

Financial Statements and Report of
Independent Certified Public
Accountants

**University of St. Augustine for Health
Sciences, LLC**
(a wholly owned subsidiary of University of
St. Augustine Acquisition Corp.)

December 31, 2022 and 2021

Confidential

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Management and Board of Directors
University of St. Augustine for Health Sciences, LLC

Opinion

We have audited the financial statements of University of St. Augustine for Health Sciences, LLC (the "Company"), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, changes in member's equity, and cash flows for the years 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 the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of matter

As discussed in Note 2 to the financial statements, the Company has adopted new accounting guidance in 2022 related to the accounting for leases. Our opinion is not modified with respect to this matter.

Responsibilities of management for the financial statements

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

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

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 US 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 US GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2023, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Grant Thornton LLP

Miami, Florida
April 27, 2023

University of St. Augustine for Health Sciences, LLC
(a wholly owned subsidiary of University of St. Augustine Acquisition Corp.)

BALANCE SHEETS

December 31,
(Dollars in thousands)

	2022	2021
ASSETS		
Current assets		
Cash	\$ 106,996	\$ 70,065
Restricted cash	16,953	29,935
Student tuition and fees receivable, net	714	548
Prepaid expenses and other current assets	5,321	4,444
Total current assets	129,984	104,992
Property, equipment and leasehold improvements		
Owned property, equipment and leasehold improvements, net	38,272	35,719
Leased property, net	15,745	41,936
Other assets		
Investment in real estate	11,757	8,260
Receivable from Parent	54,766	40,663
Course content, net	6,104	4,463
Lease right-of-use assets	63,189	-
Other assets	1,146	1,230
Trade name	29,367	29,367
Goodwill	49,198	49,198
Total other assets	215,527	133,181
Total assets	\$ 399,528	\$ 315,828
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 13,738	\$ 11,806
Student deposits	2,323	2,200
Current portion of lease liability	7,154	-
Current portion of sale-leaseback financings	1,319	2,305
Total current liabilities	24,534	16,311
Lease liability, less current portion	58,121	-
Sale-leaseback financings, less current portion	15,267	46,592
Other liabilities	4,082	4,573
Total liabilities	102,004	67,476
Member's equity		
	297,524	248,352
Total liabilities and member's equity	\$ 399,528	\$ 315,828

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

University of St. Augustine for Health Sciences, LLC
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STATEMENTS OF OPERATIONS

Years ended December 31,
(Dollars in thousands)

	2022	2021
Revenue		
Revenue, net of scholarships and discounts	\$ 176,399	\$ 163,831
Operating expenses		
Wages and benefits	(71,488)	(65,073)
Professional, contracted and subscription services	(17,123)	(14,037)
Advertising and marketing	(11,532)	(9,914)
Facilities, maintenance, and insurance	(11,016)	(9,836)
Depreciation and amortization	(16,993)	(12,859)
Other operating expenses	(5,363)	(2,059)
	(133,515)	(113,778)
Total operating expenses		
Income from operations	42,884	50,053
Other income (expenses)		
Interest income	1,788	18
Interest on financing lease obligations	(1,980)	(6,388)
	(192)	(6,370)
Total other expenses		
NET INCOME	\$ 42,692	\$ 43,683

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

University of St. Augustine for Health Sciences, LLC
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STATEMENTS OF CHANGES MEMBER'S EQUITY

Years ended December 31, 2022 and 2021
(Dollars in thousands)

	Member's Equity		
	Additional Paid in Capital	Retained Earnings	Total Member's Equity
Balance as of January 1, 2021	\$ 71,458	\$ 132,874	\$ 204,332
Stock-based compensation	398	-	398
Repurchase and retirement of stock	(61)	-	(61)
Net income	-	43,683	43,683
Balance as of December 31, 2021	71,795	176,557	248,352
Stock-based compensation	915	-	915
Cumulative-effect adjustment from adoption of ASC 842	-	5,565	5,565
Net income	-	42,692	42,692
Balance as of December 31, 2022	<u>\$ 72,710</u>	<u>\$ 224,814</u>	<u>\$ 297,524</u>

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

University of St. Augustine for Health Sciences, LLC
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STATEMENTS OF CASH FLOWS

Years ended December 31,
(Dollars in thousands)

