

**INTO Illinois State  
University, LLC**  
Financial Statements  
June 30, 2020 and 2019

**INTO Illinois State University, LLC**  
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**June 30, 2020 and 2019**

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To the Board of Directors of  
INTO Illinois State University, LLC

**Report on the financial statements**

We have audited the accompanying financial statements of INTO Illinois State University, LLC (the "Entity"), which comprise the balance sheet as of June 30, 2020, and the related statements of operations and comprehensive loss, members' deficit, and cash flows for the year then ended, and the related notes to the financial statements.

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

**Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the financial statements 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 Entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of INTO Illinois State University, LLC as of June 30, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of matter**

We draw your attention to Note 1 of the financial statements, which describes management's plans to cease operations for a period of up to 23 months, effective August 1, 2020. Our opinion is not modified with respect to this matter.

**Other matter**

The financial statements of INTO Illinois State University, LLC as of and for the year ended June 30, 2019 were audited by other auditors. Those auditors expressed an unmodified opinion on those 2019 financial statements in their report dated November 1, 2019.

**Other reporting required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 2, 2020, on our consideration of the Entity's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Entity's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Entity's internal control over financial reporting and compliance.



Newport Beach, California  
October 2, 2020

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

Board of Directors  
INTO Illinois State University, LLC

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of INTO Illinois State University, LLC (the "Entity"), which comprise the balance sheet as of June 30, 2020, and the related statements of operations and comprehensive loss, members' deficit, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 2, 2020.

Our report includes a reference to other auditors who audited the financial statements of INTO Illinois State University, LLC, as described in our report on the Entity's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### **Internal control over financial reporting**

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

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

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

weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Management Response as item 2020-01, that we consider to be a significant deficiency in the Entity's internal control.

**Compliance and other matters**

As part of obtaining reasonable assurance about whether the Entity's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Entity's response to findings**

The Entity's response to our finding, which is described in the accompanying Schedule of Findings and Management Response, was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the Entity's response.

**Intended purpose**

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



Newport Beach, California  
October 2, 2020

**INTO Illinois State University, LLC**  
**Balance Sheets**  
**June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 251,687	\$ 416,859
Accounts receivable	76,009	29,717
Prepaid and other current assets	156,678	334,289
Due from INTO NA	43	1,451
Due from ISU	47,065	4,715
Due from IUP	2,145	23,677
Total current assets	<u>533,627</u>	<u>810,708</u>
Equipment, furniture, and fixtures, net	45,055	50,900
Intangible assets, net	289,930	124,032
Total assets	<u>\$ 868,612</u>	<u>\$ 985,640</u>
<b>Liabilities and Members' Deficit</b>		
Current liabilities		
Accounts payable	\$ 1,246	\$ 2,311
Deferred revenue	815,305	1,123,739
Accrued expenses	242,491	275,560
Due to ISU	2,952,288	673,754
Due to INTO NA	927,807	450,715
Due to IUP	553,255	26,775
Due to INTO ASIA TOPCO	3,873	-
Due to INTO WFOE	2,637	-
Total current liabilities	<u>5,498,902</u>	<u>2,552,854</u>
Partner loans - INTO NA	<u>6,000,000</u>	<u>4,700,000</u>
Total liabilities	<u>11,498,902</u>	<u>7,252,854</u>
Members' deficit		
Common stock, \$0.001 par value, 200 shares authorized, issued and outstanding	-	-
Additional paid in capital	50,000	50,000
Accumulated deficit	<u>(10,680,290)</u>	<u>(6,317,214)</u>
Total members' deficit	<u>(10,630,290)</u>	<u>(6,267,214)</u>
Total liabilities and members' deficit	<u>\$ 868,612</u>	<u>\$ 985,640</u>

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

**INTO Illinois State University, LLC**  
**Statements of Operations and Comprehensive Loss**  
**Years Ended June 30, 2020 and 2019**

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	<u>2020</u>	<u>2019</u>
<b>Revenues</b>		
Tuition income	\$ 3,204,580	\$ 1,393,007
Other operating revenue	<u>497,664</u>	<u>423,282</u>
Total revenues	<u>3,702,244</u>	<u>1,816,289</u>
<b>Expenses</b>		
Cost of instruction	2,256,326	1,313,925
Indirect staff costs	610,758	799,429
Marketing	2,454,225	2,413,745
Compensation and employee benefits	837,294	734,527
Rent expenses	278,126	116,595
Depreciation and amortization	64,708	19,182
Administrative and service charges	831,686	621,754
Other operating expenses	<u>732,197</u>	<u>494,723</u>
Operating loss	<u>(4,363,076)</u>	<u>(4,697,591)</u>
Net and comprehensive loss	<u>\$ (4,363,076)</u>	<u>\$ (4,697,591)</u>

