



Report of Independent Auditors
and Consolidated Financial Statements

National University

June 30, 2024 and 2023

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Report of Independent Auditors

The Board of Trustees
National University and subsidiary

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of National University and subsidiary (National University), which comprise the consolidated statements of financial position as of June 30, 2024 and 2023, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of National University as of June 30, 2024 and 2023, and the changes in their net assets and their 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 National University 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.

Responsibilities of Management for the 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 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 National University's ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 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 National University'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 National University'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.

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

San Diego, California
October 28, 2024

Consolidated Financial Statements

National University
Consolidated Statements of Financial Position
June 30, 2024 and 2023

	2024	2023
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 60,326,000	\$ 14,588,000
Restricted cash	12,047,000	4,902,000
Student accounts receivable, net	59,315,000	57,255,000
Other receivables, net	9,578,000	7,060,000
Due from affiliate	288,000	828,000
Prepaid expenses and other assets	11,464,000	13,721,000
Investments	1,018,003,000	1,137,525,000
Right of use assets, operating	4,464,000	8,883,000
Property and equipment, net	40,208,000	42,742,000
Intangibles, net	22,420,000	24,801,000
	<u>\$ 1,238,113,000</u>	<u>\$ 1,312,305,000</u>
Total assets		
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 12,968,000	\$ 13,835,000
Accrued compensation	14,013,000	11,424,000
Other accrued expenses	41,932,000	25,333,000
Unearned tuition	8,009,000	9,830,000
Student deposits	38,503,000	33,803,000
Right of use obligations, operating	3,862,000	8,681,000
Bonds payable, net	161,593,000	165,335,000
Amounts held on behalf of others	22,597,000	20,816,000
Federal Perkins Loan program	2,509,000	2,626,000
	<u>305,986,000</u>	<u>291,683,000</u>
Total liabilities		
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET ASSETS		
Without donor restrictions	\$ 894,261,000	\$ 985,726,000
With donor restrictions	37,866,000	34,896,000
	<u>932,127,000</u>	<u>1,020,622,000</u>
Total net assets		
Total liabilities and net assets	<u>\$ 1,238,113,000</u>	<u>\$ 1,312,305,000</u>

See accompanying notes.

National University
Consolidated Statement of Activities and Changes in Net Assets
Year Ended June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Tuition and fees, net of scholarships and grants to students of \$55,149,000	\$ 352,831,000	\$ -	\$ 352,831,000
Cap reserve, Board-released	157,900,000	-	157,900,000
Contributions and grants	8,468,000	119,000	8,587,000
Other revenue	4,890,000	-	4,890,000
Net assets released from restrictions	339,000	(339,000)	-
Total revenue	524,428,000	(220,000)	524,208,000
EXPENSES			
Institutional support	260,580,000	-	260,580,000
Instruction	116,438,000	-	116,438,000
Student services	88,351,000	-	88,351,000
Academic support	27,773,000	-	27,773,000
Research and public support	6,054,000	-	6,054,000
Total expenses	499,196,000	-	499,196,000
CHANGE IN NET ASSETS FROM OPERATIONS	25,232,000	(220,000)	25,012,000
INVESTMENT RETURNS			
Total investment returns	94,080,000	3,191,000	97,271,000
Investment return designated for current operations	(157,900,000)	-	(157,900,000)
Total investment returns, net	(63,820,000)	3,191,000	(60,629,000)
NONOPERATING EXPENSES			
Other nonoperating expenses	45,704,000	-	45,704,000
Interest expense	7,173,000	-	7,173,000
Total nonoperating expenses	52,877,000	-	52,877,000
CHANGE IN NET ASSETS	(91,465,000)	2,971,000	(88,494,000)
NET ASSETS			
Beginning of year	985,726,000	34,896,000	1,020,622,000
End of year	\$ 894,261,000	\$ 37,866,000	\$ 932,127,000

See accompanying notes.

National University
Consolidated Statement of Activities and Changes in Net Assets
Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Tuition and fees, net of scholarships and grants to students of \$56,710,000	\$ 328,473,000	\$ -	\$ 328,473,000
Cap reserve, Board-released	89,000,000	-	89,000,000
Contributions and grants	7,256,000	203,000	7,459,000
Other revenue	4,302,000	-	4,302,000
Net assets released from restrictions	268,000	(268,000)	-
	<u>429,299,000</u>	<u>(65,000)</u>	<u>429,234,000</u>
EXPENSES			
Institutional support	312,669,000	-	312,669,000
Instruction	106,137,000	-	106,137,000
Student services	93,846,000	-	93,846,000
Academic support	28,265,000	-	28,265,000
Research and public support	2,664,000	-	2,664,000
	<u>543,581,000</u>	<u>-</u>	<u>543,581,000</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>(114,282,000)</u>	<u>(65,000)</u>	<u>(114,347,000)</u>
INVESTMENT RETURNS			
Total investment returns	123,135,000	2,175,000	125,310,000
Investment return designated for current operations	(89,000,000)	-	(89,000,000)
	<u>34,135,000</u>	<u>2,175,000</u>	<u>36,310,000</u>
NONOPERATING EXPENSES			
Contributions to affiliates	1,760,000	-	1,760,000
Other nonoperating expenses	2,118,000	-	2,118,000
Interest expense	4,773,000	-	4,773,000
Impairment of goodwill	43,017,000	-	43,017,000
	<u>51,668,000</u>	<u>-</u>	<u>51,668,000</u>
CHANGE IN NET ASSETS	<u>(131,815,000)</u>	<u>2,110,000</u>	<u>(129,705,000)</u>
NET ASSETS			
Beginning of year	<u>1,117,541,000</u>	<u>32,786,000</u>	<u>1,150,327,000</u>
End of year	<u>\$ 985,726,000</u>	<u>\$ 34,896,000</u>	<u>\$ 1,020,622,000</u>

See accompanying notes.

National University
Consolidated Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	2024	2023
OPERATING ACTIVITIES		
Changes in net assets	\$ (88,494,000)	\$ (129,705,000)
Adjustments to reconcile changes in net assets to net cash (used in) operating activities		
Depreciation and amortization of property and equipment	4,332,000	6,060,000
Amortization of intangibles	2,381,000	8,767,000
Impairment of goodwill	-	43,017,000
Provision for expected losses and bad debt	62,469,000	7,728,000
Net unrealized (gain) on investments	(38,603,000)	(50,964,000)
Net realized (gain) on investments	(53,960,000)	(47,320,000)
Amortization of right to use asset	4,419,000	7,353,000
Net realized gain/(loss) on disposal of fixed assets	599,000	40,000
Amortization of bond costs/premium	(452,000)	(470,000)
Changes in operating assets and liabilities		
Student accounts receivable	(63,129,000)	(14,830,000)
Government receivables	(2,689,000)	1,056,000
Other receivables	(2,593,000)	-
Due from affiliate	540,000	(338,000)
Prepaid expenses and other assets	2,614,000	(2,770,000)
Accounts payable	(867,000)	(4,622,000)
Other accrued expenses	16,599,000	11,497,000
Accrued compensation	2,589,000	813,000
Unearned tuition	(1,821,000)	(2,589,000)
Student deposits	4,700,000	(859,000)
Payments made on right to use obligation	(4,819,000)	(8,078,000)
Net cash (used in) operating activities	(156,185,000)	(176,214,000)
INVESTING ACTIVITIES		
Purchase of property and equipment	(2,397,000)	(562,000)
Proceeds from sale of investments	319,879,000	258,753,000
Purchase of investments	(106,013,000)	(92,435,000)
Repayments on institutional loans	1,007,000	428,000
Net cash provided by investing activities	212,476,000	166,184,000
FINANCING ACTIVITIES		
Refunds of Federal Perkins Loan Program	(117,000)	(166,000)
Payments on bond payable	(3,290,000)	(3,180,000)
Net cash (used in) financing activities	(3,407,000)	(3,346,000)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	52,884,000	(13,376,000)
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH		
Beginning of year	19,490,000	32,866,000
End of year	\$ 72,373,000	\$ 19,490,000

See accompanying notes.