	2022	2021
Cash flows from operating activities:		
Net income	\$ 42,692	43,683
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,993	12,859
Amortization of ROU assets	2,355	-
Stock-based compensation	915	398
Changes in operating assets and liabilities		
Student tuition and other receivables	(166)	(104)
Other receivables	(1,116)	43
Prepaid expenses and other current assets	315	(919)
Receivable from Parent	(14,103)	(14,159)
Other long-term assets	(212)	(242)
Accounts payable and accrued expenses	1,845	(2,938)
Deferred revenue and student deposits	122	461
Deferred rent	-	124
Other long-term liabilities	(1,660)	-
	47,980	39,206
Net cash provided by operating activities		
Cash flows from investing activities:		
Investment in real estate	(3,497)	(335)
Purchases of property, equipment, and leasehold improvements	(12,189)	(10,297)
Additions to course content	(2,986)	(2,361)
	(18,672)	(12,993)
Net cash used in investing activities		
Cash flows from financing activities		
Stock repurchases	-	(60)
Principal payments on finance leases	(4,307)	-
Principal payments on sale-leaseback financings	(1,052)	(1,854)
	(5,359)	(1,914)
Net cash used in financing activities		
NET INCREASE IN CASH AND RESTRICTED CASH	23,949	24,299
Cash and restricted cash, beginning of period	100,000	75,701
Cash and restricted cash, end of period	\$ 123,949	\$ 100,000
Reconciliation of cash and restricted cash:		
Cash	\$ 106,996	\$ 70,065
Restricted cash	16,953	29,935
	\$ 123,949	\$ 100,000
Total cash and restricted cash shown in the statements of cash flows		
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 2,980	\$ 6,166

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

University of St. Augustine for Health Sciences, LLC
(a wholly owned subsidiary of University of St. Augustine Acquisition Corp.)

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021
(Dollars in thousands)

NOTE 1 - NATURE OF BUSINESS AND CHANGE IN CONTROL

Nature of Business

The University of St. Augustine for Health Sciences, LLC (the “Company” or “USA”) is a for-profit, campus-based institution, offering traditional and flexible graduate and doctoral degree programs in physical and occupational therapy, nursing, speech language pathology, and health sciences. In addition, the Company conducts continuing education seminars in related fields throughout the United States, along with offering non-degree online courses. The Company’s campus-based institutions are in California, Florida and Texas. USA is institutionally accredited by the Western Association of Schools and Colleges (“WASC”) Senior College and University Commission and maintains programmatic accreditation with the Commission on Accreditation in Physical Therapy Education, the Accreditation on Speech Language Pathology, the Accreditation on Commission on Collegiate Nursing Education, and the Accreditation Council for Occupational Therapy Education.

Change in Control

On April 25, 2018, the Company’s then parent, Laureate Education, Inc. (“LEI”), and Exeter Street Holdings, LLC, entered into the Members Interest Purchase Agreement (the “MIPA”) with University of St. Augustine Acquisition Corp. (the “Purchaser”), an affiliate of Altas Partners, to sell all the issued and outstanding membership interests of the Company. On February 1, 2019 (the “Closing Date”), pursuant to the MIPA, the Purchaser acquired 100% of the ownership and voting rights of USA. Prior to the acquisition, the Purchaser was a dormant, non-operating, entity specifically established for the acquisition of USA.

All Company operations are conducted at the USA entity level. USA’s operations are overseen by its Board of Directors (the “BoD”), consisting of 11 members who comprise various BoD committees, including Finance and Business Operations, Academic and Student Affairs, Governance, Audit & Enterprise Risk.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates

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

Business Combinations

As a result of the change in control of the Company in accordance with the MIPA, the Company elected not to ‘push down’ or adjust the carrying values of assets and liabilities to reflect fair value or the purchase price adjustments to establish a new basis of accounting as of February 1, 2019. As such, all assets, and liabilities, including the value of goodwill and trade name, are reported at their historical carrying values, prior to February 1, 2019 transaction.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity date of three months or less, when purchased, to be cash equivalents. No such investments existed at December 31, 2022 or 2021.

University of St. Augustine for Health Sciences, LLC
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(Dollars in thousands)

Restricted Cash

The Company participates in the United States Department of Education (“DOE”) Title IV student financing assistance lending programs (“Title IV programs”). At times the DOE may require institutions to post standby letters of credit (“LOC”) to continue participation in Title IV programs. LOC requirements are based on several considerations including recent changes in ownership and failure to meet minimum financial ratio requirements set forth by the DOE. As such, the Company was required to maintain two LOCs, each in the amount of 10% of USA’s Title IV funding during the prior fiscal year. In January 2022, USA was released of its obligation to maintain the LOC related to its change in ownership. At December 31, 2022 and 2021, the LOCs were collateralized by a total of \$16,242 and \$28,356, respectively, included in restricted cash on the accompanying balance sheets.

Additionally, in connection with the leased property for its Miami campus, the Company obtained a LOC in favor of the landlord which is collateralized in full by the cash of the Company. As of December 31, 2022 and 2021, the LOC had a balance of \$711 and \$1,578 included in restricted cash on the accompanying balance sheets.

Concentration of Credit Risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash, restricted cash, student tuition and fees receivable. The Company has cash with financial institutions more than federally insured limits. The Company does not believe it is exposed to any significant credit risk on cash related to amounts more than federally insured limits. Student tuition and fees receivable are unsecured and are derived from students enrolled in the Company’s as the amount owed by any individual student is small relative to the total student tuition and fees receivable.

