

CALIFORNIA COAST UNIVERSITY

FINANCIAL STATEMENTS

AND

ACCOUNTANTS' REVIEW REPORT

DECEMBER 31, 2022 AND 2021

A&L CERTIFIED PUBLIC ACCOUNTANTS, APC

ANAHEIM, CALIFORNIA

CALIFORNIA COAST UNIVERSITY
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December 31, 2022 and 2021

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ROBERT L. ALLSUP, CPA
KENT LIM, CPA

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors
California Coast University
Irvine, California

We have reviewed the accompanying financial statements of California Coast University (an S corporation), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income and retained earnings and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Known Departure From Accounting Principles Generally Accepted in the United States of America

Accounting principles generally accepted in the United States of America require that deferred income taxes be recognized for the tax effects of differences between the financial and tax bases of assets and liabilities and for operating losses and tax credits that are available to offset future taxable income. The University has not recorded deferred taxes in the accompanying financial statements. The effects of this departure from generally accepted accounting principles have not been determined.

Accounting principles generally accepted in the United States of America require that fixed assets be evenly depreciated over their estimated useful lives. The University has computed depreciation on several fixed assets in accordance with the Modified Accelerated Cost Recovery System required for federal income tax purposes, which does not allocate depreciation to expense over the estimated useful lives of the assets. The effect of this departure on the financial statements have not been determined.

A&L Certified Public Accountants, APC

A&L CERTIFIED PUBLIC ACCOUNTANTS, APC

Anaheim, California
July 12, 2023

California Coast University
(A Corporation)
Balance Sheet
December 31, 2022 and 2021

Assets

	2022	2021
Current Assets		
Cash	\$ 14,893,602	\$ 12,663,090
Tuition Receivable	7,102,105	6,389,741
Prepaid Payroll	235	-
Prepaid State Income Tax	8,702	-
Prepaid Other	<u>8,078</u>	<u>5,042</u>
Total Current Assets	22,012,722	19,057,873
Investments		
Charles Schwab - Equities	848,575	848,586
Pacific Life - Annuity	2,000,000	-
Unrealized Gain or Loss	<u>(197,705)</u>	<u>(96,786)</u>
Total Investments	2,650,871	751,800
Property and Equipment		
Furniture	22,486	22,486
Leasehold Improvements	220,968	217,891
Office Equipment	279,338	185,928
Transportation Equipment	64,670	64,670
Accumulated Depreciation	<u>(472,025)</u>	<u>(367,831)</u>
Total Property and Equipment	115,437	123,144
Other Assets		
Software	29,685	20,016
Accumulated Amortization	(20,552)	(20,015)
Right of Use Operating Lease Assets	<u>1,746,821</u>	<u>-</u>
Total Other Assets	<u>1,755,954</u>	<u>1</u>
Total Assets	<u>\$ 26,534,983</u>	<u>\$ 19,932,818</u>

See accompanying notes and independent accountants' review report.

California Coast University
(A Corporation)
Balance Sheet
December 31, 2022 and 2021

Liabilities and Stockholders' Equity

	2022	2021
Current Liabilities		
Unearned Tuition	\$ 4,964,450	\$ 5,253,916
Accrued Wages	43,270	38,348
Accrued Paid Time Off	75,492	66,274
401K Payable	3,219	3,349
Estimated State Tax Payable	-	3,418
Current Portion ESOP Loan	2,937,902	1,747,622
Current Portion Financing Lease Liabilities	32,046	-
Current Portion Operating Lease Liabilities	<u>198,673</u>	<u>-</u>
Total Current Liabilities	8,255,052	7,112,927
Long-Term Liabilities		
ESOP Direct Loan	11,399,596	13,150,290
Less Current Portion ESOP Loan	(2,937,902)	(1,747,622)
Financing Lease Liabilities	94,351	-
Less Current Portion Financing Lease Liabilities	(32,046)	-
Operating Lease Liabilities	1,746,821	-
Less Current Portion Operating Lease Liabilities	<u>(198,673)</u>	<u>-</u>
Total Long-Term Liabilities	<u>10,072,147</u>	<u>11,402,668</u>
Total Liabilities	<u><u>18,327,199</u></u>	<u><u>18,515,595</u></u>
Stockholders' Equity		
Capital Stock	1,500	1,500
Additional Paid in Capital	(838,000)	(1,304,000)
Retained Earnings	25,232,284	19,759,723
Unearned ESOP Shares	<u>(16,188,000)</u>	<u>(17,040,000)</u>
Total Stockholders' Equity	<u>8,207,784</u>	<u>1,417,223</u>
Total Liabilities and Stockholders' Equity	\$ <u><u>26,534,983</u></u>	\$ <u><u>19,932,818</u></u>

See accompanying notes and independent accountants' review report.