National University
Consolidated Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	2024	2023
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	\$ 7,173,000	\$ 7,691,000
RECONCILIATION OF CASH, CASH EQUIVALENTS		
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION		
Cash and cash equivalents	\$ 60,326,000	\$ 14,588,000
Restricted cash	12,047,000	4,902,000
Total cash, cash equivalents, and restricted cash	\$ 72,373,000	\$ 19,490,000

See accompanying notes.

National University

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of operations – Founded by a veteran in 1971, National University (NU) is a not-for-profit university headquartered in San Diego, California. NU provides innovative, challenging, and accessible higher education to nontraditional and working students, military personnel, and cultural and ethnic minority groups. NU is accredited by the Accrediting Commission for Senior Colleges and Universities of the Western Association of Schools and Colleges.

National University Foundation (NUF or the Foundation) is a nonprofit public benefit corporation organized under the State of California. In August 2023, System Management Group (SMG) changed its name to the National University Foundation. NUF is a supporting organization for National University and its affiliates. The mission of the NUF is to create and nurture a culture of giving and philanthropy that extends to our staff, faculty, students, graduates, and community partners. A culture of shared values and collective impact, where every community member and every contribution strengthens our educational mission and builds a legacy of compassion and innovation.

Principles of consolidation – The accompanying consolidated financial statements include the accounts of NU and NUF, collectively referred to as “NU” or the “University”. All intercompany transactions and balances have been eliminated in consolidation.

The financial statements as of and for the year ended June 30, 2023, included the results of NU, SMG, and Northcentral University (NCU) as a single entity due to their combination into a unified entity, NU. As a result of the merger, and asset and liability assumption agreements, these three entities were effectively treated as one for financial reporting purposes in the previous fiscal year.

NU was previously part of the National University System (NUS), which was an alliance of nonprofit institutions of higher education designed to provide lifelong learning opportunities that are accessible, challenging, and relevant to a diverse student population, as well as to strengthen the education technology and service capabilities of NUS. NU was a member of the NUS through February 28, 2023, when NU, SMG, and NCU became a unified entity.

Affiliates within the former NUS consisted of the following entities: National University Virtual High School (NUVHS – ceased operations December 2021), System Management Group (SMG) and its wholly owned subsidiary National Education Partners (NEP, which was merged into SMG as of December 31, 2021, collectively SMG), Northcentral University (NCU), City University of Seattle (CU), and John F. Kennedy University (JFKU – ceased operations December 2020). All NUS entities were independently operated and accredited, sharing a common Board of Trustees.

Operating measure – The consolidated statement of activities is divided into operating and nonoperating activities. The operating activities of the University and NUF includes all income and expenses related to carrying out the educational, research and fundraising mission.

Basis of presentation – NU’s consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

National University

Notes to Consolidated Financial Statements

NU's net assets are reported in separate classes based on the existence or absence of donor-imposed restrictions:

- Net assets without donor restrictions represent expendable funds available for operations, which are not otherwise limited by donor restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board or may otherwise be limited by contractual agreements with outside parties.
- Net assets with donor restrictions consist of contributed funds subject to specific donor-imposed restrictions, contingent upon specific performance of a future event or a specific passage of time before NU may spend the funds, amounts with irrevocable donor restrictions requiring the funds to be held in perpetuity, usually for the purpose of generating investment income to fund current operations, and earnings and appreciation/depreciation on net assets with donor restrictions held in perpetuity that are not yet released for expenditure.

Accounting Pronouncements Adopted – Effective July 1, 2023, the University adopted FASB ASU 2016-13, *Financial Instruments – Credit Losses* (Topic 326), which required the use of the current expected credit losses (CECL) impairment model for a broad scope of financial instruments, including financial assets measured at amortized cost (which includes loans, held-to-maturity debt securities and trade receivables), net investments in leases, and certain off balance sheet credit exposures. The CECL model required the immediate recognition of estimated expected credit losses over the life of the financial instrument. Under this standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. The University adopted this standard effective July 1, 2023. The impact of the adoption was not considered material to the consolidated financial statements and primarily resulted in new and enhanced disclosures only.

Cash and cash equivalents – NU considers all highly liquid investments with an original maturity of three months or less when acquired to be cash equivalents.

Included in cash in the accompanying consolidated statements of financial position are funds NU receives directly from participating lenders involved with providing loans for students and funds available for loans under the Federal Perkins Loan Program. As of June 30, 2024 and 2023, cash for these purposes was \$944,000 and \$2,546,000, respectively.

Restricted cash – NU has provided funds to be used as collateral for an affiliated entity's note payable to a bank. As of June 30, 2024 and 2023, the funds totaling approximately \$3,702,000 and \$3,665,000, respectively, are held in an interest-bearing account and are restricted through June 1, 2027.

NU has restricted cash for funds that were received from Title IV program funds that are in the process of being transferred to students. As a Trustee of Title IV program funds, NU is required to maintain and restrict these funds pursuant to the terms of its program participation agreement with the Department of Education. As of June 30, 2024 and 2023, restricted cash for Title IV programs was \$8,345,000 and \$1,237,000, respectively.

Funds described above are presented as restricted cash on the accompanying consolidated statements of financial position as of June 30, 2024 and 2023.

National University

Notes to Consolidated Financial Statements

Student accounts receivable, net – Student accounts receivable is recorded at the net realizable value expected to be received from students or third-party payers. Student accounts receivable includes amounts billed to students less payments received and are presented net of an allowance for credit losses, which is an estimate of amounts that may not be collectible. The University separates student accounts receivable into risk pools based on their aging. An allowance for credit losses is established based upon historical collection rates by age of receivable and adjusted for reasonable expectations of future collection performance, net of estimated recoveries. These collection rates incorporate historical performance based on a student's current enrollment status, likelihood of future enrollment, degree mix trends and changes in the overall economic environment. In the event that current collection trends differ from historical trends, an adjustment is made to the allowance for credit losses and bad debt expense. A student receivable is past due if any portion of the receivable balance is outstanding for more than 90 days from the date of the original billing. Student accounts receivable is written off against the allowance when deemed uncollectible. Recoveries of student accounts receivable previously written off are recorded when received. The University does not accrue interest on outstanding student accounts receivable.

The University's Student accounts receivable and allowance for credit losses as of June 30, 2024 and 2023:

	2024	2023
Student accounts receivable	\$ 118,729,000	\$ 70,584,000
Allowance for credit losses	(59,415,000)	(13,329,000)
Student accounts receivable, net	<u>\$ 59,315,000</u>	<u>\$ 57,255,000</u>

Changes in the allowance for credit losses as of June 30, 2024 and 2023 were as follows:

	2024	2023
Allowance for credit losses, beginning of year	\$ 13,329,000	\$ 13,554,000
Additions charged to expense - change in estimate	45,000,000	-
Additions charged to allowance for credit losses	10,874,000	7,728,000
Write-offs, net of recoveries	(9,788,000)	(7,953,000)
Allowance for credit losses, end of year	<u>\$ 59,415,000</u>	<u>\$ 13,329,000</u>

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

National University

Notes to Consolidated Financial Statements

The University has a change in accounting estimate related to student accounts receivable. The University revised its estimation for the provision for expected losses from student accounts receivable to account for the collectability of aged student accounts based on the University's 35-day attendance policy. Prior to the 35-day attendance policy, students were deemed active if they took one course in a twelve-month period. The provision addresses estimated losses arising from students' inability, failure, or refusal to make required payments, which includes the recovery of financial aid funds advanced to a student for amounts in excess of tuition and related fees. As a result of the change in accounting estimate, there has been an increase in the provision for expected credit losses of \$45,000,000 reflecting management's assessment of collectability. The change in estimate was applied effective July 1, 2023.

