



Consolidated Financial Statements and  
Report of Independent Certified Public  
Accountants

**AccessLex Institute**

March 31, 2023 and 2022

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Board of Directors  
AccessLex Institute

**Opinion**

We have audited the consolidated financial statements of AccessLex Institute and subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of March 31, 2023 and 2022, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for opinion**

We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US 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 Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the 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 US 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 US 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 financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

*Grant Thornton LLP*

Philadelphia, Pennsylvania  
July 19, 2023

**AccessLex Institute**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**March 31,**

(In thousands)

| <b>ASSETS</b>                          | <u><b>2023</b></u>         | <u><b>2022</b></u>         |
|--|----------------------------|----------------------------|
| Cash and cash equivalents              | \$ 7,520                   | \$ 7,805                   |
| Investments, at fair value             | 739,518                    | 802,314                    |
| Restricted cash and cash equivalents   | 68,026                     | 95,628                     |
| Student loans receivable, net          | 904,180                    | 1,182,683                  |
| Accrued interest receivable            | 39,597                     | 41,165                     |
| Other assets                           | <u>15,211</u>              | <u>10,132</u>              |
| Total assets                           | <u><u>\$ 1,774,052</u></u> | <u><u>\$ 2,139,727</u></u> |
| <br><b>LIABILITIES AND NET ASSETS</b>  |                            |                            |
| Asset-backed notes, net                | \$ 901,474                 | \$ 1,216,027               |
| Other liabilities                      | <u>41,181</u>              | <u>26,577</u>              |
| Total liabilities                      | <u>942,655</u>             | <u>1,242,604</u>           |
| Net assets, without donor restrictions | <u>831,397</u>             | <u>897,123</u>             |
| Total liabilities and net assets       | <u><u>\$ 1,774,052</u></u> | <u><u>\$ 2,139,727</u></u> |

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

AccessLex Institute

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended March 31,

(In thousands)

|   | <u>2023</u>              | <u>2022</u>              |
|---|--------------------------|--------------------------|
| <b>Operating revenues:</b>                          |                          |                          |
| Interest income                                     | \$ 59,540                | \$ 40,242                |
| Interest expense                                    | <u>52,623</u>            | <u>41,995</u>            |
| Net interest income (loss)                          | 6,917                    | (1,753)                  |
| Provision for loan losses                           | <u>10,000</u>            | <u>10,000</u>            |
| Net interest income after provision for loan losses | 16,917                   | 8,247                    |
| Other operating income                              | <u>190</u>               | <u>3,978</u>             |
| Total operating revenues                            | <u>17,107</u>            | <u>12,225</u>            |
| <b>Operating expenses:</b>                          |                          |                          |
| Program services expenses                           | 21,349                   | 20,210                   |
| Management and general expenses                     | <u>11,859</u>            | <u>10,014</u>            |
| Total operating expenses                            | <u>33,208</u>            | <u>30,224</u>            |
| Change in net assets from operations                | (16,101)                 | (17,999)                 |
| <b>Nonoperating (expenses) income:</b>              |                          |                          |
| Investment return                                   | <u>(49,625)</u>          | <u>19,477</u>            |
| Total nonoperating (expenses) income                | <u>(49,625)</u>          | <u>19,477</u>            |
| Change in net assets                                | (65,726)                 | 1,478                    |
| Net assets, beginning of year                       | <u>897,123</u>           | <u>895,645</u>           |
| Net assets, end of year                             | <u><u>\$ 831,397</u></u> | <u><u>\$ 897,123</u></u> |

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

AccessLex Institute

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31,

(In thousands)

|   | <u>2023</u>      | <u>2022</u>       |
|---|------------------|-------------------|
| <b>Cash flows from operating activities:</b>  |                  |                   |
| Change in net assets  | \$ (65,726)      | \$ 1,478          |
| Adjustments to reconcile change in net assets to net cash used in operating activities: |                  |                   |
| Net amortization of deferred costs and fees   | 101              | 2,140             |
| Net amortization of note discount   | 627              | 925               |
| Debt accretion  | 9,489            | 10,469            |
| Accretion of interest income  | (11,110)         | (13,201)          |
| Depreciation  | 1,026            | 650               |
| Provision for loan losses   | (10,000)         | (10,000)          |
| Net realized and unrealized loss (gain) on investments                                  | 57,081           | (10,660)          |
| Reinvested investment dividends   | (7,825)          | (9,295)           |
| Deferred financing costs  | 70               | 243               |
| Decrease (increase) in operating assets:  |                  |                   |
| Accrued interest receivable   | (7,225)          | 7,983             |
| Prepaid expenses and other current assets   | (3,519)          | (942)             |
| Increase in operating liabilities   | 14,604           | 14,788            |
| Net cash used in operating activities   | <u>(22,407)</u>  | <u>(5,422)</u>    |
| <b>Cash flows from investing activities:</b>  |                  |                   |
| Proceeds from sale of loans   | -                | 597,021           |
| Student loan principal payments   | 308,305          | 312,893           |
| Purchases of property and equipment   | (2,657)          | (3,276)           |
| Proceeds from sale of investments   | 65,363           | 83,500            |
| Purchases of investments  | (51,822)         | (125,086)         |
| Net cash provided by investing activities   | <u>319,189</u>   | <u>865,052</u>    |
| <b>Cash flows from financing activities:</b>  |                  |                   |
| Repayment of debt principal   | (324,669)        | (568,135)         |
| Repayment on short term credit facility   | -                | (303,821)         |
| Net cash used in financing activities   | <u>(324,669)</u> | <u>(871,956)</u>  |
| Net decrease in cash, cash equivalents and restricted cash                              | (27,887)         | (12,326)          |
| <b>Cash, cash equivalents and restricted cash at beginning of year</b>                  | <u>103,433</u>   | <u>115,759</u>    |
| <b>Cash, cash equivalents and restricted cash at end of year</b>                        | <u>\$ 75,546</u> | <u>\$ 103,433</u> |
| <b>Reconciliation to amounts on consolidated statement of financial position</b>        |                  |                   |
| Cash and cash equivalents   | \$ 7,520         | \$ 7,805          |
| Restricted cash and cash equivalents  | 68,026           | 95,628            |
| Total cash, cash equivalents and restricted cash  | <u>\$ 75,546</u> | <u>\$ 103,433</u> |
| <b>Supplemental disclosure of cash flow information:</b>                                |                  |                   |
| Cash paid for interest  | \$ 29,108        | \$ 12,987         |
| <b>Supplemental disclosures of noncash investing transactions:</b>                      |                  |                   |
| Capitalization of accrued interest to student loans receivable                          | \$ 8,793         | \$ 9,565          |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2023 and 2022

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Description of Business***

AccessLex Institute, incorporated in 1993, and its subsidiaries (collectively, the Company), is a Delaware nonstock, nonprofit membership corporation organized to promote access and affordability to legal and other higher education through financing and related services. The Company's members are comprised of state-operated/affiliated/supported and nonprofit American Bar Association-approved law schools located in the United States and Puerto Rico and number 194 as of March 31, 2023. The Company has received an Internal Revenue Service (the IRS) determination that it is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code) and that it is not a private foundation within the meaning of Section 509(a) of the Code because it is an organization described in Section 509(a)(2) of the Code.

The Company has established a Delaware statutory trust, Access Group Loan Reserve Trust I, as a separate legal entity for the purpose of holding, in trust, funds that are pledged for the payment of loan default claims on certain private student loans.

During fiscal year 2011, the Company established a limited liability corporation (LLC), Access Funding 2010-A, LLC (2010-A), for the purpose of holding a pool of private student loan assets that are pledged for the payment of specific student loan asset-backed notes and certificates.