Accounts Receivable

Student tuition and fees receivable primarily consist of tuition and educational services and are recognized when an academic session begins, although students generally enroll in courses prior to the start of the academic session. Receivables are recognized only to the extent that amounts are due, and collection is reasonably assured. The student tuition and fees receivable balance at December 31, 2022 and 2021 was \$714 and \$548, respectively. Other receivables include accrued interest on the Company’s money market account and leasehold improvement expenses for the Miami campus reimbursable from the landlord, which totaled \$297 and \$87 at December 31, 2022 and 2021, respectively, and are included within prepaid expenses and other current assets on the balance sheet.

Allowance for Doubtful Accounts

The Company uses estimates to determine the amount of the allowance for doubtful accounts necessary to reduce the student tuition and fees receivable to net realizable value. The Company estimates the amount of the required allowance by reviewing the status of past-due receivables, analyzing historical bad debt trends, as well as analysis of aged accounts receivable balances with allowances generally increasing as the receivable ages. The analysis of receivables is performed monthly, and allowances are adjusted accordingly. Receivables are generally due on the date on which the related class commences. Additionally, a substantial portion of the Company’s receivables are derived from students that participate in the Title IV programs administered by the DOE.

The Company writes off student tuition and fees receivable deemed to be uncollectible directly to the receivable balance when all collection efforts have been exhausted.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(Dollars in thousands)

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

Property, equipment, and leasehold improvements are recorded at cost. Depreciation is provided on the straight-line method over estimated useful lives, or the shorter of the term of the lease or leasehold improvements and capital leases. The depreciation expense on assets acquired under capital leases is included within depreciation expense on owned assets.

Upon sale or disposition of property or equipment, the cost and related accumulated depreciation is eliminated from the accounts and any resulting gain or loss is credited or charged to income. Assets under construction are recorded in construction-in-progress until they are available for use. Interest is capitalized as a component of the cost of projects during the construction period if material. Maintenance and repair costs are charged to operating expenses as incurred. Improvements and betterments are capitalized and depreciated over the remaining useful life of the related asset.

Long-lived assets, which include property, equipment, and leasehold improvements, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered impaired, an impairment charge is recognized in the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed are reported at the lower of carrying amount or fair value, less costs to sell. There was no impairment of long-lived depreciable assets during the years ended December 31, 2022 and 2021.

Investment in Real Estate

In October 2020, the Company acquired a property in St. Augustine, FL, with the intention of subsequently selling the property to a developer under a sale-leaseback transaction to build out a new USA St. Augustine campus. Since acquisition, the Company has incurred costs related to the new campus schematic design and project management. All tenant leases terminated in 2022 and the sale-leaseback transaction is expected to close sometime in 2023, with construction of the new campus expected to begin shortly thereafter. As of December 31, 2022 and 2021, the carrying value of the investment in real estate was \$11,757 and \$8,260, respectively.

Capitalized Implementation Costs

The Company has incurred costs substantially related to the implementation of various internal-use software applications accessed on an as-needed basis as part of contractual hosting arrangements with service providers. These costs totaled \$170 and \$467 at December 31, 2022 and 2021, respectively, and are included in Other Assets on the accompanying balance sheets. The Company amortizes capitalized implementation costs on a straight-line basis over the expected term of the associated hosting arrangement. The Company recorded \$301 and \$1,571 in amortization expense related to capitalized implementation costs during the years ended December 31, 2022 and 2021, respectively.

Leases

USA conducts its operations at leased facilities. On January 1, 2022, the Company adopted ASC 842 – *Leases* (“ASC 842”) using the cumulative-effect transition method and applied the standard to all existing leases. Information for prior years presented has not been restated and continues to reflect the authoritative accounting standards in effect for those periods. At transition, the Company selected the package of practical expedients that allows for carryforward of historical assessments of whether existing contracts

University of St. Augustine for Health Sciences, LLC
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(Dollars in thousands)

contain leases, determinations of lease classification, and treatments of initial direct costs. Please refer to the *Recently Adopted Accounting Pronouncements* Section of Note 2 for additional information.

The Company analyzes each new lease agreement to determine whether it should be classified as a finance lease or an operating lease. For operating leases, right-of-use (“ROU”) assets and lease liabilities are recognized at the commencement date of the lease based on the estimated present value of lease payments over the lease term. For finance leases, we initially record the assets and lease liabilities at the present value of the future minimum lease payments. As most of the Company’s leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date to determine the present value of lease payments. The significant assumption used in estimating the present value of the lease payments is the incremental borrowing rate.

Course Content Costs

Course content costs include direct costs associated with the development of online educational programs, which are capitalized after technological feasibility has been established. Course content online course development costs are amortized to direct costs on a straight-line basis over the estimated period that the associated products are expected to generate revenues, which generally approximates five years. Course content costs are evaluated on a quarterly basis through review of the corresponding course catalog. If a course is no longer listed or offered in the current course catalog, then the costs associated with its development are written off. Course content is required to be evaluated for impairment at each measurement date by comparing the unamortized carrying value of the course content with its net realizable value. There was no impairment of course content during the years ended December 31, 2022 and 2021.