Government receivables – NU recognizes revenue under government grants and contracts as qualifying program expenditures are incurred. Receivables are recognized to the extent costs have been incurred, but not reimbursed. Amounts received in advance are recorded as refundable advances. Grants require the fulfillment of certain conditions as set forth in the grant instrument. Failure to fulfill the conditions could result in the return of funds to grantors.

NU participates in student loan programs through the U.S. Department of Education's Direct Lending Program. Government receivables represent monies owed to NU from the federal government under the Direct Lending Program and from federal and state agencies under grant agreements for which NU has expended funds and is to receive reimbursement. Handling of funds with these student loan programs is not included as revenue and expenses in the accompanying consolidated financial statements.

Student loans receivable, net – Student loans constitute amounts due from students who have borrowed money from NU under the Federal Perkins Loan Program. Funds not used are immediately refundable to the federal government. Interest income on student loans receivable is recognized as it is received. The allowance for student loans receivable was approximately \$178,000 as of June 30, 2024 and 2023, respectively. Under federal law, all institutions of higher education, including NU, may no longer award new Perkins Loans to students and may not make subsequent disbursements to undergraduate students after June 30, 2018. Concurrently, as of July 1, 2017, all institutions of higher education, including NU, may not disburse Perkins Loans to graduate students.

Institutional loans receivable, net – Institutional loans receivable constitute amounts due from students who have borrowed money from NU net of an allowance for credit losses, which is an estimate of amounts that may not be collectible. The University separates institutional loans receivable into risk pools based on loan status and develops a loss (default) rate for each risk pool. The loss (default) rate is based on the loan program's historical collection experience, adjusted for management's expectations about the current and future economic conditions using relevant available information, from both internal and external sources. In the event that current collection trends differ from historical trends, an adjustment is made to the allowance for credit losses and bad debt expense. Institutional loans receivable is considered past due when payments are not received per the loan terms. Interest income on institutional loans receivable is recognized as it is received. Institutional loans receivable is written off against the allowance when deemed uncollectible.

National University

Notes to Consolidated Financial Statements

The University's Institutional loans receivable and allowance for credit losses as of June 30, 2024 and 2023:

	2024	2023
Institutional loan receivable	\$ 7,057,000	\$ 7,684,000
Allowance for credit losses	(5,745,000)	(3,965,000)
Institutional receivable, net	<u>\$ 1,312,000</u>	<u>\$ 3,719,000</u>

Changes in the allowance for credit losses as of June 30, 2024 and 2023:

	2024	2023
Allowance for credit losses, beginning of the year	\$ (3,965,000)	\$ (3,965,000)
Additions charged to expense	(1,780,000)	-
Allowance for credit losses, end of the year	<u>\$ (5,745,000)</u>	<u>\$ (3,965,000)</u>

Government, Student loans and Institutional loans receivables described above are presented as Other receivables, net on the accompanying consolidated statements of financial position as of June 30, 2024 and 2023.

Investments – Investments are recorded in the financial statements at fair value. The values of publicly traded securities are based on quoted market prices and exchange rates, if applicable. The fair value of common collective trusts is based on net asset values (NAVs) as reported by such trusts, which are reported at fair value. The value of each unit is determined by subtracting total liabilities from the total value of the assets, including accrued income, and dividing the amount remaining by the number of units outstanding on the valuation date. The NAV is a quoted price in a market that is not active and classified within Level 2 of the valuation hierarchy. The fair value of nonmarketable securities is based on the valuations provided by external investment managers. For the nonmarketable securities, NU uses the NAV provided by the external investment managers to determine the fair value of these investments (see Notes 2, 3, and 4). These investments are generally less liquid than other investments and the values reported by the general partner or investment manager may differ from the values that would have been reported had a ready market for these securities existed. NU exercises due diligence in assessing the policies, procedures, and controls implemented by its external investment managers and believes the carrying amount of these assets is a reasonable estimate of fair value.

Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility risk. Due to the level of risk associated with certain investments securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the accompanying statements of financial position.

Realized and unrealized gains and losses are included in investment returns in the consolidated statements of activities and changes in net assets.

National University

Notes to Consolidated Financial Statements

NU and other affiliates' investments held in a custodial account with a financial institution in an investment pool are reflected as investments on the accompanying consolidated statements of financial position. The recordkeeping of investments and investment-related activity between NU and other affiliates is maintained by the bank separately within the investment pool. The amounts held for affiliates are also reflected as amounts held on behalf of others on the accompanying consolidated statements of financial position.

Property and equipment – Purchased assets are recorded at cost or, if donated, at fair value at the date of donation. NU's policy is to capitalize purchased and donated assets of \$5,000 or more. Expenditures for maintenance and repairs are expensed when incurred. Renewals and replacements, which extend the useful life of property and equipment, are capitalized. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in change in net assets for the period.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the length of the lease or the useful life of the asset. The estimated useful lives are as follows:

Building and leasehold improvements	20 – 39 years
Land improvement	20 years
Furniture and equipment	3 – 7 years

Intangible assets – Intangible assets are recorded at cost, if purchased, or at fair value, if acquired via acquisition, and amortized over the estimated useful lives of 5 to 50 years.

Impairment of long-lived assets – NU evaluates long-lived assets, intangibles, and goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down will be recorded to reduce the related asset to its estimated fair value.

During the year ended June 30, 2023, NU fully impaired its goodwill, recognizing an impairment loss of \$43,017,000 as a result of the All Assets/Liabilities Transaction with SMG.

Student deposits – Payments received on student accounts in advance of the class term are recorded as a credit within the student's account and presented as student deposits on the consolidated statements of financial position. In addition, financial aid is typically funded in two disbursement periods and may contain funding for up to four courses. Since the majority of disbursements cover more than the current term's tuition for the course the student is enrolled in, the amount received in excess effectively represents a prepayment from the student. The prepayment credit balances due to financial aid funding are also presented as student deposits on the consolidated statements of financial position.

National University

Notes to Consolidated Financial Statements

Unearned tuition – NU recognizes unearned tuition as a student participates in a course which continues after the consolidated statements of financial position date. Unearned tuition as of June 30, 2024 and 2023, was \$8,009,000 and \$9,830,000, respectively, which is future revenue that has not yet been earned for courses in progress.

Balance at July 1, 2022	\$ 12,419,354
Revenue recognized	(12,419,354)
Payments received for future performance obligations	<u>9,830,000</u>
Balance at June 30, 2023	9,830,000
Revenue recognized	(9,830,000)
Payments received for future performance obligations	<u>8,009,000</u>
Balance at June 30, 2024	<u><u>\$ 8,009,000</u></u>

Leases – NU accounts for its leases under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 842, *Leases*. Leases with an initial term of 12 months or less are not recorded on the consolidated statements of financial position, and lease expense is recognized on a straight-line basis over the lease term. Leases in excess of 12 months are reflected in the consolidated statements of financial position as follows: Right-of-use (ROU) assets represent NU's right to use an underlying asset for the lease term and lease liabilities represent NU's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. In determining the present value of lease payments, NU discounts lease payments based on its incremental borrowing rate at the lease commencement date unless the rate implicit in the lease is known and less than the incremental borrowing rate. The ROU assets also include any lease payments made and exclude lease incentives and existing deferred rent balances. Lease payments include payments under purchase options when it is reasonably certain that NU will exercise that option. The lease terms include options to extend or terminate the lease when it is reasonably certain that NU will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. For lease agreements with lease and non-lease components, the lease and non-lease components are accounted for as a single lease component.

