Right Answers, Right Here.

TANNER

Accountants & Advisors

WATERFORD INSTITUTE, INC. AND SUBSIDIARIES
Consolidated Financial Statements

As of and for the Years Ended August 31, 2022 and 2021
Together with Independent Auditors' Report

TANNER

Independent Auditors' Report

To the Board of Trustees of
Waterford Institute, Inc.

Opinion
We have audited the accompanying financial statements of the Waterford Institute, Inc. and subsidiaries (a not-for-profit organization) (the Organization), which comprise the consolidated statements of financial position as of August 31, 2022 and 2021, and the related statements of activities and cash flows for the year then ended, and the related notes to consolidated financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Waterford Institute, Inc. and subsidiaries as of August 31, 2022, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Basis for Opinion
We conducted our audit 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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 financial statements in accordance with US GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Tanner LLC

December 15, 2022

Consolidated Statements of Financial Position

	As of August 31,	
	2022	**2021**
Assets		
Cash	$ 25,321,225	$ 43,205,906
Accounts receivable	33,090,726	14,327,169
Federal program receivables	908,327	2,464,215
Prepaid expenses and other assets	689,879	733,888
Program equipment inventory	4,102,510	4,442,996
Deferred expenses	1,436,920	1,493,930
Net investment in direct-finance type lease	3,086,675	3,163,362
Operating lease right-of-use assets	242,608	302,917
Finance lease right-of-use assets	109,072	155,817
Property and equipment, net	146,590	191,598
Total assets	$ 69,134,532	$ 70,481,798
Liabilities and Net Assets		
Accounts payable	$ 1,029,294	$ 4,210,675
Accrued liabilities	4,609,439	4,902,482
Deferred revenue	39,197,685	37,271,673
Deferred income on direct-finance type lease	2,939,690	3,163,362
Operating lease liabilities	244,841	303,841
Finance lease liabilities	87,248	130,779
Long-term debt	7,725,077	8,576,254
Total liabilities	55,833,274	58,559,066
Commitments and contingencies		
Net assets:		
Without donor restrictions	5,107,547	3,310,973
With donor restrictions	8,193,711	8,611,759
Total net assets	13,301,258	11,922,732
Total liabilities and net assets	$ 69,134,532	$ 70,481,798

See accompanying notes to consolidated financial statements.

Consolidated Statements of Activities

	For the Years Ended August 31,	
	2022	**2021**
Change in net assets without donor restrictions:		
Revenues, support, and other income:		
Contracts and grants	$ 50,162,744	$ 43,326,478
Contributions	2,682,102	6,697,896
Interest and other income	332,769	107,882
Total revenues, support, and other income	53,177,615	50,132,256
Net assets released from restrictions	6,576,424	4,672,245
Total revenues, support, other income, and reclassifications	59,754,039	54,804,501
Expenses:		
Salaries, wages and benefits	35,008,498	28,994,283
Professional and subcontract fees	5,267,576	4,499,664
Information technology	8,534,972	7,523,031
Business travel	2,082,432	747,347
Advertising and marketing	3,398,496	3,407,682
Facilities	631,813	465,651
Depreciation and amortization	783,341	338,008
Printing and Distribution	1,054,172	861,502
Other	1,092,205	757,275
Total expenses	57,853,505	47,594,443
Increase in net assets without donor restrictions before other changes	1,900,534	7,210,058
Foreign currency translation adjustment	(103,960)	31,152
Increase in net assets without donor restrictions	1,796,574	7,241,210
Change in net assets with donor restrictions:		
Contributions	6,158,376	8,038,206
Net assets released from restrictions	(6,576,424)	(4,672,245)
Increase (decrease) in net assets with donor restrictions	(418,048)	3,365,961
Increase in net assets	1,378,526	10,607,171
Net assets, beginning of the year	11,922,732	1,315,561
Net assets, end of the year	$ 13,301,258	$ 11,922,732