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



**INTO Illinois State University, LLC**  
**Statements of Members' Deficit**  
**Years Ended June 30, 2020 and 2019**

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	<u>Common Stock</u>		<u>Additional Paid</u>	<u>Accumulated</u>	
	<u>Shares</u>	<u>Amount</u>	<u>In Capital</u>	<u>Deficit</u>	<u>Total</u>
<b>Balances at June 30, 2018</b>	200	\$ -	\$ 50,000	\$ (1,619,623)	\$ (1,569,623)
Net loss	-	-	-	(4,697,591)	(4,697,591)
<b>Balances at June 30, 2019</b>	200	-	50,000	(6,317,214)	(6,267,214)
Net loss	-	-	-	(4,363,076)	(4,363,076)
<b>Balances at June 30, 2020</b>	<u>200</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ (10,680,290)</u>	<u>\$ (10,630,290)</u>

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

**INTO Illinois State University, LLC**  
**Statements of Cash Flows**  
**Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>Operating activities</b>		
Net loss	\$ (4,363,076)	\$ (4,697,591)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	64,708	19,182
Changes in operating assets and liabilities		
Accounts receivable	(46,292)	(29,717)
Prepaid and other current assets	177,611	(167,621)
Due from INTO NA	1,408	(1,451)
Due from ISU	(42,350)	(4,715)
Due from IUP	21,532	(23,677)
Accounts payable	(1,065)	2,312
Deferred revenue	(308,434)	1,043,101
Accrued expenses	(33,069)	114,702
Due to ISU	2,278,534	582,663
Due to INTO NA	477,092	(47,833)
Due to IUP	526,480	(998,097)
Due to INTO ASIA TOPCO	3,873	(11,549)
Due to INTO WFOE	2,637	(6,565)
Net cash used in operating activities	<u>(1,240,411)</u>	<u>(4,226,856)</u>
<b>Investing activities</b>		
Purchases of equipment	(10,358)	(60,226)
Purchases of intangible assets	(214,403)	(133,889)
Net cash used in investing activities	<u>(224,761)</u>	<u>(194,115)</u>
<b>Financing activities</b>		
Proceeds from borrowings on Partner Loans (INTO NA)	2,097,177	3,700,000
Payments on Partner Loans (INTO NA)	(797,177)	-
Net cash provided by financing activities	<u>1,300,000</u>	<u>3,700,000</u>
Net decrease in cash	(165,172)	(720,971)
<b>Cash</b>		
Beginning of year	416,859	1,137,830
End of year	<u>\$ 251,687</u>	<u>\$ 416,859</u>
<b>Supplemental cash flow information</b>		
Cash paid for interest	<u>\$ 152,823</u>	<u>\$ -</u>

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

# INTO Illinois State University, LLC

## Notes to Financial Statements

### Years Ended June 30, 2020 and 2019

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#### 1. Description of Business and Basis of Presentation

##### Description of Business

INTO Illinois State University, LLC ("INTO Illinois State University" or the "Company" or "INTO ISU") was established on March 22, 2018 as a joint venture between INTO North America, Inc. ("INTO NA") and Illinois State University Global LLC ("ISU Global"), collectively the "Members", for the purpose of building the international profile of Illinois State University (the "University" or "ISU"). The principal business of INTO Illinois State University is to provide management, marketing, and administrative services to Illinois State University and its diverse students in connection with the international pathway programs, which are subject to the academic authority of Illinois State University. INTO Illinois State University provides continuous support by managing the areas of the students' cultural experience, English language courses, and eventual matriculation to Illinois State University. The purpose of the partnering between INTO Illinois State University and Illinois State University is to support the recruitment of intellectual talent to Illinois State University, enhance the quality and relevance of education, extend the University's global reach, transform service quality, broaden Illinois State University's global brand identity and recognition, provide an economic stimulus for the broader community, and generate revenue for reinvestment in Illinois State University.

INTO Illinois State University operates an international student center located on Illinois State University's Normal, Illinois campus. INTO Illinois State University and Illinois State University offer a range of academic preparatory courses and English language programs to international students, which, when successfully completed, enable qualified international students the ability to progress to undergraduate and graduate degree programs at Illinois State University.

On March 22, 2018, the Members each contributed cash of \$25,000 for equal shares of the Company.

##### Basis of Presentation

The accompanying financial statements of INTO Illinois State University have been prepared on the accrual basis of accounting and are prepared under the guidance of the Accounting Standards Codification ("ASC") 205, *Presentation of Financial Statements*, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). In May 2019, the Board of Directors approved changing the Company's elected year end from July 31 to June 30.

##### Liquidity and Management's Plans

The Company generated negative cash flows from operations and net losses from operations during the years ended June 30, 2020 and 2019. As of June 30, 2020 and 2019, the Company had an accumulated deficit of \$10,680,290 and \$6,317,214, respectively. Historically, the Company's liquidity needs have been met through borrowings under its partner loans from INTO NA and payment deferrals from ISU.

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As a result of the pandemic, international travel to the U.S., on which the Company is dependent, has been significantly limited, and it is currently unclear when this will return to normal levels.

# **INTO Illinois State University, LLC**

## **Notes to Financial Statements**

### **Years Ended June 30, 2020 and 2019**

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The Company's recurring losses and negative cash flows, including the impact of the COVID-19 pandemic, has raised substantial doubt regarding the Company's ability to continue as a going concern. In response to this, and subsequent to year end, both Members of the Company executed amendments to the International Student Center Services Agreement, the IT Services Agreement, the Deferral Letter, the Teaching/Administration Building(s) Facilities License Agreement, and the Promissory Note, reflecting the intent for the Company to cease operations for a period of up to 23 months, effective August 1, 2020 (the "Deferment Term"). During this period, the Company will not receive any revenue, will terminate all employees, will have minimal expenditures, and all parties agree to defer payment on any outstanding payables/loans.