Revenue recognition – The majority of NU's recurring revenues are related to tuition and fees due from students, net of scholarships, and derived from courses taught by NU and from fees charged for related resources that NU provides to its students, such as course materials and labs. NU's students fund their education through loans and/or grants from Title IV programs, military tuition assistance, veterans' education benefit programs, tuition assistance from employers, or personal funds. Title IV and military funding typically arrive during the period of instruction. For students receiving Title IV aid, NU may be required to return unearned Title IV funds to their sources if the student withdraws. Students who receive reimbursement from employers typically do so after completion of a course. Students who choose to pay cash for a class typically do so before beginning the class or elect to make continuous payments during the length of their program.

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The University follows the revenue recognition guidance in accordance with Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*. Revenues are recognized when control of the promised goods or services is transferred to NU's students, typically over the course term or upon enrollment in the course, in an amount that reflects the consideration NU expects to be entitled to in exchange for those goods or services. Amounts received in advance of the start of class are included in unearned tuition.

The following table presents NU's net tuition and fees revenue for the years ended June 30, 2024 and 2023, disaggregated based on the revenue source:

Revenue Source	Timing of Recognition	2024	2023
Tuition	Over course term	\$ 393,902,000	\$ 370,756,000
Course and lab fees	Point in time	10,210,000	9,705,000
Miscellaneous fees	Point in time	3,868,000	4,722,000
		407,980,000	385,183,000
	Less scholarships – consistent with associated performance obligation	(55,149,000)	(56,710,000)
	Total tuition and fees, net of scholarships	<u>\$ 352,831,000</u>	<u>\$ 328,473,000</u>

NU had revenues from students outside the United States representing less than 1 percent of the revenues for the years ended June 30, 2024 and 2023.

NU offers educational programs primarily in a non-term environment, providing greater flexibility in course length, start dates and completion timelines. Tuition revenue is recognized ratably over the period of instruction as the University provides academic services, whether delivered in person at a physical campus, online, or in hybrid-learning formats. Students generally enroll in a program of study and depending on the academic level, will often determine the length and frequency of the courses taken. Programs have monthly starts, while others include eight to twelve-week courses that may overlap or be taken consecutively over the length of the program. Students are billed separately for each course or upon course vest date. Refunds are provided in full up to the course vest date, or a portion is refunded if a student withdraws during specified refund periods. Certain states in which students reside impose separate, mandatory refund policies which override the University's policy to the extent in conflict.

NU charges students in certain courses lab and/or course material fees. The fees are billed upon enrollment in the course and revenue is recognized in the month the course is taught or upon course vest date. Other miscellaneous fees are recognized as services are provided or when goods are received by the student.

Scholarships and discounts reflect reductions of revenue from standard rates or employee benefits and include corporate and other employer discounts, along with institutional scholarships and grants. These scholarships are recognized as direct reductions of revenue consistent with the timing of recognition associated with the related performance obligations.

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For the years ended June 30, 2024 and 2023, NU provided scholarships and grants as follows:

	2024	2023
Discounts to tuition	\$ 55,149,000	\$ 56,710,000
Employee benefits	3,164,000	2,068,000
Total	<u>\$ 58,313,000</u>	<u>\$ 58,778,000</u>

Contributions, grants, and pledge receivable – Unconditional contributions and collectible unconditional promises to give are recognized in the period in which they are received. Conditional contributions, however, are not recorded until the conditions are met or when the barrier to entitlement is overcome.

Conditional promises to give, that is those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. During the year ended June 30, 2024, the University received a conditional promise to give totaling \$70,000,000 to be paid over the course of five years. The gift is dependent upon the University achieving certain milestones and expending matching funds totaling \$40,000,000 over the life of the agreement. Consequently, at June 30, 2024, contributions approximating \$67,400,000 have not been recognized in the accompanying consolidated statements of activities because the conditions on which they depend have not yet been met. During the year ended June 30, 2024, the University expended \$1,500,000 as matching funds under the gift and recognized \$2,600,000 as contribution income.

Contributions with donor-imposed restrictions are reported as revenues with donor restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions when the donor restrictions are satisfied. Contributions received with donor-imposed restrictions that are satisfied within the same reporting period are reported as support without donor restrictions in that period.

Contributions of services are recognized when received if the services received (a) create or enhance nonfinancial assets, or (b) require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the years ended June 30, 2024 and 2023, there were no contributed services received.

Grants have been evaluated and determined to be nonreciprocal, meaning the granting entity has not received a direct benefit in exchange for the resources provided. Instead, grant revenue is recognized like a conditional contribution—when the barrier to entitlement is overcome. The barrier to entitlement is considered overcome when expenditures associated with each grant are determined to be allowable and all other significant conditions of the grant are met.

Higher Education Emergency Relief Fund (HEERF) – During the year ended June 30, 2023, NU was awarded and disbursed \$7,190,000 in student aid and account forgiveness to eligible awardees. The revenue is included in contribution and grants. As of June 30, 2023, NU has disbursed all funding awarded under the HEERF program.

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Advertising – NU expenses all advertising as incurred or the first time the advertising takes place. The expenses, which consist of television, radio, digital, and print, are classified as a component of institutional support in the consolidated statements of activities and changes in net assets. For the years ended June 30, 2024 and 2023, NU incurred advertising expense of approximately \$120,731,000 and \$121,265,000, respectively.

Fundraising – NU incurred direct fundraising expenses of approximately \$451,000 and \$449,000 for the years ended June 30, 2024 and 2023, respectively. The expenses were incurred to promote charitable contributions, including contributions or gifts directed toward NU's endowment. The fundraising expenses are classified as a component of institutional support in the consolidated statements of activities and changes in net assets.

Functional allocation of expenses – The costs of providing various programs and activities have been summarized on a functional basis in the accompanying consolidated statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis. Rent, maintenance, utilities, fixed asset depreciation, and interest expense are allocated ratably based upon square footage occupied. All remaining expenses are charged directly to the program benefited. See Note 16 for the classification of expenses by both the underlying nature of the expense and the function.

Income tax status – NU and NUF are non-profit organizations under Section 501(c)(3) of the Internal Revenue Code and related state provisions, and as such are not subject to federal and state income taxes except to the extent of unrelated business income. Accordingly, no provision for income taxes has been reflected in the accompanying consolidated financial statements.

Income tax benefits and/or liabilities are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more likely than not be sustained upon examination by taxing authorities. NU and NUF have analyzed the tax positions taken in its filings with the Internal Revenue Service (IRS) and the California Franchise Tax Board. NU and NUF believe income tax filing positions will be sustained upon examination and do not anticipate any adjustments that would result in a material adverse effect on NU's financial condition, changes in net assets, or cash flows. Accordingly, NU has not recorded any reserves or related accruals for interest and penalties for uncertain income tax positions at June 30, 2024 and 2023.

Debt discount, premium, and issuance costs – Debt premiums and discounts are amortized using the effective interest method over the life of the related bonds. Debt issuance costs are amortized over the term of the related debt.

Reclassifications – Certain amounts presented in the prior year consolidated financial statements have been reclassified to conform to the current year's presentation.

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Subsequent events – Subsequent events are events or transactions that occur after the consolidated statements of financial position date but before the financial statements are issued. NU recognizes in the consolidated financial statements the effects of all significant subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statements of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. NU's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statements of financial position but arose after the consolidated statements of financial position date and before the consolidated financial statements are available to be issued. NU has evaluated subsequent events through October 28, 2024, which is the date the consolidated financial statements were available to be issued. See Note 17.