California Coast University
(A Corporation)
Statement of Income and Retained Earnings
For the Twelve Months Ended December 31, 2022 and 2021

	12 Months Ended Dec 31, 2022	%	12 Months Ended Dec 31, 2021	%
Revenue				
Tuitions Earned	\$ 13,547,071)	103.67 %	\$ 11,991,167)	103.41 %
Other Income	7,284	0.06%	18,789	0.16 %
Student Refunds	<u>(486,807)</u>	<u>-3.73%</u>	<u>(414,182)</u>	<u>(3.57)%</u>
Total Revenue	13,067,548	100.00%	11,595,774	100.00 %
Operating Expenses				
Salaries & Wages	2,567,014	19.64 %	2,486,300	21.44 %
Payroll Taxes	191,777	1.47 %	188,711	1.63 %
Accreditation	-	0.00 %	737	0.01 %
Advertising & Marketing	491,824	3.76 %	365,597	3.15 %
Auto	2,116	0.02 %	1,980	0.02 %
Business Promotion	3,077	0.02 %	3,069	0.03 %
Bank Charges	15,773	0.12 %	17,850	0.15 %
Curriculum Development	20,074	0.15 %	54,470	0.47 %
Computer Services	80,805	0.62 %	96,521	0.83 %
Consulting & Adjunct Faculty	72,110	0.55 %	65,937	0.57 %
Credit Card Discounts	252,658	1.93 %	238,115	2.05 %
Depreciation	133,227	1.02 %	16,851	0.15 %
Amortization	537	0.00 %	-	0.00 %
Dues & Subscriptions	130,917	1.00 %	115,700	1.00 %
Education & Seminars	18,045	0.14 %	16,410	0.14 %
Employee Incentives	9,162	0.07 %	10,785	0.09 %
Entertainment	577	0.00 %	79	0.00 %
Equipment Rental	3,015	0.02 %	4,344	0.04 %
ESOP	74,172	0.57 %	55,966	0.48 %
ESOP Compensation Expense	1,318,000	10.09 %	1,018,000	8.78 %
Insurance	309,692	2.37 %	292,307	2.52 %
Legal Fees	66,733	0.51 %	29,876	0.26 %
Meals	474	0.00 %	147	0.00 %
Miscellaneous	5,112	0.04 %	1,391	0.01 %
Office Supplies	44,179	0.34 %	30,369	0.26 %
Outside Services	63,968	0.49 %	52,575	0.45 %
Professional Fees	1,639	0.01 %	10,570	0.09 %
Paper & Toner	15,787	0.12 %	23,110	0.20 %
Pension Contribution	235,195	1.80 %	91,424	0.79 %
Postage	77,638	0.59 %	86,606	0.75 %
Printing	48,953	0.37 %	31,309	0.27 %
Reimbursements	-	0.00 %	62	0.00 %
Rent	223,800	1.71 %	215,200	1.86 %
Repairs & Maintenance	82,579	0.63 %	154,090	1.33 %
Social Media	99	0.00 %	99	0.00 %
Software	1,946	0.01 %	1,985	0.02 %
Tax & Licenses	69,579	0.53 %	22,108	0.19 %
Telephone	19,282	0.15 %	28,464	0.25 %
Travel	5,488	0.04 %	2,243	0.02 %
Utilities	<u>64,754</u>	<u>0.50 %</u>	<u>56,632</u>	<u>0.49 %</u>
Total Operating Expenses	<u>6,721,775</u>	<u>51.44 %</u>	<u>5,887,987</u>	<u>50.78 %</u>

See accompanying notes and independent accountants' review report.