During fiscal year 2011, the Company established a Delaware corporation, Agility Loan Services, Inc. (Agility), to manage certain business activities in connection with its management of its loan originations and loan servicing operations then in existence, and to perform other lawful activities permitted under the Delaware General Corporation Law. Agility has been inactive since its date of incorporation and has no assets or liabilities to date. The Company is the sole shareholder of Agility.

During fiscal year 2013, the Company established a limited liability corporation, Access Funding 2013-1, LLC (2013-1), for the purpose of refinancing the pool of federally guaranteed student loan assets previously held in Access Funding ABCP-I, LLC. These assets are pledged for the payment of specific student loan asset-backed notes.

During fiscal year 2015, the Company formed AGI Funding Corporation as a separate legal entity for the purpose of supporting the educational and charitable activities of its sole member (AccessLex Institute) by engaging in the following activities: (1) managing and otherwise overseeing certain investment assets of the Company; (2) providing operating funds to the Company; and (3) providing funding to certain other tax-exempt public charities as may be directed by the Company. The Company received notice that AGI Funding Corporation was recognized as a tax-exempt entity under Section 501(c)(3) of the Code as of September 19, 2014. In March 2020, due to periods of inactivity, the Company voluntarily coordinated with the IRS on the revocation of AGI Funding Corporation's tax-exempt status effective April 2017. Effective March 31, 2020, the Company dissolved AGI Funding Corporation. AGI Funding Corporation has been inactive since its date of incorporation and had no assets or liabilities through the date of dissolution.

During fiscal year 2016, the Company established a limited liability corporation, Access Funding 2015-1, LLC (2015-1), for the purpose of refinancing the pool of federally guaranteed student loan assets previously held in Access Group, Inc.'s Series 2008-1 transaction. These assets are pledged for the payment of specific student loan asset-backed notes.

During fiscal year 2016, the Company formed Milan Acquisition, LLC, a Delaware single-member LLC. On December 18, 2015, Milan Acquisition, LLC acquired all of the assets and assumption of certain liabilities of Lawyer Metrics, LLC, an Indiana LLC. Subsequent to closing, Lawyer Metrics, LLC changed its name to LM Legacy, LLC, and Milan Acquisition, LLC changed its name to Lawyer Metrics, LLC. Lawyer Metrics, LLC was engaged in the business of offering products and services to the legal industry, including strategic data analysis, applied research and human capital management for law firms.

**AccessLex Institute**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**March 31, 2023 and 2022**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The acquisition was treated as a business combination under purchase accounting.

Effective May 26, 2017, Lawyer Metrics, LLC changed its name to LawyerMetrix, LLC.

Effective February 1, 2019, the Company ceased all then current operations performed by LawyerMetrix, LLC.

During fiscal year 2020, the Company formed AccessLex Bar Success, Inc. (Helix) as a separate legal entity for the purpose of supporting the educational and charitable activities of its sole member (AccessLex Institute) by developing and operating a not-for-profit legal studies course for students completing law school and preparing to take the Bar examination. The Company received notice that Helix was recognized as a tax-exempt entity under Section 501(c)(3) of the Code as of August 19, 2019.

Effective August 19, 2020, Accesslex Bar Success, Inc. changed its name to Helix Bar Review, Inc.

During fiscal year 2021, the Company established a limited liability corporation, Access Warehouse Funding 2020-1, LLC (2020-1), for the purpose of refinancing the pool of federally guaranteed student loan assets previously pledged as collateral in the Company's Series 2005-1 and 2005-2 asset-backed securitization trusts. These assets were pledged for the payment of the related credit facility (refer to Note 11).

In April 2021, the Company sold the federally guaranteed student loan assets previously pledged as collateral to 2020-1. These assets were classified as held-for-sale as of March 31, 2021. Proceeds from the sale were used to repay the 2020-1 warehouse financing with the excess representing a gain on sale included in other operating income within the consolidated statements of activities. As of March 31, 2022, 2020-1 had no remaining assets or liabilities.

In April 2021, the Company sold the federally guaranteed student loan assets previously pledged as collateral in the AccessLex Series 2006-1 asset-backed securitization trust. These assets were classified as held-for-sale as of March 31, 2021. Proceeds from the sale were used to repay the asset-backed notes associated with the transaction with the excess representing a gain on sale included in other operating income within the consolidated statements of activities.

The consolidated financial statements include AccessLex Institute, Access Group Loan Reserve Trust I, 2010-A, Agility, 2013-1, 2015-1, AGI Funding Corporation, LawyerMetrix, LLC, Helix and 2020-1.

***Basis of Accounting and Principles of Consolidation***

The consolidated financial statements of the Company are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) which requires reporting on the accrual basis of accounting. In accordance with Accounting Standards Codification (ASC) 958-810, the Company consolidates all entities for which it has control and an economic interest. All intercompany accounts have been eliminated.

***Basis of Presentation***

The Company follows the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when incurred.

Income and expenses related to the Company's investments are classified on the consolidated statements of activities as nonoperating revenues and expenses. Income and expenses from all other business activities are classified as operating revenues and expenses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2023 and 2022

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Financial reporting standards require that net assets and revenues, expenses, gains and losses be classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Company and changes therein are classified and reported as follows:

*Net assets without donor restrictions* - Net assets that are not subject to donor-imposed restrictions 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 Company's management and the board of directors.

*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 the actions of the Company or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are generally reported as decreases in net assets. Expirations of donor-imposed stipulations, if any, that simultaneously increase net assets without donor restrictions and decrease net assets with donor restrictions are reported as reclassifications between the classes of net assets.

The Company has no net assets with donor restrictions.

***Income Taxes***

The Company is a nonprofit corporation that qualifies as a tax-exempt organization under Section 501(c)(3) of the Code. In addition, the Company has been determined by the IRS not to be a private foundation within the meaning of Section 509(a) of the Code.

The Company accounts for uncertainties in income taxes based on a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Company has no uncertain tax positions meeting the threshold. The Company remains subject to federal, state and local income tax examinations for the year ended March 31, 2019 to the present.

***Cash and Cash Equivalents***

Cash and cash equivalents consist of checking accounts and cash management accounts. Cash pledged as collateral for asset-backed notes (as described in Note 10) is excluded from cash and cash equivalents and is included in restricted cash and cash equivalents (as described in Note 2) on the consolidated statements of financial position.

***Investments***

The Company carries investments at fair value. Interest and dividends from investments, as well as realized and unrealized gains and losses, are recorded as nonoperating revenue within investment returns in the consolidated statements of activities. Investments may include investments in funds managed by others, which from time to time include cash or cash equivalents waiting to be reinvested. For investments in funds, the Company utilizes the investment's net asset value (NAV) per share as a practical expedient for determining fair value. The Company records investment transactions on their trade date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2023 and 2022

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

***Student Loans Receivable***

The Company records student loans receivable that it has the intent and ability to hold for the foreseeable future or until maturity or payoff on its consolidated statements of financial position at outstanding principal adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans, and any unamortized premiums or discounts. Once a decision has been made to sell loans not previously classified as held-for-sale, such loans are transferred into the held-for-sale classification and carried at the lower of cost, consisting of principal and deferred costs, or fair value. At the time of transfer into the held-for-sale classification, any amount by which cost exceeds fair value is accounted for as a valuation adjustment on the consolidated statements of activities.

Additional information on the carrying value of student loans receivable may be found in Note 4. For additional information related to the Company's accounting policies for loans securitized in the 2010-A securitization, refer to Note 5.

The allowance for loan losses is maintained at a level the Company believes is sufficient to absorb probable incurred credit losses inherent in the student loan portfolio. The allowance is determined based on estimates of the probable incurred credit losses, and a provision is charged against earnings to maintain the allowance for loan losses at that level. The Company's net credit losses include the principal amount of loans charged off, plus accrued interest, less current period recoveries. The Company's policy is to charge off delinquent private loans by the end of the month in which the account becomes 180 days contractually past due. The Company records current period recoveries on loans previously charged off in the allowance for loan losses. For additional information related to the allowance for loan losses, refer to Note 6.

