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, 2023 and 2022

with

Independent Auditors' Report

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

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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, 2023 and 2022, 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, 2023 and 2022, 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 Principles

As discussed in Note 1 to the consolidated financial statements, Spartan Education, LLC changed the manner in which it accounts for credit losses in 2023 and 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.

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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 May 22, 2024, 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.

Alrich & Associates

Lake Forest, California
May 22, 2024

SPARTAN EDUCATION, LLC AND SUBSIDIARY
(A Wholly-Owned Subsidiary of Spartan Education Group, LLC)
Consolidated Balance Sheets
December 31, 2023 and 2022

Assets

	2023	2022
Current assets:		
Cash	$ -	$ 312,308
Accounts and notes receivable, net of allowance for credit losses of $2,723,036 for 2023 and $2,456,211 for 2022	8,777,881	6,481,548
Other receivables	10,008	132,576
Prepaid expenses and other	198,077	174,440
Inventories	1,066,046	938,576
Total current assets	10,052,012	8,039,448
Accounts and notes receivable, net of current portion and allowance for credit losses of $19,992 for 2023 and $23,835 for 2022	59,532	51,452
Property, equipment and improvements, net of accumulated depreciation and amortization of $12,363,493 for 2023 and $10,660,888 for 2022	20,235,887	22,295,129
Curriculum, net of accumulated amortization of $929,998 for 2023 and $753,399 for 2022	240,749	417,348
Right-of-use assets for operating leases	2,308,385	1,156,902
Other intangible assets, net of accumulated amortization of $7,800,000 for 2023 and $7,300,000 for 2022	2,000,000	2,500,000
Deposits	1,493,653	204,504
Goodwill	2,473,915	2,473,915
	$ 38,864,133	$ 37,138,698

Liabilities and Member's Equity

	2023	2022
Current liabilities:		
Accounts payable	$ 684,792	$ 391,497
Accrued expenses	1,067,379	877,740
Prepaid tuition	3,771,924	1,935,303
Current portion of finance obligation	11,834	11,834
Current portion of operating lease liabilities	877,356	236,185
Current portion of long-term debt	204,809	191,913
Total current liabilities	6,618,094	3,644,472
Due to affiliates	8,766,212	15,343,252
Finance obligation	3,598,343	3,610,973
Operating lease liabilities, net of current portion	1,498,786	993,503
Long-term debt, net of current portion and deferred loan fees	547,713	738,815
Total liabilities	21,029,148	24,331,015
Member's equity	17,834,985	12,807,683
	$ 38,864,133	$ 37,138,698

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, 2023 and 2022

	2023	2022
Revenues:		
Tuition	$ 24,008,745	$ 19,106,557
Housing	1,675,262	1,224,785
Books and fees	2,824,154	2,200,643
Total revenues	28,508,161	22,531,985
Costs and expenses:		
Student instruction and training	9,982,443	7,776,416
Marketing and admissions	2,628,806	2,805,042
General and administrative, housing and support services	5,910,984	6,350,305
Facilities	1,147,345	1,229,297
Depreciation and amortization	2,796,296	2,751,811
Loss on sale of aircraft	471,536	-
Total costs and expenses	22,937,410	20,912,871
Income from operations	5,570,751	1,619,114
Other income (expense):		
Interest expense	(543,449)	(556,683)
Gain on sale of aircraft	-	41,704
Total other income (expense)	(543,449)	(514,979)
Income before income taxes	5,027,302	1,104,135
Provision for income taxes	-	-
Net income	5,027,302	1,104,135
Member's equity, beginning of year	12,807,683	11,703,548
Member's equity, end of year	$ 17,834,985	$ 12,807,683

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, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Net income	$ 5,027,302	$ 1,104,135
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation and amortization	2,796,296	2,751,811
Amortization of right-of-use assets for operating leases	798,516	194,745
Amortization of deferred loan fees	13,706	13,706
Loss (gain) on sale of aircraft	471,536	(41,704)
Changes in operating assets and liabilities -		
Accounts and notes receivable, net	(2,304,413)	(273,424)
Other receivables	122,568	(58,427)
Prepaid expenses and other	(23,637)	100,502
Inventories	(127,470)	(117,991)
Deposits	(1,289,149)	(54,800)
Accounts payable	293,295	131,957
Accrued expenses	189,639	135,707
Prepaid tuition	1,836,621	297,907
Operating lease liabilities	(803,545)	(190,579)
Net cash provided by operating activities	7,001,265	3,993,545
Cash flows from investing activities:		
Purchases of property, equipment and improvements	(1,216,959)	(1,695,991)
Proceeds from sale of aircraft	684,968	366,484
Net cash used by investing activities	(531,991)	(1,329,507)
Cash flows from financing activities:		
Decrease in due to affiliates	(6,577,040)	(2,836,349)
Repayment of capital lease	-	(64,077)
Decrease in finance obligation	(12,630)	(2,220)
Principal repayments on long-term debt	(191,912)	(179,706)
Net cash used by financing activities	(6,781,582)	(3,082,352)
Decrease in cash	(312,308)	(418,314)
Cash, beginning of year	312,308	730,622
Cash, end of year	$ -	$ 312,308
Supplemental cash flows information:		
Cash paid for -		
Interest	$ 58,359	$ 70,564
Income taxes	$ -	$ -
Right-of-use assets obtained in exchange for lease liabilities	$ 1,747,208	$ 1,351,647