California Coast University
(A Corporation)
Statement of Income and Retained Earnings
For the Twelve Months Ended December 31, 2022 and 2021

	12 Months Ended Dec 31, 2022	%	12 Months Ended Dec 31, 2021	%
Operating Income (Loss)	6,345,773	48.56 %	5,707,787	49.22 %
Other Income				
Interest Income	78,108	0.60 %	24,441	0.21 %
Unrealized Gain (Loss) on Investments	(100,919)	(0.77)%	(136,741)	(1.18)%
Miscellaneous Income	41,594	0.32 %	40,982	0.35 %
Dividend Income	40,857	0.31 %	22,703	0.20 %
Gain on Investments	<u>24,262</u>	<u>0.19 %</u>	<u>198,478</u>	<u>1.71 %</u>
Total Other Income	83,902	0.64 %	149,863	1.29 %
Other Expenses				
Interest Expense	875,811	6.70 %	1,032,867	8.91 %
Penalties	<u>-</u>	<u>0.00 %</u>	<u>54</u>	<u>0.00 %</u>
Total Other Expenses	<u>875,811</u>	<u>6.70 %</u>	<u>1,032,921</u>	<u>8.91 %</u>
Income (Loss) Before Income Taxes	5,553,863	42.50 %	4,824,729	41.61 %
Income Tax Expense				
State Tax	<u>81,302</u>	<u>0.62 %</u>	<u>88,126</u>	<u>0.76 %</u>
Net Income (Loss)	<u><u>5,472,561</u></u>	<u><u>41.88 %</u></u>	<u><u>4,736,603</u></u>	<u><u>40.85 %</u></u>
Retained Earnings				
Beginning of Year	19,759,723		15,023,120	
End of Year	<u><u>\$ 25,232,284</u></u>		<u><u>\$ 19,759,723</u></u>	

See accompanying notes and independent accountants' review report.

California Coast University
(A Corporation)
Statement of Cash Flows
For the Twelve Months Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	\$ 5,472,561	\$ 4,736,603
Adjustments to reconcile net income to net cash (used) provided by operating activities:		
Depreciation	133,227	16,851
Amortization	537	0
Unrealized gain on investments	100,919	136,741
Realized loss (gain) on sale of securities	(24,262)	(198,272)
Decrease (increase) in operating assets:		
Tuition receivable	(712,363)	(220,729)
Prepaid expenses	(11,973)	14,338
Right of use operating lease assets	(1,746,821)	0
Increase (decrease) in operating liabilities:		
Accrued wages	4,922	8,779
Accrued paid time off	9,217	(37,912)
Operating lease liabilities	1,746,821	0
Pension payable	(130)	(5,468)
States tax payable	(3,418)	3,418
Unearned tuition	(289,465)	966,150
Net cash provided (used) by operating activities	<u>4,679,772</u>	<u>5,420,498</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(125,520)	(26,542)
Purchase of software	(9,670)	0
Proceeds from sale of securities	271,073	3,898,107
Purchase of annuities	(2,000,000)	0
Purchase of investments in marketable securities	(246,800)	(4,010,776)
Net cash provided (used) by investing activities	<u>(2,110,916)</u>	<u>(139,211)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase on long-term debt	101,042	0
Principal payments on long-term debt	(1,757,385)	(1,592,214)
Unearned ESOP Shares	852,000	852,000
Paid in capital	466,000	166,000
Net cash provided (used) by financing activities	<u>(338,344)</u>	<u>(574,214)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	2,230,512	4,707,073
CASH AND CASH EQUIVALENTS, beginning of year	<u>12,663,090</u>	<u>7,956,017</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 14,893,602</u>	<u>\$ 12,663,090</u>

See accompanying notes and independent accountants' review report.

CALIFORNIA COAST UNIVERSITY
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activity

California Coast University (the "University") was incorporated under the laws of the State of California on April 13, 1973. The University provides degree completion programs through distance learning methods, which are designed for students whose geographic, professional, or personal time commitments prevent them from completing their education in traditional on-campus programs.

Cash Equivalents

For purposes of the statement of cash flows, the University considers all short-term securities purchased with a maturity of three months or less to be "cash equivalents."

As of December 31, Cash is comprised of the following:

	<u>2022</u>	<u>2021</u>
Cash in Bank	\$14,141,200	\$11,540,742
Charles Schwab Money Market Funds	<u>752,402</u>	<u>1,122,348</u>
	<u>\$14,893,602</u>	<u>\$12,663,090</u>

Tuition Receivable

Tuition Receivables are carried at their estimated collectible amounts. Credit is generally extended on a short-term basis; thus receivables do not bear interest.