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	For the Years Ended August 31,	
	2022	**2021**
Cash flows from operating activities:		
Increase in net assets	$ 1,378,526	$ 10,607,171
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	783,341	338,008
Amortization of operating right-of-use-assets	63,041	37,113
Decrease (increase) in:		
Accounts receivable	(18,763,557)	4,625,929
Federal program receivables	1,555,888	(2,100,847)
Program equipment inventory	340,486	(3,719,864)
Prepaid expenses and other assets	(623,992)	(230,742)
Deferred expenses	57,010	(440,517)
Net investment in direct-finance type lease	76,687	31,953
Increase (decrease) in:		
Accounts payable	(3,181,381)	3,728,883
Accrued liabilities	(293,043)	1,653,051
Deferred revenue	1,926,012	10,597,473
Deferred income on direct-finance type lease	(223,672)	(31,953)
Operating lease liabilities	(59,000)	(36,189)
Net cash provided by (used in) operating activities	(16,963,654)	25,059,469
Cash flows from investing activities:		
Purchases of property and equipment	(23,587)	(29,859)
Cash flows from financing activities:		
Proceeds from long-term debt	-	1,500,000
Principal payments on long-term debt	(851,177)	(32,246)
Payments on finance leases	(46,263)	(71,783)
Net cash provided by (used in) financing activities	(897,440)	1,395,971
Net change in cash	(17,884,681)	26,425,581
Cash at beginning of the year	43,205,906	16,780,325
Cash at end of the year	$ 25,321,225	$ 43,205,906
Supplemental Cash Flow Disclosure:		
Cash paid for interest	$ 347,163	$ 301,083
Right-of-use asset and operating lease liability recorded upon adoption of ASU 2016-02, *Leases*	$ -	$ 340,030
Right-of-use asset and finance lease liability recorded upon adoption of ASU 2016-02, *Leases*	$ -	$ 202,562
Initial net investment in direct-finance type lease	$ -	$ 3,195,315

See accompanying notes to consolidated financial statements.

1. Organization and Summary of Significant Accounting Policies

Organization

Waterford Institute, Inc. (DBA Waterford.org) is a Delaware 501(c)(3) not-for-profit organization with a mission to achieve universal literacy for children through equity, access, and family empowerment. Waterford Institute, Inc. along with its subsidiaries are collectively referred to as "Waterford" or "the Organization" throughout the notes to consolidated financial statements. Waterford develops educational tools that guide students along adaptive, individualized learning paths toward fluent reading and lifelong learning. Waterford empowers parents as a child's first teacher and supports teachers in taking the right actions at the right time for their students. Currently, Waterford.org serves hundreds of thousands of children across the United States every year. Waterford's programs have been supported by a variety of governmental and philanthropic organizations, including support from federal grants, The Studio @ Blue Meridian, and TED's Audacious Project.

Our Programs

Waterford Upstart helps young children develop cognitive and social-emotional skills in the home by empowering parents to become their child's first and most influential teachers. Waterford Upstart's instructional program is used 15 minutes per day, 5 days a week, guiding children along a personalized path to learn the fundamentals of literacy. Parents are also partnered with coaches who provide tools and insight to help parents continue to work with their children offline. The US Department of Education announced third-party findings that show Waterford Upstart meets the What Works Clearinghouse (WWC) Tier 1 ESSA standards without reservations and shows that it is effective for promoting early literacy outcomes. Waterford Upstart is available to families, including those unserved or underserved by existing Pre-K options, at no cost thanks to government and philanthropic sponsors.

Waterford Reading Academy brings together the child, parent, and teacher to create a strong, supportive environment for academic success. Waterford Reading Academy is a classroom-based program for Pre-K to 6 students, guiding them through the crucial shift from learning to read to reading to learn and beyond through rich literature and age-appropriate texts. Waterford Reading Academy gives teachers a deeper, detailed understanding of where each student is on their learning path and can be seamlessly integrated into their lesson plan. Waterford Reading Academy simultaneously engages and informs parents, empowering them as their child's first and most influential teacher.