Note 2 – Investments

Investments, stated at fair value, consist of the following at June 30, 2024 and 2023:

	2024	2023
Foreign equity	\$ 211,345,000	\$ 285,628,000
Domestic equity	157,984,000	245,452,000
Venture capital/private equity	416,439,000	369,602,000
Absolute return	129,897,000	141,454,000
Fixed income	78,702,000	71,040,000
Energy equity	21,703,000	21,994,000
Real assets	1,933,000	2,355,000
	<u>1,018,003,000</u>	<u>1,137,525,000</u>
Total investments	<u>\$ 1,018,003,000</u>	<u>\$ 1,137,525,000</u>

Investment return consists of the following for the years ended June 30, 2024 and 2023:

	Without Donor Restrictions	With Donor Restrictions	2024 Total
Interest income and dividends	\$ 6,522,000	\$ 203,000	\$ 6,725,000
Net realized gain	50,173,000	3,787,000	53,960,000
Net unrealized gain/(loss)	39,338,000	(735,000)	38,603,000
Investment advisory and custodial fees	(1,953,000)	(64,000)	(2,017,000)
	<u>94,080,000</u>	<u>3,191,000</u>	<u>97,271,000</u>
Total	94,080,000	3,191,000	97,271,000
Investment return designated for current operations	<u>(157,900,000)</u>	<u>-</u>	<u>(157,900,000)</u>
Investment loss net of amounts designated for current operations	<u>\$ (63,820,000)</u>	<u>\$ 3,191,000</u>	<u>\$ (60,629,000)</u>

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Notes to Consolidated Financial Statements

	2023		
	Without Donor Restrictions	With Donor Restrictions	2023 Total
Interest income and dividends	\$ 8,212,000	\$ 223,000	\$ 8,435,000
Net realized gain	45,076,000	1,303,000	46,379,000
Net unrealized gain	71,872,000	685,000	72,557,000
Investment advisory and custodial fees	(2,025,000)	(36,000)	(2,061,000)
Total	123,135,000	2,175,000	125,310,000
Investment return designated for current operations	(89,000,000)	-	(89,000,000)
Investment loss net of amounts designated for current operations	\$ 34,135,000	\$ 2,175,000	\$ 36,310,000

Note 3 – Fair Value of Investments

Fair value is the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date and establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs, other than quoted prices, that are observable for the assets or liabilities, directly or indirectly, including inputs in markets that are not considered to be active; and

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Asset classes – NU invests across a broad range of asset classes, including Foreign Equity, Domestic Equity, Venture Capital/Private Equity, Absolute Return, Fixed Income, Real Assets, and Energy Equity. NU may invest directly in the securities of these asset classes or indirectly through interest in funds and limited partnerships. Securities held directly by NU are valued at their observable market prices. The values of holdings in funds and limited partnerships are in accordance with valuations provided by their investment managers. Funds and limited partnerships may make investments in securities that are publicly traded, which are generally valued based on observable market prices, unless a restriction exists. Managers of investment funds and limited partnerships value those investments based upon the best information available for a given circumstance and may incorporate assumptions that are the investment manager's best estimates after consideration of a variety of internal and external factors. If no public market exists for the investments, the fair value is determined by the investment manager taking into consideration, among other things, the cost of the investment, prices of recent significant placements of similar investments of the same issuer, and subsequent developments concerning the companies to which the investments relate.

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Notes to Consolidated Financial Statements

Investments held in NU's investment pool are categorized as follows:

Foreign equity – This category includes investments in funds that invest in international equities in emerging markets. The investments follow a value-based stock selection approach, buying companies whose shares appear under-valued on the basis of long-term earning power or asset backing. There are approximately \$13,856,000 of the funds that are subject to annual liquidation.

Domestic equity – This category includes investments in traditional equities and funds that invest primarily in publicly traded equity securities of companies in domestic markets. These investments bring diversity to NU's portfolio with the objective of long-term growth to NU's endowment funds.

Fixed income – This category includes investments in bond funds that invest in domestic instruments and sovereign debt instruments of global markets.

Real assets – This category includes investments in partnerships or funds that invest in foreign and domestic real estate, domestic and foreign energy, and natural resources.

Energy equity – This category includes investments in partnerships that invest in commodities to enhance NU's portfolio and provide a partial inflation hedge.

Absolute return – This category includes investments in single strategy and multi-strategy investment managers in various hedged strategies such as merger and risk arbitrage, distressed securities, asset-backed securities, and other credit and volatility strategies. These strategies are designed to provide equity-like returns regardless of the economic environment, with limited correlation to the traditional equity and fixed-income markets. Additionally, approximately \$36,800,000 of funds have a 50% annual redemption limit.

Venture capital/private equity – This category consists of several investments in venture capital and private equity funds. The funds' holdings primarily include privately owned domestic companies in a wide variety of industries. NU does not have any redemption rights in these investments, and the investments have remaining lives between one and ten years.

The following table presents the fair value of investments within the fair value hierarchy at June 30, 2024 and 2023:

	Fair Value Measurements at June 30, 2024			
	Level 1	Level 2	Level 3	Total
Investments				
Foreign equity	\$ 44,885,000	\$ 44,212,000	\$ -	\$ 89,097,000
Domestic equity	44,165,000	-	-	44,165,000
Fixed income	60,568,000	-	-	60,568,000
Energy equity	33,000	-	-	33,000
Real assets	9,000	-	-	9,000
Total	<u>\$ 149,660,000</u>	<u>\$ 44,212,000</u>	<u>\$ -</u>	193,872,000
Investments measured at net asset value				<u>824,132,000</u>
Investments at fair value				<u>\$ 1,018,003,000</u>

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Notes to Consolidated Financial Statements

Fair Value Measurements at June 30, 2023				
	Level 1	Level 2	Level 3	Total
Investments				
Foreign equity	\$ 46,650,000	\$ 67,322,000	\$ -	\$ 113,972,000
Domestic equity	40,814,000	-	-	40,814,000
Venture Capital/Private Equity	1,055,000			1,055,000
Fixed income	45,923,000	-	-	45,923,000
Energy equity	33,000	-	-	33,000
Real assets	7,000	-	-	7,000
Total	<u>\$ 134,482,000</u>	<u>\$ 67,322,000</u>	<u>\$ -</u>	201,804,000
Investments measured at net asset value				<u>935,721,000</u>
Investments at fair value				<u>\$ 1,137,525,000</u>

Note 4 – Fair Value Measurements of Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent)

The following table provides additional information for investments valued at NAV at June 30, 2024:

Asset Category	NAV in Funds	Number of Funds	Redemption Terms	Unfunded Commitments at Year End
Foreign equity	\$ 122,248,000	7	Monthly to annually	\$ -
Absolute return	129,897,000	15	Monthly to not eligible for redemption given side pocket agreement	-
Venture capital/private equity	416,439,000	111	Closed end funds not eligible for redemption	190,142,000
Domestic equity	113,820,000	3	Daily to monthly	-
Fixed income	18,135,000	2	Daily to quarterly	-
Real assets	1,922,000	8	Closed end funds not eligible for redemption	848,000
Energy equity	<u>21,671,000</u>	11	Closed end funds not eligible for redemption	<u>3,538,000</u>
	<u>\$ 824,132,000</u>			<u>\$ 194,528,000</u>

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Notes to Consolidated Financial Statements

Note 5 – Net Assets

Net assets with donor restrictions at June 30, 2024 and 2023, are comprised of:

	2024	2023
Special projects, new facilities and equipment, and new programs	\$ 8,906,000	\$ 7,657,000
Technology	7,593,000	6,852,000
Academic and other programs	4,564,000	3,937,000
Scholarship funds	2,470,000	2,161,000
Faculty scholarship funds	561,000	517,000
	<u>24,094,000</u>	<u>21,124,000</u>
 Total purpose restrictions	 <u>24,094,000</u>	 <u>21,124,000</u>
 Special projects, new facilities and equipment, and new programs	 5,828,000	 5,828,000
Academic and other programs	3,830,000	3,830,000
Technology	2,282,000	2,282,000
Scholarship funds	1,443,000	1,443,000
Faculty scholarship funds	389,000	389,000
	<u>13,772,000</u>	<u>13,772,000</u>
 Total perpetual funds	 <u>13,772,000</u>	 <u>13,772,000</u>
 Total net assets with donor restrictions	 <u>\$ 37,866,000</u>	 <u>\$ 34,896,000</u>

Net assets with donor restrictions totaling \$339,000 and \$268,000 were released from restriction by satisfying donor restrictions through use for special projects, new facilities and equipment, and new programs during the years ended June 30, 2024 and 2023, respectively.

