

KnowledgeWorks Foundation

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2021 and 2020

KnowledgeWorks Foundation

June 30, 2021 and 2020

Contents

Independent Auditor's Report.....	1
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Consolidated Financial Statements

Statements of Financial Position	3
Statements of Activities.....	4
Statements of Functional Expenses	5
Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8

Supplementary Information

Consolidating Statements of Financial Position Information.....	27
Consolidating Statements of Activities Information	29

Independent Auditor's Report

Board of Directors
KnowledgeWorks Foundation
Cincinnati, Ohio

We have audited the accompanying consolidated financial statements of KnowledgeWorks Foundation and its subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KnowledgeWorks Foundation and its subsidiaries as of June 30, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

BKD, LLP

Cincinnati, Ohio
November 9, 2021

KnowledgeWorks Foundation
Consolidated Statements of Financial Position
June 30, 2021 and 2020

Assets

	2021	2020
Cash and cash equivalents	\$ 5,235,527	\$ 5,743,909
Accounts receivable	302,026	191,528
Interest receivable		
Investments	2,030	7,810
Student loans	927,231	1,118,605
Grants receivable	3,400,037	3,049,395
Investments, at fair value	126,969,553	105,151,150
Restricted cash and cash equivalents	706,322	789,405
Student loans receivable, net	21,350,567	23,872,687
Other assets	205,740	311,178
Right-of-use assets - operating leases	1,335,663	-
Property and equipment, net	261,145	726,632
	<hr/>	<hr/>
Total assets	<u>\$ 160,695,841</u>	<u>\$ 140,962,299</u>

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 2,752,138	\$ 4,584,666
Operating lease liabilities	1,238,260	-
Interest payable	16,212	22,478
Student loan program residual	8,304,634	8,158,981
Deferred revenue	406,043	337,781
Bonds payable, net	14,043,072	16,763,657
Total liabilities	<u>26,760,359</u>	<u>29,867,563</u>

Net Assets

Without donor restrictions	126,330,200	104,737,456
With donor restrictions	7,605,282	6,357,280
Total net assets	<u>133,935,482</u>	<u>111,094,736</u>
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Total liabilities and net assets	<u>\$ 160,695,841</u>	<u>\$ 140,962,299</u>

KnowledgeWorks Foundation

Consolidated Statements of Activities

Years Ended June 30, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues						
Income from investments, net	\$ 2,315,174	\$ 1,715	\$ 2,316,889	\$ 2,775,385	\$ 7,747	\$ 2,783,132
Interest and fees on student loans receivable, net	372,120	-	372,120	671,502	-	671,502
Other revenue	351,048	-	351,048	101,078	-	101,078
Grant revenue	1,000,000	4,205,276	5,205,276	1,000	3,778,761	3,779,761
Contract service revenue	1,371,169	-	1,371,169	1,806,834	-	1,806,834
Unrealized and realized gains (losses) on investment securities, net	25,045,293	-	25,045,293	(1,913,349)	-	(1,913,349)
Net assets released from restrictions	2,958,989	(2,958,989)	-	5,893,522	(5,893,522)	-
Total revenues	33,413,793	1,248,002	34,661,795	9,335,972	(2,107,014)	7,228,958
Cost of Debt						
Interest expense	190,341	-	190,341	564,647	-	564,647
Amortization	65,169	-	65,169	121,222	-	121,222
Total cost of debt	255,510	-	255,510	685,869	-	685,869
Net Revenue After Cost of Debt	33,158,283	1,248,002	34,406,285	8,650,103	(2,107,014)	6,543,089
Provision for Student Loan Loss	-	-	-	(41,094)	-	(41,094)
Unrealized Loss on Liability for Student Loan Program Residual	(145,653)	-	(145,653)	(936,674)	-	(936,674)
Program and Supporting Expenses						
Operating programs	1,858,839	-	1,858,839	7,465,998	-	7,465,998
Student loan programs	187,013	-	187,013	206,109	-	206,109
Other programs	5,056,235	-	5,056,235	4,978,484	-	4,978,484
Total program expenses	7,102,087	-	7,102,087	12,650,591	-	12,650,591
General and administrative	4,317,799	-	4,317,799	3,381,809	-	3,381,809
Total program and supporting expenses	11,419,886	-	11,419,886	16,032,400	-	16,032,400
Change in Net Assets	21,592,744	1,248,002	22,840,746	(8,360,065)	(2,107,014)	(10,467,079)
Net Assets, Beginning of Year	104,737,456	6,357,280	111,094,736	113,097,521	8,464,294	121,561,815
Net Assets, End of Year	\$ 126,330,200	\$ 7,605,282	\$ 133,935,482	\$ 104,737,456	\$ 6,357,280	\$ 111,094,736