The amendment to the International Student Center Services Agreement includes the deferment of all payments, fees, reimbursements and other amounts due by the Company to ISU or IUP for the duration of the Deferment Term, and the Company is not obligated to pay any amount or interest during that period. All such deferred amounts shall accrue interest at a rate of 3% per annum for the duration of the Deferment Term. ISU will be responsible for paying all costs of delivery in respect of the English and Pathway programs starting August 1, 2020 through the period of deferment. ISU will continue to pay the required scholarship payments to the Company during the Deferment Term. Both Members of the Company agree to hold quarterly meetings with senior business leaders of each such party to confer regarding the status of the Company during the Deferment Term and desired changes to this amendment or the International Student Center Services agreement during the Deferment Term. All terms and conditions of the International Student Center Services Agreement shall automatically be reinstated at the end of the Deferment Term. IUP and/or the Company will hire an Executive Director for the Company by the conclusion of the Deferment Term.

The amendment to the IT Services Agreement suspends such agreement in full and shall not have force or effect during the Deferment Term. No information technology services or support shall be provided to the Company for the duration of the Deferment Term unless mutually agreed by the parties. ISU and IUP agree to cooperate to maintain existing technology integrations and infrastructure to support all ongoing operations conducted by IUP and the University for the Deferment Term. Each party agrees to bear its own costs related to IT services and such maintenance and support for the duration of the Deferment Term. No payments shall be charged to the Company for the duration of the Deferment Term.

The amendment to the Deferral Letter suspends in full and shall not have effect and payment of all amounts due to ISU shall continue to be deferred for the duration of the Deferment Term. The deferred amounts due to ISU shall continue to accrue interest at a rate of 3% per annum during the Deferment Term. All of the terms and conditions of the Deferral Letter shall be automatically reinstated in full at the end of the Deferment Term.

The amendment to the Teaching/Administration Building(s) Facilities License Agreement suspends such agreement and the University resumes control of, and responsibility for, the Premises, during the Deferment Term. The University shall provide office space for one IUP employee in the premises for the duration of the Deferment Term. Any Company property or equipment that remains in the premises during the Deferment Term may be used by the University for University purposes; provided, that the University shall be solely responsible for any damage arising from such use.

# INTO Illinois State University, LLC

## Notes to Financial Statements

### Years Ended June 30, 2020 and 2019

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The amendment to the Promissory Note states that no principal or interest outstanding under the Promissory Note (the "Partner Loans") shall be due and payable by the Company to INTO NA during the Deferment Term. The outstanding principal amount shall accrue interest at a rate of 3% per annum for the duration of the Deferment Term. All of the terms and conditions of the Promissory Note shall be automatically reinstated in full at the end of the Deferment Term.

While there is uncertainty regarding this unprecedented time, the Company believes that the existing cash balance on hand, combined with the actions taken through the aforementioned amendments to cease operations and defer payments effective August 1, 2020, will be sufficient to fund currently anticipated cash requirements for the next 12 months from the report issuance date.

## 2. Summary of Significant Accounting Policies

### Cash and Cash Equivalents

INTO Illinois State University considers all highly liquid investments with original maturities of three months or less when purchased to be cash and cash equivalents. The carrying value of cash and cash equivalents reported on the financial statements approximates its fair value. INTO Illinois State University had no cash equivalents at June 30, 2020 and 2019. At times, the Company's cash balances may be in excess of federally insured limits. The Company maintains its accounts with two high-quality financial institutions and believes that any risk of loss is minimal. As of June 30, 2020 and 2019, cash deposits exceeded federally insured limits by \$0 and \$166,859, respectively.

### Accounts Receivable

Accounts receivable represent amounts due to the Company for student tuition and fees. Accounts receivable are recorded net of any allowance for doubtful accounts. Allowance for doubtful accounts are reported based on management's best estimate considering type, age, collection history and other factors as deemed appropriate. Any change in the assumptions used may result in an allowance for doubtful accounts being recognized in the period in which the change occurs.

Accounts receivable are written off when deemed uncollectible. The Company had no allowance for doubtful accounts for the years ended June 30, 2020 and 2019.

### Fair Values of Financial Instruments

The Company applies ASC 820, *Fair Value Measurements*, for fair value measurements of financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC 820 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements.

Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value, which are the following:

**INTO Illinois State University, LLC**  
**Notes to Financial Statements**  
**Years Ended June 30, 2020 and 2019**

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- Level 1 Quoted prices in active markets for identical assets or liabilities;
- Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; 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.

The carrying amounts of financial instruments such as cash, accounts receivable, accounts payable, related party payables, or receivables, and accrued liabilities approximate fair value due to their short maturities.

**Prepaid and Other Current Assets**

Prepaid expenses for marketing and other prepaids consist of amounts paid in advance for goods or services that had not yet been rendered as of the end of the fiscal year. Prepaid commissions consist of amounts paid to agents that will be recognized over the life of the student’s study plan.