Waterford also offers professional development services for educators, communication and training programs for parents (including Family Academy and the Waterford Mentor app), as well as program management of partner services including internet access, computer hardware, and other resources schools and families need to provide equity and excellence for all learners.

Consolidated Financial Statements

The consolidated financial statements include the accounts of Waterford Institute, Inc. and the following subsidiaries:

- Waterford Research Institute, LLC ("the Institute"), which is wholly- owned;
- Waterford Institute India, an India not-for-profit corporation, which is a 99.9% owned subsidiary;
- Waterford Research SRL, a for-profit limited liability Romanian company, which is wholly-owned;
- Waterford Holdings, LLC, a wholly-owned subsidiary;
- Project Upstart, Inc., a 501(c)(4) not-for-profit corporation under common control

Waterford Research Institute, LLC holds the operations for the United States of America. Waterford Research SRL and Waterford Institute India perform software development and testing for the Institute. During the year ended August 31, 2021, management initiated the termination of operations of Waterford Institute India. The Organization has accrued approximately $35,000 and $225,000 in the consolidated statements of financial position as of August 31, 2022 and 2021, respectively, for the related expected costs. Waterford Holdings, LLC holds the Institute's debt. Project Upstart, Inc. performs lobbying activities on behalf of Waterford Institute, Inc. All material intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation
The consolidated financial statements of the Organization have been prepared in accordance with accounting principles generally accepted in the United State of America ("US GAAP"), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

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 Organization's management and Board of Trustees.

Net assets with donor restrictions: Net assets subject to restrictions imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where the donor stipulates the funds be maintained in perpetuity.

Estimates
The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk
Waterford maintains cash in bank deposit accounts which, at times, exceed federally insured limits or are not federally insured. To date, Waterford has not experienced a material loss or lack of access to its invested cash; however, no assurance can be provided that access to Waterford's invested cash will not be impacted by adverse conditions in the financial markets.

Receivables
Receivables are comprised of trade receivables due from customers utilizing the Organization's software as well as amounts due under government contracts. Trade receivables are uncollateralized obligations due under terms requiring payment within 30 days from the invoice date. Unpaid receivables with invoice dates over 30 days past due bear interest at 1.0% per month.

Receivables are stated at the amount billed plus any accrued and unpaid interest. Accounts with invoices dated over 90 days old are considered delinquent. Interest continues to accrue on delinquent accounts until the receivable is determined to be uncollectible.

Federal program receivables constitute allowable indirect costs incurred under federal grant programs that have not been billed as of year-end.

The carrying amount of receivables is reduced, as necessary, by a valuation allowance that reflects management's best estimate of specifically identified amounts that will not be collected. As of August 31, 2022 and 2021, management determined that no allowance was necessary.

Program equipment inventory
As part of the programs of the Organization, students use laptops that are supplied by the Organization for the duration of the course work and may be returned at the end of the term or retained by the student if certain criteria are met. Such equipment is property of the Organization and is amortized over the shorter of its expected useful life of 36 months or at the end of the program when retained by the student. These laptops are amortized using the straight-line method of amortization. Amortization expense for the years ended August 31, 2022 and 2021 approximated $4,888,000 and $4,215,000, respectively.

Property and Equipment
Property and equipment are recorded at cost when purchased. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the assets, ranging from 3 to 15 years, or lease terms, if shorter. Maintenance, repairs, and renewals, which neither materially add to the value of the assets nor appreciably prolong their lives, are charged to expense as incurred. Gains and losses from dispositions of property and equipment, if any, are reflected in the consolidated statements of activities.

Leases
The Organization leases its facilities under operating leases and records a right-of-use asset and operating lease liability for the net present value of the future minimum lease payments with consideration given for rent escalation or rent concession provisions. The right-of-use asset is amortized on the straight-line basis over the term of the lease and the operating lease liability is reduced over the same period as payments are made to the landlord. For leases with terms of 12 months or less, no right-of-use asset or operating lease liability is recorded in the statement of financial position.