KnowledgeWorks Foundation

Consolidated Statement of Functional Expenses

Year Ended June 30, 2021

	Program Services				General and Administrative	Total
	Operating Programs	Student Loan Programs	Other Programs	Total Program Services		
Salaries and benefits	\$ 1,163,918	\$ -	\$ 2,652,465	\$ 3,816,383	\$ 3,020,372	\$ 6,836,755
Grants made to other entities	(67,517)	-	1,205,898	1,138,381	-	1,138,381
Professional fees	551,012	-	646,513	1,197,525	418,165	1,615,690
Legal expense	-	-	-	-	256,227	256,227
Communications	-	-	108,529	108,529	43,221	151,750
Accounting and auditing fees	791	-	1,695	2,486	108,976	111,462
Travel	7,483	-	523	8,006	(4,963)	3,043
Meetings, conferences and convenings	2,651	-	65,437	68,088	1,986	70,074
Office administration	49,119	-	111,938	161,057	(10,371)	150,686
Lease expense	-	-	1,400	1,400	200,034	201,434
Telephone	13,488	-	32,597	46,085	24,963	71,048
Insurance	25,308	-	57,676	82,984	56,479	139,463
Technology support	8,771	-	19,421	28,192	19,018	47,210
Internet and network	96,364	-	73,777	170,141	56,107	226,248
Equipment leasing	3,357	-	7,649	11,006	7,491	18,497
Office supplies	1,740	-	4,715	6,455	15,789	22,244
Postage and delivery	746	-	4,953	5,699	3,456	9,155
Printing and copying	-	-	41,393	41,393	303	41,696
Depreciation	-	-	-	-	80,717	80,717
Training and developmental materials	157	-	7,967	8,124	(3,662)	4,462
Recruiting	703	-	399	1,102	75	1,177
Subscriptions	444	-	7,344	7,788	6,671	14,459
Dues and memberships	-	-	2,845	2,845	14,649	17,494
Other	304	-	1,101	1,405	2,096	3,501
Loan servicing fees	-	89,840	-	89,840	-	89,840
Trustee and administrative fees	-	97,173	-	97,173	-	97,173
Total expenses included in the statement of activities	<u>\$ 1,858,839</u>	<u>\$ 187,013</u>	<u>\$ 5,056,235</u>	<u>\$ 7,102,087</u>	<u>\$ 4,317,799</u>	<u>\$ 11,419,886</u>

KnowledgeWorks Foundation

Consolidated Statement of Functional Expenses

Year Ended June 30, 2020

	Program Services				General and Administrative	Total
	Operating Programs	Student Loan Programs	Other Programs	Total Program Services		
Salaries and benefits	\$ 2,643,529	\$ -	\$ 2,608,198	\$ 5,251,727	\$ 2,360,638	\$ 7,612,365
Grants made to other entities	2,114,562	-	1,103,566	3,218,128	-	3,218,128
Professional fees	1,545,173	-	498,285	2,043,458	233,674	2,277,132
Legal expense	70,340	-	-	70,340	109,256	179,596
Communications	12,650	-	109,418	122,068	47,002	169,070
Accounting and auditing fees	-	-	-	-	4,872	4,872
Travel	465,882	-	242,357	708,239	93,212	801,451
Meetings, conferences and convenings	256,683	-	56,725	313,408	33,296	346,704
Office administration	114,678	-	138,110	252,788	117,038	369,826
Telephone	28,000	-	30,733	58,733	24,087	82,820
Insurance	46,740	-	52,704	99,444	47,701	147,145
Technology support	27,976	-	30,920	58,896	27,981	86,877
Internet and network	110,348	-	58,758	169,106	47,520	216,626
Equipment leasing	6,640	-	7,487	14,127	6,776	20,903
Office supplies	4,630	-	3,510	8,140	22,521	30,661
Postage and delivery	3,584	-	11,370	14,954	5,273	20,227
Printing and copying	1,393	-	12,412	13,805	713	14,518
Depreciation	4,753	-	-	4,753	133,912	138,665
Training and developmental materials	1,370	-	6,156	7,526	18,618	26,144
Recruiting	-	-	477	477	710	1,187
Subscriptions	484	-	5,096	5,580	4,849	10,429
Dues and memberships	3,614	-	705	4,319	10,087	14,406
Other	2,969	-	1,497	4,466	32,073	36,539
Loan servicing fees	-	102,797	-	102,797	-	102,797
Trustee and administrative fees	-	103,312	-	103,312	-	103,312
Total expenses included in the statement of activities	<u>\$ 7,465,998</u>	<u>\$ 206,109</u>	<u>\$ 4,978,484</u>	<u>\$ 12,650,591</u>	<u>\$ 3,381,809</u>	<u>\$ 16,032,400</u>

