

OPE ID#: 00486600
UEI#: PFGWNFK7VER6
FEDERAL ID #: 522190635

American Higher Education Development
Corporation and Subsidiaries
Consolidated Financial Statements
December 31, 2022 and 2021

American Higher Education Development Corporation and Subsidiaries

Index

December 31, 2022 and 2021

	Pages
Independent Auditor's Report	1
Financial Statements	
Consolidated Balance Sheets	4
Consolidated Statements of Operations	5
Consolidated Statements of Stockholders' Equity	6
Consolidated Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	8
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	17
Financial Responsibility Supplemental Schedule	19

Alvarez Mendoza LaBounty

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Directors of
American Higher Education Development Corporation
and Subsidiaries
Princeton, NJ

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of American Higher Education Development Corporation and Subsidiaries (a C Corporation), which comprise the consolidated balance sheets as of December 31, 2022, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of American Higher Education Development Corporation and Subsidiaries as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 6 to the financial statements, the entity adopted FASB ASC 842 leases. Our opinion is not modified with respect to that matter.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of American Higher Education Development Corporation and Subsidiaries, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements of American Higher Education Development Corporation and Subsidiaries as of December 31, 2021 were audited by other auditors whose report dated April 20, 2022 expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about American Higher Education Development Corporation and Subsidiaries' ability to continue as a going concern for one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable).

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of American Higher Education Development Corporation and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about American Higher Education Development Corporation and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Financial Responsibility Supplemental Schedule, as required by 34 C.F.R. Section 668.172 and 34 C.F.R. Appendix A to Subpart L of Part 668, is presented for purposes of additional analysis and is not a required part of the financial statements. The Financial Responsibility Supplemental Schedule 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 Financial Responsibility Supplemental Schedule is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2023 on our consideration of American Higher Education Development Corporation and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of American Higher Education Development Corporation and Subsidiaries' 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 American Higher Education Development Corporation and Subsidiaries' internal control over financial reporting and compliance.

ALVAREZ MENDOZA LABOUNTY CPAs

Doral, FL
May 16, 2023

**American Higher Education Development Corporation
and Subsidiaries
Consolidated Balance Sheets
December 31, 2022 and 2021**

Assets	2022	2021
Current assets		
Cash	\$ 5,380,384	\$ 7,358,064
Accounts receivable, net	4,421,227	5,207,597
Inventory	178,118	172,935
Prepaid expenses	177,984	143,782
Prepaid income taxes	300,153	252,578
Total current assets	<u>10,457,866</u>	<u>13,134,956</u>
Long term assets		
Property and equipment, net	1,778,611	1,804,732
Deferred income tax asset	599,322	-
Goodwill, net	12,303,068	12,303,068
Trade name	49,905	49,905
Right of use asset	6,486,151	-
Security deposit	44,318	40,518
Total long term assets	<u>21,261,375</u>	<u>14,198,223</u>
Total assets	<u><u>\$ 31,719,241</u></u>	<u><u>\$ 27,333,179</u></u>
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued expense	\$ 1,055,578	\$ 961,413
Deferred government grant, current portion	186,659	186,659
Unearned tuition	2,769,397	2,998,007
Notes payable, current portion	-	11,469
Lease liability, current portion	1,318,153	-
Capital lease obligation, current portion	-	3,921
Total current liabilities	<u>5,329,787</u>	<u>4,161,469</u>
Long term liabilities		
Deferred rent	-	134,040
Deferred government grant, net of current portion	466,648	653,307
Deferred income tax liability	-	33,162
Lease liability, net of current portion	5,260,053	-
Total long term liabilities	<u>5,726,701</u>	<u>820,509</u>
Total liabilities	<u>11,056,488</u>	<u>4,981,978</u>
Common stock, 100,000 shares of \$0.01 par value authorized, 56,639 shares issued and outstanding	566	566
Additional paid-in capital	20,749,127	20,749,127
Retained (deficit)/earnings	(86,940)	1,601,508
Total stockholders' equity	<u>20,662,753</u>	<u>22,351,201</u>
Total liabilities and stockholders' equity	<u><u>\$ 31,719,241</u></u>	<u><u>\$ 27,333,179</u></u>