	<u>2020</u>	<u>2019</u>
Prepaid marketing	\$ -	\$ 175,000
Prepaid commissions	135,191	116,046
Other prepaids	<u>21,487</u>	<u>43,243</u>
	<u>\$ 156,678</u>	<u>\$ 334,289</u>

**Equipment, Furniture, and Fixtures, Net**

INTO Illinois State University capitalizes all fixed assets over \$500 with a useful life greater than one year. Equipment, furniture, and fixtures are stated at cost less accumulated depreciation. Upon retirement or disposition, the asset’s cost and related accumulated depreciation are relieved and the resulting gain or loss, if any, is included in the statements of operations and comprehensive loss. INTO Illinois State University depreciates equipment, furniture, and fixtures on a straight-line basis over its estimated useful life. Useful lives for computer equipment, furniture and fixtures are four years.

Amortization of leasehold improvements is computed on a straight-line method over the shorter of the estimated useful lives of the improvements or the remaining lease term.

**Intangible Assets, Net**

Intangible assets consist of capitalized software costs. These costs consist of internal and external labor costs for development of information systems used internally for business operations. The capitalization of software development costs for internal use is governed by the Financial Accounting Standards Board (“FASB”) ASC Subtopic 350-40. At the beginning of application development, software costs, which are primarily related to payroll costs and costs of independent contractors incurred during development, are capitalized. Research and development costs incurred prior to application development are expensed as incurred. Software development costs are amortized on a product by product basis commencing on the date placed in service. Software development costs are amortized on a straight-line basis over the estimated useful life. Useful lives range from four to seven years. The weighted average useful life is four years as of June 30, 2020.

# **INTO Illinois State University, LLC**

## **Notes to Financial Statements**

### **Years Ended June 30, 2020 and 2019**

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#### **Impairment of Long-Lived Assets**

INTO Illinois State University evaluates the recoverability of its long-lived assets whenever adverse events or changes in the business climate indicate that the expected undiscounted future cash flows from the related asset may be less than its carrying value. If the net book value of the related asset exceeds the undiscounted future cash flows of the asset, the carrying amount is reduced to the present value of its expected future cash flows, and an impairment loss is recognized. No impairment was recorded during the years ended June 30, 2020 or 2019.

#### **Revenues**

Tuition is collected by INTO ISU from international students for academic preparatory courses and English language programs. Other operating revenue primarily consists of accommodation, student insurance fees, and cancellation fee income. Revenues are recognized over the program service period, except for cancellation fee income, which is recognized as incurred.

#### **Refunds**

Students may be eligible for a refund, less the deposit, if they cancel or withdraw from an INTO ISU program before the published start date. INTO ISU temporarily implemented a deposit refund policy in direct response to the impact of COVID-19 which states that students may receive a refund of their deposit for a variety of reasons, including but not limited to, inability to obtain a visa, travel restrictions, personal or family sickness, etc. Deposits are recorded in accrued expenses within the accompanying balance sheets.

#### **Scholarship Fund**

The purpose of the scholarship fund is to provide financial scholarships to students admitted into the INTO ISU programs. Upon matriculating to ISU, the University remits a percentage of the student's tuition to INTO ISU for the purpose of funding scholarships. Any scholarship amounts awarded to students that exceed the available balance in the scholarship fund are expensed. INTO ISU incurred \$210,671 and \$197,839 for scholarship fund expense for the years ended June 30, 2020 and 2019, respectively. These amounts are netted against tuition revenue on the statements of operations and comprehensive loss.

#### **Deferred Revenue**

Deferred revenue consists of cash receipts for student services, tuition, and fees received in advance of the related academic program start date. INTO ISU recognizes the amounts received as revenue in the statements of operations and comprehensive loss ratably over the period of the underlying academic program.

#### **Marketing**

Marketing costs consist of fees paid to a related party, IUP, for marketing and recruitment services per the International Student Center Services Agreement. These costs are expensed over the time period that the services are provided.

Other marketing costs consist of brochures, advertising and other marketing activities and are expensed as incurred or when the first run of advertising occurs.

# INTO Illinois State University, LLC

## Notes to Financial Statements

### Years Ended June 30, 2020 and 2019

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#### **Income Taxes**

INTO ISU is a limited liability company and is a disregarded entity for U.S. Federal, state and local income tax purposes. The Members have limited individual liability for the obligation or debts of INTO ISU. Accordingly, no provision for income taxes is made in the financial statements since such taxes, if any, are the responsibility of the individual Members.

#### **Agent Commissions**

The majority of the commissions paid to third party agents are deferred on the balance sheets and recognized over the same period as the related student revenue in cost of instruction on the accompanying statements of operations and comprehensive loss. In some cases, INTO ISU has recourse to recover all or part of payments made to third party agents.

#### **Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

#### **Reclassifications**

For comparative purposes, certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 presentation. These reclassifications had no impact on the overall financial position of INTO ISU.

#### **Recent Accounting Pronouncements**

In May 2014, the FASB issued a converged standard on recognition of revenue from contracts with customers. Such standard was issued by the FASB as Accounting Standards Update (“ASU”) 2014-09, *Revenue from contracts with customers (Topic 606)*, which amended revenue recognition guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required about customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract.

