

**SPARTAN EDUCATION, LLC AND SUBSIDIARY
(A Wholly-Owned Subsidiary of Spartan Education Group, LLC)**

OPE ID No. 00767800

Consolidated Financial Statements

For the Years Ended December 31, 2022 and 2021

with

Independent Auditors' Report

SPARTAN EDUCATION, LLC AND SUBSIDIARY
(A Wholly-Owned Subsidiary of Spartan Education Group, LLC)

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ALMICH & ASSOCIATES

Certified Public Accounting and Business Services

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS AND OTHER INFORMATION

To the Board of Directors and
Member of Spartan Education, LLC:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Spartan Education, LLC (a Delaware limited liability company) and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income and member's equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Spartan Education, LLC and Subsidiary as of December 31, 2022 and 2021, and the consolidated results of their operations and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, Spartan Education, LLC changed the manner in which it accounts for leases in 2022.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Spartan Education, LLC and Subsidiary's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements taken as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated 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 consolidated 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 consolidated 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 Spartan Education, LLC and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about Spartan Education, LLC and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

Report on Required Supplementary Information and Other Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying supplementary information beginning on page 18 on Spartan Education, LLC and Subsidiary's calculation of their Title IV 90/10 revenue test and on related party transactions are required by the U.S. Department of Education and are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the consolidated 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 April 17, 2023, on our consideration of Spartan Education, LLC and Subsidiary's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, 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 Spartan Education, LLC and Subsidiary's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Spartan Education, LLC and Subsidiary's internal control over financial reporting and compliance.



Lake Forest, California
April 17, 2023

SPARTAN EDUCATION, LLC AND SUBSIDIARY
(A Wholly-Owned Subsidiary of Spartan Education Group, LLC)
Consolidated Balance Sheets
December 31, 2022 and 2021

Assets

	2022	2021
Current assets:		
Cash	\$ 312,308	\$ 730,622
Accounts and notes receivable, net of allowance for doubtful accounts of \$2,456,211 for 2022 and \$1,433,750 for 2021	6,481,548	6,176,482
Other receivables	132,576	74,149
Prepaid expenses and other	174,440	274,941
Inventories	938,576	820,585
Total current assets	8,039,448	8,076,779
Accounts and notes receivable, net of current portion and allowance for doubtful accounts of \$23,835 for 2022 and \$79,306 for 2021	51,452	83,094
Property, equipment and improvements, net of accumulated depreciation and amortization of \$10,660,888 for 2022 and \$8,764,184 for 2021	22,295,129	23,367,233
Curriculum, net of accumulated amortization of \$753,398 for 2022 and \$640,949 for 2021	417,348	225,844
Right-of-use asset for operating leases	1,156,902	-
Other intangible assets, net of accumulated amortization of \$7,300,000 for 2022 and \$6,800,000 for 2021	2,500,000	3,000,000
Deposits	204,504	149,704
Goodwill	2,473,915	2,473,915
	\$ 37,138,698	\$ 37,376,569

Liabilities and Member's Equity

Current liabilities:		
Accounts payable	\$ 391,497	\$ 259,540
Accrued expenses	877,740	742,033
Prepaid tuition	1,935,303	1,637,396
Current portion of finance obligation	11,834	-
Current portion of capital leases	-	64,077
Current portion of operating lease liability	236,185	-
Current portion of long-term debt	191,913	179,706
Total current liabilities	3,644,472	2,882,752
Deferred rent	-	68,619
Due to affiliates	15,343,252	18,179,601
Finance obligation	3,610,973	3,625,027
Operating lease liability, net of current portion	993,503	-
Long-term debt, net of current portion and deferred loan fees	738,815	917,022
Total liabilities	24,331,015	25,673,021
Member's equity	12,807,683	11,703,548
	\$ 37,138,698	\$ 37,376,569

See notes to consolidated financial statements

SPARTAN EDUCATION, LLC AND SUBSIDIARY
(A Wholly-Owned Subsidiary of Spartan Education Group, LLC)
Consolidated Statements of Income and Member's Equity
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenues:		
Tuition	\$ 19,106,557	\$ 19,053,977
Housing	1,224,785	1,010,321
Books and fees	<u>2,200,643</u>	<u>2,064,430</u>
Total revenues	<u>22,531,985</u>	<u>22,128,728</u>
Costs and expenses:		
Student instruction and training	7,776,416	8,073,404
Marketing and admissions	2,805,042	3,504,041
General and administrative, housing and support services	6,350,305	5,986,969
Facilities	1,229,297	1,166,225
Depreciation and amortization	<u>2,751,811</u>	<u>2,615,027</u>
Total costs and expenses	<u>20,912,871</u>	<u>21,345,666</u>
Income from operations	<u>1,619,114</u>	<u>783,062</u>
Other income (expense):		
Interest expense	(556,683)	(556,294)
Other income - ERTC	-	2,041,200
Gain on sale of aircraft	<u>41,704</u>	<u>487,375</u>
Total other income (expense)	<u>(514,979)</u>	<u>1,972,281</u>
Income before income taxes	1,104,135	2,755,343
Provision for income taxes	<u>-</u>	<u>-</u>
Net income	1,104,135	2,755,343
Member's equity, beginning of year	<u>11,703,548</u>	<u>8,948,205</u>
Member's equity, end of year	<u>\$ 12,807,683</u>	<u>\$ 11,703,548</u>

