Kendall College, LLC and Affiliate

(consolidated affiliates of Laureate Education, Inc.)

Financial Report
December 31, 2017

Index to Financial Statements

Report of Independent Auditors

To the Board of Directors and Management of Kendall College, LLC and Affiliate

We have audited the accompanying financial statements of Kendall College, LLC and Affiliate (the "Company", consolidated affiliates of Laureate Education, Inc.), which comprise the balance sheet as of December 31, 2017, and the related statements of operations, changes in member's equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility 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; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2017, 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.

Other Matter

Our audit was conducted for the purpose of forming opinions on the financial statements taken as a whole. The accompanying Note 10 - Title IV Program Participation, which includes the 90/10 calculation, is required by the US Department of Education and is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Note 8 - Related Party Transactions is required by the US Department of Education and accounting principles generally accepted in the United States of America. 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 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 taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2018 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

June 15, 2018

Kendall College, LLC and Affiliate
(consolidated affiliates of Laureate Education, Inc.)

Consolidated Balance Sheet
December 31, 2017

($ in thousands)

Assets		
Current Assets		
Cash	$	10,635
Student tuition and fees receivable, net		278
Perkins loans receivable, net		62
Due from related parties		525
Other receivables		629
Prepaid expenses and other current assets		550
Total current assets		**12,679**
Property, Equipment and Leasehold Improvements, Net		42,472
Other Assets		
Note and interest receivable from Parent		28
Deferred project costs, net		137
Trade name		2,500
Other assets		200
Total other assets		**2,865**
Total assets	**$**	**58,016**
Liabilities and Member's Equity		
Current Liabilities		
Accounts payable and accrued expenses		2,396
Due to related parties		3,939
Deferred revenue and student deposits		249
Current maturities of sale-leaseback financing		375
Other current liabilities		501
Total current liabilities		**7,460**
Long-Term Liabilities		
Sale-leaseback financing, less current maturities		26,288
Other long-term liabilities		239
Total long-term liabilities		**26,527**
Total liabilities		**33,987**
Commitments and Contingencies (Note 6)		
Member's Equity		24,029
Total liabilities and member's equity	**$**	**58,016**

The accompanying notes are an integral part of these consolidated financial statements.

Kendall College, LLC and Affiliate
(consolidated affiliates of Laureate Education, Inc.)

Consolidated Statement of Operations
For the Year Ended December 31, 2017

($ in thousands)

Revenues	
Tuition and fees, net of scholarships and discounts	$ 18,179
Ancillary revenues	4,413
Total revenues	**22,592**
Operating expenses	
Program delivery:	
Instructional delivery	6,189
Academic support	5,726
Facilities	4,764
Ancillary expenses	4,131
Total program delivery expenses	**20,810**
Marketing and recruiting	5,251
General and administrative:	
Provision for doubtful accounts	601
Financial services	434
Human resources	431
Executive and legal	857
Regulatory	84
Loss on impairment of asset	1,268
Total general and administrative expenses	**3,675**
Total operating expenses	**29,736**
Operating loss	**(7,144)**
Other income/(expenses):	
Rental income	695
Interest expense, net	(2,187)
Total other expense, net	**(1,492)**
Loss before income taxes	**(8,636)**
Income tax expense	(40)
Net loss	**$ (8,676)**

The accompanying notes are an integral part of these consolidated financial statements.

Kendall College, LLC and Affiliate
(consolidated affiliates of Laureate Education, Inc.)

Consolidated Statement of Changes in Member's Equity
For the Year Ended December 31, 2017

($ in thousands)	Member's Equity		
	Contributed Capital	Accumulated Deficit	**Total Member's Equity**
Balance as of December 31, 2016	**$ 77,261**	**$ (45,605)**	**$ 31,656**
Non-cash stock compensation	49	—	**49**
Contribution of capital	1,000	—	**1,000**
Net loss	—	(8,676)	**(8,676)**
Balance as of December 31, 2017	**$ 78,310**	**$ (54,281)**	**$ 24,029**

The accompanying notes are an integral part of these consolidated financial statements.

Kendall College, LLC and Affiliate
(consolidated affiliates of Laureate Education, Inc.)

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2017

($ in thousands)

Cash Flows From Operating Activities		
Net loss	$	(8,676)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization		2,267
Amortization of debt issuance costs		106
Loss on impairment of trade name		1,268
Deferred rent, net		23
Provision for student tuition and fees and Perkins loans receivable		568
Non-cash stock compensation		49
Changes in operating assets and liabilities		
Student tuition and fees receivable		(100)
Due from related parties		278
Other receivables		282
Prepaid expenses and other current assets		(52)
Other assets		(8)
Interest payable to Parent		(1,092)
Accounts payable and accrued expenses		474
Due to related parties		3,614
Student deposits and deferred student tuition and fees		(258)
Other current liabilities		(14)
Net cash used in operating activities		**(1,271)**
Cash Flows From Investing Activities		
Borrowings by Parent on note receivable		(15,000)
Collections from Parent on note receivable		15,638
Purchases of property, equipment, and leasehold improvements		(258)
Additions to deferred project costs		(160)
Perkins loans repayments by students		70
Net cash provided by investing activities		**290**
Cash Flows From Financing Activities		
Contribution of capital		1,000
Payments to Parent on note payable		(978)
Principal payments on sale-leaseback financing		(286)
Net cash used in financing activities		**(264)**
Net decrease in cash		**(1,245)**
Cash		
Beginning of year		11,880
End of year	**$**	**10,635**

The accompanying notes are an integral part of these consolidated financial statements.

Kendall College, LLC and Affiliate
(consolidated affiliates of Laureate Education, Inc.)

Consolidated Statement of Cash Flows (continued)
For the Year Ended December 31, 2017

($ in thousands)

Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	$	3,742
Cash paid during the year for income taxes	$	—
Supplemental Disclosure of Non-Cash Operating and Investing Activities		
Purchases of property and equipment in accrued expenses	$	4

The accompanying notes are an integral part of these consolidated financial statements.

Note 1. Nature of Business

Kendall College, LLC and its affiliate, the Dining Room at Kendall (the "Dining Room"), (collectively, "Kendall" or the "Company") is a campus-based institution, offering degree programs in culinary arts, hospitality management, and business and education, and is located in Chicago, Illinois. Kendall College, LLC is accredited by the Higher Learning Commission and is a wholly-owned subsidiary of Laureate Education, Inc. ("LEI" or the "Parent"). Kendall is organized as a for-profit limited liability corporation while the Dining Room is a not-for-profit corporation.

