

University of the People

Consolidated Financial Statements as of and for
the Years Ended August 31, 2023 and 2022, and
Independent Auditor's Report

UNIVERSITY OF THE PEOPLE

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1–2
CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2023 AND 2022:	
Statements of Financial Position	3
Statement of Activities	4
Statements of Functional Expenses	5–6
Statements of Cash Flows	7
Notes to the Consolidated Financial Statements	8–17

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
The University of the People:

Opinion

We have audited the consolidated financial statements of the University of the People and its subsidiary (the "Organization"), which comprise the consolidated statements of financial position as of August 31, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial condition of the Organization as of August 31, 2023 and 2022, and the changes in its net assets 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 in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 Organization 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, 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 Organization's ability to continue as a going concern for a period of one year after the date that 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 GAAS will

always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, 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 Organization'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 Organization'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.

Deloitte & Touche LLP

February 9, 2024

UNIVERSITY OF THE PEOPLE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF AUGUST 31, 2023 AND 2022

	2023	2022
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 3,175,063	\$ 2,429,845
PREPAID EXPENSES	95,913	123,744
OTHER RECEIVABLES	57,330	22,292
PROMISES TO GIVE—Net	9,208,012	9,498,469
INVESTMENTS	665,467	529,668
PROPERTY, PLANT AND EQUIPMENT—Net	<u>15,756</u>	<u>22,312</u>
TOTAL ASSETS	<u>\$ 13,217,541</u>	<u>\$ 12,626,330</u>
LIABILITIES AND NET ASSETS		
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 784,296	\$ 1,024,427
FOUNDER’S CHARITABLE ADVANCE	1,991,610	1,928,889
OTHER PAYABLES	<u>151,384</u>	<u>144,164</u>
Total liabilities	<u>2,927,290</u>	<u>3,097,480</u>
NET ASSETS (DEFICIT):		
Without donor restrictions	268,382	(710,397)
With donor restrictions	<u>10,021,869</u>	<u>10,239,247</u>
Total net assets	<u>10,290,251</u>	<u>9,528,850</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,217,541</u>	<u>\$ 12,626,330</u>

The accompanying notes are an integral part of the consolidated financial statements.

UNIVERSITY OF THE PEOPLE

CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED AUGUST 31, 2023 (AND SUMMARIZED TOTALS FOR THE YEAR ENDED AUGUST 31, 2022)

	Without Donor Restrictions	With Donor Restrictions	2023 Totals	2022 Summarized Totals
REVENUE AND SUPPORT:				
Contributions	\$ 2,790,792	\$ 2,012,189	\$ 4,802,981	\$ 11,719,278
Exam and admission fees, net	13,903,836	-	13,903,836	13,427,371
Released from restrictions	2,265,366	(2,265,366)	-	-
Investment return	-	35,799	35,799	(179,832)
Contributed services	<u>518,633</u>	<u>-</u>	<u>518,633</u>	<u>510,000</u>
Total revenue and support	<u>19,478,627</u>	<u>(217,378)</u>	<u>19,261,249</u>	<u>25,476,817</u>
EXPENSES:				
PROGRAM SERVICES:				
Academic	12,061,953	-	12,061,953	13,211,825
Technology	<u>3,488,509</u>	<u>-</u>	<u>3,488,509</u>	<u>3,459,609</u>
Total program services	15,550,462	-	15,550,462	16,671,434
SUPPORT SERVICES:				
Impairment loss on investments	-	-	-	360,614
General and administrative	2,266,335	-	2,266,335	2,294,439
Advancement and fundraising	<u>683,051</u>	<u>-</u>	<u>683,051</u>	<u>635,868</u>
Total expenses	<u>18,499,848</u>	<u>-</u>	<u>18,499,848</u>	<u>19,962,355</u>
CHANGE IN NET ASSETS	978,779	(217,378)	761,401	5,514,462
NET ASSETS (DEFICIT)—Beginning of year	<u>(710,397)</u>	<u>10,239,247</u>	<u>9,528,850</u>	<u>4,014,388</u>
NET ASSETS (DEFICIT)—End of year	<u>\$ 268,382</u>	<u>\$ 10,021,869</u>	<u>\$ 10,290,251</u>	<u>\$ 9,528,850</u>

The accompanying notes are an integral part of the consolidated financial statements.