The University utilizes the direct write off method to account for bad debt expense. Any unrecoverable receipts are charged off against revenue. Recoveries of items previously charged off are recognized as income when received. Generally accepted accounting principles require the reserve method to be used to account for bad debts; however, the use of the method described above does not result in a material difference between that and the reserve method. See Note 2.

(Continued)

See independent accountants' review report.

CALIFORNIA COAST UNIVERSITY
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

The University invests in publicly traded equity securities through Charles Schwab Investments. In addition, they have an annuity through Pacific Life. Investments in equity securities and annuities are classified as marketable securities and are carried on the financial statements at fair value. Adjustments to fair market value of investments classified as "marketable securities" are recorded in other income.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided using accelerated and straight-line methods over the estimated useful lives of respective assets, generally five to seven years. Leasehold improvements are stated at cost. Depreciation expense for the years ended December 31, 2022 and 2021 amounted to \$133,227 and \$16,851, respectively.

S-Corporation - Income Tax Status

The University reports income on the accrual basis for financial statement presentation and under the modified cash basis for income tax reporting.

The University is taxed as an S-corporation under the Internal Revenue Code. In lieu of corporation income taxes, the stockholders are taxed on their proportionate share of the University's taxable income. Accordingly, no provision or liability for federal income taxes has been included in the financial statements. The state income tax provision has been computed using the lesser of the 1.5% applicable rate or the minimum franchise tax.

Certain tax years that remain subject to examination by major tax jurisdictions are as follows:

U.S. Treasury, Internal Revenue Service -2020, 2021, 2022

California Franchise Tax Board -2019, 2020, 2021, 2022

(Continued)

See independent accountants' review report.

CALIFORNIA COAST UNIVERSITY
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

Advertising costs are charged to operations when incurred. Advertising costs for the years ended December 31, 2022 and 2021 were \$491,824 and \$365,597, respectively.

Revenue Recognition

The University recognizes revenue when earned. The University estimates earned revenue under a formula based on actual coursework completed.

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 reported period. Actual results could differ from those estimates.

Unrealized Gains and Loss on Equity Securities Classified as Available-for-Sale

Equity securities are carried in the financial statements at fair value, and both realized and unrealized gains and losses are included in earnings.

Compensated Absences

The University provides its employees with paid vacation and other personal time off. Accrued, but unused vacation is recorded as a current liability.

(Continued)

See independent accountants' review report.

CALIFORNIA COAST UNIVERSITY
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Financial Accounting Standards Board issued new guidance in the Accounting Standards Codification (ASC) Topic 842 Leases. The new standard establishes a right-of-use model (ROU) requiring the University to recognize asset and lease liability on the Balance Sheet for all leases with a term longer than 12 months. Leases will be classified as finance leases or operating leases.

On January 1, 2022, the University adopted ASC 842 using the effective date method, which allows the application of the new standard on a prospective basis. Financial information preceding the adoption date of January 1, 2022 will not be adjusted or updated. ASC 842 allows the election of an optional package of practical expedients to help ease the application of the standard. The University elected the package of practical expedients, which include no reassessment of existing or expired lease classification under ASC 842, no re-evaluation of existing or expired embedded leases under ASC 842, and no reassessment of initial direct costs of existing or expired leases under ASC 842.

The adoption of ASC 842 will have a material effect on the financial statements. The most significant effects related to the recognition of new ROU assets and lease liabilities on the Balance Sheet for the facility lease and significant new disclosures about lease activity. Upon adoption of ASC 842, the University recorded ROU and lease liability of \$1,942,000 relating to a facility lease and an equipment lease. Additional lease activity is detailed in Note 6 of the financial statements.

NOTE 2 - UNEARNED TUITION

Unearned tuition represents the aggregate amounts of payments made to the University by students in excess of tuition revenue considered earned under the University's revenue recognition policy. The University estimates earned revenue under a formula based on actual coursework completed and corresponding tuitions paid.

See independent accountants' review report.

CALIFORNIA COAST UNIVERSITY
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 3 - MARKETABLE SECURITIES

Marketable securities consist of domestic corporate stocks, mutual funds and municipal bonds stated at fair values measured using quoted prices in the active market. See Note 4.