Goodwill and Other Intangible Assets

Goodwill consists of the excess cost of acquired enterprises over the sum of the amounts assigned to identifiable assets acquired less liabilities assumed, resulting from LEI’s acquisition of the Company in 2013. Other indefinite-lived assets consist of trade name assets. The carrying value of goodwill at both December 31, 2022 and 2021 was \$49,198. The trade name intangible asset, which had a balance of \$29,367 as of both December 31, 2022 and 2021, represents the historical carrying value of the Company’s name on the date of the prior acquisition. The Company’s trade name is used to drive enrollment and future growth.

Goodwill and indefinite-lived intangibles are tested for impairment annually, or more frequently if events occur or circumstances change between annual tests that would more likely than not reduce the fair value of the respective reporting unit or indefinite-lived intangible below its carrying amount. In performing our impairment tests, the Company first considers the option to assess qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit or intangible, as applicable, is less than its carrying amount (i.e. - step zero). If determined that it is more likely than not that the fair value is less than the carrying amount based on the qualitative assessment, or that a qualitative assessment should not be performed, the Company proceeds with the following quantitative impairment tests:

- Goodwill - The Company compares the estimated fair value of the reporting unit to the carrying value of its net assets. If the fair value of the reporting unit exceeds the carrying value of the net assets of the reporting unit, goodwill is not impaired.
- Indefinite-lived intangibles - The Company compares the estimated fair value of the intangible with its carrying value. If the carrying value of the intangible exceeds its fair value, an impairment loss is recognized in the amount of that excess.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

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The process of evaluating goodwill and indefinite-lived intangibles for impairment is subjective and requires significant judgement. If we elect to perform an optional qualitative analysis, we consider many factors including, but not limited to, general economic conditions, industry and market conditions, financial performance and key business drivers, long-term operating plans, and potential changes to significant assumptions used in the most recent fair value analysis.

When performing a quantitative goodwill or indefinite-lived intangibles impairment test, the Company generally determines fair value using an income-based approach, a market-based approach, or a combination of both methods. The fair value determination consists primarily of using significant unobservable inputs (Level 3) under the fair value measurement standards.

Finite-Lived Intangible Assets

The Company's finite-lived intangible assets consists of course content, which primarily represents direct costs associated with online course development and accreditation and reflects the capitalizable curriculum development costs incurred by USA. Course content is a finite-lived intangible asset with a useful life of five years.

Revenue Recognition

The Company's revenues consist of tuition, educational product & service revenues, and student fees. Tuition revenues are recognized ratably on a daily straight-line basis over each academic term as the performance obligations are satisfied. Revenues from the sale of educational products are generally recognized point in time upon delivery and when collectability is probable. Educational services, such as continuing professional education, are recognized ratably as services are rendered which generally approximate one to three days in length, and collectability is probable.

The Company elected a practical expedient portfolio approach for assessing student collectability given the large volume of homogeneous transactions and assesses all students as one portfolio. Due to the Company's high collection rate, management does not expect there to be any material differences from assessing the portfolio when compared to collectability on a student-by-student basis. Billings on student contracts are billed at the start of each academic term and are paid over the term. Generally, students cannot re-enroll for the next academic term without satisfactory resolution of any past-due amounts.

Revenue is reported net of scholarships and other discounts, refunds, and waivers. Management has determined that variable consideration need not be estimated at contract inception as scholarships are usually known and taken at contract inception and refunds would not need to be accounted throughout the term, as revenue will only be recognized for the proportional amount of education provided and no amount of revenue recognized will be subject to a refund.

Deferred revenue and student deposits, which consist of tuition paid prior to the start of the academic term and unearned tuition amounts, begins to be recognized as revenue after the term begins. If a student withdraws within the refund period, the Company is obligated to issue a refund according to the refund policy and the timing of the student's withdrawal. The amount of refund obligations is reduced over the course of the academic term. Refunds are recorded as a reduction of deferred revenue and student deposits, as applicable.

University of St. Augustine for Health Sciences, LLC
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(Dollars in thousands)

Financial Instruments

The Company's financial instruments consist of cash, restricted cash, student tuition and fees receivable, other current assets, accounts payable and accrued expenses. Management has adopted Accounting Standards Update 2016-01, *Financial Instruments - Overall*, which eliminated the requirement to disclose the fair value of financial instruments measured at amortized cost for non-public entities.

Income Taxes

USA is a single member limited liability corporation, which is disregarded for income tax purposes, and its income, deductions, losses, and credits flow through the return of its sole member, University of St. Augustine Acquisition Corp. As such, no income tax provision, income tax assets or liabilities are reflected on the financial statements of the Company.