See notes to consolidated financial statements

SPARTAN EDUCATION, LLC AND SUBSIDIARY
(A Wholly-Owned Subsidiary of Spartan Education Group, LLC)
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Net income	\$ 1,104,135	\$ 2,755,343
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation and amortization	2,751,811	2,615,027
Amortization of right-of-use asset for operating leases	194,745	-
Amortization of deferred loan fees	13,706	2,267
Gain on sale of aircraft	(41,704)	(487,375)
Changes in operating assets and liabilities -		
Accounts and notes receivable, net	(273,424)	(412,410)
Other receivables	(58,427)	(37,075)
Prepaid expenses and other	100,502	(57,169)
Inventories	(117,991)	49,153
Deposits	(54,800)	808,869
Accounts payable	131,957	(252,702)
Accrued expenses	135,707	(247,019)
Prepaid tuition	297,907	(93,079)
Operating lease liability	(190,579)	-
Deferred rent	-	(2,149)
Net cash provided by operating activities	3,993,545	4,641,681
Cash flows from investing activities:		
Purchases of property, equipment and improvements	(1,695,991)	(5,205,359)
Proceeds from sale of aircraft	366,484	1,035,961
Net cash used by investing activities	(1,329,507)	(4,169,398)
Cash flows from financing activities:		
Change in due to/from affiliates	(2,836,349)	(478,359)
Repayment of capital lease	(64,077)	(64,077)
Increase in deferred loan fees	-	(37,177)
Increase in finance obligation	(2,220)	7,500
Principal repayments on long-term debt	(179,706)	(168,275)
Net cash used by financing activities	(3,082,352)	(740,388)
Decrease in cash	(418,314)	(268,105)
Cash, beginning of year	730,622	998,727
Cash, end of year	\$ 312,308	\$ 730,622
Supplemental cash flows information:		
Cash paid for -		
Interest	\$ 70,564	\$ 81,963
Income taxes	\$ -	\$ -
Right-of-use asset obtained in exchange for lease liability	\$ 1,351,647	\$ -

See notes to consolidated financial statements

SPARTAN EDUCATION, LLC AND SUBSIDIARY
(A Wholly-Owned Subsidiary of Spartan Education Group, LLC)
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

Spartan Education, LLC (Spartan) is a Delaware limited liability company formed during 2009. Spartan is a wholly-owned subsidiary of Spartan Education Group, LLC (SEG) which is also a Delaware limited liability company formed during 2009. Effective December 28, 2012, Spartan acquired certain net assets of Spartan Aviation Industries, Inc., an Oklahoma corporation, and Spartan Residence Hall, LLC, an Oklahoma limited liability company (collectively, the Seller), pursuant to the terms of an Asset Purchase Agreement (the Agreement). Spartan provides career training in the fields of aviation flight, maintenance, electronics and instruments. Spartan operates both a technical school and flight school in Tulsa, Oklahoma.

Spartan Landing Holdings, LLC (Spartan Landing, a wholly-owned subsidiary of Spartan) is a Delaware limited liability company formed during 2013. Effective February 24, 2014, Spartan Landing acquired for \$850,000, from an unrelated third party, apartments previously leased by Spartan for student housing; this amount is reflected within property, equipment and improvements in the accompanying consolidated balance sheets. See Note 6 regarding a sale-leaseback transaction.

SEG provides certain general and administrative as well as marketing services to Spartan and other educational institutions owned by SEG. These costs are incurred by SEG and are not allocated to Spartan or SEG's other subsidiaries.

The accompanying consolidated financial statements include the accounts of Spartan and Spartan Landing. All intercompany amounts and transactions have been eliminated in consolidation. Spartan and Spartan Landing are hereafter referred to collectively as the Company.

Revenue Recognition

Revenues consist primarily of tuition and related fees on courses taught at the Company's campuses. The Company recognizes revenue in accordance with *Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers*, which provides a five-step model for recognizing revenue from contracts with customers. Tuition, housing and related fee revenues are recognized on a ratable basis over the term of instruction, taking into consideration expected refunds. The Company's programs are designed to be completed in 15 to 25 months. The majority of students are billed with program costs up-front and earned evenly over the program length. Revenues from the sale of products and services are recognized when the transfer of the respective product or service occurs. Prepaid tuition is the portion of tuition payments received but not earned as of the consolidated balance sheet date and is reflected as a current liability on the accompanying consolidated balance sheets.