***Deferred Costs***

Deferred costs consist of origination and lender fees paid to the U.S. Department of Education (DOE) on federally guaranteed student loans originated by the Company, premiums paid in the acquisition of student loans, and certain origination expenses incurred to originate student loans. The Company utilizes the interest method to amortize deferred costs as an adjustment to interest expense, taking into account actual loan prepayments. Additionally, the Company has financing expenses incurred in issuing debt, which are deferred and amortized over the life of the applicable debt.

***Property and Equipment***

Property and equipment are carried at cost less accumulated depreciation. Depreciation on property and equipment is calculated on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the lease term or estimated useful life of the asset.

The Company also capitalizes costs incurred to develop major new software systems and to build the content associated with its Helix product(s). The estimated useful lives of property and equipment currently in use are as follows:

|  |           |
|--|-----------|
| Helix programs                             | 10 years  |
| Furniture and fixtures                     | 10 years  |
| Office equipment                           | 5 years   |
| Computer hardware and electronic equipment | 3 years   |
| Major software systems                     | 5-7 years |
| Other computer software                    | 3 years   |

Expenditures and betterments that enhance property values are capitalized, while maintenance and repairs are expensed when incurred. For additional information related to property and equipment, refer to Note 7.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2023 and 2022

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

***Revenue Recognition***

Interest income is recognized when earned. Loan fees assessed on private loans are recorded as deferred income and recognized as an adjustment to interest income over the life of the loans. Loan origination fees received for origination activities performed in conjunction with a bank for loans subsequently purchased by the Company are also recorded as deferred income and recognized as an adjustment to interest income over the life of the loans to the extent the Company ultimately takes title to the loans. The Company utilizes the interest method to amortize deferred income, taking into account actual loan prepayments. Registration, service fee and trust administration revenue is recognized when the related services are performed.

***Functional Allocation of Expenses***

The costs of providing the various programs and activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services based on benefits derived.

***Use of Estimates***

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including but not limited to the allowance for loan losses (as described in Note 6), the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

***Loans Securitized***

The Company's securitizations that do not meet the accounting requirements for a sale in accordance with ASC 860-10-40-5 are accounted for as secured borrowings, and the transferred assets are consolidated in the Company's consolidated financial statements. These transactions are referred to as on-balance sheet securitizations. The Company's on-balance sheet securitization transactions are collateralized by certain of its student loans, which are recorded in student loans receivable, and by accrued interest on the student loans, restricted cash and cash equivalents.

***New Accounting Pronouncements***

The Company considers the applicability and impact of all Accounting Standards Updates ("ASUs"). ASUs not discussed below were assessed and determined to be either not applicable or are expected to have minimal impact on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended numerous times to provide further clarification and practical expedients for implementing the right-of-use ("ROU") model established by ASU 2016-02. The ROU model requires a lessee to recognize an ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2023 and 2022

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

The amendment became effective for our fiscal year beginning April 1, 2022, and we adopted the new standard using a modified retrospective approach. The prior period was not recast and our consolidated statement of financial position as of March 31, 2022, does not reflect any changes resulting from the adoption of the new standard. We elected to apply the transition provisions that allow us to carry forward our historical assessment of (1) whether contracts are or contain leases, (2) lease classification, and (3) initial direct costs. In addition, we elected to apply the practical expedients regarding (1) short-term lease classification, (2) consolidation of lease and non-lease components, and (3) the use of a risk-free rate. As a result of the adoption, we recorded ROU assets and lease liabilities for all operating leases on April 1, 2022, in the amount of \$3.8 million and \$4.0 million, respectively. The adoption of ASU 2016-02 had no impact on net assets and did not materially impact our consolidated statements of activities, change in net assets or cash flows.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses, which requires measurement and recognition of expected credit losses for financial assets held. ASU 2016-13 is effective for fiscal years beginning after December 15, 2022. The Company is evaluating the impact of the pronouncement at this time.

In March 2020, the FASB issued guidance that provides optional expedients and exceptions to GAAP requirements for modifications on debt instruments, leases, derivatives and other contracts, related to the expected market transition from the London Interbank Offered Rate (“LIBOR”), and certain other floating-rate benchmark indices to alternative reference rates. The guidance generally considers contract modifications related to reference rate reform to be an event that does not require contract remeasurement at the modification date nor a reassessment of a previous accounting determination. The guidance is optional and may be elected over time, through fiscal years beginning after December 15, 2022, as reference rate reform activities occur. The Company is evaluating the impact of the pronouncement at this time.

**NOTE 2 - RESTRICTED CASH AND CASH EQUIVALENTS**

Pledged funds created from the issuance of notes secured by student loans (as described in Note 10), repayments of student loans by borrowers, and receipts of subsidy payments from the DOE are used for the payment of principal and interest on notes, for the payment of loan fees and administrative costs, and for the purchase and origination of additional loans. In addition, certain funds are held in a Delaware statutory trust (as described in Note 1a) and are pledged for the payment of loan default claims on certain private student loans.

Restricted cash and cash equivalents are invested in high-quality, short-term financial instruments.

Restricted cash and cash equivalents consist of the following at March 31, 2023 and 2022 (in thousands):

|  | 2023             | 2022             |
|--|------------------|------------------|
| Accounts pledged to financings         | \$ 66,471        | \$ 98,484        |
| Accounts pledged to pay default claims | 1,555            | 1,144            |
| Total                                  | <u>\$ 68,026</u> | <u>\$ 95,628</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2023 and 2022

**NOTE 3 – INVESTMENTS**

Investment balances by category, at fair value, consist of the following at March 31, 2023 and 2022 (in thousands):

|  | <u>2023</u>       | <u>2022</u>       |
|--|-------------------|-------------------|
| U.S. Large Cap Equities                | \$ 215,977        | \$ 231,422        |
| U.S. Small Cap Equities                | 36,823            | 42,360            |
| Fixed Income Funds                     | 44,828            | 52,164            |
| International, excluding U.S. Equities | 140,803           | 167,038           |
| Hedged Equities                        | 71,374            | 62,585            |
| Absolute Return                        | 83,448            | 88,838            |
| Emerging Market Equity Funds           | 57,713            | 76,142            |
| Privates                               | 68,337            | 44,237            |
| Real Asset Funds                       | <u>20,215</u>     | <u>37,528</u>     |
|  | <u>\$ 739,518</u> | <u>\$ 802,314</u> |

**NOTE 4 - STUDENT LOANS**

The Company's loan portfolio includes both Federal Family Education Loan Program (FFELP) loans originated for the Company's own account and private loans that the Company originated for a bank and subsequently purchased under various agreements. The Company suspended loan origination activities as of June 30, 2010. All of the student loans and related accrued interest have been pledged under the related notes payable.

Interest incurred when the borrowers are in school is recorded as interest income and accrued interest receivable. When the borrowers enter repayment, the accrued interest receivable is added to the loan principal, reducing the accrued interest receivable.