Advertising Costs

The Company expenses the costs of advertising as incurred, and primarily relate to web marketing, paid search and social media, paper, and other costs related to production of photographic images used on the Company's website.

Defined Contribution Plan

Eligible employees of the Company participate in a defined contribution plan administered by the Company under Section 401(k) of the Internal Revenue Code, up to certain annual limits. The Company matches 50% of the first 6% of eligible compensation an employee contributes to the benefit plan. The company match is discretionary and based on the Company's financial performance. Matching contributions of \$1,278 were funded to the plan in March 2023 for the 2022 plan year.

Contingencies

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

Recently Adopted Accounting Pronouncements

ASU No. 2016-02 (ASU 2016-02), Leases (Topic 842)

On February 25, 2016, the FASB issued ASU 2016-02, which requires lessees to recognize on their balance sheet an ROU asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability is equal to the present value of the lease payments. The asset is based on the liability, subject to adjustment, such as for initial direct costs and uneven rent payments. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases result in straight-line expense (similar to operating leases prior to adoption of ASU 2016-02) while finance leases result in a front-loaded expense pattern (similar to capital leases prior to adoption of ASU 2016-02).

The Company adopted ASU 2016-02 as of January 1, 2022, under the cumulative-effect transition method, which allows entities to prospectively apply the requirements by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We selected this optional transition

University of St. Augustine for Health Sciences, LLC
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(Dollars in thousands)

method. In accordance with ASC Topic 842 we also elected the package of practical expedients, which permits us to not reassess: (1) whether any expired or existing contracts are or contain leases; (2) the lease classification for any expired or existing leases; and (3) any initial direct costs for any existing leases as of the effective date. We did not elect the hindsight practical expedient, which permits entities to use hindsight in determining the lease term and assessing impairment. Nor did we elect the practical expedient to combine our lease and related non-lease components for our building leases.

Adopting ASU 2016-02 had a material impact on our Financial Statements as we recorded significant asset and liability balances in connection with our leased properties. The most significant impacts to our Consolidated Financial Statements of adopting this standard are as follows:

- The recognition of ROU assets, net, and lease liabilities for operating leases, which totaled \$37,413 and \$38,596, respectively, as of December 31, 2022;
- A cumulative-effect adjustment to retained earnings upon adoption of \$5,565, which is primarily attributable to the reclassification into retained earnings of deferred gain liabilities related to build-to-suit sale-leaseback transactions that were derecognized and classified as operating and finance leases upon adoption.

NOTE 3 - OWNED AND LEASED PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Owned and leased property, equipment and leasehold improvements consist of the following as of December 31, 2022:

	Depreciable Life	Cost	Accumulated Dep.	Net Carrying Value
Furniture and fixtures	2 - 7 years	\$ 5,821	\$ (3,368)	\$ 2,453
Computer equipment, software and other	2 - 7 years	31,333	(16,909)	14,424
Leasehold improvements	2 - 20 years	32,328	(18,085)	14,243
Construction in progress		7,151	-	7,151
Owned property, equipment and leasehold improvements, net		<u>\$ 76,634</u>	<u>\$ (38,362)</u>	<u>\$ 38,272</u>
Buildings	30 years	\$ 17,330	\$ (5,263)	\$ 12,067
Leased equipment	2 - 7 years	270	(262)	8
Land		3,670	-	3,670
Leased property, net		<u>\$ 21,270</u>	<u>\$ (5,524)</u>	<u>\$ 15,745</u>

University of St. Augustine for Health Sciences, LLC
(a wholly owned subsidiary of University of St. Augustine Acquisition Corp.)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(Dollars in thousands)

Owned and leased property, equipment and leasehold improvements consist of the following as of December 31, 2021:

	Depreciable Life	Cost	Accumulated Dep.	Net Carrying Value
Furniture and fixtures	2 - 7 years	\$ 5,454	\$ (2,821)	\$ 2,633
Computer equipment, software and other	2 - 7 years	24,979	(12,514)	12,465
Leasehold improvements	2 - 20 years	33,469	(14,158)	19,311
Construction in progress		1,310	-	1,310
		<u>\$ 65,211</u>	<u>\$ (29,492)</u>	<u>\$ 35,719</u>
Owned property, equipment and leasehold improvements, net				
Buildings	30 years	\$ 50,741	\$ (12,525)	\$ 38,216
Leased equipment	2 - 7 years	270	(220)	50
Land		3,670	-	3,670
		<u>\$ 54,681</u>	<u>\$ (12,745)</u>	<u>\$ 41,936</u>
Leased property, net				

For the years ended December 31, 2022 and 2021, the Company recorded depreciation of owned PP&E of \$9,637 and \$8,413, respectively. For leased property, the Company recorded depreciation of \$578 and \$1,691 for the years ended December 31, 2022 and 2021, respectively. The \$7,151 and \$1,310 of construction in progress at December 31, 2022 and 2021, respectively, is primarily comprised of leasehold improvements related to the build-out of the new Dallas campus which entered service in January 2023.