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

Read Independent Auditor's Report

**American Higher Education Development Corporation
and Subsidiaries
Consolidated Statements of Operations
For the years ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Revenues		
Tuition and fees, net of refunds	\$ 25,750,089	\$ 27,026,905
Bookstore income and other income	3,600,355	3,483,817
Total revenues	<u>29,350,444</u>	<u>30,510,722</u>
Costs and Expenses		
Instructional	8,147,020	7,857,546
Bookstore	1,932,579	1,783,120
Marketing	6,289,118	5,457,041
Occupancy	2,542,709	2,294,976
General & administrative	12,173,105	9,073,097
Depreciation and amortization	442,847	460,652
Total costs and expenses	<u>31,527,378</u>	<u>26,926,432</u>
Net (loss)/income from operations	<u>(2,176,934)</u>	<u>3,584,290</u>
Other income/(expense)		
Interest expense	(123)	(3,908)
Other expenses	(126,887)	(290,625)
Total other income/(expense)	<u>(127,010)</u>	<u>(294,533)</u>
Net income before taxes	(2,303,944)	3,289,757
Income tax benefit/(expense)	615,496	(889,315)
Net (loss)/income	<u>\$ (1,688,448)</u>	<u>\$ 2,400,442</u>

The accompanying notes are an integral part of these financial statements.
Read Independent Auditor's Report

**American Higher Education Development Corporation
and Subsidiaries
Consolidated Statements of Stockholders' Equity
For the years ended December 31, 2022 and 2021**

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained (Deficit)</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>/Earnings</u>	<u>Total</u>
			<u>Capital</u>		
Balance, December 31, 2020	56,639	\$ 566	\$20,749,127	\$ (798,934)	\$19,950,759
Net income			-	2,400,442	2,400,442
Balance, December 31, 2021	56,639	566	20,749,127	1,601,508	22,351,201
Net loss			-	(1,688,448)	(1,688,448)
Balance, December 31, 2022	56,639	\$ 566	\$20,749,127	\$ (86,940)	\$20,662,753

The accompanying notes are an integral part of these financial statements.
Read Independent Auditor's Report

**American Higher Education Development Corporation
and Subsidiaries**
Consolidated Statements of Cash Flows
For the years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Net (loss)/income	\$(1,688,448)	\$ 2,400,442
Adjustments to reconcile net income to net cash (used)/ provided by operating activities		
Depreciation and amortization	442,847	460,653
Amortization of deferred government grant	(186,659)	(93,330)
Amortization of right of use asset	1,230,223	-
Increase in allowance for doubtful accounts	1,175,386	-
Changes in assets and liabilities		
Accounts receivable	(389,016)	(932,083)
Inventory	(5,183)	(10,697)
Prepaid income tax	(47,575)	(216,129)
Prepaid expenses	(34,202)	260,695
Deferred income tax asset	(599,322)	377,258
Security deposits	(3,800)	-
Lease liability	(1,272,208)	-
Accounts payable and accrued expenses	94,165	(381,950)
Deferred income tax liability	(33,162)	(54,881)
Deferred rent	-	(89,585)
Unearned tuition	(228,610)	(236,083)
Net cash (used)/provided by operating activities	<u>(1,545,564)</u>	<u>1,484,310</u>
Cash flows from Investing activities		
Government grant for information technology upgrade	-	272,762
Purchases of equipment	(416,726)	(485,423)
Net cash used by investing activities	<u>(416,726)</u>	<u>(212,661)</u>
Cash flows from financing activities		
Repayment of capital lease obligations	(3,921)	(21,913)
Repayment of debt	(11,469)	(81,381)
Net cash used by financing activities	<u>(15,390)</u>	<u>(103,294)</u>
Net (decrease)/increase in cash and cash equivalents	(1,977,680)	1,168,355
Cash and cash equivalents		
Beginning of year	7,358,064	6,189,709
End of year	<u>\$ 5,380,384</u>	<u>\$ 7,358,064</u>
Supplemental disclosures		
Interest paid	<u>\$ 123</u>	<u>\$ 3,908</u>
Income taxes paid	<u>\$ -</u>	<u>\$ 824,486</u>
Non-cash transactions		
ROU assets obtained in exchange for new operating lease liabilities	<u>\$7,850,414</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.
Read Independent Auditor's Report

**American Higher Education Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

1. Description of Business

American Higher Education Development Corporation (the Institution), a limited C Corporation, was formed pursuant to the laws of the State of Delaware. American Higher Education Development owns 100% of AHED of Ohio, Inc d/b/a Stautzenberger College (SC). The Institution provides post-secondary education training in business and medical careers, early childhood education and technical training careers at its campuses located in Maumee and Brecksville, Ohio and Rockford, Illinois. SC also provides comprehensive contractors licensing exam preparation and self-paced online training for multiple industries through a wholly owned subsidiary. The Institution is accredited by the Accrediting Commission of Career Schools and Colleges (“ACCSC”) and approved by the U.S. Department of Education to participate in Title IV funding.