Net student loans receivable, at carrying value, consist of the following at March 31, 2023 and 2022 (in thousands):

|  | <u>2023</u>       | <u>2022</u>         |
|--|-------------------|---------------------|
| FFELP loans                            | \$ 701,239        | \$ 895,696          |
| Private loans                          | <u>213,110</u>    | <u>304,235</u>      |
| Student loans receivable, gross        | 914,349           | 1,199,931           |
| (Less) plus deferred income and costs: |                   |                     |
| Deferred origination income            | (603)             | (794)               |
| Premiums paid for student loans        | 393               | 522                 |
| Deferred loan fees                     | (799)             | (1,186)             |
| Deferred origination costs             | 6,693             | 7,243               |
| Less allowance for loan losses         | <u>(15,853)</u>   | <u>(23,033)</u>     |
| Student loans receivable, net          | <u>\$ 904,180</u> | <u>\$ 1,182,683</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2023 and 2022

**NOTE 5 - 2010-A ON-BALANCE SHEET SECURITIZATION**

On June 7, 2010, the Company completed a securitization collateralized by student loans, which was accounted for as a financing. Because the securitization was not treated as a sale, the related assets were recorded at their carrying amount in student loans receivable as of that date in the amount of \$546.8 million, with associated debt of \$551.2 million.

**Loans**

The Company applied ASC 310-30, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, to these securitized loans. These loans have no associated allowance for loan losses. The Company estimates the amount and timing of expected principal and interest and treats the loans as a single pool of assets. Individual accounts are not added to or removed from the pool once established. The Company determined the excess of the loan pool's contractually required payments over cash flows expected at the time of the transaction as an amount that should not be accreted (nonaccretable difference). The remaining amount, representing the excess of the cash flows expected to be collected over the carrying value of the transferred loans, is accreted into income over the remaining estimated life of the pool (accretable yield).

Significant increases in actual or expected future cash flows are recognized prospectively, through an upward adjustment of the accretable yield, over the loan pool's remaining life. Under ASC 310-30, rather than lowering the estimated yield if the collection estimates are not received or projected to be received, the carrying value of the loans would be written down to maintain the then-current yield and would be shown as a reduction in interest income in the consolidated statements of activities with a corresponding valuation allowance offsetting student loans receivable, net, on the consolidated statements of financial position.

The following table details information about the loans that are accounted for in accordance with ASC 310-30 at the date of transfer, June 7, 2010 (in thousands):

|  |                   |
|--|-------------------|
| Contractually required principal and interest at transfer                      | \$ 1,092,544      |
| Contractual cash flows not expected to be collected (nonaccretable difference) | <u>184,781</u>    |
| Expected cash flows at transfer  | 907,763           |
| Interest component of expected cash flows (accretable discount)                | <u>360,942</u>    |
| Carrying value of transferred loans accounted for under ASC 310-30             | <u>\$ 546,821</u> |

The following table shows the balances of loans that are accounted for in accordance with ASC 310-30, at March 31, 2023 and 2022 (in thousands):

|                               | <u>2023</u>       | <u>2022</u>       |
|-------------------------------|-------------------|-------------------|
| Outstanding principal balance | <u>\$ 152,797</u> | <u>\$ 179,060</u> |
| Carrying amount               | <u>\$ 67,367</u>  | <u>\$ 88,392</u>  |

The carrying amounts of \$67.4 million at March 31, 2023 includes \$57.0 million of student loans receivable and \$10.4 million of restricted cash in the consolidated statement of financial position. The carrying amount of \$88.4 million at March 31, 2022 includes \$77.9 million of student loans receivable and \$10.5 million of restricted cash in the consolidated statement of financial position.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2023 and 2022

**NOTE 5 - 2010-A ON-BALANCE SHEET SECURITIZATION – Continued**

The following table presents changes in the accretable discount on the transferred loans, for which the Company applies ASC 310-30, for the years ended March 31, 2023 and 2022 (in thousands):

|                                | 2023      | 2022      |
|--------------------------------|-----------|-----------|
| Balance, beginning of the year | \$ 40,184 | \$ 53,385 |
| Accretion                      | (11,110)  | (13,201)  |
| Balance, end of the year       | \$ 29,074 | \$ 40,184 |

**Debt**

The 2010-A securitization resulted in asset-backed floating rate notes (Class A notes) with a par value of \$463.5 million, which were sold for \$453.0 million, and the membership interest certificates (Class R certificates) with a par value of \$100, which were sold for \$98.2 million, for total proceeds of \$551.2 million.

The Class A notes were recorded at \$453.0 million, reflecting the face value of the notes and a \$10.5 million discount. The Company records interest expense on the Class A notes using the effective-interest method. The Class A notes were repaid in full effective January 2023.

The Class R certificates represent an interest in the residual cash flows of the securitized assets, are subordinated to the Class A notes, and were initially recorded at \$98.2 million. These Class R certificates do not bear any contractual interest. The amount by which the expected payout of the Class R certificates exceeds the carrying amount is accounted for as an adjustment to yield (interest expense). As the projected cash flows change over the life of the student loans and, therefore, the amount of the expected repayment of the debt changes, the Company will adjust the interest expense recognized in the current period and prospectively, consistent with a change in estimate.

The following table presents changes in the carrying value of the Class R certificates, for the years ended March 31, 2023 and 2022 (in thousands):

|                                | 2023      | 2022      |
|--------------------------------|-----------|-----------|
| Balance, beginning of the year | \$ 65,697 | \$ 58,956 |
| Debt accretion                 | 9,489     | 10,469    |
| Distributions                  | (10,576)  | (3,728)   |
| Balance, end of the year       | \$ 64,610 | \$ 65,697 |

The balances are included in asset-backed notes, as described in Note 10, on the consolidated statements of financial position.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2023 and 2022

**NOTE 6 - ALLOWANCE FOR LOAN LOSSES**

The methodology for measuring the appropriate level of the allowance consists of several elements. The Company regularly performs a migration analysis of delinquent and current accounts. A migration analysis is a technique used to estimate the likelihood that a loan receivable will progress through the various delinquency stages and ultimately charge off. In determining the allowance for loan losses, past collection experience, delinquency trends, size of the portfolio, economic conditions and other factors are considered. Significant changes in these factors could impact the allowance and provision for loan losses. The evaluation of the allowance for loan losses is inherently subjective as it requires material estimates that may be subject to change. The Company evaluates its allowance for loan losses for the FFELP student loan portfolio, which is federally guaranteed at no less than 97% of principal and interest, and for its private student loan portfolio. The federal guarantee is dependent upon the Company's compliance with specified FFELP requirements.

The student loan portfolio is disaggregated to a level of portfolio segment. A portfolio segment is defined as the level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses. Management has determined that the following student loan portfolios meet the definition of a portfolio segment:

- FFELP student loan portfolio; and
- Private student loan portfolio

The private loans included in the 2010-A on-balance sheet securitization, as described in Note 5, do not require an allowance for loan losses. Delinquency on the 2010-A balances past due 30+ days was 3.49% and 2.76% as of March 31, 2023 and 2022, respectively.

A summary of changes in the allowance for loan losses for the years ended March 31, 2023 and 2022 follows (in thousands):

|  | 2023            |                  |                  |
|--|-----------------|------------------|------------------|
|  | FFELP           | Private          | Consolidated     |
| Balance, beginning of year               | \$ 3,267        | \$ 19,766        | \$ 23,033        |
| Provision for loan losses                | -               | (10,000)         | (10,000)         |
| Charge-offs (includes accrued interest): |                 |                  |                  |
| Gross charge-offs                        | (336)           | (2,413)          | (2,749)          |
| Recoveries                               | -               | 5,569            | 5,569            |
| Net (charge-offs) recoveries             | (366)           | 3,156            | 2,820            |
| Balance, end of year                     | <u>\$ 2,931</u> | <u>\$ 12,922</u> | <u>\$ 15,853</u> |
|  | 2022            |                  |                  |
|  | FFELP           | Private          | Consolidated     |
| Balance, beginning of year               | \$ 3,496        | \$ 24,992        | \$ 28,488        |
| Provision for loan losses                | -               | (10,000)         | (10,000)         |
| Charge-offs (includes accrued interest): |                 |                  |                  |
| Gross charge-offs                        | (229)           | (2,464)          | (2,693)          |
| Recoveries                               | -               | 7,238            | 7,238            |
| Net (charge-offs) recoveries             | (229)           | 4,774            | 4,545            |
| Balance, end of year                     | <u>\$ 3,267</u> | <u>\$ 19,766</u> | <u>\$ 23,033</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2023 and 2022