KnowledgeWorks Foundation

Consolidated Statements of Cash Flows

Years Ended June 30, 2021 and 2020

	2021	2020
Cash Flows From Operating Activities		
Change in net assets	\$ 22,840,746	\$ (10,467,079)
Items not requiring (providing) cash		
Depreciation and amortization	256,119	385,472
Loss on disposal of property and equipment	136,842	3,122
Unrealized and realized (gains) losses on investment securities, net	(25,045,293)	1,913,349
Provision for student loan loss	-	41,094
Unrealized loss on liability for student loan program residual	145,653	936,674
Noncash operating lease expense	103,367	-
Changes in assets and liabilities		
Accounts receivable	(110,498)	229,862
Grants receivable	(350,642)	1,490,210
Interest receivable	197,154	213,424
Other assets	121,788	(95,602)
Interest payable	(6,266)	(50,772)
Deferred revenue	68,262	241,102
Accounts payable and accrued expenses	(1,832,528)	1,370,565
Operating lease liabilities	30,808	-
Net cash used in operating activities	<u>(3,444,488)</u>	<u>(3,788,579)</u>
Cash Flows From Investing Activities		
Receipt of principal repayments on the student loans	2,411,887	4,284,990
Purchases of property and equipment	-	(573,732)
Purchases of investments	(29,810,771)	(32,701,746)
Proceeds from maturities and sales of investments	33,037,661	37,248,180
Net cash provided by investing activities	<u>5,638,777</u>	<u>8,257,692</u>
Cash Flows From Financing Activity - principal repayments on bonds payable	<u>(2,785,754)</u>	<u>(5,181,897)</u>
Decrease in Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents	(591,465)	(712,784)
Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents, Beginning of Year	<u>6,533,314</u>	<u>7,246,098</u>
Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents, End of Year	<u>\$ 5,941,849</u>	<u>\$ 6,533,314</u>
Supplemental Disclosures of Cash Flows Information		
Interest paid	\$ 184,075	\$ 513,875
Right-of-use assets obtained in exchange for new operating lease liabilities	1,207,452	-

KnowledgeWorks Foundation

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Note 1: Nature of Operations and Basis of Presentation

Nature of Operations

KnowledgeWorks Foundation (the “Foundation”) engages in the development and implementation of innovative tools, training and assistance to school leaders, teachers and community stakeholders to ensure that all students are prepared for college, career and civic life (Program Operations). Historically, the Foundation has also engaged in certain student loan activities. During 2013, the Foundation began an initiative to wind down its student loan operations. As of June 30, 2021, the only remaining student loan activities relate to the KW2010 Program. See Notes 4 and 6 for further discussion.

Basis of Presentation

The consolidated financial statements include the accounts of the Foundation and all entities that are controlled by the Foundation and in which the Foundation has an economic interest. These entities include (1) the Foundation and StrivePartnership, LLC (“SP LLC”), which conduct the Foundation’s Program Operation activities; (2) KWI, which manages the Foundation’s investment portfolio; and (3) KWSL, LLC, which has historically engaged in student loan activities. All intercompany transactions and balances have been eliminated in consolidation.

During 2020, the Board of Directors voted to end the Foundation’s sponsorship of SP LLC. However, recognizing the value SP LLC provides to the Greater Cincinnati community, the Board of Directors authorized a grant of \$750,000 to the Young Men’s Christian Association of Greater Cincinnati (“YMCA”) to assist in the continuation of SP LLC’s activities. The grant is considered an unconditional contribution and is being paid over a three-year period, which began July 1, 2020. The unpaid balance as of June 30, 2021 and 2020 was \$500,000 and \$750,000, respectively, and is included in accounts payable and accrued expenses on the consolidated balance sheets. In connection with this transition, SP LLC also entered into an agreement with the YMCA to transfer substantially all of the assets of SP LLC to the YMCA. Various other grants previously awarded to SP LLC were transferred to other organizations. The total amount of grants transferred was approximately \$785,000. All rights and obligations under the agreements were assigned to and assumed by the transferees.

Program and supporting expenses are classified in four categories in the consolidated statements of activities and the consolidated statements of functional expenses, including operating programs, student loan programs, other programs and general and administrative. Operating programs include the school and community activities of the Foundation and SP LLC. Other programs include national and local policy efforts, thought leadership, research and evaluation and strategy and grant-making activities.

KnowledgeWorks Foundation
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

Note 2: Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in checking and money market accounts held at financial institutions. At June 30, 2021, the Foundation's cash accounts exceeded federally insured limits by approximately \$1,400,000, however, the Foundation has not experienced any losses in such accounts.

Investments and Investment Return

Investments primarily consisting of equity securities and mutual funds are carried at current fair values based upon quoted market prices. Investments in private equity funds and hedge funds are recorded at net asset value (NAV), as a practical expedient, to determine fair value of the investments. Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the consolidated statements of activities in the period in which the securities are sold. Unrealized gains and losses resulting from changes in fair values are recognized in the consolidated statements of activities. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date. Income from investments is reported net of related expenses of approximately \$276,000 and \$275,000 for the years ended June 30, 2021 and 2020, respectively. Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities could occur in the near term and such changes could materially affect the amounts reported in the consolidated financial statements.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents represent demand deposits and money market funds bearing interest at a variable rate. Such amounts are primarily restricted to paying debt obligations and student loan program expenses.