2. Summary of Significant Accounting Policies

The accompanying financial statements have been prepared following accounting principles generally accepted in the United States of America. The more significant principles are discussed below.

Consolidation

The consolidated financial statements include the accounts of American Higher Education Development Corporation and AHED of Ohio, Inc d/b/a Stautzenberger College in which American Higher Education Development Corporation has a controlling financial interest. All material intercompany balances and transactions have been eliminated.

Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with the current period presentation.

Basis of Accounting

The financial statements have been prepared on an accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash.

Use of Estimates

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

Furniture and Equipment

Furniture and equipment are stated at cost, net of accumulated depreciation. The Institution uses the straight-line method in computing depreciation expense over

**American Higher Education Development Corporation
and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2022 and 2021**

estimated useful lives ranging from five to seven years. The Institution reviews long-lived assets for impairment when events or circumstances indicate the carrying amount will not be fully recoverable, based on estimated undiscounted future cash flows. Costs for maintenance and repairs are charged to expense as incurred while costs for renewals or betterment are capitalized.

Depreciation and amortization expense for the years ended December 31, 2022, and 2021, were \$442,847 and \$460,652, respectively.

Cash and Cash Equivalents

The Institution considers cash on hand, deposits in banks, and short-term marketable securities with original maturities of 90 days or less when purchased by the Institution to be cash and cash equivalents.

Construction In Progress

Construction in progress is stated at cost incurred to date and not depreciated until completed and placed in service. The property would then be transferred to property and equipment.

Revenue Recognition

The Institution has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606 Revenue from Contracts with Customers. The core principle of this standard is that an Institution should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Institution expects to be entitled in exchange for such goods or services.

Most of the Institution's revenues are considered to be revenues from contracts with students. Tuition and fees revenue is reported in the period in which the educational services are provided. The Institution invoices students for tuition and fees at the commencement of the period of instruction and recognizes revenue over time as the services are provided and the performance obligations are satisfied. The Institution uses the input method to recognize such revenue based on hours of instruction provided in contrast with the total hours to be provided for a specified period. Students generally pay for tuition and fees in advance or shortly after receiving the invoice. The Institution may provide for scholarships to certain students to assist them financially with their educational goals. Students must apply for and qualify for these scholarships. Scholarships are netted against tuition and fees and considered variable consideration, which is used in adjusting the transaction price. The Institution does not consider this variable consideration to be constrained, as it is not considered probable that a significant reversal in the amount of cumulative revenue recognized will occur when the uncertainty associated with the scholarships is resolved. Bookstore income and other income is associated with sales of books, student supplies and short training programs offered by the Institution and is recognized when offered to the students. Unconditional rights to consideration from students and other customers are recorded in the Institution's balance sheet as accounts receivable. Accounts

**American Higher Education Development Corporation
and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2022 and 2021**

receivable at December 31, 2022 and 2021, were \$7,197,559 and \$6,808,543 respectively. The Institution records revenue for students who withdraw from the Institution to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

Payments from students that are received prior to the satisfaction of the Institution's related performance obligations result in a contract liability, which is shown in the balance sheet as student deposits. There were no Student deposits at December 31, 2022 and 2021. Unearned tuition is related to future academic periods and may be refundable to the students. Unearned tuition at December 31, 2022 and 2021, was \$2,769,397 and \$2,998,007, respectively. There were no other contract assets or liabilities at December 31, 2022 and 2021, respectively.

Advertising Expense

Advertising expense, except for costs associated with direct-response advertising, is charged to operations when incurred. Advertising expense for the years ended December 31, 2022 and 2021 was \$5,113,636 and \$4,697,444, respectively. The costs of direct-response advertising are capitalized and amortized over the period during which future benefits are expected to be received. As of December 31, 2022 and 2021, the Institution had no capitalized direct-response advertising costs.