In addition, FASB has issued various updates, which aimed to reduce the cost and complexity of implementing the new guidance.

This ASU will be effective for the Company beginning in fiscal year 2021. The Company is evaluating the impact of this ASU on its financial statements.



# INTO Illinois State University, LLC

## Notes to Financial Statements

### Years Ended June 30, 2020 and 2019

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In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheets and disclosing key information about leasing arrangements. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous U.S. GAAP. There continues to be a differentiation between finance leases and operating leases; however, the principal difference from previous guidance is that the lease assets and lease liabilities arising from operating leases should be presented on the balance sheet. This update is effective for the Company for fiscal year 2023. INTO ISU is evaluating the impact of this ASU on its financial statements.

### 3. Related-Party Transactions

For the purposes of the financial statements, the Company considers INTO NA, IUP, INTO University Partnerships (Asia), Ltd. ("INTO ASIA TOPCO"), Guangzhou WFOE INTO Education, Ltd. ("INTO WFOE"), ISU Global, ISU and members of the INTO Illinois State University Board of Directors to be related parties.

#### Illinois State University and Illinois State University Global LLC

INTO ISU has entered into an International Student Center Services Agreement ("Service Agreement") with Illinois State University, which provides that Illinois State University will create and develop the INTO ISU programs jointly with INTO ISU, with the goal of ensuring that appropriate resources and courses at both INTO ISU and Illinois State University are available to provide a quality academic experience. The Service Agreement, effective as of March 22, 2018, continues through March 22, 2028. The Service Agreement may be terminated without liability to either party upon the event of certain criteria established per the Service Agreement. No such event occurred as of June 30, 2020 and 2019.

The Service Agreement provides that credits earned by students who successfully complete the INTO ISU Pathways Program will be recognized by Illinois State University toward completion of an appropriate Illinois State University undergraduate or graduate degree program. Illinois State University will provide and supervise the administration of student admissions to the INTO ISU Program and will provide support and mentoring services to the students during their enrollment.

Per the terms of the Service Agreement, Illinois State University will provide INTO ISU access to Illinois State University facilities and student services, Illinois State University will provide for the planning, construction, and use of living and learning facilities based on the achievement of program milestones, including various enrollment thresholds. In addition, access to appropriate Illinois State University staff for delivery of the INTO ISU Programs will be provided to INTO Illinois State University. Illinois State University will incur the payroll and other expenses for leased employees, and INTO ISU will reimburse Illinois State University for these costs.

As part of the Service Agreement, Illinois State University granted INTO ISU a nonexclusive, royalty-free, nontransferable worldwide license for the term of the agreement to use the Illinois State University trademarks, trade names, service marks, service names, brand names, domain names, URLs or logos for the purpose of the INTO ISU programs.

For the year ended June 30, 2020, INTO ISU incurred expenses from Illinois State University of \$239,102 for compensation and benefits and \$1,498,364 for cost of instruction, per the International Student Center Services Agreement, which are included in the accompanying statements of operations and comprehensive loss. For the year ended June 30, 2019, INTO ISU

# **INTO Illinois State University, LLC**

## **Notes to Financial Statements**

### **Years Ended June 30, 2020 and 2019**

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incurred expenses from Illinois State University of \$280,163 for compensation and benefits and \$913,346 for cost of instruction, which are included in the accompanying statements of operations and comprehensive loss. As of June 30, 2020 and 2019, INTO ISU accrued \$2,112,422 and \$436,375, respectively, for compensation and benefits and costs of instruction in Due to ISU on the accompanying balance sheets.

For the years ended June 30, 2020 and 2019, INTO ISU incurred expenses from Illinois State University of \$278,126 and \$116,595, respectively, for rent, per the Teaching/Administration Building(s) Facilities License Agreement, which is included in the accompanying statements of operations and comprehensive loss. As of June 30, 2020 and 2019, INTO ISU accrued \$394,721 and \$116,595, respectively, for rent expense in Due to ISU on the accompanying balance sheets.

For the years ended June 30, 2020 and 2019, INTO ISU incurred expenses from Illinois State University of \$220,500 and \$209,486, respectively, for administration and service charges, per Section 4.01 of the Service Agreement, which are included in the accompanying statements of operations and comprehensive loss. As of June 30, 2020 and 2019, INTO ISU accrued \$255,500 and \$35,000, respectively, for administration and service charges in Due to ISU on the accompanying balance sheets.

For the years ended June 30, 2020 and 2019, INTO ISU incurred expenses from Illinois State University of \$23,545 and \$28,776, respectively, for other operating expenses, per the Service Agreement, which are included in the accompanying statements of operations and comprehensive loss. For the years ended June 30, 2020 and 2019, INTO ISU incurred information technology expenses, per the IT Services Agreement, from Illinois State University of \$146,369 and \$80,397, respectively, which are included in other operating expenses in the accompanying statements of operations and comprehensive loss. As of June 30, 2020 and 2019, INTO ISU accrued \$159,914 and \$85,784, respectively, for other operating expenses and information technology expenses in Due to ISU on the accompanying balance sheets.