For lease agreements that contain tenant improvement allowances, the Organization evaluates the following criteria to determine if it is the accounting owner of the tenant improvements constructed using the tenant improvement allowance:

- whether the lease stipulates how and on what a tenant improvement allowance may be spent;
- whether the landlord or the Organization retains title to the improvements;
- the uniqueness of the improvements;
- the expected economic life of the tenant improvements relative to the length of the lease;
- who constructs or directs the construction of the improvements, and
- whether the landlord or the Organization is obligated to fund cost overruns.

The determination of who owns the tenant improvements, for accounting purposes, is subject to significant judgment. In making that determination, the Organization considers all of the above factors. No one factor, however, necessarily establishes its determination. When it is determined that the Organization is the accounting owner, it records the tenant improvements as an asset that is depreciated over the shorter of the lease term or useful life and a reduction to the fixed lease payments in measuring the right-of-use asset and operating lease liability. The Organization has determined it is not the accounting owner of tenant improvements under its current lease agreements.

The Organization also acts as a lessor under a single direct-finance type lease in which one of its buildings is leased to a third party. Originated in May 2021, the Organization recorded a net investment in direct-finance type lease and deferred income on direct-finance type lease of $3,195,315. The Organization has leased the property for 25 years with no guaranteed residual value at the end of the term. Interest income for the period ended August 31, 2022 and 2021 approximated $124,000 and $57,000.

Impairment of Long-Lived Assets
Waterford reviews its property and equipment, and other long-lived assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may be impaired. If it is determined that the estimated undiscounted future net cash flows are not sufficient to recover the carrying value of the asset, an impairment loss is recognized in the statement of activities for the difference between the carrying value and the fair value of the asset. Management did not identify any events or changes in circumstances requiring an impairment review during the years ended August 31, 2022 and 2021.

Deferred Revenue
Waterford records deferred revenue for payments received under contracts for which the performance obligations have not been met as of the date of the consolidated statements of financial position.

Revenue Recognition
The Organization generates revenue through contracts with third parties to use its internally developed educational software delivered as software as a service ("SaaS"), and for services related to the delivery and application of its software. SaaS revenue is recognized over the term of the agreement. Revenue related to services is recognized when the service is performed.

The Organization is also party to cost reimbursement and fee-for-service contracts with government agencies. Revenue related to reimbursed costs is recognized as the costs are incurred. Revenue related to reimbursements for software licenses is recognized over the term of the software's use. Fee-for-service revenue is recognized over the term of the services.

The Organization also generates interest income through a direct finance lease of a building to a third party. Initial direct costs are capitalized and amortized over the term of the lease, if any. The Organization records, at lease inception, the total minimum lease payments receivable from the lessee, the estimated unguaranteed residual value of the asset upon lease termination, the initial direct costs, if any, related to the lease and the related deferred income. Deferred income represents the difference between the sum of the minimum lease payments receivable plus the estimated unguaranteed residual value, minus the cost of the leased asset. Deferred income is recognized as finance income over the term of the lease using the effective interest rate method.

The Organization's revenue streams are reflected in the following table. The Organization has included contribution revenue to allow reconciliation with overall support and revenue in the consolidated statements of activities:

Revenue Type	Timing of Transfer	2022	2021
Government - fee-for-service	Over time	$ 24,949,959	$ 20,756,860
Government - cost reimbursement	Point in time	4,506,240	4,746,384
Government - license	Over time	1,422,716	1,416,667
Philanthropy	Point in time	8,840,478	14,736,102
School relations - license	Over time	8,861,554	8,301,376
School relations - professional development	Point in time	3,651,204	2,768,884
School relations - UPSTART program	Over time	6,654,922	4,830,509
International school relations	Over time	159,989	537,310
Interest income	Point in time	165,199	19,182
Interest income on direct-finance type lease	Over time	123,730	57,188
Total		$ 59,335,991	$ 58,170,462

The Organization capitalizes direct costs to obtain contracts with customers and also defers costs associated with hardware used in contract related operations. Deferred hardware expense is amortized on a straight-line basis over a 3-year life when placed in service. Program participants may retain possession of the hardware if certain conditions are met, at which point any remaining amortization is recorded. Amortization of these costs was $5,470,426 and $4,701,913 for the years ended August 31, 2022 and 2021, respectively, and is included with information technology expense on the statements of activities.