Income Taxes

Income taxes are accounted for under the asset and liability method as prescribed by ASC Topic 740: Income Taxes ("ASC 740"). Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases and 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. Deferred tax assets are reduced by a valuation allowance, when in the Institution's opinion it is likely that some portion or the entire deferred tax asset will not be realized.

3. Accounts Receivable

Accounts receivable at December 31, 2022 and 2021, consists of tuition and fees, in the amount of \$7,197,559 and \$6,808,543 respectively, net of \$2,776,332 and \$1,600,946, respectively for the allowance for doubtful accounts. The Institution provides for doubtful accounts using the reserve method. The Institution reserves for accounts based on historical collection experience.

4. Furniture and Equipment, net

Property and equipment as of December 31, 2022, and 2021, consisted of the following:

**American Higher Education Development Corporation
and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Furniture and equipment	\$ 3,990,771	\$ 3,976,933
Construction in progress	240,036	-
Leasehold improvements	<u>2,005,205</u>	<u>1,924,793</u>
	6,236,012	5,901,726
Accumulated depreciation	<u>(4,457,401)</u>	<u>(4,096,994)</u>
Total furniture and equipment, net	<u>\$ 1,778,611</u>	<u>\$ 1,804,732</u>

5. Goodwill and Trade name

Goodwill represents the excess cost of a company acquired over the fair market value of its net assets at the date of acquisition. The Institution tests for goodwill impairment annually. The Institution acquired other intangible assets through a business combination for the value of the acquiree's tradename. The Institution utilized a third-party to determine the fair value of the tradename and the tradename is determined to have an indefinite useful life. For the years ended December 31, 2022 and 2021, the Institution recognized no impairments for either Goodwill or the Trade name.

6. Commitments and Contingencies

Leased Facilities

The Institution has entered into various leases for its campus facilities. The leases expire at varying dates through 2030. Lease expense, inclusive of other charges lease related, for the years ended December 31, 2022 and 2021 was \$1,922,661 and \$1,239,346, respectively.

After adoption of ASU 2016-02

On January 1, 2022, the Institution adopted the new standard on Leases, ASU 2016-02. The standard requires lessees to recognize the assets and liabilities that arise from leases in the balance sheet. Additionally, in July 2018, the FASB issued ASU 2018-11, Leases (Topic 842) – Targeted Improvements, which, among other things, provides a transition method that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The adoption resulted in the recognition of operating right-of-use assets totalling \$7,716,374, as well as operating lease liabilities totalling \$7,850,414. The Company elected to adopt the transition relief provisions from ASU 2018-11 and recorded the impact of adoption as of January 1, 2022, without restating any prior-year amounts or disclosures. There was no cumulative effect adjustment to the opening balance of retained earnings required. For the year ended December 31, 2022, the Institution had the following cash and non-cash activities associated with their leases:

**American Higher Education Development Corporation
and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2022 and 2021**

Lease expense

Operating lease expense	\$ 1,515,853
Short-term lease expense	20,093
Variable lease expense	<u>386,715</u>
Total	<u>\$ 1,922,661</u>

Other Information

Gains (losses) on sale-leaseback transactions, net	-
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from finance leases (i.e. Interest)	-
Financing cash flows from finance leases (i.e. principal portion)	-
Operating cash flows from operating leases	1,557,838
ROU assets obtained in exchange for new finance lease liabilities	-
ROU assets obtained in exchange for new operating lease liabilities	7,850,414
Weighted-average remaining lease term in years for finance leases	-
Weighted-average remaining lease term in years for operating leases	5.78
Weighted-average discount rate for finance leases	-
Weighted-average discount rate for operating leases	4.00%

The maturity analysis for the finance lease and operating lease liabilities as of December 31, 2022, is as follows:

Maturity Analysis	Finance	Operating
2023-12	\$ -	\$ 1,552,077
2024-12	-	1,546,564
2025-12	-	1,144,454
2026-12	-	1,053,025
2027-12	-	540,000
Thereafter	-	1,530,000
Total undiscounted cash flows	-	<u>7,366,120</u>
Less: present value discount	-	(787,914)
Total lease liabilities	<u>\$ -</u>	<u>\$ 6,578,206</u>

Certain lease agreements include variable payments based on a percentage of use over contractual levels, which are not determinable at the lease commencement and are not included in the measurement of the lease asset and liabilities.