Accounts and Notes Receivable

Accounts and notes receivable are recorded at the net realizable value expected to be received from students or third-party payors and are not collateralized. Accounts and notes receivable include tuition and fees billed and earned less payments received and an allowance for doubtful accounts. The allowance for doubtful accounts is management's best estimate based upon historical experience. Management continually monitors and adjusts its allowance associated with the Company's receivables to address any known credit risks associated with the accounts receivable. When uncertainty exists as to the collection of receivables, the Company records an allowance for doubtful accounts and a corresponding charge to bad debt expense.

Inventories

Inventories are comprised primarily of aircraft maintenance supplies, textbooks, gasoline and school supplies and are stated at the lower of cost or market using the first-in, first-out method.

Property, Equipment and Improvements

Property and equipment are recorded at cost and are being depreciated over their estimated useful lives ranging from 3 to 25 years utilizing the straight-line method. Leasehold improvements are recorded at cost and are being amortized over the shorter of their estimated useful lives or the term of the lease utilizing the straight-line method. Maintenance, repairs, and minor renewals and betterments are expensed as incurred.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When such factors indicate that assets should be evaluated for possible impairment, management would prepare an analysis comparing the carrying value of the assets to future undiscounted cash flows of the underlying assets. The net book value of the underlying assets is adjusted to fair value if the sum of the expected undiscounted future cash flows is less than book value. To date, management has not identified any such factors pertaining to the Company's long-lived assets.

Goodwill

Goodwill consists of the cost in excess of fair value of identifiable net assets acquired in a purchase business combination. Goodwill is not amortized, but evaluated for impairment annually, in the fourth quarter of each fiscal year, or whenever events or circumstances indicate that the carrying amount may not be recoverable. Impairment exists when the carrying amount of goodwill exceeds its implied fair value. The implied fair value of goodwill is determined by deducting the estimated fair value of all tangible and identifiable intangible net assets of the reporting unit from the estimated fair value of the reporting unit. If the recorded value of goodwill exceeds its implied value, an impairment charge is recorded for the excess. The Company tests for goodwill impairment at the reporting unit level. The Company consists of a single reporting unit. The Company's annual impairment testing did not result in an impairment of goodwill as of December 31, 2022 and 2021. The Company recorded a goodwill impairment charge of \$26,755,592 during the year ended December 31, 2016, related to market, regulatory and financial conditions.

Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include, among others, future economic and market conditions and determination of appropriate market comparables. Such estimates are unpredictable and inherently uncertain; actual future results may differ from the estimates. The Company may also assess qualitative factors to determine if it is more likely than not that the fair value of the reporting unit is less than its carrying amount.

Curriculum

Curriculum represents amounts paid to an unrelated third-party to develop online program curriculum. Curriculum is being amortized on a straight-line basis over its estimated useful life of 3 years. Amortization expense related to curriculum for each of the years ended December 31, 2022 and 2021 was \$112,449 and \$21,339, respectively, and is included within depreciation and amortization expense on the accompanying consolidated statements of income and member's equity.

Deferred Loan Fees

Deferred loan fees represent the fees and costs incurred by the Company with respect to obtaining its debt financing. Deferred loan fees are being amortized over the term of the related debt. Deferred loan fees amortization for the years ended December 31, 2022 and 2021 was \$13,706 and \$2,267, respectively, and is included within interest expense on the accompanying consolidated statements of operations and members' equity.

Income Taxes

The Company files federal and state income tax returns and is included in the tax return of SEG.

Fair Value Measurements

The carrying value of the Company's financial instruments approximates fair value due to the relative short-term nature of these instruments.

The Company uses a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either observable directly or indirectly through market corroboration, for substantially the full term of the financial instruments; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The Company has no financial instruments utilizing Level 2 or Level 3 inputs.

Recently Adopted Accounting Standard

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (*ASU*) 2016-02, Topic 842, Leases, (*ASC 842*), which was subsequently amended by *ASU* Nos. 2018-10, 2018-11, 2018-20, 2019-01, 2019-10, and 2020-05. The guidance in this *ASU* supersedes the leasing guidance in *Topic 840, Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The Company adopted *ASC 842* at the adoption date with the initial application date as of January 1, 2022. Under this adoption method, prior period amounts have not been adjusted. The Company elected to apply the package of practical expedients which allows the Company to not reassess whether expired or existing contracts contain leases, the classification of existing leases, and initial direct costs for existing leases. The Company also applied hindsight in the determination of the lease term and assessing impairment of right-of-use assets for existing leases. As part of the Company's updated lease accounting policies, leases with an initial term of twelve months or less are recognized on a straight-line basis over the lease term and not recorded on the balance sheet. When the discount rate implicit in the operating leases was not readily determinable, the Company utilizes its incremental borrowing rate.