KnowledgeWorks Foundation
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

Accounts Receivable

Accounts receivable consists of fee for contract service revenues receivable. Accounts receivable are stated at the amount of consideration from customers of which the Foundation has an unconditional right to receive. Management believes all receivables are collectible. Management bases this assessment on specific analysis of outstanding balances at year-end, historical collection information and existing economic conditions.

Student Loans Receivable

Student loans are reported in the consolidated statements of financial position at their unpaid principal balances plus unamortized loan acquisition premiums and discounts. Costs related to loan acquisition premiums and discounts are deferred and recognized over the life of the loan as an adjustment to yield using the effective yield method.

Student loan income is recognized on the accrual basis, including adjustments for the amortization of costs of loan origination and purchases.

Property and Equipment

Property and equipment acquisitions over \$1,000 are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is charged to expense on the straight-line basis over the estimated useful life of each asset, which range from three to seven years. Leasehold improvements are amortized over the shorter of the lease term or respective estimated useful lives.

Long-Lived Asset Impairment

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2021 and 2020.

Deferred Revenue

Deferred revenue consists of consideration received for contract services that have not yet been earned. The majority of contracts have terms ranging from one to four years beyond the planning and start-up period, and revenue is recognized as performance obligations are satisfied.

Student Loan Program Residual

The student loan program residual is recorded at fair value in the accompanying consolidated statements of financial position (see Note 6). Unrealized changes in the fair value of the student loan program residual liability are recorded as unrealized losses in the accompanying consolidated statements of activities for the years ended June 30, 2021 and 2020.

KnowledgeWorks Foundation

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grant restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net assets with donor restrictions are subject to donor (or certain grantor) restrictions. Restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. When donor restrictions are met or the restrictions expire, net assets with donor restriction are reclassified as net assets without donor restriction and reported in the consolidated statements of activities as net assets released from restrictions. Restrictions generally permit the use of some or all of the income earned on the invested assets for specific purposes.

Revenue Recognition

The Foundation recognizes revenue from unconditional grants when such grants are awarded by the donor. Conditional grants depend on the Foundation overcoming a grantor-imposed barrier to be entitled to the funds and are recognized as the Foundation meets the conditions prescribed by the grant agreement, performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. There were no conditional grants awarded to the Foundation as of June 30, 2021 and 2020.

Contract service revenue is recognized as the Foundation satisfies its performance obligations under the contract. Revenue is reported at the amount that reflects the consideration to which the Foundation expects to be entitled to in exchange for providing services.

Grant-Making Activities

Conditional promises to give are recorded as contributions made in the period that they become unconditional. As of June 30, 2021, the Foundation had made future conditional promises to give of \$1,345,000 to nine nonprofit organizations over the next two fiscal years, \$870,000 of which is due in fiscal year 2022.

Functional Allocation of Expenses

Costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among benefited programs and supporting services based on time and effort of Foundation personnel.

KnowledgeWorks Foundation

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Income Taxes

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

The Foundation files tax returns in the U.S. federal jurisdiction.

Note 3: Liquidity and Availability of Resources

Financial assets available for general expenditures without donor or other restrictions limiting their use within one year of June 30 are comprised of the following:

	<u>2021</u>	<u>2020</u>
Financial assets available to meet general expenditures over the next twelve months		
Cash and cash equivalents	\$ 4,161,299	\$ 5,031,848
Accounts receivable	302,026	191,528
Grants receivable	1,945,457	1,324,658
Investments, not restricted by donors, available to meet general expenditures over the next twelve months as approved by the Board of Directors	<u>8,200,000</u>	<u>7,600,000</u>
Total financial assets available to meet general expenditures over the next twelve months	<u><u>\$ 14,608,782</u></u>	<u><u>\$ 14,148,034</u></u>

The Foundation actively monitors its liquidity and structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. General expenditures include operating expenses and other internally funded costs. The Foundation's Board of Directors formally approves amounts to be made available for spending in the next twelve months from net assets without donor restrictions.

Additionally, certain financial assets, including student loans receivable, restricted cash and cash equivalents and interest receivable associated with student loans, are held in trust for the benefit of bondholders (see Note 6). Therefore, these amounts have been excluded from the financial assets available to meet general expenditures over the next twelve months.

The Foundation's goal is generally to maintain financial assets without donor or other restrictions to meet 90 days of operating expenses (approximately \$3.5 million). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts.

KnowledgeWorks Foundation
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

Note 4: Student Loans Receivable

Student loans receivable consist primarily of loans made under the FFELP of the Higher Education Act and are carried at their unpaid principal balance, plus unamortized loan acquisition premiums and discounts. The Foundation owns, holds, and administers subsidized Federal Stafford loans, unsubsidized Federal Stafford loans, Federal PLUS loans, and Federal Consolidation Loans.