The balances of contract assets as of August 31, 2022 and 2021 were $1,436,920 and $1,493,930, respectively, and the balances of contract liabilities as of August 31, 2022 and 2021 were $39,197,685 and $37,271,673, respectively. The contract assets remaining as of August 31, 2022 are expected to the amortized following the schedule below:

Years Ending August 31:	Amount
2023	$ 1,326,874
2024	87,605
2025	20,712
2026	887
2027	842
Total	$ 1,436,920

Contributions
Contributions received are recorded as with or without donor restrictions, depending on the existence and/or nature of any donor restrictions. The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. The Organization's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Where commensurate value is not exchanged, revenues from contracts and grants are recorded as contributions.

If a donor restriction expires in the same reporting period in which the support was initially recognized that support is reported as an increase in net assets without donor restrictions. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Income Taxes
Waterford Institute, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, Waterford Institute, Inc. remains subject to income taxes on any unrelated business taxable income.

Waterford Institute India and Project Upstart, Inc. are not-for-profit organizations not subject to income tax.

Waterford Research Institute, LLC and Waterford Holdings, LLC are disregarded entities for income tax purposes. The operations and balances of the limited liability companies are combined with Waterford Institute, Inc. for Internal Revenue Service ("IRS") reporting purposes.

Waterford Research SRL is a for-profit limited liability Romanian company subject to taxation on taxable income, if any. To date, this entity has generated net losses. No deferred tax asset associated with this entity is reflected in the consolidated statements of financial position because management does not consider realization of the tax benefit to be more likely than not.

Uncertain Tax Positions
Management of Waterford believes that it has appropriate support for the income tax positions taken and to be taken on its tax return. A liability for uncertain tax positions initially needs to be recognized in the financial statements when it is more-likely-than-not the position will not be sustained upon examination by tax authorities.

Operations in Foreign Countries
Waterford has operations or limited operations in India and Romania through foreign subsidiaries. These foreign operations consist primarily of software development and testing activities. These entities' operations are subject to various political, economic, and other risks and uncertainties inherent in the countries in which they operate. Among other risks, the operations may be subject to the risks of restrictions on transfer of funds; export duties and quotas; changing taxation policies; foreign exchange restrictions; and political conditions and governmental regulations.

Translation of Foreign Currencies
Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at the exchange rate at the end of each reporting period. Income and expense items are translated at the weighted average exchange rates for the reporting period. Translation adjustments are included in the consolidated statements of activities.

Subsequent Events
Management has evaluated subsequent events through December 15, 2022, which is the date the consolidated financial statements were available to be issued.

2. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the consolidated statements of financial position, comprise the following as of August 31:

	2022	2021
Cash and restricted cash	$ 25,321,225	$ 43,205,906
Receivables	33,090,726	14,327,169
Total financial assets	58,411,951	57,533,075
Less amounts not available to be used within one year for general expenditure:		
Net assets with donor restrictions as further described in Note 7	8,193,711	8,611,759
Financial assets available to meet cash needs for general expenditure within one year	$ 50,218,240	$ 48,921,316

The Organization regularly monitors liquidity required to meet its operating needs and other commitments using budgets and cash flow projections.

Operations are funded primarily from fees earned for services rendered, cost reimbursement contracts, and charitable donations. The Organization's receivables are due directly or indirectly from governmental entities as well as from private sources. Credit risk associated with receivables is considered to be limited due to high historical collection rates and because the amounts are due primarily from governmental entities.