The Company has incurred losses from operations since inception resulting in an accumulated deficit of $54,281 at December 31, 2017. In addition, the Company has financed its operations from inception through equity contributions from LEI of $35,300. The Company's ability to fund operations could be dependent upon its ability to obtain additional financing from LEI.

The Company's current financial position includes negative cash flows from operations of $1,271 and a net loss of $8,676. Management currently anticipates that existing funds as well as future cash flows from operations and cash provided by the Parent will be sufficient to finance its operations going forward. The Parent has committed to fund the operations of the Company, if necessary, to allow it to continue as a going concern through June 30, 2019.

Principles of Consolidation

The consolidated financial statements include the accounts and transactions of Kendall and the Dining Room. While Kendall does not have a controlling ownership interest in the Dining Room, it does have the power to direct the activities of the Dining Room that most significantly impact the Dining Room's economic success and the obligation to absorb losses that could potentially be significant. Therefore, the Dining Room is considered a variable interest entity ("VIE"), as defined by generally accepted accounting principles ("GAAP"), that Kendall is considered the primary beneficiary, and as a result, is required to consolidate. All significant intercompany transactions and balances have been eliminated in consolidation.

Note 2. Significant Accounting Policies

Basis of Presentation and Use of Estimates

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash

The Company considers all highly liquid investments with an original maturity date of three months or less, when purchased, to be cash equivalents. No cash equivalents existed as of December 31, 2017.

Restricted Cash

The Company participates in the United States Department of Education ("DOE") Title IV student financing assistance lending programs ("Title IV programs"). At times the DOE may require institutions to post collateralized standby letters of credits ("LOC") in order to continue participation in Title IV programs. LOC requirements are based on a number of considerations including recent changes in ownership and failure to meet minimum financial ratio requirement set forth by the DOE. Kendall College, LLC is included in a group letter of credit with other U.S. based institutions controlled by LEI totaling $136,888 on the behalf of the Company that expires December 31. 2018. See Note 8 for more information on this LOC.

Note 2. Significant Accounting Policies (continued)

The Company also receives Title IV program funds in advance of billing students for educational services over the course of the year. As a trustee of these Title IV program funds, the Company is required to maintain and restrict these funds pursuant to the terms of the institution's program participation agreement with the DOE. As of December 31, 2017, there was no restricted cash related to advance payment of Title IV program funds.

Concentration of Credit Risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and student tuition and fees receivable. The Company has cash with financial institutions in excess of federally insured limits. Through December 31, 2017, the Company has not experienced losses related to amounts in excess of federally insured limits and believes it is not exposed to any significant credit risk on cash.

Student tuition and fees receivable are unsecured and are derived from students enrolled in the Company's educational programs. Student receivables are not collateralized; however, credit risk is reduced as the amount owed by any individual student is small relative to the total student tuition and fees receivables.

Revenue Recognition

The Company's revenues consist of tuition, student fees and ancillary revenues. Revenue is reported net of scholarships and other discounts, refunds and waivers. For the year ended December 31, 2017, the Company's revenue was reduced by $3,181 as a result of scholarships and discounts that the Company offered to students. Collectability is determined on a student-by-student basis at the time of enrollment. Generally, students cannot re-enroll for the next academic session without satisfactory resolution of any past-due amounts.

Tuition revenues are recognized ratably on a daily straight-line basis over each academic session. Deferred revenue and student deposits, which consist of tuition paid prior to the start of academic session and unearned tuition amounts, respectively, begins to be recognized as revenue after an academic session begins and totaled $249 at December 31, 2017. If a student withdraws within the refund period, the Company is obligated to issue a refund according to the refund policy and the timing of the student's withdrawal. The amount of refund obligations are reduced over the course of the academic term. Refunds are recorded as a reduction of deferred revenue and student deposits, as applicable. Once a student withdraws, the Company recognizes revenue on a cash basis as collectability is not reasonably assured. Ancillary revenues are primarily comprised of food service fees, dormitory, events and culinary programs and are recognized ratably over the academic term, or upon delivery of the product/service, and when collectability is reasonably assured.

Student Tuition and Fees Receivable

Student tuition and fees receivables primarily consist of tuition and educational services and are recognized when an academic session begins, although students generally enroll in courses prior to the start of the academic session. Receivables are recognized only to the extent that amounts are due and collection is reasonably assured.

Allowance for Doubtful Accounts

The Company uses estimates to determine the amount of the allowance for doubtful accounts necessary to reduce the student tuition and fees receivable, and Perkins loan receivables to net realizable value. The Company estimates the amount of the required allowance by reviewing the status of past-due receivables, analyzing historical bad debt trends, as well as analysis of aged accounts receivable balances with allowances generally increasing as the receivable ages. The analysis of receivables is

Note 2. Significant Accounting Policies (continued)

performed monthly, and allowances are adjusted accordingly. Receivables are generally due on the date on which the related class commences. The Company writes off receivables deemed to be uncollectible to the allowance for doubtful accounts when all collection efforts have been exhausted. Allowance for student tuition and fees was $486 as of December 31, 2017. Refer to Note 10 for further details of Title IV funding received during the year ended December 31, 2017.

Perkins Loans Receivable and Perkins Loan Fund Liability

The Perkins loans receivable balance of $405 at December 31, 2017 consisted of U.S. Government loans made to students, less an allowance for doubtful accounts of $343. The U.S. federal government portion of student loan funds is refundable under various loan programs and distributable upon liquidation of the loan programs. Accordingly, the Company recognizes an offsetting liability for the portion of refundable Perkins loans outstanding, no amount was repaid during 2017. As of December 31, 2017, the Company had a remaining $236 of refundable Perkins loans that are included in other long-term liabilities in the accompanying consolidated balance sheet as management does not expect payment within the next twelve months.