Illinois State University remitted \$25,132 and \$4,715 to INTO ISU for scholarships during the years ended June 30, 2020 and 2019, respectively, per Section 4.04 of the Service Agreement. Illinois State University owed INTO ISU \$47,065 and \$4,715 for scholarship funds at June 30, 2020 and 2019, respectively. These amounts are included in Due from ISU on the accompanying balance sheets.

INTO ISU has an agreement with The Board of Trustees of Illinois State University that allows INTO ISU to defer the payment of the Specified Costs, as defined in the International Student Center Services Agreement, until the final day of the fiscal year immediately following the year end. An interest rate of 6% will be applied, commencing the first day of the fiscal year immediately following the year end, to any deferred amounts. As of June 30, 2020 and 2019, INTO ISU has deferred \$2,922,557 and \$495,511, respectively. For the periods ended June 30, 2020 and 2019, INTO ISU incurred \$29,731 and \$0, respectively, for interest expense in other operating expenses, which is included in the accompanying statements of operations and comprehensive loss. As of June 30, 2020 and 2019, INTO ISU has accrued \$29,731 and \$0, respectively, for interest expense in Due to ISU on the accompanying balance sheets.

**INTO Illinois State University, LLC**  
**Notes to Financial Statements**  
**Years Ended June 30, 2020 and 2019**

The table below reflects the amount of expenses incurred by INTO ISU for services provided by Illinois State University.

<b>2020</b>		INTO Illinois State University							
	<u>Due to ISU</u>	<u>Due from ISU</u>	<u>Cost of Instruction</u>	<u>Compensation and Employee Benefits</u>	<u>Rent</u>	<u>Administration and Service Charges</u>	<u>Other Operating</u>	<u>IT</u>	<u>Interest</u>
Receivable/Payable	\$ 2,952,288	\$ 47,065	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Operating expenses	-	-	1,498,364	239,102	278,126	220,500	23,545	146,369	29,731
Total	<u>\$ 2,952,288</u>	<u>\$ 47,065</u>	<u>\$ 1,498,364</u>	<u>\$ 239,102</u>	<u>\$ 278,126</u>	<u>\$ 220,500</u>	<u>\$ 23,545</u>	<u>\$ 146,369</u>	<u>\$ 29,731</u>

<b>2019</b>		INTO Illinois State University							
	<u>Due to ISU</u>	<u>Due from ISU</u>	<u>Cost of Instruction</u>	<u>Compensation and Employee Benefits</u>	<u>Rent</u>	<u>Administration and Service Charges</u>	<u>Other Operating</u>	<u>IT</u>	<u>Interest</u>
Receivable/Payable	\$ 673,754	\$ 4,715	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Operating expenses	-	-	913,346	280,163	116,595	209,486	28,776	80,397	-
Total	<u>\$ 673,754</u>	<u>\$ 4,715</u>	<u>\$ 913,346</u>	<u>\$ 280,163</u>	<u>\$ 116,595</u>	<u>\$ 209,486</u>	<u>\$ 28,776</u>	<u>\$ 80,397</u>	<u>\$ -</u>

# **INTO Illinois State University, LLC**

## **Notes to Financial Statements**

### **Years Ended June 30, 2020 and 2019**

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#### **INTO North America, Inc. (“INTO NA”)**

INTO ISU has incurred expenses of \$219,625 and \$209,167 to INTO NA for administrative services, per Article 4.0.1 of the International Student Center Services Agreement, for the years ended June 30, 2020 and 2019, respectively. These amounts are recorded in other operating expenses on the accompanying statements of operations and comprehensive loss. INTO ISU owed INTO NA \$37,490 and \$51,667 as of June 30, 2020 and 2019, respectively, related to the administrative expenses which were recorded in Due to INTO NA on the accompanying balance sheets.

INTO ISU has a Promissory Note with INTO NA which allows INTO ISU to borrow up to \$6,000,000 in operating capital from INTO NA with an interest rate of 6%. Borrowings on this note can be made at any time subject to the Limited Liability Company Agreement of INTO Illinois State University, LLC. The Company has outstanding borrowings with INTO NA in the amount of \$6,000,000 and \$4,700,000 and accrued interest of \$292,817 and \$133,508, as of June 30, 2020 and 2019, respectively. Accrued interest for INTO NA is presented under Due to INTO NA on the accompanying balance sheets, and the principal amount is under Partner loans - INTO NA on the accompanying balance sheets. INTO ISU has incurred expenses of \$312,132 and \$133,008 to INTO NA for interest expense for the years ended June 30, 2020 and 2019, respectively. These amounts were recorded in other operating expenses on the accompanying statements of operations and comprehensive loss.

INTO ISU has incurred expenses of \$300,228 and \$428,520 to INTO NA for shared services and other operating costs, per the International Student Center Services Agreement, for the years ended June 30, 2020 and 2019, respectively. These amounts are recorded in indirect staff costs and other operating expenses on the accompanying statements of operations and comprehensive loss. INTO ISU owed INTO NA \$214,725 and \$62,302 for shared services and other operating costs at June 30, 2020 and 2019, respectively. These amounts are recorded in Due to INTO NA on the accompanying balance sheets.