On January 1, 2022, the Company recorded operating lease liabilities and right-of-use assets for operating leases of \$1,351,647. The adoption of *ASC 842* also resulted in the derecognition of previously recorded deferred rent liabilities of \$68,619 on January 1, 2022, which are now reflected in operating lease liabilities. Recording these items had no impact upon the statements of income and member's equity and cash flows or beginning retained earnings. See Note 6 for additional information.

Advertising

Advertising costs are expensed as incurred.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

The Company has evaluated subsequent events through the date of the auditors' report, April 17, 2023, which is the date the accompanying consolidated financial statements were available to be issued.

NOTE 2 – PROPERTY, EQUIPMENT AND IMPROVEMENTS

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

	<u>2022</u>	<u>2021</u>
Buildings and improvements	\$ 3,867,530	\$ 3,199,636
Furniture, fixtures, and equipment	3,474,359	3,250,518
Aircraft	25,322,795	25,379,043
Automobiles	142,730	146,211
	<u>32,807,414</u>	<u>31,975,408</u>
Less: accumulated depreciation and amortization	<u>(10,660,888)</u>	<u>(8,764,184)</u>
	22,146,526	23,211,224
Construction in progress	148,603	156,009
	<u>\$ 22,295,129</u>	<u>\$ 23,367,233</u>

Depreciation and amortization expense related to property, equipment and improvements for the years ended December 31, 2022 and 2021 was \$2,139,362 and \$2,093,688, respectively, and is included within depreciation and amortization expense on the accompanying consolidated statements of income and member's equity.

NOTE 3 – OTHER INTANGIBLE ASSETS

The Company has identified certain intangible assets related to the December 28, 2012 acquisition. Such intangible assets consisted of the following as of December 31:

	Estimated Useful Life	Gross Amount	Accumulated Amortization as of December 31,	
			<u>2022</u>	<u>2021</u>
Title IV funding	15	\$ 5,000,000	\$ 3,333,334	\$ 3,000,000
Trade name	15	2,500,000	1,666,666	1,500,000
Flight contracts	5	2,000,000	2,000,000	2,000,000
Student relationships	1	300,000	300,000	300,000
		<u>\$ 9,800,000</u>	<u>\$ 7,300,000</u>	<u>\$ 6,800,000</u>

Amortization expense related to these intangible assets is recognized on a straight-line basis over the estimated useful lives of the assets. Amortization expense related to these intangible assets for each of the years ended December 31, 2022 and 2021 was \$500,000 and is included within depreciation and amortization expense on the accompanying consolidated statements of income and member's equity. The total remaining weighted-average amortization period for intangible assets subject to amortization as of December 31, 2022, is 5 years. Intangible assets are evaluated for impairment annually. Management does not believe that there is any impairment associated with these assets.

As of December 31, 2022, estimated future amortization of other intangible assets was as follows:

<u>Year Ending December 31,</u>	
2023	\$ 500,000
2024	500,000
2025	500,000
2026	500,000
2027	500,000
	<u>\$ 2,500,000</u>

NOTE 4 – LONG-TERM DEBT

On June 12, 2020, the Company entered into a \$1,400,000 note payable with a bank to finance the purchase of 14 aircraft. The note bears interest at 6.5% and is collateralized by the aircraft. The note requires a monthly principal and interest payment of \$20,853 through maturity on June 11, 2027. As of December 31, 2022 and 2021, the outstanding balance under this note payable was \$972,067 and \$1,151,773, respectively.

Future maturities of long-term debt as of December 31, 2022, were as follows:

<u>Year Ending December 31,</u>	
2023	\$ 191,913
2024	204,808
2025	218,862
2026	233,730
2027	122,754
	<u>972,067</u>
Less: unamortized deferred loan fees	(41,339)
	930,728
Less: current portion	(191,913)
	<u>\$ 738,815</u>

NOTE 5 – MEMBER’S EQUITY

The Company has authorized two classes of membership units: Preferred Class A Units, and Preferred Class B Units. The Company shall make distributions to the unit holders as determined by the Board of Directors in its sole discretion in an order of priority as defined in the Amended and Restated Limited Liability Company Agreement of the Company (LLC Agreement).

As of December 31, 2022 and 2021, the issued membership units of the Company were as follows:

	<u>Issued</u>	<u>Amount</u>
Preferred Class A Units	29,189.74	\$ 29,189,745
Preferred Class B Units	-	-

The Preferred Class A Units and Preferred Class B Units are designated as Preferred Units. If the Company’s Board of Directors determines to issue Additional Securities, each member holding Preferred Units shall have the right to purchase up to such member’s pro rata share of all or any part of the Additional Securities, as defined in the LLC Agreement.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases its operating facilities under the terms of noncancellable lease agreements that expire at various dates through December 2028. The leases require the Company to pay certain operating expenses in addition to base monthly rental payments. The leases also have various options to renew up to three additional five-year periods. There are no early termination penalties, residual value guarantees, restrictions or covenants imposed by the facility leases.