	2022	2021
Cost of Equity Securities	\$2,848,575	\$ 848,586
Fair Value Adjustment	(197,705)	(96,786)
Aggregate Fair Value	\$2,650,871	\$ 751,800

As of December 31, 2022 and 2021, net unrealized gain/(loss) for the year on the securities was (\$197,705) and (\$96,786) respectively.

A schedule of securities purchased is kept and the cost of a security sold is determined based on the first in-first out method. For the years ended December 31, 2022 and 2021, the gain/loss on marketable securities was calculated as follows:

	2022	2021
Proceeds from sales of securities	\$ 271,073	\$ 3,898,107
Cost of securities	(246,811)	(3,699,629)
Gain(loss) on sale of securities	\$ 24,262	\$ 198,478

NOTE 4 - FAIR VALUES OF FINANCIAL INSTRUMENTS

The University's financial instruments, none of which are held for trading purposes, include cash and investments. The University's estimates that the fair value of all financial instruments at December 31, 2022 and 2021 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position. The estimated fair values amounts have been determined by the University on a recurring basis using available market information and appropriate valuation methodologies (Level 1 Inputs).

(Continued)

See independent accountants' review report.

CALIFORNIA COAST UNIVERSITY
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 4 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the University could realize in a current market exchange.

NOTE 5 - CONCENTRATIONS OF CREDIT RISK

The University maintains cash balances at Bank of the West and Cathay Bank. Accounts at the bank are insured by the Federal Deposit Insurance Corporation up to \$250,000. As of December 31, 2022 and 2021, the University's uninsured cash fund balance was \$14,008,689 and \$11,699,521, respectively.

The University also maintains cash in money market funds at a broker-dealer. Cash investments at the broker-dealer are insured by the Securities Investor Protection Corporation up to \$500,000. As of December 31, 2022 and 2021, the University's uninsured money market fund balance was \$111,064 and \$251,800, respectively.

The University provides financing to its students. Generally, the University requires a minimal down payment and accepts monthly payments as the student progresses through the program. No interest is charged. The University monitors student progress and will place students on financial hold if payments are not made. Consequently, the risk of financial loss is minimal.

See independent accountants' review report.

CALIFORNIA COAST UNIVERSITY
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 6 - COMMITMENTS

Operating Leases

The University leases its facility under an operating lease expiring April of 2031, requiring a minimum monthly payment of \$18,650, from French Park Plaza, LLC, related to the University through the organization's president. The University elected to discount the facility lease at an annual interest rate of 1.76%, which is the risk-free rate at the time of adoption of ASC 842. The University paid \$223,800 relating to the facility lease during the year ended December 31, 2022. The University is currently in its second year of the ten-year lease. There is an option to extend the lease for five years at the end of the lease term.

The University leases a postage meter under an operating lease expiring May of 2026 requiring a minimum monthly payment of \$335. The University elected to discount the postage meter lease at an annual interest rate of 1.76%, which is the risk-free rate at the time of adoption of ASC 842. The University paid \$4,020 relating to the postage meter lease during the year ended December 31, 2022

As of December 31, 2022, ROU asset, lease liability, and lease expense for the operating lease consists of the following:

	ROU Asset	Lease Liability Current	Lease Liability Net of Current	Lease Expense
Postage Meter	\$ 13,319	\$ 3,816	\$ 9,503	\$ 4,020
Facility Lease	<u>1,733,502</u>	<u>194,857</u>	<u>1,538,645</u>	<u>223,800</u>
	\$ 1,746,821	\$ 198,673	\$ 1,548,148	\$ 227,820

(Continued)

See independent accountants' review report.

CALIFORNIA COAST UNIVERSITY
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 6 - COMMITMENTS (Continued)

The following is a schedule by years of future minimum rental payments required under the operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2022:

Year Ending December 31,					
	2023	\$	227,820		
	2024		227,820		
	2025		227,820		
	2026		225,475		
	2027		223,800		
	2028		223,800		
	2029		223,800		
	2030		223,800		
	2031		<u>74,600</u>		
Subtotal			1,878,733		
Less: Amounts Discounted			<u>(131,912)</u>		
	Total	\$	<u><u>1,746,821</u></u>		

Financing Leases

The University leases servers under a financing lease expiring August of 2025 requiring a minimum monthly payment of \$1,940. The University will discount the server lease at an annual interest rate of 7.81%, which is the implicit rate of the lease. The University paid \$5,819 relating to the server lease during the year ended December 31, 2022.