Property, Equipment, Leasehold Improvements and Impairment of Long-Lived Assets

Property, equipment and leasehold improvements are recorded at cost, except for assets acquired using acquisition accounting, which are recorded at fair value. Depreciation is provided on the straight-line method over estimated useful lives, or the shorter of the term of the lease for leasehold improvements. The depreciation expense on assets acquired under capital leases is included within depreciation expense on owned assets. Upon sale or disposition of property and equipment, the cost and related accumulated depreciation is eliminated from the accounts and any resulting gain or loss is credited or charged to income. Assets under construction are recorded in construction-in-progress until they are available for use. Interest is capitalized as a component of the cost of projects during the construction period if material. Maintenance and repairs costs are charged to operating expenses as incurred. Improvements and betterments are capitalized and depreciated over the shorter of the useful life or the remaining useful life of the asset.

Long-lived assets, which includes property, equipment, and leasehold improvements are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss shall be recognized only if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. No impairment of long-lived depreciable assets occurred during the year ended December 31, 2017.

Leases

The Company conducts its operations at leased facilities. The Company evaluates individual leases to determine whether they should be classified as capital or operating, including leases for which the Company was involved in construction to determine whether build-to-suit and sale-leaseback criteria are applicable. For those leases that trigger specific build-to-suit accounting, developer assets with an offsetting liability are recognized during the construction period. Once the construction period is complete, the Company then analyzes sale-leaseback arrangements to determine whether the lease should be accounted for as a sale and a subsequent lease-back or as a financing transaction.

Note 2. Significant Accounting Policies (continued)

Capital leases, which principally include equipment, are initially recorded at the lower of fair value or the present value of the future minimum lease payments, excluding executory costs. If the lease agreement includes a legal obligation that requires the leased premises to be returned in a predetermined condition, an asset retirement obligation is recognized along with a corresponding depreciating asset, when such an asset exists. The amortization of assets is recorded under capital leases within depreciation expense.

Operating lease rent expense is recognized on a straight-line basis over the expected term of each lease, which includes rent holiday periods and/or scheduled rent increases. Any difference between actual payments and the calculated straight-line expense is recorded as an adjustment to deferred rent. The expected lease term may also include the exercise of renewal options if the exercise of the option is determined to be reasonably assured. The Company is also required to make additional payments under various leases for real estate taxes, insurance and other operating expenses incurred during the lease period, which are expensed as incurred.

Deferred Project Costs

Deferred project costs include the direct cost of internally developing proprietary educational products and materials or the purchase of similar developed proprietary educational products developed by affiliated companies that have extended useful lives. These costs are capitalized and amortized on a straight-line basis over the estimated period that the associated products are expected to generate revenues, which generally approximates five years. Deferred costs are evaluated for impairment on a quarterly basis through review of the corresponding course catalog. If a course is no longer listed or offered in the current course catalog, then the costs associated with its development are written off. Costs that do not meet capitalization criteria are expensed as incurred. The Company had $137 of capitalized deferred project costs as of December 31, 2017. Amortization of deferred project costs was $48 for the year ended December 31, 2017.

Indefinite-Lived Intangible Assets

Indefinite-lived intangible assets consist of the Company's trade name. The trade name intangible asset, which had a balance of $2,500 as of December 31, 2017, represents the fair value of the Company's name. Kendall's trade name intangible asset represents the estimated after-tax savings generated by owning the asset versus having to pay to license or franchise fees to gain access to the asset.

The impairment test for the trade name intangible asset requires a determination of fair value of the intangible asset as of the measurement date. The Company uses the relief-from-royalty approach to determine the fair value of the asset. If the fair value of the intangible asset is less than its carrying value, an impairment loss is recognized for an amount equal to the difference. During the year ended December 31, 2017, the Company recorded an impairment charge of $1,268, based on its impairment assessment.

Debt Issuance Costs

Debt issuance costs relate to the sale-leaseback financing and are amortized using the straight-line method, which approximates the effective interest rate method, over the terms of the underlying lease. On January 1, 2016, the Company adopted ASU 2015-03, which simplified the presentation of debt issuance costs by requiring debt issuance costs to be presented as a reduction of the corresponding debt liability. This makes the presentation of debt issuance costs consistent with the presentation of debt discounts or premiums. The recognition and measurement guidance for debt issuance costs is not affected, therefore these costs will continue to be amortized as interest expense. As of December 31, 2017 the unamortized balance of deferred financing costs was $1,113 and is reflected as a reduction of sale-leaseback financing. See note 4 for further details.

Note 2. Significant Accounting Policies (continued)

Non-Cash Stock Compensation

Stock-based compensation expense allocated from the Parent's Stock Incentive Plan is based on the grant-date fair value, as calculated by the Black-Scholes option pricing model. Stock-based compensation expense, less estimated forfeitures, is recognized on a straight-line basis over the requisite service period for time based vesting awards and on a graded expense attribution method for performance based vesting awards to the extent that it is probable that the stated annual performance target will be achieved and awards will vest for any year. The estimated forfeitures are calculated based on historical activity, expected employee turnover, and other qualitative factors which are adjusted for changes in estimates and award vesting.

Income Taxes

Kendall College, LLC is included in the Parent's consolidated income tax return as a wholly-owned subsidiary. For purposes of these stand-alone financial statements, the Company applies the separate-return approach to allocate current and deferred tax as if the Company were a separate taxpayer rather than a member of the Parent's consolidated tax return. Accordingly, the Company recognizes a provision for income taxes that includes federal and state income taxes using the liability method of accounting. Under the liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases including net operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. All deferred taxes are presented as long-term in the accompanying balance sheet.

As of December 31, 2017, the Company has recognized a full valuation reserve that offsets deferred tax assets, primarily attributable to historical net operating losses, due to the uncertainty surrounding the realization of these deferred tax assets as well as current and projected losses.

Management evaluated the Company's tax positions and concluded there were no uncertain tax positions taken that require adjustment to the financial statements. With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for the tax years before 2014.

Variable Interest Entity

To determine if the Company holds a controlling financial interest in an entity, the Company evaluates if it is required to apply the VIE model to the entity. In determining whether the Company is the primary beneficiary of a VIE for financial reporting purposes, the Company considers whether it has the power to direct the activities of the VIE that most significantly impact the economic performance of the VIE and whether the Company has the obligation to absorb losses or the right to receive returns that would be significant to the VIE. The Company consolidates VIEs when the Company is the primary beneficiary.
As discussed in Note 1, the Dining Room is considered a VIE to which Kendall is considered the primary beneficiary.

Financial Instruments

The Company’s financial instruments consist of cash, student tuition and fees receivable, Perkins loans receivables, other receivables, accounts payable to third parties, due from/to related parties, and note and interest receivable payable to Parent and are carried at cost.