NOTE 4 - INTANGIBLE ASSETS

The Company's intangible assets as of December 31, 2022 consist of the following:

	Cost	Net Carrying Amount	Weighted Average Amortization Period (Yrs.)
Subject to amortization:			
Course content	\$ 9,513	\$ 6,104	2.4
Not subject to amortization:			
Tradename	29,367	29,367	Indefinite
Total intangible assets	<u>\$ 38,880</u>	<u>\$ 35,471</u>	

University of St. Augustine for Health Sciences, LLC
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(Dollars in thousands)

The Company's intangible assets as of December 31, 2021 consist of the following:

	Cost	Net Carrying Amount	Weighted Average Amortization Period (Yrs.)
Subject to amortization:			
Course content	\$ 6,589	\$ 4,463	2.6
Not subject to amortization:			
Tradename	29,367	29,367	Indefinite
Total intangible assets	\$ 35,956	\$ 33,830	

The estimated future amortization expense for course content for the next five years is as follows:

	December 31, 2022
Year 1	\$ 1,333
Year 2	1,607
Year 3	1,425
Year 4	953
Year 5	440
Total	\$ 5,759

NOTE 5 - SALE-LEASEBACK FINANCINGS

Sale-Leaseback Financings

The aggregate maturities of our total future value and present value of the minimum payments on sale-leaseback financings at December 31, 2022 were as follows:

	Future Value of Payments	Interest	Present Value of Payments
Year 1	\$ 3,162	\$ 1,843	\$ 1,319
Year 2	15,496	229	15,267
Year 3	-	-	-
Year 4	-	-	-
Year 5	-	-	-
Thereafter	-	-	-
Total	\$ 18,657	\$ 2,072	\$ 16,586

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
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Prior to the adoption of ASC 842, the Company had several leases with its campus-based properties, which include St. Augustine, Florida, San Marcos, California, and Austin, Texas, that are accounted for as financing arrangements. Management determined that each lease included at least one form of prohibited continuing involvement resulting in failed sale-leaseback treatment. As such, land and/or building assets were recorded at their fair values, along with a corresponding debt liability. The fair values of the land and buildings were determined by a third-party appraisal firm, which utilized a blended valuation technique.

At the adoption of ASC 842 on January 1, 2022, those leases with assets and liabilities recognized solely because of their build-to-suit designation under prior guidance were derecognized and included the Company's sale-leaseback financings for its San Marcos and Austin campuses.

The following schedule provides a summary of each failed sale-leaseback, including the types of assets financed and the carrying value of each location as of December 31, 2022:

Location	Property Type	Build-to-Suit Applied	Reason for Failed Sale-Leaseback	Carrying Value	
				December 31, 2022	December 31, 2021
St. Augustine, Florida ⁽¹⁾	Buildings and land	No	Accelerated rent clause/ Contingent collateral	\$ 15,737	\$ 16,314
Austin, Texas ⁽²⁾	Building only	Yes	Contingent collateral	-	11,620
San Marcos, California ⁽³⁾	Building only	Yes	Contingent collateral	-	12,640
Total				<u>\$ 15,737</u>	<u>\$ 40,875</u>

⁽¹⁾ 15-year lease term for two buildings, ending February 2024, with annual 3% escalation in rental fees.

⁽²⁾ 15-year lease term for three buildings, ending August 2027, with annual 3% escalation in rental fees.

⁽³⁾ 20-year lease term for three buildings, ending March 2028, with annual 3% escalation in rental fees.

NOTE 6 - LEASES

The Company conducts a significant portion of its operations at leased facilities and analyzes each new lease agreement to determine whether it should be classified as a finance lease or an operating lease. As a result of adopting ASC Topic 842 on January 1, 2022, we recorded on our balance sheet significant asset and liability balances associated with the operating leases, as described further below.

Finance Leases

Our finance lease agreements are primarily for real estate space and are included within finance lease ROU assets and finance lease liabilities on the 2022 balance sheet. The terms of our finance leases vary and generally contain renewal options. Certain of these operating leases provide for increasing rent over the term of the lease.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

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Operating Leases

Our operating lease agreements are primarily for real estate space and are included within operating lease ROU assets and operating lease liabilities on the 2022 balance sheet. The terms of our operating leases vary and generally contain renewal options. Certain of these operating leases provide for increasing rent over the term of the lease.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. As discussed in Note 2, Significant Accounting Policies, ROU assets and lease liabilities are recognized at the commencement date of the lease based on the estimated present value of lease payments over the lease term. Our variable lease payments consist of non-lease services related to the lease. Variable lease payments are excluded from the ROU assets and lease liabilities and are recognized in the period in which the obligation for those payments is incurred. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. Many of our lessee agreements include options to extend the lease, which we do not include in our minimum lease terms unless they are reasonably certain to be exercised. On occasion, the Company has entered into sublease agreements for certain leased office space; however, the sublease income from these agreements is immaterial.