Net assets without donor restrictions – Board-designated consist of the following at June 30, 2024 and 2023:

	2024	2023
Capital Reserve Fund (Board designated)	\$ 914,377,000	\$ 980,866,000
Undesignated	(20,116,000)	4,860,000
	<u>\$ 894,261,000</u>	<u>\$ 985,726,000</u>
Total Net Assets without donor restrictions	<u>\$ 894,261,000</u>	<u>\$ 985,726,000</u>

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Changes in the Board-designated – capital reserve for the years ended June 30, 2024 and 2023, are as follows:

Board-designated – capital reserve, July 1, 2022	\$ 1,026,013,000
Investment return	100,354,000
Board appropriation of assets for expenditure	<u>(145,501,000)</u>
Board-designated – capital reserve, June 30, 2023	980,866,000
Investment return	91,447,000
Board appropriation of assets for expenditure	<u>(157,936,000)</u>
Board-designated – capital reserve, June 30, 2024	<u><u>\$ 914,377,000</u></u>

During the years ended June 30, 2024 and 2023, the Board approved and NU incurred capital reserve spending for scholarships and for the completion of projects related to online delivery methods.

Endowment funds – As required by accounting principles generally accepted in the United States of America, net assets are classified and reported based on the existence or absence of donor-imposed restrictions. NU's endowment funds represent net assets with donor restrictions. NU's endowment funds were established by donor-restricted contributions to provide a permanent endowment, which is to provide a permanent source of income. The portion of an endowment that must be maintained in perpetuity – not used, expended, or otherwise exhausted – is classified as net assets with donor restrictions.

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires NU to retain as a fund of perpetual duration. Deficiencies of this nature are reported in net assets with donor restrictions. There were no such deficiencies at June 30, 2024 and 2023.

Interpretation of relevant law – NU has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, NU classifies as net assets with donor restrictions – endowment funds: (1) the original value of the gifts donated to the endowment; (2) the original value of subsequent gifts to the endowment; and (3) accumulations of the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Earnings on the endowment are classified as net assets with donor restrictions until those amounts are appropriated for expenditure as prescribed by UPMIFA.

In accordance with UPMIFA, NU considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purpose of NU and the endowment fund;
3. General economic conditions;
4. The possible effects of inflation and deflation;
5. The expected total return from income and the appreciation of investments;

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Notes to Consolidated Financial Statements

6. Other resources of NU; and
7. NU's investment policy.

Return objectives and risk parameters – NU has adopted investment and spending policies for endowment assets that are meant to ensure that the endowment's purchasing power is maintained over time by keeping the long-term rate of annual spending from the endowment equal to or less than the long-term real (inflation-adjusted) investment return of the endowment fund. Endowment assets include those assets of donor-restricted funds that NU must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that have NU finishing in the top half of universities, as measured by annual university performance surveys. This return (net of investment management fees) is expected to be in excess of the annual set spending rate over the long term. NU currently does not expend any monies out of its endowment funds.

Strategies employed for achieving objectives – NU's target asset allocation is a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). NU targets a diversified asset allocation that places an emphasis on equity-based and absolute return funds to achieve its long-term return objectives within prudent risk constraints.

Spending policy – NU has a policy of providing for distributions up to five percent of a five-year moving average of the endowment's monthly market values. The policy reflects expectations about long-term returns and inflation rates.

Subsequent to year end, NU adopted a Bridge Investment Policy for the Cap Reserve Fund which provides the Board of Trustees with the right to suspend or terminate withdrawals or authorize withdrawals beyond the spending policy at any time. During the Bridge Period, withdrawals from the Cap Reserve Fund will be separate from those under the spending policy and be used to fund various strategic investments.

The composition of the endowment consists of the following as of June 30, 2024 and 2023:

	2024		
	Original Gift Amount	Accumulated Endowment Earnings	Total Endowment
Donor-restricted endowment funds			
Donor corpus restricted in perpetuity	\$ 13,772,000	\$ -	\$ 13,772,000
Unappropriated endowment earnings	-	20,609,000	20,609,000
Total endowment funds	<u>\$ 13,772,000</u>	<u>\$ 20,609,000</u>	<u>\$ 34,381,000</u>

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	2023		
	Original Gift Amount	Accumulated Endowment Earnings	Total Endowment
Donor-restricted endowment funds			
Donor corpus restricted in perpetuity	\$ 13,772,000	\$ -	\$ 13,772,000
Unappropriated endowment earnings	-	17,735,000	17,735,000
Total endowment funds	<u>\$ 13,772,000</u>	<u>\$ 17,735,000</u>	<u>\$ 31,508,000</u>

Changes in endowment funds for the years ended June 30, 2024 and 2023, are as follows:

Donor-restricted endowment funds, July 1, 2022	<u>\$ 29,499,000</u>
Investment return	
Investment income	1,490,000
Net unrealized gain on investments	<u>685,000</u>
Total investment return	<u>2,175,000</u>
Released for spend	<u>(188,000)</u>
Contributions	<u>22,000</u>
Donor-restricted endowment funds, June 30, 2023	<u>31,508,000</u>
Investment return	
Investment income	3,926,000
Net unrealized loss on investments	<u>(735,000)</u>
Total investment return	<u>3,191,000</u>
Released for spend	<u>(318,000)</u>
Contributions	<u>-</u>
Donor-restricted endowment funds, June 30, 2024	<u><u>\$ 34,381,000</u></u>

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Notes to Consolidated Financial Statements

Note 6 – Property and Equipment

Property and equipment at June 30, 2024 and 2023, are as follows:

	2024	2023
Land and land improvements	\$ 20,356,000	\$ 20,340,000
Buildings and leasehold improvements	41,977,000	42,846,000
Furniture and equipment	23,363,000	21,130,000
	85,696,000	84,316,000
Less accumulated depreciation and amortization	(45,488,000)	(41,574,000)
Property and equipment, net	<u>\$ 40,208,000</u>	<u>\$ 42,742,000</u>

Depreciation and amortization expense for the years ended June 30, 2024 and 2023, was \$4,332,000 and \$6,060,000, respectively.

Note 7 – Intangible Assets

Intangible assets and goodwill related to an acquisition and asset purchase are summarized below as of June 30, 2024 and 2023:

		2024			
	Original Useful Life (Years)	Gross Carrying Amount	Impairment Write Down	Accumulated Amortization	Net Book Value
Technology	10	\$ 17,591,000	\$ -	\$ 11,870,000	\$ 5,721,000
Accreditations	50	16,800,000	-	1,848,000	14,952,000
Curriculum	7.5	5,200,000	-	3,813,000	1,387,000
Library	10	800,000	-	440,000	360,000
Total intangible assets		<u>\$ 40,391,000</u>	<u>\$ -</u>	<u>\$ 17,971,000</u>	<u>\$ 22,420,000</u>

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2023					
	Original Useful Life (Years)	Gross Carrying Amount	Impairment Write Down	Accumulated Amortization	Net Book Value
Technology	10	\$ 29,000,000	\$ -	\$ 10,598,000	\$ 6,993,000
Prior year impairment		(11,409,000)			
Accreditations	50	16,800,000	-	1,512,000	15,288,000
Curriculum	7.5	5,200,000	-	3,120,000	2,080,000
Library	10	800,000	-	360,000	440,000
Total intangible assets		<u>40,391,000</u>	<u>-</u>	<u>15,590,000</u>	<u>24,801,000</u>
Goodwill	10	81,084,000	(43,017,000)	32,928,000	-
Prior year Impairment		(5,139,000)	-	-	-
		<u>75,945,000</u>	<u>(43,017,000)</u>	<u>32,928,000</u>	<u>-</u>
Total intangible assets		<u>\$ 116,336,000</u>	<u>\$ (43,017,000)</u>	<u>\$ 48,518,000</u>	<u>\$ 24,801,000</u>

Amortization expense for the years ended June 30, 2024 and 2023, was \$2,381,000 and \$8,767,000, respectively.