UNIVERSITY OF THE PEOPLE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED AUGUST 31, 2023

	Academic	Technology	Total Program Service	General and Administrative	Advancement and Fundraising	Total
EXPENSES:						
Salaries, wages and taxes	\$ 2,656,876	\$ 478,248	\$ 3,135,124	\$ 1,183,383	\$ 616,156	\$ 4,934,663
Outside services	6,792,230	358,615	7,150,845	79,638	59,120	7,289,603
Professional fees	-	-	-	97,908	-	97,908
License and accreditation	205,330	-	205,330	-	-	205,330
Information technology	566,695	2,651,646	3,218,341	1,535	5,506	3,225,382
Enrollment	1,834,121	-	1,834,121	-	-	1,834,121
Office expense	6,701	-	6,701	188,828	-	195,529
Office rent	-	-	-	27,456	-	27,456
Travel and entertainment	-	-	-	70,943	2,269	73,212
Insurance	-	-	-	51,130	-	51,130
Bank and credit card fees	-	-	-	482,352	-	482,352
Depreciation	-	-	-	17,265	-	17,265
Interest	-	-	-	65,897	-	65,897
TOTAL EXPENSES	<u>\$ 12,061,953</u>	<u>\$ 3,488,509</u>	<u>\$ 15,550,462</u>	<u>\$ 2,266,335</u>	<u>\$ 683,051</u>	<u>\$ 18,499,848</u>

The accompanying notes are an integral part of the consolidated financial statements.

UNIVERSITY OF THE PEOPLE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED AUGUST 31, 2022

	Academic	Technology	Total Program Service	General and Administrative	Advancement and Fundraising	Total
EXPENSES:						
Salaries, wages and taxes	\$ 2,739,277	\$ 575,191	\$ 3,314,468	\$ 1,086,123	\$ 633,464	\$ 5,034,055
Outside services	7,408,231	120,241	7,528,472	121,434	-	7,649,906
Professional fees	-	-	-	102,881	-	102,881
License and accreditation	125,101	-	125,101	-	-	125,101
Information technology	421,936	2,764,177	3,186,113	1,453	322	3,187,888
Enrollment	2,504,258	-	2,504,258	-	-	2,504,258
Office expense	8,177	-	8,177	250,425	227	258,829
Office rent	-	-	-	61,981	-	61,981
Travel and entertainment	4,845	-	4,845	61,188	1,855	67,888
Insurance	-	-	-	63,990	-	63,990
Bank and credit card fees	-	-	-	498,975	-	498,975
Depreciation	-	-	-	86,888	-	86,888
Interest	-	-	-	(40,899)	-	(40,899)
TOTAL EXPENSES	<u>\$ 13,211,825</u>	<u>\$ 3,459,609</u>	<u>\$ 16,671,434</u>	<u>\$ 2,294,439</u>	<u>\$ 635,868</u>	<u>\$ 19,601,741</u>

The accompanying notes are an integral part of the consolidated financial statements.

UNIVERSITY OF THE PEOPLE

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED AUGUST 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 761,401	\$ 5,514,462
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	17,265	86,888
Non-cash contribution	-	(1,070,114)
Investment return	(35,799)	179,832
Amortization of interest expense from present value discount of Founder's charitable advance	62,721	(40,816)
Amortization of net present value discount on promises to give	(158,786)	(216,795)
Impairment loss on investments	-	360,614
Changes in assets and liabilities:		
Promises to give	449,243	(4,070,139)
Other receivables	(41,028)	21,905
Prepaid expenses	26,512	(38,990)
Other payables	28,805	(47,940)
Accounts payable and accrued expenses	(223,489)	(1,174,053)
Net cash provided by (used in) operating activities	<u>886,845</u>	<u>(495,146)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(10,709)	(1,689)
Proceeds from sale of investments	-	367,500
Purchase of investments	(100,000)	(367,500)
Net cash used in investing activities	<u>(110,709)</u>	<u>(1,689)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of Founder's charitable advance	-	(200,000)
Net cash used in financing activities	<u>-</u>	<u>(200,000)</u>
EFFECT OF EXCHANGE RATE	<u>(30,918)</u>	<u>(14,216)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	745,218	(711,051)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>2,429,845</u>	<u>3,140,896</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 3,175,063</u>	<u>\$ 2,429,845</u>
SUPPLEMENTAL INFORMATION:		
Interest paid	<u>\$ 3,177</u>	<u>\$ -</u>
Taxes paid	<u>\$ 12,581</u>	<u>\$ 17,845</u>

The accompanying notes are an integral part of the consolidated financial statements.