Whenever the statutory interest rates paid by borrowers on FFELP loans provide less than the prescribed rates of return, as defined by the Higher Education Act, the U.S. Department of Education pays a special allowance payment (SAP), which increases the lender's loan yield by markups over a base rate ranging from 1.74% to 3.50% per annum on loans first disbursed prior to October 1, 2008, and 1.19% to 2.24% on loans disbursed on or after October 1, 2008. Prior to April 1, 2012, the base rate was tied to the bond equivalent rates of the average three-month Financial Commercial Paper rates in effect for each of the days in a quarter. Effective on April 1, 2012, the Foundation made an irrevocable election under an amendment to the Higher Education Act to have the calculation of SAP to be based on the one-month LIBOR rate. For the quarter ended June 30, 2021, the one-month LIBOR rate in effect was 0.10%. In addition, the U.S. Department of Education generally pays the stated interest rate on subsidized Federal Stafford Loans while the borrower is in school, grace, or deferment. For loans first disbursed on or after April 1, 2006, whenever the statutory rate paid by borrowers on FFELP loans provide more than the prescribed rate of return, as defined by the Higher Education Act, the lender must repay to the U.S. Department of Education an amount sufficient to reduce the lender's yield to the prescribed rate of return. Net SAP expense was approximately \$481,000 and \$292,000 during the years ended June 30, 2021 and 2020, respectively, and is included in the consolidated statements of activities as a component of interest and fees on student loans receivable. Accrued SAP was approximately \$128,000 and \$124,000 as of June 30, 2021 and 2020, respectively, and is included in the consolidated statements of financial position as a component of accounts payable and accrued expenses.

Under the Federal Consolidation Loan Program, eligible borrowers are permitted to consolidate many types of eligible federally guaranteed student loans into a single loan that is federally insured. The lender of Federal Consolidation Loans is required to pay the U.S. Department of Education a monthly fee generally equal to 0.0875% (1.05% per annum) of the monthly ending balance of the sum of the principal and accrued interest of Federal Consolidation Loans held. This fee was approximately \$222,000 and \$253,000 during 2021 and 2020, respectively, and is included in the consolidated statements of activities as a reduction of interest and fees on student loans receivable.

KnowledgeWorks Foundation

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

A summary of the student loan receivable portfolio by program as of June 30, 2021 and 2020, is as follows (amounts in thousands):

	2021	2020
Stafford	\$ 1,060	\$ 1,114
PLUS	212	238
Consolidation	19,179	21,516
GradPLUS	59	54
Net unamortized loan premium	841	951
	<u>21,351</u>	<u>23,873</u>
Total student loans receivable	<u>\$ 21,351</u>	<u>\$ 23,873</u>

The following tables provide information regarding the loan status and aging of the student loan receivable portfolio as well as the amount of unguaranteed loans as of June 30, 2021 and 2020 (amounts in thousands):

	2021	%	Unguaranteed Amount
Loans in-school/grace/deferment	\$ 1,081	6%	\$ 29
Loans in forbearance	2,277	11%	60
Loans in repayment and percentage of each status			
Loans current	15,407	75%	407
Loans delinquent 31-60 days	655	3%	17
Loans delinquent 61-90 days	57	0%	2
Loans delinquent greater than 90 days	1,033	5%	27
	<u>17,152</u>	<u>83%</u>	<u>453</u>
Total loans in repayment	<u>17,152</u>	<u>83%</u>	<u>453</u>
Total loans	<u>20,510</u>	<u>100%</u>	<u>\$ 542</u>
Unamortized loan premium	<u>841</u>		
Student loans receivable	<u>\$ 21,351</u>		
Percentage of loans in repayment		<u>84%</u>	
Delinquencies as a percentage of loans in repayment		<u>10%</u>	
Loans in forbearance as a percentage of loans in repayment and forbearance		<u>12%</u>	

KnowledgeWorks Foundation

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

	2020	%	Unguaranteed Amount
Loans in-school/grace/deferment	\$ 1,368	6%	\$ 36
Loans in forbearance	4,789	21%	125
Loans in repayment and percentage of each status			
Loans current	16,662	73%	436
Loans delinquent 31-60 days	103	0%	3
Total loans in repayment	16,765	73%	439
Total loans	22,922	100%	\$ 600
Unamortized loan premium	951		
Student loans receivable	\$ 23,873		
Percentage of loans in repayment		73%	
Delinquencies as a percentage of loans in repayment		1%	
Loans in forbearance as a percentage of loans in repayment and forbearance		22%	

Under FFELP, the principal and accrued interest on student loans are guaranteed against default by the borrower. Loans originated prior to October 1, 1993 are 100% guaranteed. Loans originated between October 1, 1993 and June 30, 2006 are 98% guaranteed. Loans made subsequent to June 30, 2006 are 97% guaranteed. As of June 30, 2021, 64% of the FFELP loans were 97% guaranteed and 36% were 98% guaranteed. FFELP loans are 100% guaranteed against the death, disability, or bankruptcy of the borrower regardless of the date of origination of the loan, provided that the Foundation has not already started the claims process in which case the guarantee rates revert to those described above. The loans are guaranteed by certain guarantee agencies, which have reinsurance contracts with the U.S. Department of Education. At June 30, 2021, the majority of FFELP student loans are guaranteed by Great Lakes Higher Education Guaranty Corporation and American Student Assistance.