Amortization of intangible assets in future years is estimated to be as follows:

Years Ending June 30,	
2025	\$ 2,381,000
2026	2,381,000
2027	1,687,000
2028	1,687,000
2029	1,687,000
Thereafter	<u>12,597,000</u>
	<u>\$ 22,420,000</u>

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Note 8 – Bond Payable

The California Municipal Finance Authority (the Authority) issued its Revenue Bonds Series 2019A (Tax-Exempt) and Series 2019B (Taxable) (2019 Bonds) to finance SMG's acquisition of NCU Holdings LLC and its subsidiaries, an online educational institution, and to pay SMG's costs of issuance related to the 2019 Bonds. As part of the transfer of SMG's assets and liabilities to NU in fiscal year 2023, NU assumed the obligation for the outstanding bonds payable and was released as the guarantor of the bonds.

	<u>Maturity</u>	<u>2024</u>	<u>2023</u>
Series 2019A, tax-exempt revenue bond, par value \$57,205,000, bearing interest at 5%, payable semi-annually on each April 1 and October 1, commencing October 2019	2026–2041	\$ 57,205,000	\$ 57,205,000
Plus unamortized premium		6,962,000	7,474,000
Series 2019B, taxable revenue bond, par value \$113,520,000, bearing interest at rates from 3.0%–4.8%, payable semiannually on each April 1 and October 1, commencing October 2019	2020–2049	98,930,000	102,220,000
Less unamortized discount		(89,000)	(92,000)
Less unamortized debt issuance costs		(1,415,000)	(1,472,000)
		<u>\$ 161,593,000</u>	<u>\$ 165,335,000</u>

Future principal payment requirements on the 2019 Bonds are as follows:

Years Ending June 30,	
2025	\$ 3,400,000
2026	3,520,000
2027	3,670,000
2028	3,850,000
2029	4,045,000
Thereafter	<u>137,650,000</u>
Total	<u>\$ 156,135,000</u>

2019 Series A bonds may be redeemed after the April 1, 2030 maturity date. 2019 Series B bonds may be redeemed after the April 1, 2029 maturity date. In conjunction with the issuance of the 2019 Bonds, underwriting and other bond issuance costs of \$1,724,000 were incurred which are being amortized over the life of the 2019 Bonds. Unamortized discount and issuance costs are \$1,504,000 and \$1,564,000 as of June 30, 2024 and 2023, respectively.

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Concurrent with the issue of the 2019 Bonds, NU entered into a guaranty agreement with the bond trustee to guarantee all principal and interest payments under the 2019 Bonds. NU agreed for any fiscal year in which NU's financial resources to total debt ratio is less than 1.5, NU shall not transfer an aggregate amount of its cash and investments, without donor restrictions, to one or more of its affiliates that is in excess of 5% of the total amount of cash and investments, without donor restrictions, provided that certain loans or purchases or sales of goods or services with affiliates may be excluded from the above restriction.

Concurrent with the transfer of SMG's assets and liabilities to NU, NU assumed liability of the bond obligation and was released as guarantor on the bonds. The covenant related to transfers of cash and investments remained in place.

Note 9 – Leases

Operating leases – NU leases classroom space, administrative offices, and certain equipment under operating lease agreements which require monthly aggregate rental payments of approximately \$114,000, expiring through May 2027. These leases contain various renewal options and rental escalations as defined in the rental agreements. These options have not been included as part of the ROU Asset or Obligation as they are not reasonably certain they will be exercised. Lease terms related to the right-to-use asset and corresponding obligation are as follows:

Weighted-average remaining lease term in years for operating leases	1.75
Weighted-average discount rate for operating leases	1.62%

All NU leases have been determined to be operating leases under ASC 842.

Future minimum lease payments in each of the years subsequent to June 30, 2024, are as follows:

	<u>Operating Lease</u>
Years Ending June 30,	
2025	\$ 1,979,000
2026	1,393,000
2027	<u>522,000</u>
	3,894,000
Less discount to present value	<u>(32,000)</u>
Right-of-use obligations, operating	<u><u>\$ 3,862,000</u></u>

Note 10 – Commitment and Contingencies

Federal and state financial aid – NU participates in various federal and state financial aid programs for the benefit of students who attend NU. These programs have strict requirements for participation and NU is subject to government program reviews covering compliance with laws and regulations. Specific areas of review include student program eligibility, coordination of financial aid programs, and other matters.

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Notes to Consolidated Financial Statements

Federal, state, and private grants and contracts – NU receives funds from federal, state, and private agencies under grants and contracts for training and other activities. Both direct and indirect costs charged to these grants and contracts are subject to audit and possible disallowance by the sponsoring agency. It is NU's belief that disallowances or adjustments, if any, would not have a material effect on the financial statements.

Litigation – NU is subject to claims and actions arising in the ordinary course of business. In the opinion of management, based in part upon the advice of legal counsel, these matters are of such a nature that unfavorable disposition would not have a material adverse effect on the financial position of NU.

Revolving Credit Agreement – In January 2024, the University entered into a revolving credit agreement through June 2025. The new facility provides for borrowings up to \$30,000,000, which includes a standby letter of credit facility not to exceed \$5,000,000. See Note 17.

Borrowings on the revolving credit line will bear interest at a variable rate, SOFR (secured overnight financing rate) Daily, One, Three- or Six-Month rates plus 0.10% – 0.25% depending on the length of borrowing as elected by NU at the time a draw is made on the line. There were no borrowings on the line as of June 30, 2024. Interest expense incurred on the line during the year ended June 30, 2024, totaled \$125,000 and has been included in the attached consolidated statement of activities.

NU's insurance carriers require that NU maintain secured letters of credit for claims that do not exceed certain deductible amounts. For the years ended June 30, 2024 and 2023, the amount of the letter of credit facilities was \$500,000. The letters of credit were not used during the years ended June 30, 2024 and 2023, and therefore no liability has been recorded in the accompanying consolidated statements of financial position.

In October 2023, NU issued a letter of credit to the DOE for approximately \$915,000 for participation in the DOE's Title IV programs. The letter of credit expires November 30, 2025.

In January 2023, NU renewed a secured \$600,000 letter of credit in favor of a landlord. The letter of credit expires in July 2024 at which time it will be cancelled as the related lease will have terminated. The letter of credit was not used during the years ended June 30, 2024 and 2023, and therefore no liability has been recorded in the accompanying consolidated statements of financial position.

Borrower Defense – During the year ended June 30, 2024, the Department of Education (ED) sent notice to Northcentral University and National University that it had received borrower defense to repayment applications filed by students from NCU and NU. Each application seeks forgiveness of federal student loans made to these students. In the notices received, ED indicated that (1) the notification was occurring prior to any substantive review of the application as well as its adjudication; (2) it would send the applications to each institution in batches of 500 per week; (3) it is optional for institutions to respond to the applications; and (4) not responding will result in no negative inference by ED. ED has also explained that it will separately decide whether to seek recoupment on any approved claim and that any recoupment actions ED chooses to initiate will have their own notification and response processes, which include an opportunity to provide additional evidence to the institutions. ED has indicated that an institution will learn of ED's determination to forgive student loans only if it approves a borrower defense to repayment application and ED seeks recoupment. NCU and NU have responded to all of the applications received and they believe an unfavorable disposition would not have a material adverse effect on the financial position of NU.