If a lease includes one or more options to renew, then only lease options that the Institution believes are reasonably certain to be exercised are included in the measurement of the lease assets and liabilities.

Concentration of Risk (Regulatory)

The Institution is licensed in Ohio, Illinois and Tennessee and accredited by ACCSC. The licenses to operate and maintenance of accreditation requires compliance with numerous regulations. Future noncompliance with these regulations, or a change in

**American Higher Education Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

the laws governing these programs, would severely impact the operations of the Institution.

During the years ended December 31, 2022, and 2021, the Institution received significant revenue from the U.S. Department of Education's Title IV programs. Continuing participation in Title IV programs requires compliance with numerous federal regulations. Future noncompliance with these regulations, or a change in the laws governing these programs, would severely impact the operations of the Institution.

Credit Risk (FDIC limits)

The Institution maintains their cash accounts in demand accounts at federally insured commercial banks. Accounts at each bank are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. From time to time, the Institution had cash in financial institutions in excess of federally insured limits. However, the Institution has not experienced any losses in such accounts and believes it is not exposed to any significant risk on its cash balances. As of December 31, 2022 and 2021, the Institution's cash balances did exceed the insured limit.

7. Capital Leases

As of December 31, 2021 the Institution had a capital lease obligation for computer equipment. Amortization expense is included in depreciation expense. The lease called for monthly payments of \$1,696 and matured in March 2022.

8. Long Term Notes Payable

As of December 31, 2021, the Institution had a non-interest-bearing note for tenant improvements to the lessor of its Ohio campus facilities. The note matured in September 2022.

9. Related Party Transactions

The Institution currently participates in Federal programs authorized by Title IV of the Higher Education Act of 1965, as amended (HEA), which are administered by the U.S. Department of Education. The Institution must comply with the regulations promulgated under the HEA. Those regulations require that all related party transactions be disclosed, regardless of their materiality to the financial statements. There were no related party transactions for the years ended December 31, 2022, and 2021.

This information is required by the U.S. Department of Education and is presented for purposes of additional analysis and is not a required part of the basic financial statements.

**American Higher Education Development Corporation
and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2022 and 2021**

10. 90/10 Calculation

The Institution derives a substantial portion of its revenues from financial aid received by its students under programs authorized by Title IV of the HEA, which are administered by the U.S. Department of Education. To continue to participate in the programs, the Institution must comply with the regulations promulgated under the HEA. The regulations restrict the proportion of cash receipts for tuition, fees, and other institutional charges from eligible programs to not be more than 90 percent from Title IV programs. The failure of the Institution to meet the 90 percent limitation for two consecutive years will result in the loss of the Institution's ability to participate in Title IV programs. If a school receives more than 90 percent of its revenue from Title IV programs during its fiscal year, the school becomes provisionally certified for the next two fiscal years. This information is required by the U.S. Department of Education and is presented for purposes of additional analysis and is not a required part of the basic financial statements.

For the fiscal year ended December 31, 2022, the Institution's cash basis calculation is:

	Amount Disbursed	Adjusted Amount
<u>Adjusted Student Title IV Revenue</u>		
Subsidized loan	\$ 5,659,132	\$ 5,659,132
Unsubsidized loan up to pre-ECASLA loan limits	8,442,918	8,442,918
Plus loan	436,691	436,691
Federal Pell Grant	7,340,301	7,340,301
FSEOG (subject to matching reduction, the 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 (25% of \$500 = \$125; \$500 – \$125 = \$375)	336,719	252,539
Student Title IV Revenue	22,215,761	22,131,581
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)		(1,409,050)
Title IV funds returned for a student under 34 C.F.R. § 668.22 (withdrawal), reduce Student Title IV Revenue		(1,086,471)
Adjusted Student Title IV Revenue		\$ 19,636,060
<u>Student Non-Title IV Revenue</u>		
Grant funds for the student from non-Federal public agencies or private sources independent of the school	\$ 983,170	
Funds provided for the student under contractual arrangement with Federal, State, or local governmental agencies for the purpose of providing job training to low income individuals	6,227	
School scholarships disbursed to the student	-	
Student payments on current charges	2,601,220	
Student Non-Title IV Revenue	\$ 3,590,617	