The University leases a copy machine under a financing lease expiring October of 2025 requiring a minimum monthly payment of \$1,149. The University elected to discount the copy machine lease at an annual interest rate of 3.89%, which is the risk-free rate at the commencement date of the lease term. The University paid \$2,297 relating to the copy machine lease during the year ended December 31, 2022.

(Continued)

See independent accountants' review report.

CALIFORNIA COAST UNIVERSITY
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 6 - COMMITMENTS (Continued)

Future minimum commitments under the financing leases are as follows:

Year Ended December 31,

	2023	\$ 37,058
	2024	37,058
	2025	<u>28,942</u>
	Total	<u>\$ 103,057</u>

NOTE 7 - RELATED PARTY TRANSACTIONS

The University also leases its facility from French Park Plaza, LLC. Tom Neal is a 100% owner of French Park Plaza, LLC and is still President after selling his ownership. For the years ended December 31, 2022 and 2021, total rents paid were \$223,800 and \$215,200, respectively.

NOTE 8 - PENSION AND PROFIT-SHARING PLANS

The University maintains a pension benefit plan under provisions of section 401(k) of the Internal Revenue Code covering all employees of the University. Under the provisions of the plan, employees can contribute a portion of their wages to the plan up to a maximum of 15% of compensation. The University has elected to make matching contributions up to 25% of the employee's contribution in 2022 and 2021, respectively. Contributions for the years ended December 31, 2022 and 2021 were \$235,195 and \$91,424, respectively.

NOTE 9 - STATEMENT OF CASH FLOWS

For the years ended December 31, 2022 and 2021, supplemental disclosures relating to the statement of cash flows are as follows:

	<u>2022</u>	<u>2021</u>
Cash paid during the year for income taxes	\$ <u>90,000</u>	\$ <u>83,000</u>
Cash paid during the year for interest	\$ <u>875,811</u>	\$ <u>1,032,867</u>

See independent accountants' review report.

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NOTE 10 - ESOP

On May 1, 2017 the sole shareholder sold 100% of his stock to the Trust which implements and forms part of the California Coast University Employee Stock Ownership Plan, and California Coast University. The Trust and the Plan are collectively referred to as "ESOP". Total sales price is \$21,300,000 payable in forty-eight quarterly payments at a 7.00% annual interest rate. The ESOP purchased 1,000,000 shares at \$23.10 a share. Principal balance is \$11,399,596 with \$2,937,902 considered current at the end of 2022 and \$13,150,290 with \$1,747,622 considered current at the end of 2021.

The University will be sponsoring the ESOP to all eligible employees and start making annual contributions on December 31, 2017. The ESOP shares will be pledged as collateral for its debt. The University sponsors a leveraged employee stock ownership plan (ESOP) that covers all U.S. employees who work 30 or more hours per week. The University makes annual contributions to the ESOP equal to the ESOP's debt service. The ESOP shares initially were pledged as collateral for its debt. As the debt is repaid, shares are released from collateral and allocated to active employees, based on the proportion of debt service paid in the year. Debt of the ESOP is recorded as debt and the shares pledged as collateral are reported as unearned ESOP shares in the balance sheet. As shares are released from collateral, the University reports compensation expense equal to the current market price of the shares, and the shares become outstanding for earnings per share computations. ESOP compensation expense was \$1,318,000 for 2022 and \$1,018,000 for 2021. The ESOP shares as of December 31 were as follows:

	<u>2022</u>
Allocated shares	200,000
Shares released for allocation	40,000
Unreleased shares	<u>760,000</u>
Total ESOP shares	<u>1,000,000</u>
Fair value of unreleased shares at December 31	<u>\$28,576,000</u>

	<u>2021</u>
Allocated shares	160,000
Shares released for allocation	40,000
Unreleased shares	<u>800,000</u>
Total ESOP shares	<u>1,000,000</u>
Fair value of unreleased shares at December 31	<u>\$22,640,000</u>

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NOTE 11 - SUBSEQUENT EVENTS

Pending litigation regarding a wrongful termination will be shortly resolved after the issuance date of the financial statements with an estimated damage of \$25,000 and the remaining amount being paid by insurance.

Management has evaluated subsequent events through July 12, 2023, the date on which the financial statements were available to be issued.

See independent accountants' review report.