UNIVERSITY OF THE PEOPLE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2023 AND 2022

1. NATURE OF OPERATIONS

University of the People was formed on January 12, 2009, in the state of California as a not-for-profit organization for the purpose of providing universal access to postsecondary education without regard to location or financial ability, through the mechanism of distance learning over the internet. The curriculum and study materials are supplied by respected scholars and are available online.

On January 13, 2009, the University of the People established a wholly-owned for-profit Israeli subsidiary, University of the People Education Ltd. (“LTD”). LTD was established to provide educational and support services for the University of the People. On May 17, 2020, LTD was registered as a Public Benefit Corporation in Israel. The University of the People and LTD are collectively referred to hereafter as the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The consolidated financial statements include the accounts of the Organization. All material intercompany transactions have been eliminated in consolidation.

Comparative Financial Information—The consolidated statement of activities includes prior-year comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (“GAAP” or “generally accepted accounting principles”). Accordingly, such information should be read in conjunction with the Organization’s consolidated financial statements for the year ended August 31, 2022, from which the summarized information was derived.

Basis of Accounting—The accompanying consolidated financial statements of the Organization are prepared on the accrual basis of accounting in accordance with GAAP.

Basis of Presentation—The consolidated financial statements presentation of the Organization follows the provisions included in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-For-Profit Entities*.

Net Assets—The Organization reports information regarding its consolidated financial position and activities according to two classes of net assets:

Net Assets without Donor Restrictions—Net assets that are not subject to donor-imposed restriction and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the Board of Trustees.

Net Assets with Donor Restrictions—Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by action of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor-restricted contributions are reported as an increase in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions and are reported as net assets released from restrictions in the consolidated statement of activities.

Functional Currency—These consolidated financial statements have been prepared in US dollars. The dollar is the currency of the primary economic environment in which the Organization’s operations are conducted. Transactions and balances in U.S. dollars are presented at their original amounts. LTD amounts are translated into U.S. dollars using the translation method. Assets and liabilities are translated at current rates and revenue and expense items are translated at average exchange rates during the reporting period, except for depreciation which is translated at historical rates. Translation gains and losses are not material and are included in the general and administrative expenses in the consolidated statement of activities.

Cash and Cash Equivalents—We consider all cash and highly liquid financial instruments with original maturities of three months or less to be cash and cash equivalents.

Contributions—Contributions received are recorded as without donor restriction or with donor restriction depending on the existence of donor-imposed restrictions. Contributions are recognized when the donor makes a promise to give to the Organization. All donor-restricted support is reported as an increase in net assets with donor restriction. Contributions and grants that have met donor-imposed restrictions in the same reporting period, if any, are reported as net assets without donor restriction.

Revenue Recognition—Revenue from contracts with customers is derived primarily from exam and admission fees and is recognized at a point in time when control of the promised services is transferred to the students in an amount that reflects the consideration the Organization expects to be entitled to, in exchange for those goods or services. There are no significant judgments involved with recognizing revenue from exams and admission fees.

The Organization disaggregates revenue by significant revenue stream and believes that provides a reasonable representation of how performance obligations relate to the nature, amount, timing, and uncertainty of revenue and cash flows.

Financial assistance in the form of scholarships and grants that cover the portion of student fees is reflected as a reduction of the exams and admission fees revenues. Exam and admission fees, net are summarized as follows for the years ended August 31, 2023 and 2022:

	2023	2022
Exam and admission fees	\$ 29,362,058	\$ 27,711,897
Less: scholarships and grants	<u>(15,458,222)</u>	<u>(14,284,526)</u>
Exam and admission fees, net	<u>\$ 13,903,836</u>	<u>\$ 13,427,371</u>

Promises to Give—The Organization recognizes promises to give in the year in which such promises are made or become unconditional. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Those expected to be collected in future years are recorded at the present value of future cash flows. Promises to give are discounted to approximate

present value using the applicable US Treasury note rate in effect on August 31 of the year in which the promise to give is received.

Functional Allocation of Expenses—The costs of providing program services and support services are summarized on a functional basis in the consolidated statement of activities and statements of functional expenses. Accordingly, certain costs are allocated among program services and support services based on estimates of employees' time incurred and on usage of resources.

Income Taxes—The University of the People is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and qualifies for the charitable contribution deduction. As a for-profit entity, LTD records a provision for and pays income tax at the applicable Israel rate.

The Organization accounts for uncertainty in income taxes using a recognition threshold of more likely than not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management has determined that there were no tax uncertainties that met the recognition threshold as of the consolidated statements of financial position date and no interest and penalties related to unrecognized tax benefits have been recognized in the Organization's consolidated financial statements.