SPARTAN EDUCATION, LLC AND SUBSIDIARY
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Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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. 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, and operates apartments for student housing. 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. The beginning of year balance for December 31, 2023 and 2022, prepaid tuition were $1,935,303 and $1,637,396, respectively.

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 credit losses. The beginning of year balance for December 31, 2023 and 2022, accounts and notes receivable were $6,533,000 and $6,259,576, respectively.

The allowance for credit losses with respect to the Company's accounts and notes receivable is based upon past experience and judgement. Management's estimation methodology considers a number of quantitative and qualitative factors in establishing the allowance for credit losses. These factors include, but are not limited to: internal repayment history, changes in the current economic, legislative or regulatory environments, as well as internal cash collections forecasts. These factors are monitored and assessed on a regular basis. Students still attending classes and recently graduated are more likely to pay than those who are inactive due to being on a leave of absence or withdrawing from school. Management monitors collection and write-off experience to assess whether or not adjustments to the allowance percentage estimates are necessary. Changes in trends in any of these factors noted above, or modifications to the Company's collection practices, and other related policies may impact the estimate of the allowance for credit losses.

The following table summarizes the Company's allowance for credit losses activity for the year ended December 31, 2023:

Allowance for credit losses, beginning of year	$ 2,480,046
Provision for credit losses	272,728
Amounts written-off	(9,746)
Allowance for credit losses, end of year	$ 2,743,028

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, 2023 and 2022. 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, 2023 and 2022 was $176,599 and $112,449, 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 each of the years ended December 31, 2023 and 2022 was $13,706, and is included within interest expense on the accompanying consolidated statements of income and members' equity.

Income Taxes

The Company files federal and state income tax returns and is included in the tax return of SEG. As a limited liability company, the Company does not pay incomes taxes; its revenues and expenses are included in SEG's tax return.

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.

Adoption of New Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update *(ASU)* 2016-02, *Topic 842, Leases, (ASC 842)*. 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 completed an assessment of its evaluation of the new standard's impact on its accounting policies and processes and adopted the guidance under *ASU 2016-02* effective January 1, 2022 using a modified retrospective approach without restating prior periods, also electing the practical expedients package which allows the Company to forego reassessing (i) whether any expired or existing contracts are or contain leases; (ii) the lease classification for any expired or expiring leases; and (iii) initial direct costs for any existing leases. 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. The adoption of *ASU 2016-02* significantly impacts the presentation of the Company's consolidated balance sheet and disclosures, but does not materially impact its annual results from operations and cash flows.

On January 1, 2022, the Company recorded operating lease liabilities of $1,420,266 and right-of-use assets for operating leases of $1,351,647, net of deferred rent 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.

In June 2016, the FASB issued *ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The guidance was issued to provide financial statement users with more decision useful information about the expected losses on financial instruments by replacing the incurred loss impairment methodology with a methodology that reflects expected credit losses by requiring a broader range of reasonable and supportable information to inform credit loss estimates. The Company adopted this guidance effective January 1, 2023, using a modified retrospective approach. The adoption of this standard did not have a material impact on the Company's financial statements, and therefore, no adjustments were made to member's equity.

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, May 22, 2024, 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:

	2023	2022
Buildings and improvements	$ 4,244,302	$ 3,867,530
Furniture, fixtures, and equipment	3,606,131	3,474,359
Aircraft	24,196,932	25,322,795
Automobiles	156,597	142,730
	32,203,962	32,807,414
Less: accumulated depreciation and amortization	(12,363,493)	(10,660,888)
	19,840,469	22,146,526
Construction in progress	395,418	148,603
	$ 20,235,887	$ 22,295,129

Depreciation and amortization expense related to property, equipment and improvements for the years ended December 31, 2023 and 2022 was $2,119,697 and $2,139,362, 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

Intangible assets of the Company consisted of the following as of December 31:

	Estimated Useful Life	Gross Amount	Accumulated Amortization as of December 31, 2023	2022
Title IV funding	15	$ 5,000,000	$ 3,666,667	$ 3,333,334
Trade name	15	2,500,000	1,833,333	1,666,666
Flight contracts	5	2,000,000	2,000,000	2,000,000
Student relationships	1	300,000	300,000	300,000
		$ 9,800,000	$ 7,800,000	$ 7,300,000

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, 2023 and 2022 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, 2023, is 4 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, 2023, estimated future amortization of other intangible assets was as follows:

Year Ending December 31,	
2024	$ 500,000
2025	500,000
2026	500,000
2027	500,000
	$ 2,000,000

NOTE 4 – LONG-TERM DEBT

The Company has a $1,400,000 note payable with a bank for financing 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, 2023 and 2022, the outstanding balance under this note payable was $780,155 and $972,067, respectively.

Future maturities of long-term debt as of December 31, 2023, were as follows:

Year Ending December 31,	
2024	$ 204,809
2025	218,862
2026	233,730
2027	122,754
	780,155
Less: unamortized deferred loan fees	(27,633)
	752,522
Less: current portion	(204,809)
	$ 547,713

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, 2023 and 2022, the issued membership units of the Company were as follows:

	Issued	Amount
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 rates (weighted-average of 7.85%) to calculate the present value of the lease. As of December 31, 2023, the remaining weighted-average lease term was 2.9 years.

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

	2023	2022
Fixed operating lease expenses	$ 798,516	$ 297,664
Short-term and other variable operating lease expenses	77,820	649,869
	$ 876,336	$ 947,533

For the years ended December 31, 2023 and 2022, cash paid for amounts in the measurement of the Company's operating lease liability was approximately $803,000 and $317,000, respectively.

As of December 31, 2023, future maturities of the Company's operating lease liability were as follows:

Year Ending December 31,	
2024	$ 991,622
2025	821,573
2026	622,902
2027	90,081
2028	75,509
Future minimum lease payments	2,601,687
Less: imputed interest	(225,545)
Present value of future minimum lease payments	2,376,142
Less: current portion	(877,356)
	$ 1,498,786

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, 2023. The payments have been discounted at 13.19% representing management's estimate of the Company's incremental borrowing rate at the time of this transaction.

Year Ending December 31,	
2024	$ 493,589
2025	503,461
2026	513,530
2027	523,801
2028	534,277
Thereafter	6,184,129
Future minimum lease payments	8,752,787
Less: amount representing interest	(5,142,610)
Present value of future minimum lease payments	3,610,177
Less: current portion	(11,834)
Finance obligation	$ 3,598,343

NOTE 7 – 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, 2023 and 2022 were $8,766,212 and $15,343,252, respectively.

Guarantee of Debt

The Company serves as a guarantor on $43,825,678 of debt of SEG.

NOTE 8 – 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, 2023 and 2022, employer contributions of approximately $47,000 and $68,000, respectively, were made by the Company.

NOTE 9 – 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 sheet of SEG as of December 31, 2022; this amount was refunded in February 2023.

NOTE 10 – REGULATORY MATTERS

The U.S. Department of Education (ED) requires a letter of credit to be 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, 2023 and 2022, the letter of credit amounted to $3,631,755 and $2,501,645, respectively. In February 2024, the letter of credit was increased to $4,425,367 and is scheduled to expire on February 28, 2025.

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. If the Company's financial responsibility was assessed on a standalone basis as of and for the years ended December 31, 2023 and 2022, its composite score would have been 1.5 and 1.0, respectively.

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, 2023 and 2022, 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, and beginning January 1, 2023, all Federal sources of revenue. 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, 2023 and 2022, the Company was in compliance with the 90/10 rule. ED published new 90/10 regulations which became effective for the Company for the year ended December 31, 2023; the new regulations did not materially affect the Company's 90/10 calculation or its 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.

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 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 largely 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.

On September 27, 2023, ED announced its final regulations on Financial Value Transparency and Gainful Employment which were formally published in the Federal Register on October 10, 2023. The Gainful Employment (GE) program accountability framework covered under the final regulations applies to all GE programs, which include certificate programs offered at all institutions as well as degree programs offered at private for-profit institutions. Under the GE program accountability framework, ED will assess whether an institution's programs meet the statutory requirement of preparing students for gainful employment in a recognized occupation using two separate and independent metrics: (1) a debt-to-earning rate that compares median annual payments on loan debt borrowed for the program to the median earnings of its federally-aided graduates, and (2) an earnings premium test that measures whether the typical federally-aided graduate from a program is earning at least as much as a typical high school graduate in their state's labor force between the ages of 25 and 34. Programs that fail either metric in a single year will be required to provide warnings to current and prospective students that the programs could be at risk of ineligibility for Title IV aid in subsequent years. Programs that fail the same metric in two of three consecutive years will not be eligible to participate in federal student aid programs. The GE program accountability framework will go into effect on July 1, 2024, with the first official metrics published by ED in early 2025. The first year that programs may become ineligible is 2026. Management is evaluating the impact of the GE regulations on the Company.