<u>Lease Term and Discount Rate</u>	<u>December 31, 2022</u>
Weighted-average remaining lease terms (Yrs.)	
Operating leases	9.73
Finance leases	5.04
Weighted-average discount rate	
Operating leases	5.07%
Finance leases	3.50%

The components of lease costs are as follows:

<u>Lease expense</u>	<u>Classification</u>	<u>For the Year Ended December 31, 2022</u>
Finance lease cost		
Amortization of ROU assets	Direct costs	\$ 5,132
Interest on lease liabilities	Interest expense	1,000
Operating lease cost	Direct costs	3,363
Short-term lease cost	Direct costs	656
Variable lease cost	Direct costs	1,820
Total lease cost		\$ 11,971

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As of December 31, 2022, maturities of lease liabilities were as follows:

<u>Maturity of Lease Liability</u>	<u>Operating Leases</u>	<u>Finance Leases</u>
Year 1	\$ 4,386	\$ 5,458
Year 2	5,028	5,622
Year 3	5,525	5,791
Year 4	1,964	5,964
Year 5	5,622	5,325
Thereafter	<u>27,909</u>	<u>957</u>
Total lease payments	50,434	29,118
Less: present value discount	<u>(11,838)</u>	<u>(2,439)</u>
Total lease liabilities	<u>\$ 38,596</u>	<u>\$ 26,679</u>

Supplemental cash flow information related to leases was as follows for the year ended December 31, 2022:

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 1,353
Operating cash flows from finance leases	1,000
Financing cash flows from finance leases	3,473
Leased assets obtained for new finance lease liabilities	30,908
Leased assets obtained for new operating lease liabilities	40,256

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Litigation Matters

From time to time, the Company is a defendant in various lawsuits. Management monitors the status of such events and accrues an estimated amount when an obligation becomes probable and estimable. Any amount recorded is based on the status of current activity and the advice from legal counsel. There are lawsuits and pending claims in various stages of proceedings, many of which the outcome cannot be determined as of the date of this report.

Other Commitments

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

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aid programs, the students at that institution would lose access to funds derived from those programs and would have to seek alternative sources of funds to pay their tuition and fees.

NOTE 8 - SHARE-BASED COMPENSATION

On February 1, 2019, the effective date, the Company's ultimate parent, University of St. Augustine Parent Corp. (the "Parent") established the 2019 Stock Option Plan (the "Stock Option Plan") whereby the Parent may grant certain employees of the Company options to purchase shares of the Parent's common stock. On February 1, 2019, the Parent granted options which vest over time (the "Service Options") and options that grant upon the achievement of a targeted return (the "Target Options") to purchase a total of 44,680 shares at a price of \$100 per share. On December 31, 2021, the Parent granted Service Options and Target Options to purchase a total of 29,307 shares at a price of \$191. On May 23, 2022, the Parent granted Service Options and Target Options to purchase a total of 9,609 shares at a price of \$209.

The Service Options vest 20% at each year of service and are fully vested after five years of continuous service from the specified vesting commencement date. The Target Options vest as follows (1) fifty percent (50%) of the Target Options shall vest on the date on which Parent ownership receives a multiple of invested capital ("MOIC") of at least 2.25x and Cumulative Cash Proceeds resulting in an IRR of at least fifteen percent (15%) from an Initial Public Offering ("IPO"); and (2) the remaining fifty percent (50%) of the Target Options shall vest on the date on which Parent ownership receives a MOIC of at least 2.75x and Cumulative Cash Proceeds resulting in an IRR of at least eighteen percent (18%) from an IPO. The contractual life of the Stock Option Plan is 10 years from the date of the Stock Option Plan's inception. As of December 31, 2022, the Parent has 118,187 shares available to be issued to employees under the Stock Option Plan.

Awards of options under the Stock Option Plan are recorded at the fair value on the date of grant, and the Company recognizes compensation cost related to stock options on a straight-line basis over the requisite service period for Service Options and at such time vesting is deemed probable for the Target Options. Total compensation cost recognized were approximately \$915 and \$398 for December 31, 2022 and 2021, respectively. As of December 31, 2022, there was \$2,902 in unrecognized compensation costs related to non-vested stock options.

The fair value of each option was estimated on the date of the grant using the Black-Scholes option pricing model based on the following assumptions:

	2022 Grants	2021 Grants
Weighted average expected volatility	41.81%	40.42%
Range of expected volatility	33.79% - 59.89%	33.23% - 58.52%
Weighted average risk-free interest rate	3.16%	1.25%
Expected term	6.50 years	6.50 years
Expected annual forfeiture rate	0%	0%
Expected dividend rate	0%	0%

Expected volatility is estimated based on the historical volatility of the common stock of other companies in the same industry over a period commensurate with the expected term of the options awarded by the Parent. The expected term for options granted is estimated based on historical employee exercise activity. Management had estimated the risk-free rate based on U.S. Treasury note rates for the expected term.