As of June 30, 2021, the Foundation had direct servicing agreements with one loan servicing agent, Nelnet Servicing, LLC ("Nelnet"). The Foundation and its servicing agent must comply with certain provisions of the Higher Education Act of 1965 and its regulations and the various guarantee agency regulations to ensure that the guarantees on the student loans remain in effect. Management believes that the Foundation and its servicing agent are in compliance with the applicable regulations at June 30, 2021.

KnowledgeWorks Foundation

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Based upon the performance and aging of the student loan portfolio, the ability of the loan servicing agents and guarantee agencies to meet their contractual obligations, the terms of the servicing guarantee, and reinsurance agreements of such loans and other pertinent factors, management continually evaluates the need for reserves for uncollectible loans and, as adjustments become necessary, they are recorded in the periods in which they become known.

Management believes its probable losses with respect to these guaranteed loans will not be material to the consolidated financial statements, therefore, no allowance is deemed necessary at June 30, 2021 and 2020.

Note 5: Property and Equipment

Property and equipment as of June 30, 2021 and 2020, are summarized as follows:

	2021	2020
Furniture and fixtures	\$ 234,798	\$ 475,395
Computer hardware and software	111,022	265,862
Equipment	225,102	924,276
Leasehold improvements	4,770	1,684,792
Total property and equipment	575,692	3,350,325
Less accumulated depreciation and amortization	(314,547)	(2,623,693)
Property and equipment, net	<u>\$ 261,145</u>	<u>\$ 726,632</u>

Note 6: Bonds Payable

Debt obligations as of June 30 are summarized as follows (in thousands):

	2021	2020
LIBOR floating rate taxable bonds maturing in fiscal year 2042	\$ 14,181	\$ 16,928
Less deferred financing costs, net of accumulated amortization of \$665 and \$638 at June 30, 2021 and 2020, respectively	(138)	(164)
	<u>\$ 14,043</u>	<u>\$ 16,764</u>

KnowledgeWorks Foundation

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

All bonds summarized in the table above were issued pursuant to master indentures of trust (the “Indentures”). The Indentures require that a trustee receives the cash flows from the related student loan portfolios and holds those cash flows in trust for the benefit of the bondholders. In addition to these cash flows, the assets pledged to the trustee as collateral for the repayment of the bonds consist of restricted cash and investments. All such assets are included in the accompanying consolidated financial statements. As outlined in the Indentures, the bonds are collateralized by the student loans, the interest income thereon, and restricted cash and cash equivalents. The bondholders have no recourse to any assets of the Foundation that are outside of the Indentures.

On September 16, 2010, the Foundation issued \$83,622,000 of student loan backed bonds maturing February 25, 2042 in a program known as the KW2010 Program. These bonds (the LIBOR floating rate taxable bonds) bear interest at a variable rate equal to the three-month LIBOR plus 0.95% per annum. Interest on the bonds is payable on the 25th of each February, May, August and November. The interest rate of the bonds was 1.10% and 1.25% at June 30, 2021 and 2020, respectively.

On September 30, 2013, the Foundation sold its rights to cash flows from the trust, including rights to both the administration fee and to the residuals, to a third party for \$3 million. As a result of the transaction, the Foundation has retained its roles as beneficial owner of the loans and as legal obligor of the related debt, but effectively has no rights or responsibilities with regard to the future cash flows from either the loans or the related debt. Under this agreement, the Foundation is required to surrender any residual net asset balance that arises from the operation of the KW2010 Program once the provisions of the related indenture have been satisfied. This agreement has been recorded as a derivative liability and is included as the Student Loan Program Residual in the accompanying consolidated statements of financial position as of June 30, 2021 and 2020 of approximately \$8.3 million and \$8.2 million, respectively.

To the extent that the principal balance on the student loan portfolio financed by the variable rate bonds is collected at a more rapid rate than debt service requirements, the Foundation’s practice is to pay down the debt more rapidly. During fiscal years 2021 and 2020, the Foundation made principal payments, net of interest capitalized on student loans, totaling approximately \$2.8 million and \$5.2 million, respectively.

The Foundation is subject to certain restrictive covenants under the indentures of trust related to the bonds. Among other requirements, the Foundation is required to do all things necessary to perfect its security interest and rights under the guarantee agreements with the guarantee agencies with respect to purchased student loans. As of June 30, 2021 and 2020, management is not aware of any violations of these requirements. The debt obligations are collateralized by certain of the Foundation’s assets, primarily comprised at June 30, 2021 and 2020 of student loans receivable of \$21.4 million and \$23.9 million and of restricted cash and cash equivalents of approximately \$706,000 and \$789,000, respectively.