Note 2. Significant Accounting Policies (continued)

Advertising Costs
Advertising costs are expensed as incurred and totaled $3,018 for the year ended December 31, 2017 and are included within the accompanying consolidated statement of operations.

Contingencies
The Company accrues for contingent obligations when it is probable that a liability is incurred and the amount or range of amounts is reasonably estimable. As new facts become known to management, the assumptions related to a contingency are reviewed and adjustments are made, as necessary. Refer to Note 6 for information on contingency matters.

Recently Issued Accounting Standards

In May 2014 the Financial Accounting Standards Board ("FASB") issued new guidance on revenue recognition, which requires the Company to recognize revenue when a customer obtains control rather than when it has transferred substantially all risks and rewards of a good or service and requires expanded disclosures. The new guidance is effective for the Company beginning January 1, 2019, with early adoption permitted beginning January 1, 2018. Management has completed the diagnostic assessment and the policies and processes relating to this ASU, and will adopt the new standard using the modified retrospective method effective January 1, 2018. Management does not expect the adoption of the new revenue standard to result in a significant change to the Company's method of recognizing tuition revenues and does not expect any impact on the Company's financial statements.

In February 2016, the FASB issued new lease accounting standard, which will require that all leases, operating and capital leases, be capitalized on the balance sheet. The new lease standard becomes effective January 1, 2020 for the Company, with earlier adoption permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Management has completed their diagnostic assessment and has established a cross-functional implementation team which is in the process of identifying changes to our accounting policies, business processes, systems and internal controls in preparation for the implementation. Management anticipates that the new standard will have a material impact on the Company's financial statements and does currently plan to early adopt.

In November 2016, the FASB issued final guidance that will require statements of cash flows to explain the changes during the period of total cash, cash equivalents and amounts described as restricted cash or restricted cash equivalents. Therefore, restricted cash should be included when reconciling beginning and ending cash on the statement of cash flows. The new standard is effective for the Company on January 1, 2018, with early adoption permitted. The adoption of this new standard is not expected to have a material impact on the Company's statement of cash flows.

In October 2016, the FASB issued a new standard to improve the accounting for income tax consequences for intra-entity transfers of assets other than inventory. Under current GAAP, the recognition of current and deferred income taxes for an intra-entity transfer is prohibited until the asset has been sold to a third party. This new standard requires an entity to recognize income tax consequences of an intra-entity transfer when the transfer occurs and is effective beginning on January 1, 2019, with early adoption is permitted. The amendments in the new standard should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The adoption of this new standard is not expected to have a material impact on the Company's statement of cash flows.

(Dollars in thousands)

Note 2. Significant Accounting Policies (continued)

Subsequent Events

Management has evaluated events through June 15, 2018, which is the date the consolidated financial statements were available to be issued. Refer to note 9 for further information regarding subsequent events. With the exception of the item discussed in note 9, the Company had no material subsequent events that were not reflected in the consolidated financial statements for the period.

Note 3. Property, Equipment and Leasehold Improvements

Property, equipment, and leasehold improvements net, consist of the following at December 31, 2017:

	Depreciable Life	2017
Buildings	29 years	$ 21,700
Leasehold improvements	2-20 years	20,121
Computer equipment, software and other equipment	2-5 years	6,288
Furniture and fixtures	2-7 years	4,483
		52,592
Less: accumulated depreciation		(25,254)
		27,338
Land		14,872
Construction in progress		262
Property, Equipment and Leasehold Improvements, Net		**$ 42,472**

Depreciation of property, equipment and leasehold improvements were $2,219 for the year ended December 31, 2017.

Note 4. Sale- Leaseback Financing

The Company sub-leases land and building from LEI who is a lessee with a third-party. The arrangement was determined to be a failed sale-leaseback due to prohibited continuing involvement by LEI under a performance guarantee provision contained in the lease, resulting in financing treatment. As such, the land and building assets were recorded at their respective fair market values at inception of the lease, along with a corresponding debt liability. The fair market values of the land and building were determined by a third-party appraisal firm, using a blended valuation technique. As of December 31, 2017, the carrying values of the land and building were $6,300 and $16,561, net of depreciation, respectively.

(Dollars in thousands)

Note 4. Sale- Leaseback Financing (continued)

The future minimum sale-leaseback payments are as follows:

2018	$	2,890
2019		2,947
2020		3,006
2021		3,067
2022		3,128
Thereafter		35,788
Total minimum lease payments		50,826
Less: amount representing interest		(24,163)
Present value of net minimum lease payments	**$**	**26,663**

Present value of net minimum lease payments included in current portion of sale-leaseback financing	$	375
Present value of net minimum lease payments included in sale-leaseback financing, less current portion	$	26,288

The Company also incurred debt issuance costs in connection with the sale-leaseback arrangement, which is amortized over the term of the 20-year lease obligation. The amortization of these financing fees is included in interest expense and totaled $106 for the year ended December 31, 2017.

Debt issuance costs net of accumulated amortization of $1,007 was $1,113 and is classified as long term sale-leaseback financing, less current maturities on the accompanying consolidated balance sheet as of December 31, 2017.

The Company also sub-leases space in the property to three unrelated parties. Operating costs, such as certain insurance, utilities and a portion of the real estate taxes, are paid by the sub-lessees.

The total estimated future sub-rentals to be received are as follows:

2018	$	612
2019		633
2020		507
2021		266
	$	**2,018**

(Dollars in thousands)

Note 5. Income Taxes

The significant components of the Company's provision for income taxes for the year ended December 31, 2017 were as follows:

Current		
Foreign	$	40
Total current tax provision	$	40

The tax effects of the temporary differences between financial and income tax accounting that give rise to the Company's deferred tax assets and liabilities at December 31, 2017 are as follows:

Deferred tax assets		
Net operating loss carryforwards	$	10,742
Amortization of intangible assets		1,793
Depreciation		1,587
Sales-leaseback financing		561
Deferred compensation		126
Other		228
Total deferred tax assets		**15,037**
Deferred tax liabilities		
Debt issuance costs		(95)
Total deferred tax liabilities		**(95)**
Net deferred tax assets		**14,942**
Less: valuation allowance		(14,942)
Net deferred tax assets (liabilities)	**$**	**—**

The Company files a consolidated federal income tax return with LEI, who has net operating loss carryforwards available to offset future taxable income that will begin to expire in 2027.