The Organization has $8,193,711 and $8,611,759 of net assets with donor-imposed restrictions as of August 31, 2022 and 2021, respectively. These funds must be used for specific programs that the Organization operates.

The consolidated statements of cash flows identify the sources and uses of the Organization's cash that resulted in ($16,963,654) and $25,059,469 of cash flows being generated from (used in) operating activities during the years ended August 31, 2022 and 2021, respectively.

3. Receivables

Receivables (including trade accounts receivable and program receivables) consisted of the following as of August 31:

	2022	2021
Receivables from government contracts	$ 23,314,302	$ 9,230,587
Other trade receivables	10,684,751	7,560,797
Total receivables	$ 33,999,053	$ 16,791,384

4. Net Investment in Direct-Finance Type Lease

The following is a summary of information pertaining to the net investment in the direct-finance type lease:

	2022	2021
Future minimum lease payments receivable	$ 4,177,259	4,407,582
Unearned income	(1,090,584)	(1,244,220)
	$ 3,086,675	$ 3,163,362

As of August 31, 2022, future minimum lease payments receivable under the terms of the direct-finance lease are summarized as follows:

Years Ending August 31:	Amount
2023	$ 136,581
2024	139,996
2025	143,496
2026	147,083
2027	150,760
Thereafter	3,459,343
Total lease payments receivable	$ 4,177,259

Interest income under this lease was $123,730 and $57,188 for the years ended August 31, 2022 and 2021, respectively.

5. Property and Equipment

Property and equipment consisted of the following as of August 31:

	2022	2021
Computer equipment and software	$ 379,831	$ 356,243
Office furniture and equipment	150,027	150,027
Leasehold improvements	135,865	135,864
Total cost	665,723	642,134
Less accumulated depreciation and amortization	(519,133)	(450,536)
Property and equipment, net	$ 146,590	$ 191,598

6. Long-Term Debt

	2022	2021
Note payable to a financial institution, requiring monthly interest payments at an interest rate of 6%, with the note principal payable in two lump sums on December 31, 2022 and September 30, 2024, secured by all assets of Waterford.	$ 5,200,000	$ 5,200,000
Note payable to a financial institution, with fixed interest of 1.0% per annum, maturing in December 2026. The loan has a monthly principal repayment commitment from November 2021 to December 2026. The loan was issued under the Paycheck Protection Program (PPP) and may be forgiven if certain conditions are met. Management believes that the Organization has met the necessary conditions for forgiveness. However, given that the PPP program is new and guidance on the application for forgiveness is still evolving, management has determined not to recognize forgiveness until it is confirmed that the loan has been legally forgiven.	2,525,077	3,376,254
	$ 7,725,077	$ 8,576,254

The $5,200,000 note requires that Waterford meet certain financial covenants, including total customer bookings and required minimum increases in net assets. As of August 31, 2022, management believes that Waterford was in compliance with these covenants. Failure to maintain compliance with the loan covenants could result in an increase in interest expense or a demand for repayment of the outstanding loan balance.

As of August 31, 2022, maturities of long-term debt are as follows:

Years Ending August 31:	Amount
2023	$ 2,108,080
2024	917,432
2025	4,699,565
	$ 7,725,077

7. Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following as of August 31:

	2022	2021
Funds for UPSTART program expansion and operations	$ 8,185,375	$ 8,595,090
Other	8,336	16,669
Total net assets with donor restrictions	$ 8,193,711	$ 8,611,759

8. Commitments and Contingencies

Lease Obligations

Waterford leases office and warehouse space and equipment under non-cancelable operating leases with terms ranging from one to five years. Minimum future rental payments under operating leases are as follows:

Years Ending August 31:		Amount
2023	$	78,892
2024		55,289
2025		56,947
2026		58,656
2027		14,771
Total minimum future rental payments	$	264,555

Rental expense under operating leases was approximately $493,000 and $470,000 for the years ended August 31, 2022 and 2021, respectively.