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Notes to Consolidated Financial Statements

Other – In August 2018, NU created an escrow account in the amount of \$124,000 at the DOE on behalf of WestMed College (WMC). The escrow account will be held by the DOE until the finalization of WMC's participation in Title IV programs.

Note 11 – Employee Retirement Plans

NU sponsors a 403(b) plan for its employees of NU and the employees of CU. Employees are eligible to participate in the NU 403(b) plan, which covers employees ages 18 or older. Employees may defer salaries into the plan up to the maximum allowed by the IRS. Generally, NU provides matching contributions dollar for dollar plus 1 percent of participants' elective deferrals to the plan, limited to 7 percent of compensation. Matching contributions are immediately vested. For the years ended June 30, 2024 and 2023, NU recorded approximately \$9,865,000 and \$8,360,000, respectively, in matching contributions relating to the 403(b) plan.

Note 12 – Related-Party Transactions

NU performs services for an affiliate as described below.

Cash disbursement processing – NU processes cash disbursements on behalf of an affiliate listed below for certain fringe benefits (medical, dental, and vision insurance).

Management and administrative services – NU affiliates may utilize NU for some of their administrative functions such as technology, and human resources support.

CU – Activity in the due from affiliate for the years ended June 30, 2024 and 2023, was as follows:

Due from CU, July 1, 2022	\$ 642,000
Management and administrative services	5,212,000
Contribution to CU	(1,760,000)
Cash paid by CU	<u>(3,266,000)</u>
Due from CU, June 30, 2023	828,000
Management and administrative services	2,461,000
Cash paid by CU	<u>(3,001,000)</u>
Due from CU, June 30, 2024	<u><u>\$ 288,000</u></u>

Board members' immediate family members received tuition waivers in the amount of \$32,000 and \$12,000, for the years ended June 30, 2024 and 2023, respectively.

Certain Board members provide services to NU. Fees earned were \$70,000 and \$129,000, for the years ended June 30, 2024 and 2023, respectively.

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Notes to Consolidated Financial Statements

Note 13 – Concentrations of Credit Risk

Financial instruments which potentially subject NU to concentrations of credit risk consist primarily of cash and cash equivalents, student accounts and loans receivable, and investments.

NU's cash and cash equivalents in bank deposit accounts and its investment portfolio exceed federally insured deposit limits. The risk associated with these accounts is considered low as they are held in highly rated financial institutions. NU has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

With respect to student accounts and loans receivable, the concentration of credit risk is limited due to the large number of students, generally short payment terms, and participation in government financial aid programs. NU evaluates its receivables balances and establishes an allowance for credit losses (see Note 1).

A significant number of students attending NU receive financial assistance from Federal Student Financial Aid Programs. These programs require NU to comply with recordkeeping, eligibility, and other requirements. Failure to comply with such federal requirements in the future could result in the loss of federal financial assistance to NU's students and adversely impact the operations of NU.

Note 14 – Self-Insurance

NU is self-insured up to certain limits (\$250,000 per individual and cumulative monthly aggregate limits) for employee health care claims. Self-insurance liabilities are determined by management based on claims filed and an estimate for claims incurred but not reported. While management believes that the amounts are adequate, there can be no assurance that changes to the estimates may not occur due to limitations inherent in the estimation process.

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Notes to Consolidated Financial Statements

Note 15 – Liquidity

The following table reflects NU's liquid financial assets as of June 30, 2024 and 2023. Financial assets not available for general expenditures due to contractual or donor-imposed restrictions are not included below.

	2024	2023
Financial assets		
Cash and cash equivalents	\$ 60,326,000	\$ 14,588,000
Restricted cash	12,047,000	4,902,000
Student accounts receivable, net	59,315,000	57,255,000
Government receivables	5,351,000	2,662,000
Student loans receivable, net	322,000	679,000
Institutional loans receivable, net	1,312,000	3,719,000
Due from affiliate	288,000	828,000
Investments	1,018,003,000	1,137,525,000
Total financial assets	<u>1,156,964,000</u>	<u>1,222,158,000</u>
Less amounts not available to be used within one year		
Investments held on behalf of others	(22,597,000)	(20,816,000)
Restricted cash	(12,047,000)	(4,902,000)
Federal Perkins Loan Program restricted cash	(944,000)	(2,546,000)
Student loans not due within one year	(199,000)	(530,000)
Institutional loans not due within one year	(373,000)	(2,776,000)
Donor-restricted net assets	(37,866,000)	(34,896,000)
Board-designated net assets	(914,377,000)	(980,866,000)
Financial assets not available to be used within one year	<u>(988,403,000)</u>	<u>(1,047,332,000)</u>
Financial assets available for general expenditures within one year	<u>\$ 168,561,000</u>	<u>\$ 174,826,000</u>

None of the financial assets above are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the consolidated statements of financial position date except as noted. Student accounts receivable are subject to implied time restrictions but are expected to be collected within one year. NU has a practice of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, NU invests cash in excess of daily requirements in various short-term investments.

The University also has a \$30,000,000 line of credit available for operational deficits, if needed.

Board-designated net assets are available within one year for operations upon Board approval.

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Notes to Consolidated Financial Statements

Note 16 – Classification of Expenses

The following reflects the classification of NU's expenses by both the underlying nature of the expense and the function, for the years ended June 30, 2024 and 2023. An individual expense is allocated to the underlying activity to which it was incurred. The consolidated statements of activities include certain expenses which must be allocated on a reasonable basis which have been consistently applied; see methodology in Note 1.

	2024					
	Institutional Support	Instruction	Student Services	Academic Support	Research and public support	Total
Salaries and wages	\$ 49,166,000	\$ 85,372,000	\$ 57,674,000	\$ 16,694,000	\$ 2,264,000	\$ 211,170,000
Supplies and services	161,134,000	8,695,000	8,311,000	4,311,000	2,745,000	185,196,000
Employee benefits and related	18,037,000	17,259,000	20,264,000	4,792,000	623,000	60,975,000
Occupancy and maintenance	26,651,000	4,377,000	1,809,000	1,284,000	422,000	34,543,000
Depreciation and amortization	5,592,000	735,000	293,000	692,000	-	7,312,000
Total expenses	<u>\$ 260,580,000</u>	<u>\$ 116,438,000</u>	<u>\$ 88,351,000</u>	<u>\$ 27,773,000</u>	<u>\$ 6,054,000</u>	<u>\$ 499,196,000</u>

	2023					
	Institutional Support	Instruction	Student Services	Academic Support	Research and public support	Total
Salaries and wages	\$ 50,523,000	\$ 82,113,000	\$ 63,270,000	\$ 17,256,000	\$ 1,410,000	\$ 214,572,000
Supplies and services	201,701,000	6,651,000	14,228,000	6,158,000	823,000	229,561,000
Employee benefits and related	30,951,000	11,622,000	13,631,000	2,690,000	325,000	59,219,000
Occupancy and maintenance	17,110,000	4,221,000	2,561,000	1,377,000	106,000	25,375,000
Depreciation and amortization	12,357,000	1,530,000	156,000	784,000	-	14,827,000
Interest and fees	27,000	-	-	-	-	27,000
Total expenses	<u>\$ 312,669,000</u>	<u>\$ 106,137,000</u>	<u>\$ 93,846,000</u>	<u>\$ 28,265,000</u>	<u>\$ 2,664,000</u>	<u>\$ 543,581,000</u>

Note 17 – Subsequent Event

In September of 2024, National University took occupancy of a 25,000 square foot office building located in Los Angeles, California. This new space will be used as classroom space. The new lease term is for 6 years, with monthly aggregate rental payments of approximately \$93,000.

On September 30, 2024, the University amended its existing revolving credit agreement with a bank. The agreement provides for borrowings to \$65,000,000 with up to \$30,000,000 reserved for letters of credit. All other terms and conditions remained essentially unchanged.