NOTE 6 - ALLOWANCE FOR LOAN LOSSES – Continued

**Student Loan Status and Delinquencies**

The following tables show outstanding balances of FFELP and Private student loan portfolio segments, including accrued interest, by repayment and delinquency status at March 31, 2023 and 2022 (in thousands):

|  | FFELP<br>March 31, 2023 |                            |               | FFELP<br>March 31, 2022 |                            |               |
|--|-------------------------|----------------------------|---------------|-------------------------|----------------------------|---------------|
|  | Outstanding<br>balance  | % of<br>repayment<br>loans | % of total    | Outstanding<br>balance  | % of<br>repayment<br>loans | % of total    |
| In school/grace/deferment<br>(a)(b)(c) | \$ 13,897               |                            | 1.9%          | \$ 18,074               |                            | 1.9%          |
| Forbearance (d)                        | 21,251                  |                            | 2.9%          | 23,943                  |                            | 2.6%          |
| Repayment: (e)                         |                         |                            |               |                         |                            |               |
| Current                                | 665,976                 | 95.3%                      |               | 852,163                 | 95.4%                      |               |
| Delinquent 30-59 days                  | 12,210                  | 1.7%                       |               | 14,642                  | 1.6%                       |               |
| Delinquent 60-89 days                  | 6,087                   | 0.9%                       |               | 5,757                   | 0.7%                       |               |
| Delinquent 90 days or<br>greater       | 14,600                  | 2.1%                       |               | 20,644                  | 2.3%                       |               |
| Total in repayment                     | <u>698,873</u>          | <u>100.0%</u>              | <u>95.2%</u>  | <u>893,206</u>          | <u>100.0%</u>              | <u>95.5%</u>  |
| Total                                  | <u>\$ 734,021</u>       |                            | <u>100.0%</u> | <u>\$ 935,223</u>       |                            | <u>100.0%</u> |

- (a) In School - Borrower is currently enrolled in school on at least a half-time basis.
- (b) In Grace - The period between separation from school (whether by graduation or otherwise) and entry into repayment. This period has a duration of six months for FFELP loans.
- (c) Deferment - This category identifies FFELP loans which would otherwise be in repayment but are not due to events associated with the borrower that FFELP servicing guidelines identify as qualifying for a mandatory period of no payments being required.
- (d) Forbearance - These are periods during which no payments are required on loans which would otherwise be in repayment and are granted at the lender's discretion. Reasons for forbearance include medical and dental residency programs, economic hardship (generally for no more than 36 months during the lifetime of the loan), natural disasters, and re-enrollment in school on at least a half-time basis if the period of separation lasted longer than the grace period for the loans.
- (e) Repayment - If a required payment is not made by a payment due date, this counter is incremented by one day for each day that has elapsed from the earliest payment due date for which any portion of the required payment remains unpaid (e.g., if a borrower failed to make the required \$100 payment on or before May 1 and then made a \$75 payment on June 6, the loan would remain 36 days delinquent because there is still a \$25 payment amount owed for May 1, along with a \$100 payment due for June 1). At approximately 270 days' delinquent, claims are filed with the applicable guarantee agency for payment of the insured amount and collection activity ceases even though the delinquency counter continues. Once payment is received from the guarantor, the remaining loan balance (which is 3% or less of the claim amount) is written off against the Company's loan loss reserve.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2023 and 2022

NOTE 6 - ALLOWANCE FOR LOAN LOSSES - Continued

|                                     | Private<br>March 31, 2023 |                            |               | Private<br>March 31, 2022 |                            |               |
|-------------------------------------|---------------------------|----------------------------|---------------|---------------------------|----------------------------|---------------|
|                                     | Outstanding<br>Balance    | % of<br>Repayment<br>Loans | % of<br>Total | Outstanding<br>Balance    | % of<br>Repayment<br>Loans | % of<br>Total |
| In school/grace/deferment<br>(a)(b) | \$ 750                    |                            | 0.5%          | \$ 790                    |                            | 0.3%          |
| Forbearance (c)                     | 1,077                     |                            | 0.7%          | 1,505                     |                            | 0.7%          |
| Repayment: (d)                      |                           |                            |               |                           |                            |               |
| Current                             | 149,239                   | 96.0%                      |               | 217,594                   | 96.7%                      |               |
| Delinquent 30-59 days               | 3,029                     | 1.9%                       |               | 3,873                     | 1.7%                       |               |
| Delinquent 60-89 days               | 910                       | 0.6%                       |               | 1,238                     | 0.6%                       |               |
| Delinquent 90 days or<br>greater    | 2,358                     | 1.5%                       |               | 2,344                     | 1.0%                       |               |
| Total in repayment                  | <u>155,536</u>            | <u>100.0%</u>              | <u>98.8%</u>  | <u>225,049</u>            | <u>100.0%</u>              | <u>99.0%</u>  |
| Total                               | <u>\$157,363</u>          |                            | <u>100.0%</u> | <u>\$227,344</u>          |                            | <u>100.0%</u> |

- (a) In School - Borrower is currently enrolled in school on at least a half-time basis.
- (b) In Grace - The period between separation from school (whether by graduation or otherwise) and entry into repayment. This period has a duration of nine months for Private loans.
- (c) Forbearance - These are periods during which no payments are required on loans which would otherwise be in repayment and are granted at the lender's discretion. Reasons for forbearance include medical and dental residency programs, economic hardship (generally for no more than 12 months during the lifetime of the loan), natural disasters, and re-enrollment in school on at least a half-time basis if the period of separation lasted longer than the grace period for the loans.
- (d) Repayment - If a required payment is not made by a payment due date, this counter is incremented by one day for each day that has elapsed from the earliest payment due date for which any portion of the required payment remains unpaid (e.g., if a borrower failed to make the required \$100 payment on or before May 1 and then made a \$75 payment on June 1, the loan would remain 36 days delinquent because there is still a \$25 payment amount owed for May 1, along with a \$100 payment due for June 1).

In fiscal year 2013, the Company adopted ASU No. 2011-02, *A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*, that clarifies when a loan restructuring constitutes a Troubled Debt Restructuring (TDR). To assist student loan borrowers who are experiencing temporary financial difficulties and are willing to resume making payments, the Company may modify the terms of loans up to 12 months over the life of the loan. The use of forbearance is contemplated at the origination of an education loan and is included in the credit agreement with the borrower. When in forbearance, the education loan continues to accrue interest. When forbearance ceases, unpaid interest is capitalized and added to principal outstanding, and the borrower's required payments are recalculated at an amount sufficient to pay off the loan, plus the additional accrued and capitalized interest, at the original stated interest rate by the original maturity date. There is no forgiveness of principal or interest in forbearance, nor is there a reduction in the interest rate or extension of the maturity date. In addition, in light of the length of the term of the typical education loan, the Company does not view the temporary reprieve granted to borrowers in forbearance to be significant. For these reasons, the Company has concluded that its education loans in forbearance do not constitute a TDR.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2023 and 2022

**NOTE 7 - PROPERTY AND EQUIPMENT**

Property and equipment (included in other assets on the consolidated statements of financial position) consists of the following at March 31, 2023 and 2022 (in thousands):

|  | <u>2023</u>     | <u>2022</u>     |
|--|-----------------|-----------------|
| Computer software                          | \$ 1,256        | \$ 1,545        |
| Computer hardware and electronic equipment | 118             | 118             |
| Furniture and fixtures                     | 366             | -               |
| Leasehold improvements                     | 114             | 228             |
| Helix UBE program                          | 5,249           | -               |
| Other                                      | 84              | -               |
|  | <u>7,187</u>    | <u>1,891</u>    |
| Accumulated depreciation                   | <u>(1,582)</u>  | <u>(1,148)</u>  |
| Net property and equipment in service      | 5,605           | 743             |
| Capitalized costs in process               | <u>2,960</u>    | <u>6,191</u>    |
| Total property and equipment, net          | <u>\$ 8,565</u> | <u>\$ 6,934</u> |

Capitalized costs in process consist of costs incurred through March 31, 2023 and 2022 to develop major new software systems and for the development of content associated with the Helix product(s) not yet placed into service.