**American Higher Education Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Revenue From Other Sources

Funds paid by a student, or on behalf of a students by a party other than the school for an education or training program that is not eligible (34 C.F.R. § 668.28(a)(3)(iii))	\$ 1,844,284	
Allowable student payments + allowable amounts from account receivable or institutional loan sales – any required payments under a recourse agreement	-	
Revenues from other sources	<u>\$ 1,844,284</u>	
Total Non-Title IV Revenue (Student Non-Title IV Revenue + Revenue from Other Sources)		<u>\$ 5,434,901</u>
Adjusted Student Title IV Revenue	<u>\$ 19,636,060</u>	
<u>Adjusted Student Title IV Revenue + Adjusted Student Non-Title IV Revenue + Revenue from Other Sources</u>	<u>\$ 25,070,961</u>	= 78.32%

11. Employee Retirement Benefit Plan

The Institution sponsors a 401(k) Profit Sharing Plan that covers all eligible employees, as defined. Contributions by the Institution are discretionary. Contributions made to the plan for the years ended December 31, 2022 and 2021 were \$73,656 and \$50,810, respectively.

12. Income Taxes

The Institution accounts for income taxes under ASC Topic 740: Income Taxes which requires the recognition of deferred tax assets and liabilities for both the expected impact of differences between the financial statements and the tax basis of assets and liabilities, and for the expected future tax benefit to be derived from tax losses and tax credit carry forwards. ASC Topic 740 additionally requires the establishment of a valuation allowance to reflect the likelihood of realization of deferred tax assets.

The table below summarizes the federal and state income tax expense differences as follows for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Federal income tax benefit/(expense)	\$ 555,453	\$ (731,139)
State income tax benefit/(expense)	60,043	(158,176)
Net income tax benefit/(expense)	<u>\$ 615,496</u>	<u>\$ (889,315)</u>

Deferred tax assets and liabilities are provided for significant income and expense items recognized in different years for tax and financial reporting purposes. Deferred tax assets and liabilities consist of the following as of December 31, 2022 and 2021:

**American Higher Education Development Corporation
and Subsidiaries**
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

	2022	2021
Operating loss carryforward	\$ 559,764	\$ -
Allowance for doubtful accounts	305,600	316,246
Other, net	(42,637)	(67,530)
Property and equipment, net	(223,405)	(281,878)
Net deferred tax asset/(liability)	<u>\$ 599,322</u>	<u>\$ (33,162)</u>

13. Composite Score

As a condition of eligibility to participate in the various federal financial assistance programs, the Institution is required to demonstrate financial responsibility, as defined in the United States Department of Education regulations, by maintaining a “composite score standard” of at least 1.5. The regulations also established a composite score zone between 1.0 and 1.4, demonstrating an institution as financially weak, but viable. Regulations allow institutions falling within this zone up to three consecutive years to improve their financial condition without requiring surety.

The Institution’s “composite score standard” at December 31, 2022 and 2021, was 1.7 and 3.0, respectively, are in compliance with the above requirement.

14. Date of Management Review

In preparing the financial statements the Company has evaluated events and transactions for potential recognition or disclosure through May 16, 2023, the date the financial statements were available to be issued.

Independent Auditor's Report

To the Board of Directors of
American Higher Education Development Corporation
and Subsidiaries
Princeton, NJ

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by Comptroller General of the United States, the financial statements of American Higher Education Development Corporation and Subsidiaries which comprise the balance sheet as of December 31, 2022, and the related statements of operation, stockholders' equity and statement of cash flows for the years then ended, and the related notes to the financial statements and have issued our report thereon dated May 16, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered American Higher Education Development Corporation and Subsidiaries' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of American Higher Education Development Corporation and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of American Higher Education Development Corporation and Subsidiaries' internal control.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether American Higher Education Development Corporation and Subsidiaries consolidated 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 consolidated financial statements. Such tests included compliance tests as set forth in the 2016 edition of the *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs*, issued by the U.S. Department of Education, Office of Inspector General (the Guide) including those relating to related parties and percentage of revenue derived from Title IV programs. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the Guide.