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The following table summarizes the Parent's stock option activity for the year ended December 31, 2022:

	Shares	Weighted Average Exercise Price (Dollars)	Weighted Average Remaining Contractual Term (Years)
Outstanding at January 1, 2022	73,987	\$ 136.05	8.23
Granted	9,609	209.00	9.39
Exercised	-	-	-
Forfeited	3,123	191.00	7.97
	<u>80,473</u>	<u>\$ 142.62</u>	<u>7.42</u>
Outstanding at December 31, 2022	<u>80,473</u>	<u>\$ 142.62</u>	<u>7.42</u>

NOTE 9 - RELATED PARTY TRANSACTIONS

Receivable from Parent

There are certain costs paid by the Company on behalf of the Purchaser, mainly interest and other servicing costs related to \$185,000 in debt financing obtained by the Purchaser to acquire USA. As of December 31, 2022 and 2021, the Company had a receivable from Parent of \$54,766 and \$40,663, respectively, included in the accompanying balance sheets.

NOTE 10 - SUBSEQUENT EVENTS

On March 6, 2023, the Company received notification from the DOE requiring that it post a second standby LOC to continue participation in Title IV programs, in addition to the LOC discussed in Note 2. The LOC obligation was based on USA's noncompliance with Title IV refund requirements as set forth by the DOE. As such, effective April 5, 2023, the Company is required to maintain an LOC in the amount of 25% of the total amount of Title IV program refunds USA made or should have made during its most recently completed fiscal year, or \$101. This amount is collateralized by cash included in restricted cash on the Company's balance sheets.

The Company has evaluated subsequent events occurring after the date of the accompanying balance sheet through April 27, 2023, the date the financial statements were available to be issued and noted no matters that required adjustment to or disclosure in the financial statements.

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NOTE 11 - TITLE IV PROGRAM PARTICIPATION

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

For the years ended December 31, 2022 and 2021, the Company derived 75.06% and 70.14% of its revenue, respectively, from Title IV funds (calculated on a cash basis in accordance with applicable statutory provisions and DOE regulations).

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University of St. Augustine for Health Sciences, LLC
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(Dollars in thousands)

The following information for the year ended December 31, 2022 and is required by the DOE and is presented for purposes of additional analysis but is not a required part of the basic financial statements.

	Amount Disbursed	Adjusted Amount
Adjusted Student Title IV Revenue		
Subsidized Loan	\$ -	\$ -
Unsubsidized Loan up to pre-ECASLA Loan Limits	85,919	85,919
Federal Pell Grant	-	-
Plus Loans	126,206	126,206
Military	2,017	2,017
Federal Work Study Applied to Tuition and Fees (subject to matching reduction)		-
Student Title IV Revenue		214,141
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)		(81,613)
Title IV funds returned for a student under 34 C.F.R. § 668.22 (withdrawal), reduce Student Title IV Revenue		(172)
Adjusted Student Title IV Revenue		\$ 132,356
Student Non-Title IV Revenue		
Grant funds for the student from non-federal public agencies or private sources independent of the school	\$ 523	
Funds provided for the student under a contractual arrangement with a Federal, State or local government agency for the purposes of providing job training to low-income individuals	759	
Funds used by a student from savings plans for educational expenses established by or on behalf of the student that qualify for special tax treatment under the Internal Revenue Code	-	
School scholarships disbursed to the student	-	
Amount of Unsubsidized Loan over the pre-ECASLA Loan Limits	-	
Student payments on current charges	42,701	
Student Non-Title IV Revenue	\$ 43,983	
Revenue from Other Sources (Total for the Fiscal Year)		
Activities conducted by the institution that are necessary for education and training (34 C.F.R. 668.28 (a)(3)(ii))	\$ -	
Funds paid to the institution by, or on behalf of, students for education and training in qualified non-Title IV eligible programs (34 C.F.R. 668.28 (a)(3)(iii))	-	
Allowable student payments + allowable amounts from account receivable or institutional loan sales - any required payments under a recourse agreement	-	
Revenue from Other Sources	\$ -	
Total Non-Title IV Revenue (Student non-Title IV Revenue + Revenue from Other Sources)		\$ 43,983
Total Revenue (Adjusted Student Title IV Revenue + Student Non-Title IV Revenue + Revenue from Other Sources)		\$ 176,339

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT
AUDITING STANDARDS**

Management and Board of Directors
University of St. Augustine for Health Sciences, 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 (*Government Auditing Standards*), the financial statements of University of St. Augustine for Health Sciences, LLC (the "Company"), which comprise the balance sheet as of December 31, 2022 and 2021, and the related statements of operations, changes in member's equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 27, 2023.

Report on internal control over financial reporting

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

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

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

Report on compliance and other matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 including those relating to related parties and the 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*.

Purpose of this report

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

Grant Thornton LLP

Miami, Florida
April 27, 2023