INTO ISU has incurred expenses of \$391,561 and \$203,238 for management fees equal to 10% of the instructional fees charged to students for the INTO ISU programs, per the International Student Center Services Agreement, for the years ended June 30, 2020 and 2019, respectively. These amounts are recorded in other operating expenses on the accompanying statements of operations and comprehensive loss. INTO ISU owed INTO NA \$382,775 and \$203,238 as of June 30, 2020 and 2019, respectively, related to the management fees which were recorded in Due to INTO NA on the accompanying balance sheets.

#### **INTO University Partnership Limited (“IUP”)**

INTO ISU has incurred expenses of \$2,174,729 and \$2,116,255 from IUP for marketing and recruitment services fees per Exhibit K of the International Student Center Services Agreement for the years ended June 30, 2020 and 2019, respectively. These amounts are recorded in marketing expenses on the accompanying statements of operations and comprehensive loss. INTO ISU owed IUP \$367,500 and \$0 for marketing and recruitment services as of June 30, 2020 and 2019, respectively. These amounts are recorded in Due to IUP in the accompanying balance sheets. INTO ISU made advance payments of \$0 and \$175,000 to IUP for marketing fees during the years ended June 30, 2020 and 2019, respectively, which are recorded in prepaid and other current assets on the accompanying balance sheets.

# **INTO Illinois State University, LLC**

## **Notes to Financial Statements**

### **Years Ended June 30, 2020 and 2019**

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INTO ISU has incurred expenses of \$358,869 and \$320,242 from IUP for shared services and other operating costs per Exhibit L of the International Student Center Services Agreement for the years ended June 30, 2020 and 2019, respectively. These amounts are recorded in indirect staff costs and other operating costs on the accompanying statements of operations and comprehensive loss. INTO ISU owed IUP \$131,256 and \$26,775 for shared services and other operating costs at June 30, 2020 and 2019, respectively. These amounts are recorded in Due to IUP in the accompanying balance sheets. IUP owed INTO ISU \$2,145 and \$23,677 for shared services and other operating costs at June 30, 2020 and 2019, respectively. These amounts are recorded in Due from IUP in the accompanying balance sheets.

INTO ISU has incurred expenses of \$81,831 and \$0 from IUP for INTO Sourced Student Commissions for the years ended June 30, 2020 and 2019, respectively. These amounts are recorded in cost of instruction on the accompanying statements of operations and comprehensive loss. INTO ISU had no outstanding balances due to IUP as of June 30, 2020 and 2019 for INTO Sourced Student Commissions.

IUP invests in developing and customizing internal use software, which is then utilized by INTO ISU and other affiliate entities. IUP allocates a portion of those costs to INTO ISU, which are then capitalized in accordance with ASC 350-40 as described in Note 2. During the years ended June 30, 2020 and 2019, \$142,292 and \$29,744, respectively, of software costs were charged by IUP to INTO ISU and recorded within intangible assets on the accompany balance sheets. INTO ISU owed IUP \$54,499 and \$0 as of June 30, 2020 and 2019, respectively, for software development and customization fees incurred, which were recorded in Due to IUP on the accompanying balance sheets.

INTO ISU has incurred expenses of \$21,656 and \$55,185 from INTO WFOE related to shared services and operating expenses for the years ended June 30, 2020 and 2019, respectively. These amounts are recorded in other operating expenses on the accompanying statements of operations and comprehensive loss. INTO ISU owed INTO WFOE \$2,637 and \$0 as of June 30, 2020 and 2019, respectively, for other operating costs. These amounts are recorded in Due to INTO WFOE on the accompanying balance sheets. INTO WFOE is a wholly-owned subsidiary of IUP.

INTO ISU has incurred expenses of \$25,176 and \$32,734 from INTO ASIA TOPCO, related to shared services and other operating expenses for the years ended June 30, 2020 and 2019, respectively. These amounts are recorded in other operating expenses on the accompanying statements of operations and comprehensive loss. INTO ISU owed INTO ASIA TOPCO \$3,873 and \$0 as of June 30, 2020 and 2019, respectively, for other operating costs. These amounts are recorded in Due to INTO ASIA TOPCO in the accompany balance sheets. INTO ASIA TOPCO is a wholly-owned subsidiary of IUP.

**INTO Illinois State University, LLC**  
**Notes to Financial Statements**  
**Years Ended June 30, 2020 and 2019**

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**4. Equipment, Furniture and Fixtures, Net**

The components of equipment, furniture and fixtures consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Leasehold improvements	\$ 6,488	\$ -
Computer equipment	7,799	5,231
Furniture and fixtures	<u>56,296</u>	<u>54,994</u>
	70,583	60,225
Accumulated depreciation	<u>(25,528)</u>	<u>(9,325)</u>
	<u>\$ 45,055</u>	<u>\$ 50,900</u>

Depreciation expense on equipment, furniture and fixtures for the years ended June 30, 2020 and 2019 was \$16,203 and \$9,325, respectively.

**5. Intangible Assets, Net**

Intangible assets consist of capitalized software costs and are carried at a gross cost of \$348,292 and \$133,889 at June 30, 2020 and 2019, respectively. Accumulated amortization was \$58,362 and \$9,857 at June 30, 2020 and 2019, respectively, and amortization expense was \$48,505 and \$9,857 for the years ended June 30, 2020 and 2019, respectively.