Lease Liability and Right-of-Use Asset

The Company determines a contract to represent a lease when it conveys the right to control the use of identified property, plant or equipment, in exchange for consideration. Upon identification and commencement of a lease, a right-of-use (ROU) asset and a lease liability are established.

The lease liability represents future lease payments for lease and non-lease components discounted for present value. Generally, rent escalation clauses which are specifically stated are included within the lease liability; options to extend are included within minimum lease terms when they are reasonably certain to be exercised. Payments for leases that are less than 12 months in length, as well as other variable lease payments for lease and non-lease components which are not based on an index or rate, are excluded from the calculation of the lease liability and are recognized within operations in the period incurred; short-term lease payments are recognized on a straight-line basis over the respective lease term.

The ROU asset consists of the amount of the initial measurement of the lease liability and adjusted for any lease incentives, including rent abatements and tenant improvement allowances, and any initial direct costs incurred by the Company. The ROU asset is amortized over the remaining lease term on a straight-line basis and recorded within facilities expense on the accompanying consolidated statement of income and member’s equity.

The lease term is determined by taking into account the initial period as stated in the lease contract and adjusted for any renewal options that the Company is reasonably certain to exercise, as well as any period of time that the Company has control of the space before the stated initial term of the lease, when applicable.

Significant Assumptions and Judgments

The Company has identified its facility and equipment leases to represent the operating leases for recognition under adoption of *ASU 2016-02* on January 1, 2022; no contracts held by the Company were identified to be a finance lease. For the Company's operating leases, the discount rate implicit was not readily determinable. Therefore, the Company utilized its incremental borrowing rate (7.55%) to calculate the present value of the lease. As of December 31, 2022, the remaining weighted-average lease term was 4.6 years.

The components of the Company's lease expense are included within facilities and general and administrative expenses on the accompanying 2022 consolidated statement of income and member's equity; such components were as follows for the year ended December 31, 2022:

Fixed operating lease expenses	\$ 297,664
Short-term and other variable operating lease expenses	<u>221,743</u>
	<u>\$ 519,407</u>

For the year ended December 31, 2022, cash paid for amounts in the measurement of the Company's operating lease liability was approximately \$317,000.

As of December 31, 2022, future maturities of the Company's operating lease liability were as follows:

<u>Year Ending December 31,</u>	
2023	\$ 302,656
2024	313,622
2025	319,973
2026	326,902
2027	90,081
Thereafter	<u>75,509</u>
Future minimum lease payments	1,428,743
Less: imputed interest	<u>(199,055)</u>
Present value of future minimum lease payments	1,229,688
Less: current portion	<u>(236,185)</u>
	<u>\$ 993,503</u>

Disclosures Related to Periods Prior to the Adoption of ASU 2016-02

Facility rent expense for the year ended December 31, 2021 was approximately \$190,000, and is included within facilities expense on the accompanying 2021 consolidated statements of income and member's equity.

The Company also rents equipment under the term of noncancellable operating leases expiring through July 2024. The equipment rent expense for the year ended December 31, 2021 was approximately \$306,000, and is reflected within various expense categories on the accompanying 2021 consolidated statements of income and member's equity.

Future minimum lease payments under the terms of noncancellable lease agreements as of December 31, 2021 were as follows:

<u>Year Ending December 31,</u>	
2022	\$ 179,551
2023	119,574
2024	88,745
2025	95,671
2026	100,288
Thereafter	<u>73,580</u>
	<u><u>\$ 657,409</u></u>

Contingencies

The Company is subject to various claims and lawsuits in the ordinary course of business. In the opinion of management, such claims and lawsuits are without merit. Management does not believe the outcome of any of the claims and lawsuits will have a material adverse effect upon the consolidated financial condition of the Company.

Sale – Leaseback and Related Finance Obligation

In May 2019, Spartan Landing sold the apartments used for student housing to an unrelated third party for \$3.75 million. Cash proceeds from the sale were \$3.55 million, of which \$1.59 million was used to pay down outstanding debt.

Simultaneously with the sale, Spartan entered into a sub-lease agreement with the buyer to lease back the property. The sub-lease has an initial term of 20 years, with an initial base rent of \$37,500 per month increasing annually at 2.0% throughout the term. Spartan is responsible for paying virtually all operating costs of the property. The sub-lease contains provisions for a buy-out, extensions of the term, and a guarantee by SEG.

Management has concluded that the sale-leaseback should be accounted for as a financing transaction under *ASC Topic 842 Leases*. Accordingly, the proceeds from the sale have been reflected as a finance obligation on the accompanying consolidated balance sheet. Spartan Landings will continue to depreciate the apartments over the useful life of the assets in accordance with its historical policy.