\$0.6 million and \$0.4 million of fully depreciated property and equipment were disposed during the years ended March 31, 2023 and 2022, respectively.

**NOTE 8 - EMPLOYEE BENEFIT PLAN**

The Company maintains a defined contribution pension plan (the Plan) covering all eligible employees. The Plan is funded through individually owned assets, such as annuities and mutual funds. Contributions made to the Plan by the Company are equal to 6% of each participant's regular salary up to applicable statutory limits, with an additional matching contribution of up to 2% of the participant's regular salary. Participants are eligible to receive employer contributions after having completed one year of service. The Company's contribution to the Plan totaled \$0.8 million and \$0.7 million for both years ended March 31, 2023 and 2022, respectively. Employees must meet certain eligibility requirements to participate in the Plan. Participants are fully and immediately vested.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2023 and 2022

NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table details the carrying value and fair value of the Company's financial instruments at March 31, 2023 and 2022 (in thousands):

|                                      | 2023           |            | 2022           |            |
|--------------------------------------|----------------|------------|----------------|------------|
|                                      | Carrying value | Fair value | Carrying value | Fair value |
| Financial assets:                    |                |            |                |            |
| Cash and cash equivalents            | \$ 7,520       | \$ 7,520   | \$ 7,805       | \$ 7,805   |
| Investments                          | 739,518        | 739,518    | 802,314        | 802,314    |
| Restricted cash and cash equivalents | 68,026         | 68,026     | 95,628         | 95,628     |
| Student loans receivable, net        | 904,180        | 1,006,636  | 1,182,683      | 1,349,031  |
| Accrued interest receivable          | 39,597         | 39,597     | 37,515         | 37,515     |
| Financial liabilities:               |                |            |                |            |
| Asset-backed notes, net              | 901,474        | 784,081    | 1,216,027      | 1,069,496  |
| Accrued interest payable             | 34,798         | 34,798     | 19,672         | 19,672     |

The Company uses estimates of fair value in applying various accounting standards for its consolidated financial statements. The estimated fair values have been determined by the Company using available market information and other valuation methodologies as described below.

*Cash and cash equivalents, restricted cash, accrued interest receivable, short-term credit facility and accrued interest payable* - Due to the short-term nature of these instruments, carrying value approximates fair value. These are Level 2 valuations.

*Investments* - If available, fair values of investments are determined using quoted prices in active markets for identical investments (Level 1 valuation). For those investments without a readily determined fair value, the Company utilizes the investment's NAV per share as a practical expedient for determining fair value. The Company is not required to categorize these investments within the fair value hierarchy.

*Student loans receivable, net* - The fair value of the student loans receivable was determined based on an internal evaluation of current market price for similar assets, assumptions for prepayment speed, default rates, cost of funds, and collection rates, and the resulting present value of discounted cash flow. As such, these are Level 3 valuations.

*Student loans receivable, held-for-sale* - The fair value of the student loans receivable was determined based on an internal evaluation of current market price based on bids received from interested independent third-party buyers.

*Asset-backed notes, net* - The fair value of the notes was determined based on current market prices for similarly structured debt and discounted cash flow analyses. As such, these are Level 3 valuations.

The Company determines fair value using valuation techniques that are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2023 and 2022

**NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued**

These two types of inputs create the following fair value hierarchy:

- Level 1 Quoted prices for identical instruments in active markets;
- Level 2 Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose primary values are observable;
- Level 3 Instruments whose primary value drivers are unobservable.

The position in the fair value hierarchy for an asset or liability is based on the lowest level input that is significant to the fair value measurement.

**Items Measured at Fair Value on a Recurring Basis**

The following tables present the Company’s financial assets that are measured at fair value on a recurring basis for each of these hierarchy levels at March 31, 2023 and 2022 (in thousands). The Company does not have any financial liabilities that are measured at fair value on a recurring basis.

|   | 2023              |             |             |                   |
|---|-------------------|-------------|-------------|-------------------|
|   | Level 1           | Level2      | Level 3     | Total             |
| <b>Assets:</b>                                  |                   |             |             |                   |
| U.S. Large Cap Equities                         | \$ 215,977        | \$ -        | \$ -        | \$ 215,977        |
| U.S. Small Cap Equities                         | 10,776            | -           | -           | 10,776            |
| Fixed Income Funds                              | 44,828            | -           | -           | 44,828            |
| International Equity Funds ex-U.S.<br>Equities  | 46,446            | -           | -           | 46,446            |
| Emerging Market Equity Funds                    | 5,211             | -           | -           | 5,211             |
| Real Asset Funds                                | 20,215            | -           | -           | 20,215            |
| <b>Total investments measured at fair value</b> | <b>\$ 343,453</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 343,453</b> |
| <br>  |                   |             |             |                   |
|   | 2022              |             |             |                   |
|   | Level 1           | Level2      | Level 3     | Total             |
| <b>Assets:</b>                                  |                   |             |             |                   |
| U.S. Large Cap Equities                         | \$ 231,422        | \$ -        | \$ -        | \$ 231,422        |
| U.S. Small Cap Equities                         | 11,122            | -           | -           | 11,122            |
| Fixed Income Funds                              | 52,164            | -           | -           | 52,164            |
| International Equity Funds ex-U.S.<br>Equities  | 52,221            | -           | -           | 52,221            |
| Emerging Market Equity Funds                    | 13,525            | -           | -           | 13,525            |
| Real Asset Funds                                | 25,301            | -           | -           | 25,301            |
| <b>Total investments measured at fair value</b> | <b>\$ 385,755</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 385,755</b> |

Certain investments measured at NAV per share as a practical expedient for determining fair value have been excluded from the table.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2023 and 2022

**NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued**

As of March 31, 2023, the Company had \$396.1 million of investments where fair values are based upon the investments' NAV. As of March 31, 2023 and 2022, the fair value of investments valued using NAV was (in thousands):

|  | Fair Value        |                   |
|--|-------------------|-------------------|
|  | 2023              | 2022              |
| Global ex-U.S. SMID Fund (a)             | \$ -              | \$ 16,171         |
| Global Closed-End Fund (b)               | 44,564            | 48,397            |
| Global ex-U.S. Equity Funds (c)          | 49,794            | 50,249            |
| Quantitative Directional Hedge Fund (d)  | 27,108            | 27,552            |
| Distressed/Restructuring Hedge Funds (e) | 699               | 1,009             |
| Equity Long/Short Hedge Funds (f)        | 71,374            | 62,585            |
| Special Situations Hedge Funds (g)       | 55,641            | 60,276            |
| Private Equity, Middle Market (h)        | 13,300            | 6,440             |
| Appraisal Arbitrage (i)                  | -                 | 1                 |
| MBS Fund (j)                             | -                 | 12,227            |
| Private Credit Fund (k)                  | 18,527            | 9,348             |
| Private Secondary Fund (l)               | 7,250             | 6,370             |
| U.S. Small Cap Equities (m)              | 26,046            | 31,238            |
| Emerging Market Equity Funds (n)         | 52,502            | 62,617            |
| Private Equity Fund (o)                  | 24,940            | 22,079            |
| U.S. Private Real Estate Fund (p)        | 4,320             | -                 |
|  | <u>\$ 396,065</u> | <u>\$ 416,559</u> |