The Tax Cuts & Jobs Act (TCJA) was enacted in December 2017. Among other things, the TCJA reduces the U.S. federal corporate tax rate from 35% to 21% beginning in 2018. The SEC staff issued Staff Accounting Bulletin (SAB) 118, which provides guidance on accounting for enactment effects of the TCJA. SAB 118 provides a measurement period of up to one year from the TCJA's enactment date for companies to complete their accounting under ASC 740. In accordance with SAB 118, to the extent that a company's accounting for certain income tax effects of the TCJA is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in its financial statements. If a company cannot determine a provisional estimate to be included in its financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the TCJA.

(Dollars in thousands)

Note 5. Income Taxes (continued)

With the Company's initial analysis of the impact of the enactment of the TCJA, the Company recorded a net tax expense of $7.6M in the fourth quarter of 2017 which relates to the rate change upon remeasurement of deferred tax assets/liabilities. The Company's remeasured of certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21% under the TCJA. The net tax expense is primarily offset by a reduction of the valuation allowance related to the net deferred tax assets.

A reconciliation of the reported income tax expense to the amount that would result by applying the U.S. federal statutory rate of 35% to income before income taxes for the year ended December 31, 2017 is as follows:

Tax benefit at U.S. statutory rate of 35%	$	(3,022)
State income tax benefit, net of federal tax effect		(533)
Effect of permanent differences and other		560
Withholding taxes		40
Impact of change in tax rate		7,643
Change in valuation allowance		(4,648)
Income tax expense	**$**	**40**

Note 6. Commitments and Contingencies

Operating Leases

The Company has operating lease agreements for various student accommodations extending through June 2020.

The total future aggregate non-cancelable lease payments are as follows as of December 31, 2017:

2018	$	1,976
2019		2,036
2020		1,033
	$	**5,045**

Total rent expense for the year ended December 31, 2017 was $2,914.

Legal and Regulatory Matters

In the normal course of business, the Company may be subject to lawsuits. Management monitors the status of such events and accrues an estimated amount when an obligation becomes probable and estimable. Any amount recorded is based on the status of current activity and the advice from legal counsel. As of December 31, 2017, there were no amounts accrued for such events.

Effective beginning July 1, 2015, the DOE finalized regulations, otherwise known as "gainful employment", that requires each educational program offered by a proprietary institution to achieve certain threshold rates in two debt measure categories: an annual debt-to-annual earnings ("DTE") ratio and an annual debt-to-discretionary income ("DTI") ratio, as well as certify that its educational programs meet the applicable requirements for graduates to be professionally or occupationally licensed or certified in the state in which institution is located. In January 2017, the DOE issued its final DTE rates, which identified two programs at the Company that were considered to be "in the zone" - Bachelor degrees of Culinary Arts/Chef Training & Early Childhood Education and Teaching, representing a combined total

Note 6. Commitments and Contingencies (continued)

of $2,924 of Title IV revenue, as calculated on a cash basis (or approximately 13% of net revenue for the year ended December 31, 2017). An educational program will cease to be eligible for students to receive Title IV program funds if its DTE and DTI ratios are failing in two out of any three consecutive award years or if both of those rates are failing or in the zone for four consecutive award years. Management is currently evaluating available options for each of the programs and for the students.

Surety Bonds Collateralized by Parent

As part of normal operations, LEI's insurers issue surety bonds on it's behalf, as required by various state education authorities in the United States. LEI is obligated to reimburse the insurers for any payments made by the insurers under the surety bonds. As of December 31, 2017, the total face amount of the surety bonds related to Kendall's operations was $75 and were fully collateralized by cash from LEI.

Other Commitments

The Company participates in student financial aid through the Federal Department of Education's Guaranteed Student Loan Program (the "Program"). Transfers of funds from the financial aid programs to the Company are made in accordance with the DOE requirements. The financial aid and assistance programs are subject to political and budgetary considerations. There is no assurance that such funding will be maintained at current levels. Extensive and complex regulations govern the financial assistance programs in which the Company's students participate. The Company's administration of these programs is periodically reviewed by various regulatory agencies. Any regulatory violation could be the basis for the initiation of potential adverse actions including a suspension, limitation or termination proceeding which could have a material adverse effect on the Company. While unlikely, if the Company were to lose its eligibility to participate in federal student financial aid programs, the students at that institution would lose access to funds derived from those programs and would have to seek alternative sources of funds to pay their tuition and fees. Management believes there are no matters of noncompliance that could have a material effect on the accompanying financial statements or the Company's liquidity.

Vendor Purchase Commitment

In September 2017, the Company entered into a purchase commitment with a third-party vendor to purchase a minimum volume of $700 per year in food purchases over the initial two-year term. Upon execution, the Company received an upfront vendor payment of $40 that is refundable to the vendor in the event the minimum volume is not achieved. As of December 31, 2017, the upfront payment has a balance of $30, is included in other current liabilities, and will be amortized ratably as a reduction of food service costs over the initial contractual term.

Note 7. Variable Interest Entity

Kendall is the primary beneficiary of the Dining Room, which is considered a VIE, and is further discussed in Note 1.

(Dollars in thousands)

Note 7. Variable Interest Entity (continued)

The assets, liabilities and member's deficit of the Dining Room included in the Company's consolidated balance sheet as of December 31, 2017 are as follows:

Assets		
Cash	$	72
Prepaid expenses and other assets		9
Total assets		**81**
Liabilities		
Accounts payable and accrued expenses		31
Due to related parties		373
Total liabilities		**404**
Member's Deficit		
Cumulative losses		(323)
Total liabilities and member's deficit	**$**	**81**

Included in due to related parties in the above VIE balance sheet is $262 due to Kendall which eliminates in the consolidated balance sheet.

Note 8. Related Party Transactions

The Company receives funds under Title IV programs administered by the DOE pursuant to the HEA. The regulations under the HEA require the disclosure of all related party transactions.