Minimum future payments under finance leases are as follows:

Years Ending August 31:		Amount
2023	$	40,756
2024		37,065
2025		11,996
Total minimum future rental payments	$	89,817

Finance lease cost consisted of approximately $46,745 of amortization of the assets and $2,731 of interest expense for the year ended August 31, 2022.

Self-Funded Health Plan

The Organization has a self-funded health insurance plan. The Organization pays amounts to a third-party administrator, which are used to pay the (a) qualifying portion of medical and prescription claims, (b) administrative costs, and (c) premiums for individual and aggregate reinsurance policies. The Organization's reinsurance policies cover all individual claims over $125,000 and aggregate claims over $1,000,000. Obligations for both claims reported but not paid and claims that have been incurred but not reported as of August 31, 2022 and 2021 approximated $445,000 and $245,000, respectively, shown as accrued liabilities in the statement of financial position.

9. Functional *Expense Allocation*

The costs of providing various programs and other activities have been presented on a functional basis, as shown below, for the years ended August 31:

2022	Program	General and Administrative	Fundraising	Total
Salaries, wages and benefits	$ 31,695,964	$ 3,040,271	$ 272,263	$ 35,008,498
Professional and subcontract fees	4,769,154	457,456	40,966	5,267,576
Information technology	7,727,386	741,209	66,377	8,534,972
Business travel	1,885,391	180,846	16,195	2,082,432
Advertising and marketing	3,076,928	295,138	26,430	3,398,496
Facilities	572,029	54,870	4,914	631,813
Depreciation and amortization	709,221	68,028	6,092	783,341
Printing and Distribution	954,426	91,548	8,198	1,054,172
Other	988,860	94,851	8,494	1,092,205
Total expenses	$ 52,379,359	$ 5,024,217	$ 449,929	$ 57,853,505

2021	Program	General and Administrative	Fundraising	Total
Salaries, wages and benefits	$ 26,373,566	$ 2,371,125	$ 249,592	$ 28,994,283
Professional and subcontract fees	4,092,951	367,978	38,735	4,499,664
Information technology	6,843,044	615,226	64,761	7,523,031
Business travel	679,796	61,118	6,433	747,347
Advertising and marketing	3,099,671	278,677	29,334	3,407,682
Facilities	423,562	38,081	4,008	465,651
Depreciation and amortization	307,456	27,642	2,910	338,008
Printing and Distribution	783,633	70,453	7,416	861,502
Other	688,827	61,929	6,519	757,275
Total expenses	$ 43,292,506	$ 3,892,229	$ 409,708	$ 47,594,443

Indirect costs have been allocated among the program and supporting services benefited. The Organization uses headcount to allocate indirect expenses included within each expense category noted above.

10. Retirement Plan

Waterford sponsors a defined contribution retirement plan under Internal Revenue Code Section 403(b) ("the Plan"). Employees of Waterford working at least 1,000 hours per year generally may participate in the Plan. Participants may make contributions to the Plan with Waterford matching up to 5% of employee compensation. Contributions by employees are limited by law. Total contributions to the Plan by Waterford for the years ended August 31, 2022 and 2021 were approximately $1,045,000 and $744,000, respectively.

11. Business and Credit Risk Concentrations

Concentrations of revenues, support and other income from sources representing more than 10% of total revenues, support and other income were as follows for the years ended August 31:

	2022	2021
State of Utah	39%	35%

Concentrations of receivables due from sources representing more than 10% of total receivables were as follows as of August 31:

	2022	2021
U.S. Department of Education	*	15%
State of Utah	65%	40%

*Did not meet criteria

Concentrations of purchases paid to vendors representing more than 10% of total purchases were as follows for the years ended August 31:

	2022	2021
Vendor A	22%	33%

12. Subsequent Event

In September 2022, the Organization exercised a renewal clause in one of its operating lease agreements to extend the term of the lease through May 2030.