Future minimum payments under the terms of the sale-leaseback agreement were as follows as of December 31, 2022. The payments have been discounted at 13.19% representing management's estimate of the Company's incremental borrowing rate.

<u>Year Ending December 31,</u>	
2023	\$ 483,911
2024	493,589
2025	503,461
2026	513,530
2027	523,801
Thereafter	<u>6,719,202</u>
Future minimum lease payments	9,237,494
Less: amount representing interest	<u>(5,614,687)</u>
Present value of future minimum lease payments	3,622,807
Less: current portion	<u>(11,834)</u>
Finance obligation	<u><u>\$ 3,610,973</u></u>

NOTE 7 – CAPITAL LEASE OBLIGATION

The Company leased equipment under the terms of a non-cancellable capital lease agreement that expired in July 2022 and was secured by the respective leased equipment. As of December 31, 2021, the cost of assets under the capital lease agreement was approximately \$192,000; the related accumulated depreciation was approximately \$110,000. Depreciation expense related to the leased equipment is included with the Company's depreciation and amortization expense.

Future minimum lease payments under the terms of the non-cancellable capital lease agreement were \$64,077 as of December 31, 2021.

NOTE 8 – RELATED PARTY TRANSACTIONS

Due to Affiliates

The Company advances and receives funds with SEG and educational institutions owned by SEG. Such amounts are unsecured, non-interest bearing and have no stipulated repayment provisions. Amounts received as of December 31, 2022 and 2021 were \$15,343,252 and \$18,179,601, respectively.

Guarantee of Debt

The Company serves as a guarantor on \$51,559,622 of debt of SEG.

NOTE 9 – EMPLOYEE BENEFIT PLAN

The Company maintains a defined contribution 401(k) savings plan covering substantially all of the Company's employees. Employer contributions are equal to 50% of the first 6% of employee 401(k) elective deferrals. Employer contributions vest after 3 years of service with a minimum of 1,000 hours of service in each year. During the years ended December 31, 2022 and 2021, employer contributions of approximately \$68,000 and \$79,000, respectively, were made by the Company.

NOTE 10 – FUNDING RECEIVED UNDER THE CARES ACT

On March 11, 2021, the American Rescue Plan Act of 2021 (ARP Act) was signed into law. The ARP Act adopted all of the provisions and enhancements to the Employee Retention Tax Credit (ERTC) contained in the Consolidated Appropriations Act of 2021, which contained significant enhancements and improvements to the CARES Act with respect to the ERTC. During the year ended December 31, 2021, the Company was eligible for \$2,041,200 in ERTC. As of December 31, 2021, \$519,270 of the total ERTC had been realized by not depositing federal payroll taxes, \$520,344 was refunded by the IRS and \$1,001,586 was reflected within other receivables on the consolidated balance sheets of SEG as of December 31, 2022 and 2021; this amount was refunded in February 2023.

NOTE 11 – REGULATORY MATTERS

In connection with the acquisition, the U.S. Department of Education (ED) required a letter of credit which was posted by the Company and guaranteed by the majority member of SEG. The letter of credit also covers another educational institution owned by SEG. As of December 31, 2022, the letter of credit amounted to \$2,501,645. In January 2023, the letter of credit was increased to \$3,631,755 and is scheduled to expire on February 28, 2024.

The Company is subject to extensive regulation by federal and state governmental agencies and accrediting bodies. In particular, the Higher Education Act of 1965 (the Act) and the regulations promulgated thereunder by ED subject the Company to significant regulatory scrutiny on the basis of numerous standards that schools must satisfy in order to participate in the various federal student financial assistance programs under Title IV of the Act. These standards include, among others, financial responsibility, student default rates, and the "90/10" rule. Ineligibility to participate in the Title IV programs would have a material adverse effect on the Company's enrollments, revenue and results of operations.

Institutions participating in Title IV programs are required by ED to demonstrate financial responsibility. ED determines an institution's financial responsibility through the calculation of a composite score based upon certain financial ratios as defined in regulations. Institutions receiving a composite score of 1.5 or greater are considered fully financially responsible. Institutions receiving a composite score between 1.0 and 1.4 are subject to additional monitoring. Institutions receiving a composite score below 1.0 are required to submit financial guarantees in order to continue participation in the Title IV programs. ED assesses the Company's financial responsibility based upon the consolidated financial statements of SEG.

For each federal fiscal year, ED calculates a rate of student defaults for each educational institution known as a "cohort default rate". Under certain defined circumstances, an institution may lose its eligibility to participate in some or all Title IV programs. As of December 31, 2022 and 2021, management believes that the Company was in compliance with ED's requirements concerning cohort default rates.