Employee Benefit Plans

Eligible employees of the Company participate in a defined contribution plan administered by LEI under Section 401(k) of the Internal Revenue Code, up to certain annual limits. LEI matches 50% of the first 6% of eligible compensation an employee contributes to the benefit plan. The match is discretionary and based on LEI's financial performance. Additional discretionary contributions may also be made at the option of LEI. Matching contributions of $143 were funded to the plan in March 2018 for the 2017 plan year. No additional discretionary contributions were made by LEI. No employee benefit related liabilities were accrued as of December 31, 2017. The annual amount of discretionary 401(k) match, along with employee health insurance and other benefits provided by LEI, is allocated to the Company on a bi-monthly basis that equates to 13% of an employee's base compensation.

Expenditures Paid by LEI and Affiliates on Behalf of the Company

In addition to the amount charged to the Company under the shared services agreement, there were other costs paid on behalf of the Company by LEI and other affiliates. These costs consist of both operating costs including payroll and benefits, as well as capitalizable costs that include deferred projects and property, equipment and leasehold improvements. For the year ended December 31, 2017, the total expenditures paid on behalf of the Company by LEI and other affiliates, was $29,237. These expenditures consisted of: $12,023 labor and benefits related expenses, $1,908 of shared service allocation fees, $15,260 of vendor related expenses received on behalf of the Company, and $46 of capital expenditures. During the year ended December 31, 2017, $24,249 was paid by the Company to LEI and affiliates. As of December 31, 2017, $3,939 is owed to LEI and affiliates for property and equipment, deferred project costs, payroll and other operating expenses, and is included in accounts payable to related party in the accompanying consolidated balance sheet.

Note 8. Related Party Transactions (continued)

Due from Related Parties

For the year ended December 31, 2017, the total net expenditures paid by the Company on behalf of the Parent and affiliates was $935 related to payroll, student exchange, royalties, capitalizable and other miscellaneous charges. As of December 31, 2017, $525 was owed to the Company by related parties for expenses paid on their behalf, which is included as due from related parties in the accompanying consolidated balance sheet.

Note and Interest Receivable from Parent

On February 3, 2016, the Company granted LEI with a revolving line of credit not to exceed $15,000 in principle at any given time. The revolving line of credit is unsecured, accrues simple interest at the rate of 5% per year and matures on February 3, 2025. As of December 31, 2017, a note receivable from Parent of $28 is included in the accompanying consolidated balance sheet. Interest income of $462 on this note receivable for the year ended December 31, 2017 is included in interest expense, net in the accompanying consolidated statement of operations. The Company believes the Parent has the ability and intent to repay the note in full by the maturity date.

Compensation

The Company's financial statements include an expense allocation of non-cash stock compensation from the Parent of $49 for the year ended December 31, 2017. Periodically the Parent grants share-based compensation awards, including stock options, restricted stock, and restricted stock unit awards, to Company employees under the following incentive plans:

<u>2007 Stock Incentive Plan</u>

In 2007, the Board of Directors of the Parent approved LEI's 2007 Stock Incentive Plan (the "2007 Plan"). Stock option awards under the 2007 Plan have a contractual life of 10 years and were granted with an exercise price equal to the fair market value of LEI's stock at the date of grant. The 2007 Plan option agreements generally divide each option grant equally into options that are subject to time-based vesting (Time Options) and options that are eligible for vesting based on achieving pre-determined performance targets (Performance Options). The Time Options generally vest ratably on the first through fifth grant date anniversary. The Performance Options are divided into tranches.

Each tranche is eligible to vest annually upon the Board of Directors' determination that Laureate has attained fiscal year earnings (Pro-rata EBITDA, as defined in the agreement) that equal the performance targets (Pro-rata EBITDA targets).

These performance targets are set at the time of the award's issuance and, for options outstanding at the time, were amended in August 2010 and October 2013. The option agreements provide that if Laureate's fiscal year earnings are at least 95%, at least 90%, or below 90%, of the applicable earnings target then 75%, 50%, or 0%, respectively, of the applicable Performance Option tranche will vest.

The Plan includes a "catch-up" provision such that, in the event that Laureate does not achieve 100% of the performance target in a particular fiscal year, the Performance Option Tranche may vest in any subsequent year, within eight years from the date of the grant, if and to the extent a greater percentage of a subsequent year's earnings target is achieved.

Certain Performance Option awards granted prior to February 2, 2008 also include a separate tranche, equal to 30% of the total performance award, that vests upon the Board of Directors' determination that Laureate has attained a higher earnings target prior to August 17, 2017 (Special 30% Performance

Note 8. Related Party Transactions (continued)

Vesting). This special 30% Performance Vesting tranche was fully vested as of December 31, 2014. On October 2, 2013, the Compensation Committee of the Parent's Board of Directors modified the 2007 Plan. The modification i) changed the performance metrics and targets for all unvested Performance Options to match the targets of the 2013 Plan beginning with the 2013 target; ii) modified the post termination exercise provisions for resignation, good leaving, death and disability, and retirement to match the termination provision under the 2013 Plan, which is a post termination exercise period of: ninety days for resignation, two years for termination due to death or disability or, after an initial public offering of Laureate common stock, good leaving, and five years for retirement; iii) reallocated the outstanding unvested 2012 performance tranche to vest in the remaining performance years of the grant on a pro-rata basis for only those employees who received stock options awards for the first time in 2012; and iv) forfeit all other outstanding unvested 2012 performance options, disallowing the ability to catch up on the vesting, as the performance target was not met.

2013 Long-Term Incentive Plan

In June 2013, the Board of Directors of the Parent approved the Laureate Education, Inc. 2013 Long-Term Incentive Plan (the "2013 Plan"), as a successor plan to the 2007 Plan.

Under the 2013 Plan, the Company may grant stock options, stock appreciation rights, unrestricted common stock or restricted stock (collectively, "stock awards"), unrestricted stock units or restricted stock units, and other stock-based awards, to eligible individuals on the terms and subject to the conditions set forth in the 2013 Plan. Stock options awards under the 2013 Plan generally have a contractual term of 10 years and are granted with an exercise price equal to the fair market value of Laureate's stock at the date of grant. Restricted stock and restricted stock units awards under 2013 Plan are measured using the fair value of Laureate's common stock on the date of grant or the most recent modification date, whichever is later. Stock options and restricted stock units awards are split into two tranches: a time-based vesting and a performance-based vesting tranche. The time-based vesting tranche typically vest over a five-year or three-year period. The performance-based vesting tranche are eligible for vesting based on achieving annual pre-determined Equity Value performance targets, as defined in the plan, and the continued service of the employee. The performance based awards include a catch-up provision, allowing the grantee to vest in any year in which a target is missed if a following year's target is achieved as long as the following year is within eight years from the grant date. Stock options, stock appreciation rights, and restricted stock units granted under the 2013 Plan have provisions for accelerated vesting if there is a change in control of Laureate, as defined by the 2013 Plan.