- (a) The Global ex-U.S. SMID Fund class consisted of one fund that invested in international (ex-U.S.) small and mid-cap equities. This fund was fully redeemed in March 2023.
- (b) The Global Closed-End Fund class consists of one fund that invests in global closed- end mutual funds and is redeemable at the end of each month, with a 10-day notice.
- (c) The Global ex-U.S. Equity Funds consist of one fund that invests in equities outside of the United States and is redeemable twice a month (1st and 15th), with a nine-day notice.
- (d) The Quantitative Directional Hedge Fund consists of one fund that invests primarily in equities, market indices, options, currencies and forwards/futures using signal based strategies. The fund is redeemable monthly with either 5-day or 60-day notice.
- (e) The Distressed/Restructuring Hedge Funds consist of one fund. The fund has been liquidated and is in the process of winding down, with the remaining illiquid portion of the investment being returned at the fund manager's discretion.
- (f) The Equity/Long Short Hedge Fund class comprises five hedge funds that invest in both long and short stocks. In substantially all instances, the lock-up period for these funds has expired and redemption is available quarterly with 45-day or 90-day notice, subject to limitations.
- (g) The Special Situations Hedge Fund class consists of five hedge funds that invest in a wide range of strategies, including merger arbitrage, convertible arbitrage, long/short equities and credit, distressed securities, and bankruptcy reorganizations. Redemption for one of the funds is subject to the fund manager's discretion while the others require notice ranging from 60 to 90 days. There are no active lock up periods associated with any of the funds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2023 and 2022

**NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued**

- (h) The Private Equity, Middle Market Fund class consists of four funds that invest in U.S. middle market private equity growth and buy-out opportunities. Each fund has a 10-year term with a 5-6 year investment period all having commenced after January 2020.
- (i) The Appraisal Arbitrage Fund class - This fund was fully redeemed in December 2023.
- (j) The MBS Fund class consisted of one fund that invested in mortgage-backed securities within the United States. This fund was redeemed in October 2022 and is currently awaiting the return of the final funds.
- (k) The Private Credit Fund class consists of six private funds that are 4-5 years in duration. Most carry extension options that are available at the sole discretion of the general partner, none of which have been exercised through the date that these financial statements were available to be issued.
- (l) The Private Secondary Fund class consists of one fund that has an initial investing period of 10 years in duration from the closing of the fund on October 5, 2018, with a subsequent harvesting period of three years beginning on October 5, 2028. The fund has an option to add another three years to the harvesting period (at the manager's discretion) to October 5, 2031.
- (m) The U.S. Small Cap Equities class consists of one fund investing in both public and private companies. The fund has a three-year hard lock up that commenced on January 1, 2020, with the first possible withdrawal set for December 31, 2022. Thereafter, withdrawals are semi-annual on June 1 and December 31, with 150-day notice.
- (n) The Emerging Markets Equity Fund class consists of three funds which invest in emerging market stocks in various global markets. One fund is subject to a two-year lockup period with redemptions at the end of the calendar year with 60-day notice. The other two require 3-day and 30-day notice.
- (o) The Private Equity Fund class consists of seven funds which invest in growth-oriented domestic and global private companies. One fund invests in public investments, drawing down capital from this pool to invest in privates as needed. This "hybrid" fund has a 36-month lock-up with capital withdrawals available on 90-day notice, on the investment anniversary date. Four of the remaining seven funds have 10 year terms subject to extension while another has a 13 year term, also subject to extension. The remaining fund is subject to a 5 year commitment period.
- (p) The U.S. Private Real Estate Fund consists of one fund that has a 10 year duration (investment period), with intermittent distributions at the managers discretion.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2023 and 2022

**NOTE 10 - ASSET-BACKED NOTES**

***Long-Term Debt Offerings***

The Company has issued debt through numerous public and private offerings to obtain permanent financing for the student loans originated or acquired under a credit facility and to purchase student loans originated by the Company on behalf of a bank. The student loan asset-backed notes issued are limited obligations of the Company, payable solely from the trust estates created under the indentures of trust. The following table summarizes, by type of notes, the amounts outstanding and interest rates at March 31, 2023 and 2022 (in thousands):

|                                      | Carrying<br>amount at<br>March 31,<br>2023 | Interest rates<br>at<br>March 31,<br>2023 | Carrying<br>amount at<br>March 31,<br>2022 | Interest rates<br>at<br>March 31,<br>2022 |
|--------------------------------------|--|---|--|---|
| Auction rate notes:                  |  |   |  |   |
| Interest bearing due 2033 - 2040 (1) | \$ 325,100                                 | 4.90% - 6.35%                             | \$ 447,650                                 | 0.89% - 2.69%                             |
| Floating rate notes:                 |  |   |  |   |
| LIBOR based due 2033 - 2058          | 511,764                                    | 2.76% - 7.62%                             | 702,679                                    | 0.32% - 1.96%                             |
| Class R certificates:                |  |   |  |   |
| Due 2044 (2)                         | <u>64,610</u>                              |   | <u>65,697</u>                              |   |
| Total                                | <u>\$ 901,474</u>                          |   | <u>\$ 1,216,027</u>                        |   |

- (1) Auctions failed in February 2008 and continue to fail; interest is based on contractual terms related to applicable London Interbank Offered Rate (LIBOR) bill rates.
- (2) Certificates represent an interest in the residual cash flows of the 2010-A securitized assets and do not bear any contractual interest. Refer to Note 5 for the Company's accounting policy related to these certificates.

At March 31, 2023, the Company had outstanding debt with the following maturities (in thousands):

| <u>Fiscal year maturity</u> | <u>Amounts maturing</u> |
|-----------------------------|-------------------------|
| 2024                        | 5,488                   |
| 2025                        | 4,828                   |
| 2026                        | 4,236                   |
| 2027                        | 3,706                   |
| 2028                        | 3,346                   |
| 2029 - 2058                 | <u>917,885</u>          |
|                             | <u>\$ 939,489</u>       |

The amounts maturing do not include unamortized bond discount of \$5.4 million and accumulated debt accretion of \$32.6 million.

The pledged funds created from all issuances of notes are recorded as restricted cash and cash equivalents on the consolidated statements of financial position. The Company is subject to certain covenants under the indentures, and management believes it is in compliance with these covenants at March 31, 2023. These financings were recorded by the Company as secured borrowings with the pledge of collateral.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**March 31, 2023 and 2022**

**NOTE 10 - ASSET-BACKED NOTES - Continued**

The Company issued \$398.8 million in student loan asset-backed notes in March 2013 in order to refinance the then-outstanding Straight A loans. The Issuer of the notes was the newly formed "Access Funding 2013-1 LLC." The Company acted as Sponsor and Administrator for the transaction. The net proceeds were used: (1) to refinance student loans in the amount of \$390.0 million; and (2) to create pledged funds held by the trustee as Reserve Account Funds of \$1.7 million. The Reserve Account Funds can be used to pay interest on the notes, note fees and administrative allowances. The Company also made a \$5.2 million equity contribution in the form of cash to the LLC in order to increase the overcollateralization of the asset-backed notes.

The Company issued \$203.1 million in student loan asset-backed notes in July 2015 in order to refinance the then-outstanding Access Group, Inc.'s Series 2008-1. The Issuer of the notes was the newly formed "Access Funding 2015-1 LLC." The Company acted as Sponsor and Administrator for the transaction. The net proceeds were used: (1) to refinance Access Group, Inc.'s Series 2008-1; and (2) to create pledged funds held by the trustee as Reserve Account Funds of \$3.3 million. The Reserve Account Funds can be used to pay interest on the notes, note fees and administrative allowances. The Company received \$1.4 million net proceeds from the Access Group, Inc.'s Series 2008-1 refinance into 2015-1.