KnowledgeWorks Foundation

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Note 7: Employee Benefit Plans

The Foundation maintains a 401(k) plan (the “Plan”). The Plan is available to eligible employees, as defined. Employer contributions to the Plan include non-discretionary contributions of 3%, matching contributions of 50% of employee pre-tax deferrals up to a maximum of 4% and discretionary profit-sharing contributions as determined by the Board of Directors. The Foundation’s profit-sharing and 401(k) expense for the years ended June 30, 2021 and 2020, approximated \$144,000 and \$247,000, respectively, included in the accompanying consolidated statements of functional expenses in salaries and benefits.

Note 8: Net Assets With Donor Restrictions

Periodically, the Foundation receives contributions and grants that contain donor-imposed restrictions on the use of the contributed funds. As of June 30, net assets with donor restrictions are restricted for the following programs (in thousands):

	<u>2021</u>	<u>2020</u>
KW in Schools	\$ 2,388	\$ 3,044
Policy & Strategic Foresight	1,084	97
StrivePartnership	1,597	1,666
Impact & Improvement	<u>2,536</u>	<u>1,550</u>
	<u><u>\$ 7,605</u></u>	<u><u>\$ 6,357</u></u>

Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows (in thousands):

	<u>2021</u>	<u>2020</u>
KW in Schools	\$ 731	\$ 2,996
Policy & Strategic Foresight	896	873
StrivePartnership	78	1,063
Impact & Improvement	<u>1,254</u>	<u>962</u>
	<u><u>\$ 2,959</u></u>	<u><u>\$ 5,894</u></u>

KnowledgeWorks Foundation
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

Note 9: Leases

Change in Accounting Principle

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, i.e., the comparatives under ASC 840 option.

The Foundation adopted Topic 842 on July 1, 2020 (the effective date), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The Foundation elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. The Foundation did not elect the hindsight practical expedient in determining the lease term for existing leases as of July 1, 2020.

Upon adoption, the standard did not significantly affect the consolidated statements of financial position, activities or cash flows. During 2021, the Foundation entered into a new building lease, which was adopted in accordance with Topic 842.

Accounting Policies

The Foundation determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the consolidated statements of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Foundation determines lease classification as operating or finance at the lease commencement date.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Foundation used the readily determinable implicit rate for its building lease, which is 8%. Lease expense is generally recognized on a straight-line basis over the lease term.

KnowledgeWorks Foundation

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Nature of Leases

The Foundation has an operating lease for office space that expires in 2031. This lease contains a renewal option for a five-year period and requires the Foundation to pay all executory costs (property taxes, maintenance and insurance). Lease payments have an escalating fee schedule, which range from a 2 to 3 percent increase each year. Termination of the leases is generally prohibited unless there is a violation under the lease agreement.

The Foundation has no material related-party leases. The Foundation's lease agreement does not contain any material residual value guarantees or material restrictive covenants.

Quantitative Disclosures

The lease cost and other required information for the year ended June 30, 2021 are:

Total lease cost for the year ended June 30, 2021 was \$201,434. The remaining lease term at June 30, 2021 is approximately 9.8 years. Rental expense for operating leases amounted to approximately \$340,000 for the year ended June 30, 2020.

Future minimum lease payments and reconciliation to the consolidated statements of financial position at June 30, 2021, are as follows:

2022	\$ 179,000
2023	179,000
2024	182,000
2025	173,000
2026	178,000
Thereafter	<u>906,000</u>
Total future undiscounted lease payments	1,797,000
Less interest	<u>(558,740)</u>
Lease liabilities	<u><u>\$ 1,238,260</u></u>

KnowledgeWorks Foundation
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

Note 10: Revenue From Contracts With Customers

Change in Accounting Principle

On July 1, 2020, the Foundation adopted the FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, (ASU 2014-09) using a modified retrospective method of adoption to all contracts with customers not completed at July 1, 2020.

The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the Foundation expects to be entitled in exchange for those goods or services.

The amount to which the Foundation expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing goods or services.

Adoption of ASU 2014-09 resulted in changes in presentation of financial statements and related disclosures in the notes to the consolidated financial statements. Adoption of ASU 2014-09 did not impact the timing of revenue recognition for revenue streams within the scope of Topic 606.

Contract Service Revenue

The Foundation receives fees for service provided to high schools, school districts and communities by providing technical assistance needed to implement new instructional approaches to learning and improve student achievement and opportunity. The amount and timing of revenue recognition varies based on the nature of the goods or services provided and the terms and conditions of the customer contract. During the year ended June 30, 2021, substantially all revenue recognized by the Foundation was for contract services that transfer to the customer over time.