Purpose of this Report

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

ALVAREZ MENDOZA LABOUNTY CPAs

Doral, FL
May 16, 2023

**FINANCIAL RESPONSIBILITY
SUPPLEMENTAL SCHEDULE**

**American Higher Education Development Corporation
and Subsidiaries
Financial Responsibility Supplemental Schedule
December 31, 2022**

**Primary Reserve Ratio
Adjusted Equity**

Balance sheet (Total stockholders' equity)	Total Equity		20,662,753
Not applicable	Secured and unsecured related party receivable	-	
Not applicable	Unsecured Related party receivable		-
Balance sheet (Property & equipment, net)	Property and equipment, net - including construction in progress	1,778,611	
Note A: For Net Property and equipment	Property and equipment, net (pre-implementation) less any construction in progress		885,770
Note A: For Net Property and equipment	Property and equipment, net (post-implementation) less any construction in progress with outstanding debt for original purchase with debt		-
Note A: Property and equipment, net	Property and equipment, net (post-implementation) without outstanding debt for original purchase without debt		652,805
Not applicable	Construction in progress		240,036
Balance sheet (Right-of-use asset)	Lease right-of-use asset	6,486,151	
Not applicable	Lease right-of-use asset (pre-implementation)		565,761
Note C: Leases right-of-use	Lease right-of-use asset (post implementation)		5,920,390
Balance sheet (Goodwill, net & Trade name)	Intangible assets		12,352,973
Not applicable	Post-employment and defined pension plan liabilities		-
Not applicable	Long term debt for long term purposes and construction in progress debt	-	
Not applicable	Long term debt for long term purposes pre-implementation		-

**American Higher Education Development Corporation
and Subsidiaries
Financial Responsibility Supplemental Schedule
December 31, 2022**

Not applicable	Qualified long term debt for long term purposes post-implementation for purchase of property and equipment		-
Not applicable	Line of credit for construction in progress		-
Balance sheet (Lease liability (both current and long term))	Lease right-of-use asset liability	6,578,206	
Not applicable	Pre-implementation lease liability		661,872
Note D: Lease liability	Post implementation lease liability		5,916,334
Statement of operations (Total operating and other expenses)	Total expenses:		31,654,388

**Equity Ratio
Modified equity**

Balance sheet (Total stockholders' equity)	Total Equity		20,662,753
Not applicable	Pre-implementation lease liability		661,872
Not applicable	Lease right-of-use asset (pre-implementation)		565,761
Balance sheet (Goodwill, net & Trade name)	Intangible assets		12,352,973
Not applicable	Unsecured Related party receivable		-
	Modified Assets:		
Balance sheet (Total assets)	Total assets		31,719,241
Not applicable	Lease right-of-use asset (pre-implementation)		565,761
Balance sheet (Goodwill, net & Trade name)	Intangible assets		12,352,973
Not applicable	Unsecured Related party receivable		-

Net Income Ratio

Statement of operations (Net income before taxes)	Income before taxes		(2,303,944)
Statement of operations (Total revenues and other income)	Total revenues and gains		29,350,444

**American Higher Education Development Corporation
and Subsidiaries
Financial Responsibility Supplemental Schedule
December 31, 2022**

Ratio	Ratio	Strength Factor	Weight	Composite Scores
Primary reserve ratio = Adjusted Equity / Total expenses and losses	0.2094	3.0000	30%	0.900
Equity ratio = Modified Equity / Modified assets	0.4471	2.6827	40%	1.073
Net income ratio = Income before taxes / Total revenues and gains	-0.0785	(1.0000)	30%	(0.300)
				1.7

**Note A: For Net Property and
equipment**

Pre-implementation Property and equipment	\$ 885,770
Post-implementation Property and equipment with debt	-
Training equipment	-
Construction in progress	240,036
Post-implementation Property and equipment (without debt)	652,805
Total	\$ 1,778,611

**Note B: Long term Debt for long term
purposes**

Pre-implementation debt	\$ -
Allowable post-implementation long term debt	-
Training equipment	-
Construction in progress debt	-
Long-term debt not for the purchase of property and equipment or liability greater than assets value	-
Total	\$ -

Note C: Lease right-of-use

Lease right-of-use asset (pre- implementation)	\$ 565,761
Lease right-of-use asset (post implementation)	5,920,390
Total	\$ 6,486,151

Note D: Lease liability

Pre-implementation lease liability	\$ 661,872
Post implementation lease liability	5,916,334
Total	\$ 6,578,206