Substantial portions of the Company's revenue and collection of accounts receivable are dependent upon its continued participation in the Title IV programs of the Act. To continue to participate in the Title IV programs, the Company must comply with certain regulations of ED. ED regulations restrict the proportion of cash receipts for tuition and fees from eligible programs to not more than 90 percent from the Title IV programs. The failure of an institution to meet the 90 percent limitation could result in the loss of an institution's ability to participate in Title IV programs. For the years ended December 31, 2022 and 2021, the Company was in compliance with the 90/10 rule. ED requires an institution to provide additional disclosures with respect to the 90/10 rule, which are included in the accompanying supplementary information beginning on page 18. ED has published a final 90/10 rule which will apply to institutional fiscal years beginning on or after January 1, 2023. Management does not believe that the final 90/10 rule will materially affect the Company's 90/10 calculation or its compliance with the 90/10 rule.

As a result of operating in a highly regulated industry, the Company may be subject from time to time to audits, investigations, claims of noncompliance or lawsuits by governmental agencies, regulatory bodies, or other third parties. While there can be no assurance that such matters will not occur and if they do occur will not have a material adverse effect on the Company's business, results of operations or financial condition, management believes that the Company has complied with all regulatory requirements.

On October 30, 2014, ED released its final rule concerning gainful employment (GE) which was formally published in the Federal Register October 31, 2014 and effective July 1, 2015. The final rule had applied to all GE programs, which include all non-degree programs at public and private non-profit institutions, and all programs offered at for-profit institutions. The final rule aimed to assess continued eligibility of GE programs by their performance against specific defined debt-to-earnings measures. In addition, institutions were required to certify that each of their GE programs had met state and federal licensure, certification, and accreditation requirements, as well as make public disclosures regarding performance and outcomes of their GE programs, such as costs, earnings, debt and completion rates. On June 28, 2019, ED announced that it was officially rescinding the 2014 GE regulations and permitting affected institutions to implement the rescission immediately.

On November 1, 2016, ED published regulations on the topic of borrower defense to repayment which went into effect in October 2018. On September 23, 2019, ED published regulations on this topic which became effective July 1, 2020. The regulations allow a borrower to assert a defense to repayment based upon defined criteria and establish certain triggers which would require an institution to provide ED with additional reporting and/or financial guarantees. Management believes that the Company is in compliance with the applicable regulations in all material respects.

On November 1, 2022, ED's final borrower defense to repayment rules were published, with an effective date of July 1, 2023. The final rule overhauls regulations for borrower defenses to repayment, pre-dispute arbitration agreements and class action waivers, total and permanent disability, closed school and false certification loan discharges, and interest capitalization.

NOTE 12 – CONCENTRATION OF CREDIT RISK

As of December 31, 2022 and 2021, the Company maintained cash balances with a bank in excess of the federally insured limit.

SPARTAN EDUCATION, LLC AND SUBSIDIARY
(A Wholly-Owned Subsidiary of Spartan Education Group, LLC)
Supplementary Information
(Information Required by the U.S. Department of Education)
December 31, 2022 and 2021

Institution's Calculation of 90/10 Revenue Test

Spartan Education, LLC (the Institution) and Subsidiary derives a substantial portion of its revenues from Student Financial Aid (SFA) received by its students under the Title IV programs administered by the U.S. Department of Education pursuant to the Higher Education Act of 1965, as amended (HEA). To continue to participate in the SFA programs the Institution must comply with the regulations promulgated under HEA. The regulations restrict the proportion of cash receipts for tuition and fees from eligible programs to not more than 90 percent from the Title IV programs. In July 2008, modifications to the regulations were made with respect to amounts to be included in the 90 percent calculations including allowing for the inclusion of funds received for certain qualifying non-Title IV programs. In addition, the modifications included provisions for institutions that do not comply with the 90 percent rule for a single fiscal year, whereby such institutions would be placed on provisional certification status for a period of two years. Institutions that do not comply with the 90 percent rule for two consecutive fiscal years are subject to the loss of their ability to participate in the SFA programs.

For the years ended December 31, 2022 and 2021, the Institution's 90/10 revenue test percentage was computed as follows:

Revenue by Fund Source	For the year ended December 31, 2022		For the year ended December 31, 2021	
	Amount Disbursed	Adjusted Amount	Amount Disbursed	Adjusted Amount
Adjusted Student Title IV Revenue				
Subsidized Loan	\$ 2,490,675	\$ 2,490,675	\$ 2,419,153	\$ 2,419,153
Unsubsidized Loan	3,238,473	3,238,473	3,259,386	3,259,386
Federal Pell Grant	2,451,661	2,451,661	2,107,082	2,107,082
FSEOG (subject to matching reduction)	186,113	139,585	92,154	69,116
Federal Work Study applied to tuition and fees	-	-	-	-
Federal Direct PLUS Loan	3,862,369	3,862,369	3,262,823	3,262,823
All Other Title IV Loans and Grants	-	-	-	-
Student Title IV Revenue	\$ 12,229,291	\$ 12,182,763	\$ 11,140,598	\$ 11,117,560
Revenue Adjustment				
If the amount of funds applied first plus Student Title IV revenue is more than tuition and fees, then reduce Title IV revenue by the amount over tuition and fees		(290,619)		(231,361)
Title IV funds returned for a student under 34 C.F.R § 668.22 (withdrawal), reduce Student Title IV Revenue		(532,752)		(754,519)
Adjusted Student Title IV Revenue		\$ 11,359,392		\$ 10,131,680