The Organization has no open filing years prior to August 31, 2020.

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

Investments—Investments are recorded at fair value on the consolidated statements of financial position, with realized and unrealized gains and losses reported as investment return in the statement of activities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Crypto assets held, including Bitcoin and Ethereum, are accounted for as intangible assets with indefinite useful lives, and are reported within investments. An intangible asset with an indefinite life is not amortized but assessed for impairment annually, or more frequently, when events or changes in circumstances occur indicating that it is more likely than not that the indefinite-lived asset is impaired. Impairment exists when the carrying amount exceeds its fair value, which is measured using the quoted price of the crypto asset at the time its fair value is being measured. In testing for impairment, the Organization has the option to first perform a qualitative assessment to determine whether it is more likely than not that an impairment exists. If it is determined that it is not more likely than not that an impairment exists, a quantitative impairment test is not necessary. If the Organization concludes otherwise, it is required to perform a quantitative impairment test. To the extent an impairment loss is recognized, the loss establishes the new cost basis of the asset. Subsequent reversal of impairment losses is not permitted.

During the year ended August 31, 2022, the Organization recorded \$360,614 as impairment related to crypto assets received and held in investments. The crypto assets were impaired when the carrying

value exceeded the fair value. Pursuant to current accounting literature, this impairment will not be reversed when the quoted price increased in subsequent periods.

During the year ended August 31, 2023, the Organization did not record any impairment related to crypto assets received and held in investments.

The Organization follows FASB ASC 820, *Fair Value Measurement*, which requires entities to establish valuation techniques to measure fair value of financial assets and liabilities according to a three level hierarchy. The three levels of the fair value hierarchy are as follows:

Level 1—Assets and liabilities measured at quoted prices in an active market accessible at the date of measurement. Quoted market prices provide the most reliable evidence of fair value.

Level 2—Assets and liabilities measured at other than quoted prices in an active market (Level 1) that are observable either directly or indirectly. Fair value of fixed income bonds and fixed income mutual funds is provided by a third-party pricing source. The pricing source uses various valuation approaches, including market and income approaches, using Level 2 inputs.

Level 3—Assets and liabilities measured at unobservable inputs, there is minimal if any measurable market activity.

Investments at August 31, 2023 and 2022 consist of the following Level 1 inputs:

	2023	2022
Exchange-traded mutual funds	\$ 488,100	\$ 352,301
Crypto assets	<u>177,367</u>	<u>177,367</u>
Total investments	<u>\$ 665,467</u>	<u>\$ 529,668</u>

Property, Plant, and Equipment—Purchases of property, plant, and equipment are capitalized at cost. Donations of property and equipment, if any, are recorded as contributions at their estimated fair value. Such donations are reported as contributions without donor restrictions unless the donor has restricted the donated asset or assets to a specific purpose. Depreciation is provided by the straight-line method over the useful lives of the related assets.

Impairment of Long-Lived Assets—Long-lived assets, consisting of property, plant, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. When such events occur, the Organization compares the carrying amounts of the assets to the undiscounted expected future cash flows. If this comparison indicates that there may be an impairment, the amount of the impairment is calculated as the difference between the carrying value and the fair value. During the years ended August 31, 2023 and 2022, no impairments were recorded.

Concentration of Credit Risk—The Organization maintains its cash balances in accounts with various financial institutions. Such accounts that are with financial institutions located in the United States are insured up to \$250,000 by the Federal Deposit Insurance Corporation at each financial institution. Such accounts that are with financial institutions located in Israel do not have such deposit insurance and are not significant. Cash balances either in excess of federally insured limits or uninsured at August 31, 2023 and 2022, approximated \$2,669,000 and \$2,115,000, respectively. The Organization has not

experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its cash accounts.

New Accounting Standards—

In December 2023, the FASB issued ASU No. 2023-08, *Intangibles, Goodwill and Other, Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets*, which addresses the accounting and disclosure requirements for certain crypto assets. This new guidance requires entities to subsequently measure certain crypto assets at fair value, with changes in fair value recorded in the change in net assets in each reporting period. In addition, entities are required to provide additional disclosures about the holdings of certain crypto assets. For all entities, ASU 2023-08 is effective for years beginning after December 15, 2024, including interim periods within those years. Early adoption is permitted. The Organization is currently evaluating the effect that ASU 2023-08 will have on its consolidated financial statements.

