		
Department of Veteran's Affairs Chapter 30	3,397	3,397
Department of Veteran's Affairs Chapter 35	$ 126,023	$ 126,023
Department of Veteran's Affairs Chapter 1606	1,382	1,382
Total Student/Other Federal Funds Paid Directly to Student	130,802	130,802
Student Funds in Excess of Tuition and Fees	-	-
Agency Funds Returned for Student Withdrawals	-	-
Total Adjusted Student/Other Federal Funds Paid Directly to Student	$ 130,802	$ 130,802
Student/Other Federal Funds Paid Directly to the Institution:		
Department of Veteran's Affairs Chapter 33 Post-9/11 GI Bill	$ 13,036,833	$ 13,036,833
Department of Veteran's Affairs Chapter 31 Veteran Readiness and Employment	3,759,297	3,759,297
Department of Veteran's Affairs Yellow Ribbon GI Education Enhancement Program	220,899	220,899
Department of Veteran's Affairs Tuition Assistance Program	5,500	5,500
State Vocational Rehabilitation Funds	17,767	17,767
Total Student/Other Federal Funds Paid Directly to the Institution	17,040,296	17,040,296
Student Funds in Excess of Tuition and Fees	-	(358,628)
Agency Funds Returned for Student Withdrawals	-	(53,446)
Total Adjusted Student/Other Federal Funds Paid Directly to the Institution	17,040,296	16,628,222
Total Adjusted Student Federal Revenue	$ 111,501,769	$ 87,313,628

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

Revenue Category	Amount Disbursed	Adjusted Amount
Revenue from Other Sources (Total for the Fiscal Year):		
Activities conducted by the insitituion that are necessary for education and training	$ -	$ -
Funds paid by the insitution by, or on behalf of, students for education and traning in qualified non-Title IV eligible programs	-	-
Total Revenue from Other Sources	$ -	$ -
Student Non-Federal Revenue:		
Grant Funds For the Student from Non-Federal Public Agencies or Private Sources Independent of the Institution	$ -	$ -
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	373,433	373,433
Qualified institutional scholarships disbursed to students	-	-
Student Payments:		
Third Party Loans	4,450,810	4,450,810
Third Party Loans - Related Party/Institutional Loans	-	-
ISA Institutional or Related Party	-	-
ISA	-	-
Student Cash	11,896,986	11,896,986
Total Student Non-Federal Revenue	16,721,229	16,721,229
Student Funds in Excess of Tuition and Fees	-	(2,429,640)
Agency Funds Returned for Student Withdrawals	-	(283,306)
Total Adjusted Student Non-Federal Revenue	16,721,229	14,008,283
Total Adjusted Student Non-Federal Revenue and Revenue from Other Sources	16,721,229	14,008,283
Total Federal and Non-Federal Revenue	$ 128,222,998	$ 101,321,911

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

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. The information below for the year ended December 31, 2022 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.

	Amount	Percent
Non-Title IV Source Revenue	$ 33,008,883	33.24 %
Title IV Source Revenue	66,282,319	66.76
Total Cash Basis Revenue	$ 99,291,202	100.00 %

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

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

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, 2023, and the related statements of operations, changes in members' equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 22, 2024.

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.

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

CliftonLarsonAllen LLP

Orlando, Florida
March 22, 2024