	For the year ended December 31, 2022		For the year ended December 31, 2021	
	Amount Disbursed	Adjusted Amount	Amount Disbursed	Adjusted Amount
Student Non-Title IV Revenue				
Grant funds for the student from non-Federal public agencies or private sources independent of the institution	\$ 703,827		\$ 210,430	
Funds provided for the student under a contractual arrangement with a Federal, State, or local government agency for the purpose of providing job training to low income individuals	-		-	
Funds used by a student from savings plans for educational expenses established by or on behalf of the student that qualify for special tax treatment under the Internal Revenue Code	-		-	
Institutional scholarships disbursed to the student	-		-	
Student payments	9,414,699		8,722,290	
Student Non-Title IV Revenue	\$ 10,118,526		\$ 8,932,720	
Revenue from Other Sources (Totals for the Fiscal Year)				
Activities conducted by the institution that are necessary for education and training	\$ -		\$ -	
Funds paid by a student, or on behalf of a student, by a party other than the school for an education or training program that is not eligible (34 C.F.R. § 668.28(a)(3)(iii))	-		1,507,000	
Allowable student payments plus allowable amounts from account receivable or institutional loan sales minus any required payments under a recourse agreement	-		-	
Revenue from Other Sources	\$ -		\$ 1,507,000	
<u>Adjusted Title IV Revenue</u>		<u>\$ 11,359,392</u>		<u>\$ 10,131,680</u>
Adjusted Title IV Revenue + Adjusted Student Non-Title IV Revenue + Total Revenue from Other Sources		\$ 21,477,918		\$ 20,571,400
		52.89%		49.25%

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 consolidated financial statements.

Institution's Calculation of Composite Score

ED evaluates the Institution's composite score utilizing the consolidated financial statements of SEG. As of and for the year ended December 31, 2022, the composite score derived from SEG's consolidated financial statements was less than 1.0. The financial components utilized for the composite score calculation as of and for the year ended December 31, 2022 can be found in the consolidated financial statements of SEG.

Related Party Transactions

The Institution participates in Student Financial Aid under the Title IV programs administered by the U.S. Department of Education pursuant to the Higher Education Act of 1965, as amended (HEA). The Institution must comply with the regulations promulgated under HEA. Those regulations require that all related party transactions be disclosed, regardless of their materiality to the consolidated financial statements.

Organization

Spartan Education, LLC (the Institution) is a Delaware limited liability company formed during 2009. The Institution is a wholly-owned subsidiary of SEG which is also a Delaware limited liability company formed during 2009. Effective December 28, 2012, the Institution acquired certain net assets of Spartan Aviation Industries, Inc., an Oklahoma corporation, and Spartan Residence Hall, LLC, an Oklahoma limited liability company, pursuant to the terms of an Asset Purchase Agreement. The Institution provides career training in the fields of aviation flight, maintenance, electronics and instruments. The Institution operates both a technical school and flight school in Tulsa, Oklahoma.

Spartan Landing Holdings, LLC (Spartan Landing, a wholly-owned subsidiary of Spartan) is a Delaware limited liability company formed during 2013. Effective February 24, 2014, Spartan Landing acquired for \$850,000, from an unrelated third party, apartments previously leased by the Institution for student housing. In May 2019, Spartan Landing sold the apartments used for student housing to an unrelated third party for \$3.75 million.

Due to Affiliates

The Institution advances and receives funds with SEG and an educational institution owned by SEG. Such amounts are unsecured, non-interest bearing and have no stipulated repayment provisions. Amounts received as of December 31, 2022 and 2021 was \$15,343,252 and \$18,179,601, respectively.

Guarantee of Debt

The Institution serves as a guarantor on \$51,559,622 of debt of SEG.

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 consolidated financial statements.

ALMICH & ASSOCIATES

Certified Public Accounting and Business Services

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors and
Member of Spartan Education, LLC:

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 consolidated financial statements of Spartan Education, LLC (a Delaware limited liability company) and Subsidiary (collectively, the Company) which comprise the consolidated balance sheet as of December 31, 2022, and the related consolidated statements of income and member's equity and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 17, 2023.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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 or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's consolidated financial statements are free from material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. Such tests included compliance tests as set forth in the *Guide for Audits of Proprietary Schools and for Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs, issued by the U.S. Department of Education, Office of Inspector General* (the Guide) including those relating to related parties and percentage of revenue derived from Title IV programs. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance 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.

Alm & Associates

Lake Forest, California
April 17, 2023