In September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires nonprofits to change their financial statement presentation and disclosure of contributed nonfinancial assets, or gifts-in-kind, in an effort to improve transparency in reporting nonprofit gifts-in-kind. This ASU was adopted during the year ended August 31, 2022. Contributed services included in the statement of activities for the years ended August 31, 2023 and 2022, are comprised of the following:

	2023	2022
Contributed salaries and wages	\$ 500,000	\$ 500,000
Contributed services	<u>18,633</u>	<u>10,000</u>
Total	<u>\$ 518,633</u>	<u>\$ 510,000</u>

3. LIQUIDITY

Financial assets available for general expenditure within one year of the consolidated statements of financial position date consist of the following as of August 31, 2023 and 2022:

	2023	2022
Cash and cash equivalents	\$ 3,175,063	\$ 2,429,845
Unconditional promises to give due in less than 1 year	3,147,685	2,306,439
Other receivables	<u>22,512</u>	<u>22,292</u>
Total available for general expenditure	<u>\$ 6,345,260</u>	<u>\$ 4,758,576</u>

4. ENDOWMENT

During the year ended August 31, 2022, the Organization established an endowment fund upon receipt of a founding gift of 7.59 Bitcoin and 128.37 Ethereum for a total value of \$1,070,114.

Changes in endowment included in donor restricted net assets for the years ended August 31, 2023 and 2022 are as follows:

	2023		
	Temporary in Nature	Perpetual in Nature	Total
With donor restrictions—net assets—beginning of the year	\$ 529,668	\$ -	\$ 529,668
Contributions	100,000	-	100,000
Investment return	35,799	-	35,799
Impairment loss on investments	<u>-</u>	<u>-</u>	<u>-</u>
With donor restrictions—net assets—end of the year	<u>\$ 665,467</u>	<u>\$ -</u>	<u>\$ 665,467</u>
	2022		
	Temporary in Nature	Perpetual in Nature	Total
With donor restrictions—net assets—beginning of the year	\$ -	\$ -	\$ -
Contributions	1,070,114	-	1,070,114
Investment return	(179,832)	-	(179,832)
Impairment loss on investments	<u>(360,614)</u>	<u>-</u>	<u>(360,614)</u>
With donor restrictions—net assets—end of the year	<u>\$ 529,668</u>	<u>\$ -</u>	<u>\$ 529,668</u>

In accordance with the guidelines of the Investment Committee, endowment returns will support the Organization’s mission by prioritizing investments in digital and human infrastructure, supporting enrollment growth as well as providing financial assistance to those students who cannot afford the Organization’s minimal fees.

Endowment funds as well as any proceeds will be released according to the endowment funds distribution policy which currently states that there will be no spending from the endowment until it reaches a total value exceeding \$10,000,000.

5. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consists of the following as of August 31, 2023 and 2022:

	2023		
	Cost	Accumulated Depreciation	Total
Computer equipment (3 years)	\$ 166,243	\$ 150,487	\$ 15,756
Furniture and fixtures (6 years)	42,677	42,677	-
Leasehold improvements (life of lease)	83,129	83,129	-
Software	<u>490,264</u>	<u>490,264</u>	<u>-</u>
Total	<u>\$ 782,313</u>	<u>\$ 766,557</u>	<u>\$ 15,756</u>
	2022		
	Cost	Accumulated Depreciation	Total
Computer equipment (3 years)	\$ 157,097	\$ 134,785	\$ 22,312
Furniture and fixtures (6 years)	42,677	42,677	-
Leasehold improvements (life of lease)	83,129	83,129	-
Software	<u>490,264</u>	<u>490,264</u>	<u>-</u>
Total	<u>\$ 773,167</u>	<u>\$ 750,855</u>	<u>\$ 22,312</u>

The Organization recorded depreciation expense in the amount of \$17,265 and \$86,888 for the years ended August 31, 2023 and 2022, respectively.

6. RELATED PARTIES

Founder's Charitable Advance—The Organization and its founder (the "Founder") have entered into a Founder Charitable Advance Agreement (the "Agreement") whereby during the period January 1, 2009 through December 31, 2016 (or such later date as may be agreed upon in writing by the Organization and the Founder), the Organization may request advances up to the aggregate amount of \$4,000,000. If the Organization has not achieved adequate capital (as defined below) on or before January 1, 2063, then the advance will become a charitable contribution to the Organization and repayment will no longer be required.