For Time Options, expense is recognized ratably over the five-year or three-year vesting period. For Performance Options, expense is recognized to the extent that it is probable that the stated annual earnings target will be achieved. Laureate assesses the probability of each option tranche vesting throughout the life of each grant. For the year ended December 31, 2017, the Company recorded $12 of stock option and $37 of restricted stock and restricted stock unit expenses, respectively.

Note and Interest Payable to Parent

The Company had a revolving note payable with LEI. This indebtedness became due April 30, 2017. All remaining principal and accrued interest was paid off during the year ended December 31, 2017. Interest expense on this indebtedness for the year ended December 31, 2017 totaled $19 and is included in interest expense, net, in the accompanying consolidated statement of operations.

Letter of Credit

As mentioned previously, Kendall College, LLC is included within a group letter of credit with other U.S. based institutions controlled by LEI totaling $136,888, in the favor of the DOE, as of December 31, 2017, which provisionally certifies the Company for up to three complete award years for Title IV Programs and subjects it to additional reporting and disclosure requirements to the DOE.

Note 8. Related Party Transactions (continued)

Shared Services Allocation

Under a shared services agreement with LEI, the Company receives services for academic support, technology, financial services, marketing, product development, sales and other management and administrative services to support continuing operations and to help accelerate the Company's business plan. As consideration for these services, the Company is allocated a monthly management fee that is based on LEI's good faith estimate of the portion of the centralized costs incurred by the LEI shared services group that are attributable to the Company. Shared service fees incurred by the Company totaled $1,869 for the year ended December 31, 2017, which is reflected in the accompanying consolidated statement of operations.

Affiliate Agreements

Kendall has agreements with Istanbul Biligi University, Instituto Profesional AIEP, Business and Information Technology School, Ecole Superieure de Commerce Exterieur, and Universidad Euopeia. The agreements between Kendall and these schools provide for compensation for the exchange of students between Kendall and the other schools. During the year ended December 31, 2017, Kendall recognized $71 in revenue related to the agreements, which is reflected in the accompanying consolidated statement of operations. Additionally, $73 is included in due from related parties on the accompanying consolidated balance sheet.

Kendall has agreements with Universidad del Valle de Mexico, S.C., Instituto Profesional AIEP, INTI Instruments (M) Sdn. Bhd., Istanbul Biligi University, Universidad de las Americas, Universidad Tecnologica de Mexico, Universidad Latina and Laureate Vocational Saudi Limited ("LVSA"). The agreements between Kendall and these schools provide for payment of fees in exchange for Academic Program Management services and development of course content. Kendall recognized $504 in revenue related to these agreements for the year ended December 31, 2017, which is reflected in the accompanying consolidated statement of operations. Additionally, $606 is included in due from related parties on the accompanying consolidated balance sheet.

Note 9 - Subsequent Events

On January 15, 2018, the Company's Parent executed an asset purchase agreement with National Louis University, an unaffiliated not-for-profit institution located in Chicago, to sell certain assets. The agreement is expected to close during 2018, subject to regulatory approvals.

Note 10. Title IV Program Participation

The Company derives a substantial portion of its revenues from Student Financial Aid ("SFA") received by its students under the Title IV programs administered by the DOE, pursuant to the HEA. To continue to participate in the SFA programs, the Company must comply with the regulations promulgated under the HEA. The regulations restrict the proportion of cash receipts for tuition and fees from eligible programs to be not more than 90 percent from Title IV programs. If an institution fails to satisfy the test for one year, its participation status becomes provisional for two consecutive fiscal years. If the test is not satisfied for two consecutive years, eligibility to participate in Title IV programs is lost for at least two fiscal years.

For the year ended December 31, 2017, the Company derived 31.23% of its revenue from Title IV funds (calculated on a cash basis in accordance with applicable statutory provisions and DOE regulations).

Note 10. Title IV Program Participation (continued)

The following information for the year ended December 31, 2017 is required by the DOE and is presented for purposes of additional analysis, but is not a required part of the basic financial statements.

	Amount Disbursed	Adjusted Amount*
Adjusted Student Title IV Revenue		
Subsidized Loan	$ 2,697,179.00	$ 2,697,179.00
Unsubsidized Loan up to pre-ECASLA Loan Limits	3,145,006.00	3,145,006.00
Federal Pell Grant	1,581,339.00	1,581,339.00
Plus Loans	1,759,281.00	1,759,281.00
FSEOG (subject to matching reduction, amount of FSEOG funds disbursed to a student and the amount of FWS funds credited to the student's account are reduced by the amount of the School matching)	116,782.00	116,782.00
Federal Work Study Applied to Tuition and Fees (subject to matching reduction	—	—
Student Title IV Revenue		$ 9,299,587.00
Revenue Adjustment		
(If the amount of Funds Applied First plus Student Title IV Revenue is more than Tuition and fees, then reduce Student Title IV Revenue by the amount over Tuition and Fees)		(2,810,598.57)
Title IV funds returned for a student under 34 C.F.R. § 668.22 (withdrawal), reduce Student Title IV Revenue		(264,776.00)
Adjusted Student Title IV Revenue		$ 6,224,212.43
Student Non-Title IV Revenue		
Grant funds for the student from non-federal public agencies or private sources independent of the School	$ 903,270.01	
Funds provided for the student under a contractual arrangement with a Federal, State or local government agency for the purposes of providing job training to low-income individuals	1,451,851.40	
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	—	
Amount of Unsubsidized Loan over the pre-ECASLA Loan Limits	—	
Student payments on current charges	11,352,670.09	
Student Non-Title IV Revenue	$ 13,707,791.50	
Revenue From Other Sources (Total for the Fiscal Year)		
Activities conducted by the institution that are necessary for education and training (34 C.F.R. 668.28 (a)(3)(ii))	—	
Funds paid to the institution by, or on behalf of, students for education and training in qualified non-Title IV eligible programs (34 C.F.R. 668.28 (a)(3)(iii))	—	
Allowable student payments + allowable amounts from account receivable or institutional loan sales - any required payments under a recourse agreement	—	
Revenue from Other Sources	$ —	
Total Non-Title IV Revenue (Student non-Title IV Revenue + Revenue from Other Sources)		$ 13,707,791.50
Total Revenue (Adjusted Student Title IV Revenue + Student Non-Title IV Revenue + Revenue from Other Sources)		$ 19,932,003.93

Supplementary Information Required by Government Auditing Standards

Report of Independent Auditors 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 Board of Directors and Management of Kendall College, LLC and Affiliate

We have audited, 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, the financial statements of Kendall College, LLC and Affiliate ("the Company", consolidated affiliates of Laureate Education, Inc.), which comprise the balance sheet as of December 31, 2017, and the related statements of operations, changes in member's equity and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 15, 2018.