NOTE 11 – CONCENTRATION OF CREDIT RISK

As of December 31, 2023 and 2022, 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, 2023

Institution's Calculation of 90/10 Revenue Test

Spartan Education, LLC (the Institution) and Subsidiary derives a substantial portion of its revenues from Federal education assistance received directly by the Institution or by its students. To continue to participate in the programs authorized by Title IV of the Higher Education Act of 1965, as amended (HEA), the Institution must comply with the regulations promulgated under HEA. The regulations require a proprietary school to derive at least 10 percent of its cash basis revenues for each fiscal year from sources other than Federal funds. If a school receives more than 90 percent of its cash basis revenues from Federal funds during its fiscal year, the school becomes provisionally certified for the next two fiscal years. If a school fails to satisfy this 90/10 requirement for two consecutive fiscal years, the school will lose its ability to participate in the Title IV programs. The below information is required by the U.S. Department of Education (ED) and is presented for purposes of additional analysis and is not a required part of the financial statements.

For the year ended December 31, 2023, the Institution's 90/10 revenue test percentage was computed as follows:

Adjusted Student Federal Revenue	$ 16,423,977	63.64%
Adjusted Student Federal Revenue + Sum of Non-Federal and Revenue from Other Sources	$ 25,807,637	

Revenue Category	Amount Disbursed	Adjusted Amount
Student Title IV Revenue		
Title IV Credit Balance Carried Over from Prior Period	$ -	$ 469,641
Federal Direct Loan	11,380,194	10,935,584
Federal Pell Grant	2,872,289	2,736,052
FSEOG (subject to matching reduction)	129,112	96,834
Total Student Title IV Revenue	14,381,595	14,238,111
Refunds Paid to Students and Revenue Adjustment	-	(1,063,635)
Adjusted Student Title IV Revenue	14,381,595	13,174,476
Other Federal Funds Paid Directly to Student		
Total Other Federal Funds Paid Directly to Student	-	-
Refunds Paid to Students and Revenue Adjustment	-	-
Adjusted Other Federal Funds Paid Directly to Student	$ -	$ -
Other Federal Funds Paid Directly to Institution		
Veterans Affairs Payments	$ 4,161,610	$ 4,161,610
Total Other Federal Funds Paid Directly to the Institution	4,161,610	4,161,610
Refunds Paid to Students and Revenue Adjustment	-	(912,109)
Adjusted Other Federal Funds Paid Directly to the Institution	4,161,610	3,249,501
Adjusted Student Federal Revenue	**$ 18,543,205**	**$ 16,423,977**

Revenue Category	Amount Disbursed	Adjusted Amount
Revenue from Other Sources (Totals for the Fiscal Year)		
Activities conducted by the institution that are necessary for education and training	-	-
Funds paid by the Institution by, or on behalf of, students, for education and training in qualified non-Title IV eligible programs	-	-
Revenue from Other Sources	-	-
Student Non-Federal Revenue		
Grant funds for the student from non- Federal public agencies or private sources independent of the Institution		
- Miscellaneous Agencies	152,497	152,497
- Chickasaw Nation	29,420	29,420
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	-	-
Qualified institutional scholarships disbursed to students	-	-
Student Payments		
- Credit Balance Carried Over from Prior Period	-	297,064
- Institutional Loans	5,952,181	5,952,181
- Student Cash	5,118,746	5,118,746
Total Student Non-Federal Revenue	11,252,844	11,549,908
Refunds Paid to Students and Revenue Adjustment	-	(2,166,248)
Adjusted Student Non-Federal Revenue	11,252,844	9,383,660
Adjusted Student Non-Federal Revenue and Revenue from Other Sources	11,252,844	9,383,660
Total Federal and Non-Federal Revenue	**$ 29,796,049**	**$ 25,807,637**

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, 2023, 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, 2023 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. 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, and operates apartments for student housing.

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, 2023, was $8,766,212.

Guarantee of Debt

The Institution serves as a guarantor on $43,825,678 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.

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, 2023, 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 May 22, 2024.

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.

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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 Financial Statement Audits of Proprietary Schools and for Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs, issued by the U.S. Department of Education, Office of Inspector General, March 2023* (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.

Lake Forest, California
May 22, 2024