Amortization expense for future years related to intangible assets, which is an estimate and subject to change, is as follows:

2021	\$ 83,165
2022	85,475
2023	75,754
2024	41,209
2025	<u>4,327</u>
	<u>\$ 289,930</u>

**INTO Illinois State University, LLC**  
**Notes to Financial Statements**  
**Years Ended June 30, 2020 and 2019**

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**6. Leases**

INTO ISU conducts its operations in leased facilities from Illinois State University under an initial operating lease that began on March 22, 2018 and expires on March 22, 2028. INTO ISU does not have the right to sub-lease or assign the lease without prior written consent of Illinois State University. There are no provisions in the lease for transfer of ownership or bargain purchase options. Pursuant to the terms of the Teaching/Administration Building(s) Facilities License agreement, effective March 22, 2018, Illinois State University granted a \$50,000 per year rent abatement for the duration of the Service Agreement. During the year ended June 30, 2020, INTO ISU and Illinois State University agreed to reverse the previously granted \$50,000 per year rent abatement. Total net rent expense for the years ended June 30, 2020 and 2019 was \$278,126 and \$116,595, respectively. Approximately \$57,000 of rent expense recorded during the year ended June 30, 2020 relates to the reversed rent abatement from prior years. The future minimum lease payments as of June 30, 2020 are referenced below.

Within one year	\$ 185,316
During year two to five	741,264
In excess of five years	<u>509,619</u>
Total commitments	<u>\$ 1,436,199</u>

**7. Accrued Expenses**

Accrued expenses consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Payroll and other employee related benefits	\$ 58,448	\$ 59,696
Student deposits and refunds	100,701	107,880
Travel and marketing	5,476	-
Audit, insurance, legal and tax	71,333	76,754
Other	<u>6,533</u>	<u>31,230</u>
Total accrued expenses	<u>\$ 242,491</u>	<u>\$ 275,560</u>

**8. Employee Benefit Plans**

The INTO Illinois State University, LLC 401(k) plan is a contributory defined contribution plan designed to provide all employees who meet certain age and service requirements the opportunity to contribute a portion of their pre-tax or after-tax income to the traditional 401(k) or Roth 401(k) plan. Contributions are made through employee-elected payroll withholdings and are subject to certain limitations. INTO ISU matches 100% of employee contributions into either plan up to 6% of each participant's earnings. INTO ISU contributed \$13,172 and \$4,806 on behalf of its employees in the years ended June 30, 2020 and 2019, respectively.

**INTO Illinois State University, LLC**  
**Notes to Financial Statements**  
**Years Ended June 30, 2020 and 2019**

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**9. Subsequent Events**

In connection with the preparation of the financial statements and in accordance with ASC 855, *Subsequent Events*, management has evaluated and reviewed the affairs of INTO Illinois State University, LLC for subsequent events that would impact the financial statements for the period ended June 30, 2020 to October 2, 2020, the date the financial statements were available to be issued. In response to the COVID-19 pandemic, both Members of the Company executed amendments to the Teaching/Administration Building(s) Facilities License Agreement, the IT Services Agreement, the International Student Center Services Agreement, the Promissory Note and the Deferral Letter reflecting the intent for the Company to cease operations for a period of up to 23 months, effective August 1, 2020. Refer to Note 1 for more detail regarding these amended agreements.



# INTO Illinois State University, LLC

## Schedule of Findings and Management Response

### Years Ended June 30, 2020 and 2019

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#### 2020-01 Journal Entries (Significant Deficiency)

**Criteria:**

Entities have a responsibility to design, implement and maintain an internal control environment relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, in accordance with accounting principles generally accepted in the United States of America.

**Condition:**

When considering the Entity's internal control over financial reporting, it was noted that users are able to both create and post their own journal entries within the Entity's financial reporting system. Further, journal entries posted to the general ledger are not independently reviewed.

**Cause:**

The Entity's financial reporting system does not have the ability to restrict users from creating and posting their own journal entries.

**Effect:**

The inability to restrict users from creating and posting their own entries, in conjunction with the absence of an independent review of journal entries posted to the general ledger, creates an opportunity for inappropriate or unauthorized journal entries to be recorded, which could result in a material misstatement within the financial statements.

**Recommendation:**

We recommend that management implement a control to ensure that all journal entries recorded within the general ledger are independently reviewed and approved.

**Views of Responsible Officials:**

Management believes that the multiple layers of financial review that are performed at month end mitigates any risk that a material misstatement could result from the lack of independent journal entry review. The month end asset and liability workpaper files are reviewed by the designated Manager of Accounting & Shared Services before they are distributed to the Commercial & Student Finance Analyst for review. The Commercial & Student Finance Analyst then runs the monthly Management Report which includes the statement of operations and comprehensive loss, and they provide commentary on the items that vary from the forecasted budget. That information is then submitted to the Central Finance Team at INTO NA for review by the appropriate Director of Commercial Finance and the VP Commercial Finance, North America. The VP Commercial Finance then presents the financial information to the Global CFO. This review process has been in place since the inception of INTO ISU.