**NOTE 11 – 2020-1 WAREHOUSE FINANCING**

In June 2020, 2020-1 obtained a credit facility for the purpose of refinancing the pool of federally guaranteed student loan assets previously pledged as collateral in the AccessLex Series 2005-1 and 2005-2 asset-backed securitization trusts. The credit facility provided for a maximum financing amount equal to \$367.5 million with a scheduled maturity date of June 2021, subject to further extension.

In June and August 2020, 2020-1 received advances from the credit facility totaling \$173.6 million and \$156.8 million, respectively, and exercised its rights to optionally redeem and retire all of the notes outstanding under the 2005-1 and 2005-2 asset-backed securitization trusts, simultaneously pledging as collateral to the credit facility those student loans previously pledged to the 2005-1 and 2005-2 asset-backed securitizations.

In April 2021, the Company sold the federally guaranteed student loan assets previously pledged as collateral to 2020-1. Proceeds from the sale were used at closing to repay the outstanding balance of the 2020-1 credit facility in full.

**NOTE 12 - COMMITMENTS AND CONTINGENCIES**

***Operating Leases***

During the year ended March 31, 2023, the Company adopted ASC 842. The adoption of the standard is discussed in the New Accounting Pronouncements disclosure within Note 1 - Summary of Significant Accounting Policies.

The Company's lease portfolio is comprised of two office space leases.

The Company leases office space for their corporate office in West Chester, Pennsylvania. The leases term expires in May 2030. The renewal and termination options are not included in the right-of-use ("ROU") assets balances. The ROU asset is a balance sheet representation of a lessee's right to use a leased asset over the course of the lease term and lease liabilities as they are not reasonably certain to be exercised. The Company has elected not to recognize an ROU asset or lease liability for leases with an initial term of 12 months or less. Certain equipment leases have not been included in ROU asset due to short term nature of initial lease terms and other factors.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2023 and 2022

**NOTE 12 - COMMITMENTS AND CONTINGENCIES - Continued**

The Company commenced an 11-year noncancelable lease for office space in Washington, D.C. During the year ended March 31, 2022, the Company ceased its operations from this location. In September 2021, the Company executed a sublease with a third-party subtenant through August 2025, the scheduled maturation date of the head lease. Rents received from the subtenant are included in other operating income within the consolidated statement of activities. Future rents per the terms of the head lease exceed those rents to be received from the subtenant by \$0.8 million which was recognized as an impairment loss included in management and general expenses within the consolidated statements of activities for the year ended March 31, 2022. Future contractual rents per the terms of the head lease were included in the adoption of ASC 842 and the recording of ROU assets and lease liabilities.

The following table presents balance sheet amounts and classification information related to operating leases:

Assets

|   |          |
|---|----------|
| Operating lease right-of-use assets included in <i>Other assets</i> | \$ 3,110 |
|---|----------|

Liabilities

|  |            |
|--|------------|
| Operating lease liabilities included in <i>Other liabilities</i> | \$ (3,306) |
|--|------------|

|   |           |
|---|-----------|
| Weighted average remaining operating leases term: | 5.6 Years |
|---|-----------|

|  |       |
|--|-------|
| Weighted average operating leases discount rate: | 1.85% |
|--|-------|

Maturities of lease liabilities as of March 31, 2023, are as follows:

|                         | Operating<br>Leases |
|-------------------------|---------------------|
| 2024                    | \$ 786              |
| 2025                    | 796                 |
| 2026                    | 529                 |
| 2027                    | 336                 |
| 2028                    | 341                 |
| Thereafter              | 729                 |
| Total lease payments    | 3,516               |
| Less: imputed interest  | (210)               |
| Total lease obligations | \$ 3,306            |

Total operating lease expense was \$0.8 million for both of the years ended March 31, 2023 and 2022.

AccessLex Institute

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2023 and 2022

**NOTE 13 - FUNCTIONAL EXPENSE ANALYSIS**

The following tables present expenses by both their nature and their function for the years ended March 31, 2023 and 2022 (in thousands):

|                                | 2023             |                        |                  |
|--------------------------------|------------------|------------------------|------------------|
|                                | Program services | Management and general | Total expenses   |
| Personnel expense              | \$ 10,590        | \$ 6,430               | \$ 17,020        |
| Computer and office equipment  | 1,440            | 965                    | 2,405            |
| Loan servicing                 | 1,851            | -                      | 1,851            |
| Recovery expense               | 1,781            | -                      | 1,781            |
| Occupancy                      | 517              | 370                    | 887              |
| Grants to other organizations  | 2,294            | -                      | 2,294            |
| Services and professional fees | 882              | 1,159                  | 2,041            |
| Advertising and promotional    | 1,802            | 756                    | 2,558            |
| Other expenses                 | 192              | 2,179                  | 2,371            |
| Total expenses                 | <u>\$ 21,349</u> | <u>\$ 11,859</u>       | <u>\$ 33,208</u> |

|                                | 2022             |                        |                  |
|--------------------------------|------------------|------------------------|------------------|
|                                | Program services | Management and general | Total expenses   |
| Personnel expense              | \$ 8,957         | \$ 5,833               | \$ 14,790        |
| Computer and office equipment  | 1,609            | 883                    | 2,492            |
| Loan servicing                 | 2,254            | -                      | 2,454            |
| Recovery expense               | 2,263            | -                      | 2,263            |
| Occupancy                      | 539              | 279                    | 818              |
| Grants to other organizations  | 2,464            | -                      | 2,464            |
| Services and professional fees | 636              | 1,142                  | 1,778            |
| Advertising and promotional    | 1,395            | 570                    | 1,965            |
| Other expenses                 | 93               | 1,307                  | 1,400            |
| Total expenses                 | <u>\$ 20,210</u> | <u>\$ 10,014</u>       | <u>\$ 30,224</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2023 and 2022

**NOTE 14 - LIQUIDITY AND AVAILABILITY OF RESOURCES**

Financial assets available for general expenditure within one year are as follows as of March 31, 2023 (in thousands):

|                           |                   |
|---------------------------|-------------------|
| Cash and cash equivalents | \$ 7,520          |
| Liquid investments        | <u>661,145</u>    |
| Total                     | <u>\$ 668,665</u> |

As part of the Company's liquidity management, it has a policy to maintain an approximate balance of \$7.5 million in operating cash. Cash received from operations in excess of this amount is invested within the investment portfolio each month consistent with the Company's investment policy statement. To monitor which portion of the overall investment portfolio can be made available to supplement any operating cash shortfalls, management maintains a liquidity percentage for the overall investment portfolio. The Company considers investments that are available for redemption within a one-year period to be liquid. Investments that are subject to lock-up provisions that expire beyond a one-year period are considered illiquid and are not included in the investment balance disclosed above (see Note 9 for disclosures on the Company's investments).

As disclosed in Note 1, the Company has no net assets with donor restrictions.

**NOTE 15 - LITIGATION**

From time to time, the Company may be a defendant in legal proceedings arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, activities or liquidity.

**NOTE 16 - RELATED PARTIES**

The Company has several board members who serve in various capacities at educational institutions where the Company conducted its student lending business and provides other mission-related products and services.

The Company serves as trust administrator for three unconsolidated subsidiary trusts. The Company received \$0.1 million in administrative fees from these trusts in accordance with the respective trust agreements during both years ended March 31, 2023 and 2022. These fees are included in other operating income within the consolidated statements of activities.

The Company paid grants to its member law schools totaling \$1.0 million and \$1.7 million for the years ended March 31, 2023 and 2022, respectively.

**NOTE 17 - SUBSEQUENT EVENTS**

The Company evaluated subsequent events through July 19, 2023, the date which the consolidated financial statements were available to be issued.