Adequate capital as stipulated in the Agreement is achieved when the Organization has a without donor restriction net asset balance in excess of the sum of the Organization's outstanding obligations as of the date of payment, and 180 days of projected operating and program expenses. If adequate capital exists, the advance, subject to the approval of the Board of Trustees, can be repaid monthly over the following twelve months in replace of a lump sum repayment and only should be repaid to the extent the repayments do not cause the Organization not to have adequate capital. As of August 31, 2021, management has determined that adequate capital has not been achieved.

The advances are non-interest bearing and therefore are deemed to be a below-market interest rate loan and as such is discounted to present value with the discounted portion recorded as a contribution of interest. The corresponding interest expense is amortized annually over the life of the loan until

repayment. Since repayment terms are conditional and cannot be determined, the life of the loan, for present value purposes, ends on January 1, 2063.

Management previously determined twenty years to be a reasonable amount of time for the Organization to achieve adequate capital and therefore had amortized interest expense over such time.

On October 12, 2020, the Board of Trustees resolved that it would be more favorable for the Organization to repay the loan over approximately 5 1/2 years rather than in one lump sum, and resolved to repay the charitable advance in full in 67 equal monthly installments of \$40,000 per month commencing in December 2020, plus one final monthly installment of \$20,000, for a total of \$2,700,000. The amortization of the loan was adjusted in accordance with the new repayment plan.

In February 2022, the Founder requested to halt the monthly installments until September 2023.

The following table represents future estimated loan repayments for the next five years and thereafter as of August 31, 2023:

Years Ending August 31	
2024	\$ 480,000
2025	480,000
2026	480,000
2027	480,000
2028	<u>220,000</u>
 Total	 2,140,000
 Less: present value discount (at 3.2%)	 <u>(148,390)</u>
	 <u><u>\$ 1,991,610</u></u>

The Organization obtains legal services from a law firm where a member of the Organization’s Board of Trustees is a partner.

The Organization received contributed services which represent donated salaries and wages of executive management in the amount of \$518,633 and \$500,000 for the years ended August 31, 2023 and 2022, respectively

Promises to give of \$6,626,328 and \$7,876,732 as of August 31, 2023 and 2022, respectively, are due from members of the Board of Trustees. In addition, contributions received of approximately \$640,000 and \$10,060,000 during the years ended August 31, 2023 and 2022, respectively, were from members of the Board of Trustees.

7. NET ASSETS—WITH DONOR RESTRICTION

A time restriction is implicit in all promises to give with payments due in future periods, unless the donor explicitly states that the gift is to support current activities or other circumstances clearly point to that intent. The implied time restriction (or a portion of the implied time restriction) expires as the future payment or payments become due.

The following table represents the time period in which the Organization's donor restricted net assets will be released from restrictions based on when the related promises to give become due as of August 31 2023 and 2022:

	2023	2022
Less than 1 year	\$ 3,155,915	\$ 2,306,439
1 to 5 years	<u>6,200,487</u>	<u>7,403,140</u>
Total net assets with donor restriction relating to promises to give and founder charitable advance	9,356,402	9,709,579
Time restriction net assets with donor restriction relating to endowment	<u>665,467</u>	<u>529,668</u>
Total net assets with donor restriction	<u>\$ 10,021,869</u>	<u>\$ 10,239,247</u>

8. PROMISES TO GIVE

Promises to give as of August 31, 2023 and 2022, consist of the following:

	2023	2022
Unconditional promises expected to be collected in:		
Less than one year	\$ 3,181,198	\$ 2,306,439
One year to five years	<u>6,529,108</u>	<u>7,535,538</u>
	9,710,306	9,841,977
Less: discount to present value	<u>(502,294)</u>	<u>(343,508)</u>
Total	<u>\$ 9,208,012</u>	<u>\$ 9,498,469</u>

Promises to give were discounted according to risk free rates at the day of receipt.

As of August 31, 2023, 9 donors accounted for 98% of total promises to give. In addition, 12 donors accounted for approximately 90.5% of total contribution revenue (undiscounted) for the year ended August 31, 2023.

As of August 31, 2022, 7 donors accounted for 98% of total promises to give. In addition, 8 donors accounted for approximately 97.5% of total contribution revenue (undiscounted) for the year ended August 31, 2022.

9. COMMITMENTS AND CONTINGENCIES

The Organization is subject to claims and lawsuits that arise in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position or consolidated results of operations of the Organization.

10. SUBSEQUENT EVENTS

Management has reviewed subsequent events through February 9, 2024, the date the consolidated financial statements were available to be issued. The Organization's management has indicated no subsequent events have been identified that may require adjustments to, or disclosure in the consolidated financial statements.

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