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") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 Company'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. We consider the deficiencies described in the accompanying schedule of findings as 2017-001 and 2017-002 to be material weaknesses.

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 determination of financial statement amounts. 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*.

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Company's Response to Findings

The Company's response to the findings identified in our audit is described in the accompanying schedule of findings. The Company's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Company'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 Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

June 15, 2018

Schedule of Findings
For the year ended December 31, 2017

There were two 2016 findings partially remediated during 2017. However, as of December 31, 2017, the findings remain outstanding.

<u>Finding 2017-001 (repeat of 2016-001): Information Technology General Controls (ITGC)</u>

Criteria:

In accordance with AU-C Section 265 – Communicating internal control related matters identified in an audit, the auditor should communicate in writing to those charged with governance on a timely basis significant deficiencies and material weaknesses identified during the audit, including those that were remediated during the audit.

Based on the above considerations, the Company needs to have in place strong controls over their information technology systems and a proper segregation of duties over these systems.

Condition:

A weakness was identified at the consolidated level during the 2016 audit as a result of Laureate Education, Inc.'s failure to maintain effective controls over the operating effectiveness of information technology ("IT") general controls for information systems that are relevant to the preparation of the financial statements.

Cause and Context:

During testing of the Company's information technology general controls, the following items were noted:

i. Failure to maintain program change management controls to ensure that IT program and data changes affecting financial IT applications and underlying accounting records are identified, tested, authorized and implemented appropriately;
ii. Failure to maintain user access controls to ensure appropriate segregation of duties and that access to financial applications and data is adequately restricted to appropriate personnel; and
iii. Failure to maintain computer operations controls to ensure that privileges are appropriately granted, and data backups are authorized and monitored.

We acknowledge that the Company implemented a plan of remediation commencing in 2017 that is still in process, including walkthrough procedures and limited testing of operating effectiveness of the controls. Management will need to complete operating effectiveness testing for the period to fully remediate the findings.

Effect:

Information technology general controls are relevant for all financial statement processes. Therefore, the material weakness is pervasive to the financial statements and presents a reasonable possibility that a material misstatement of the Company's financial statements will not prevented, or detected and corrected on a timely basis by management.

Recommendation:

Ensure that the design of the Company's policies and procedures as designed have been fully implemented and are operational, including monitoring of access, change management and segregation of duties relating to IT development and production roles.

Management's Response:

Laureate management was and continues to be in agreement with the recommendations stated above during the 2016 audit and developed a plan of remediation that was implemented during 2017. During 2017, management made significant progress towards remediating the material weaknesses identified and expects to complete all remediation efforts during the second half of 2018. Additionally, the University's internal control department is performing an ongoing evaluation of the design and operating effectiveness of the University's control environment.

Management identified 16 financially significant systems and started implementing controls in 2017 to remediate the identified material weaknesses. Through Q1 2018, management has reviewed the design of these new controls, performed walkthrough procedures, and performed limited operating effectiveness testing. Based on the results of procedures performed, management expects to remediate the controls during the second half of 2018 and will monitor the operating effectiveness of the controls implemented in response to the material weaknesses.

<u>Finding 2017-002 (repeat of 2016-002): Key Reports and Spreadsheets</u>

Criteria:

In accordance with AU-C Section 265 – Communicating internal control related matters identified in an audit, the auditor should communicate in writing to those charged with governance on a timely basis significant deficiencies and material weaknesses identified during the audit, including those that were remediated during the audit.

Based on the above considerations, the Company needs to have in place strong controls over their key reports and spreadsheets.

Condition:

A weakness was identified at the consolidated level as a result of Laureate Education, Inc.'s failure to design and place in operation adequate controls to address the completeness and accuracy of key reports and key spreadsheets.

Cause & Context:

During testing of the Company's controls over key reports and spreadsheets, the following items were noted:

i. Failure to ensure that the appropriate level of spreadsheet documentation is maintained and kept up to date to understand the business objective and specific functions of the spreadsheet and applications;
ii. Failure to maintain a controlled process for requesting changes to a spreadsheet or file, make changes and then test the spreadsheet, and obtain a formal sign-off from an independent individual that the change is functioning as intended;
iii. Failure to limit access at the file level to spreadsheets on a central server or protected directory and assign appropriate rights;
iv. Failure to ensure only current and approved versions of spreadsheets and files were being used.

We acknowledge that the Company implemented a plan of remediation commencing in 2017 that is still in process, including walkthrough procedures and limited testing of operating effectiveness of the controls. Management will need to complete operating effectiveness testing for the period to fully remediate the findings.

Effect:

Key reports and spreadsheets are relevant for all financial statement processes. Therefore, this weakness is pervasive to the financial statements and presents a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected on a timely basis by management.

Recommendation:

Design and implement procedures to address the design deficiencies relating to the completeness and accuracy of their key reports and spreadsheets.

Management's Response:

Laureate management was and continues to be in agreement with the recommendations stated above during the 2016 audit and developed a plan of remediation that was implemented during 2017. During 2017, management made significant progress towards remediating the material weaknesses identified and expects to complete all remediation efforts during the second half of 2018. Additionally, the University's internal control department is performing an ongoing evaluation of the design and operating effectiveness of the University's control environment.

Management identified more than 100 financially significant key reports and spreadsheets and started implementing controls in 2017 to remediate the identified material weaknesses. Through Q1 2018, management has reviewed the design of these new controls, performed walkthrough procedures, and performed limited operating effectiveness testing. Based on the results of procedures performed, management expects to remediate the controls during the second half of 2018 and will monitor the operating effectiveness of the controls implemented in response to the material weaknesses.