Contract Balances

The following table provides information about the Foundation's receivables and deferred revenue from contracts with customers:

Receivables, beginning of year	\$	189,281
Receivables, end of year		186,899
Deferred revenue, beginning of year	\$	337,781
Deferred revenue, end of year		406,043

KnowledgeWorks Foundation

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Note 11: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy comprises three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, 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
- Level 3** Unobservable inputs supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2021 and 2020:

Fair Value Measurements Using					
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV ^(A)
June 30, 2021					
Assets					
Investments					
U.S. Equities					
Large cap stock fund	\$ 29,644	\$ 29,644	\$ -	\$ -	\$ -
Large cap core stock fund	24,883,789	24,883,789	-	-	-
Large cap growth stock fund	10,501,958	10,501,958	-	-	-
Large cap value stock fund	4,028,631	4,028,631	-	-	-
Mid cap core stock fund	2,430,701	2,430,701	-	-	-
Small cap value stock fund	1,778,634	1,778,634	-	-	-
Small cap index fund	44,270	44,270	-	-	-
International Equities					
Developed country funds	21,642,763	21,642,763	-	-	-
Emerging market fund	10,371,938	10,371,938	-	-	-
Fixed income securities - strategic income fund	21,933,562	21,933,562	-	-	-
Real assets - commodities, real estate and real return fund	8,047,887	8,047,887	-	-	-
Hedge funds and private equity					
Diversified strategy	15,465,040	-	-	-	15,465,040
Distressed debt hedge fund	595,224	-	-	-	595,224
Private equity funds	5,215,512	-	-	-	5,215,512
Total investments	<u>\$ 126,969,553</u>	<u>\$ 105,693,777</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,275,776</u>
Liabilities					
Student loan program residual	<u>\$ 8,304,634</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,304,634</u>	<u>\$ -</u>

KnowledgeWorks Foundation

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Fair Value Measurements Using					
	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV ^(A)
Total Fair Value					
June 30, 2020					
Assets					
Investments					
U.S. Equities					
Large cap stock fund	\$ 21,151	\$ 21,151	\$ -	\$ -	\$ -
Large cap core stock fund	19,373,350	19,373,350	-	-	-
Large cap growth stock fund	5,410,997	5,410,997	-	-	-
Large cap value stock fund	989,367	989,367	-	-	-
Mid cap core stock fund	3,623,067	3,623,067	-	-	-
Small cap value stock fund	2,508,272	2,508,272	-	-	-
Small cap index fund	30,586	30,586	-	-	-
International Equities					
Developed country funds	17,947,601	17,947,601	-	-	-
Emerging market fund	7,533,963	7,533,963	-	-	-
Global equity	2,641,371	2,641,371	-	-	-
Fixed income securities - strategic income fund	22,475,914	22,475,914	-	-	-
Real assets - commodities, real estate and real return fund	6,870,268	6,870,268	-	-	-
Hedge funds and private equity					
Diversified strategy	12,917,478	-	-	-	12,917,478
Distressed debt hedge fund	598,298	-	-	-	598,298
Private equity funds	2,209,467	-	-	-	2,209,467
Total investments	<u>\$ 105,151,150</u>	<u>\$ 89,425,907</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,725,243</u>
Liabilities					
Student loan program residual	<u>\$ 8,158,981</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,158,981</u>	<u>\$ -</u>

- (A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2021.

Common Stocks and Mutual Funds—The Foundation's investments in common stocks and mutual funds are commonly traded in active markets. The fair values of these investments are based on quoted market prices. These investments are classified as Level 1.

KnowledgeWorks Foundation

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Private Investment Funds—The Foundation invests in a variety of private investment funds, including hedge funds and private equity funds. The value of the Foundation’s investments in private investment funds is based upon the per unit value of the fund as reported to the Foundation by the fund manager. Values are also compared to purchases and sales as reported by the fund managers. In accordance with FASB ASU 820, these investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient should not be categorized in the fair value hierarchy. The fair value of alternative investments that have been estimated using the net asset value per share as a practical expedient consist of the following:

	June 30, 2021			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds (A)	\$ 16,060,264	\$ -	Quarterly	65-70 days
Private equity (B)	<u>5,215,512</u>	<u>4,835,098</u>	N/A	N/A
	<u><u>\$ 21,275,776</u></u>	<u><u>\$ 4,835,098</u></u>		

	June 30, 2020			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds (A)	\$ 13,515,776	\$ -	Quarterly	65-70 days
Private equity (B)	<u>2,209,467</u>	<u>3,931,388</u>	N/A	N/A
	<u><u>\$ 15,725,243</u></u>	<u><u>\$ 3,931,388</u></u>		

- (A) This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. Management of the funds has the ability to shift investments among differing investment strategies.
- (B) This category includes investments in private equity funds that invest primarily in corporate finance investments, as well as venture capital investments. There are no redemption features.

Student Loan Program Residual—The fair value of the student loan program residual liability is based on a discounted present value computation. The computation reflects the contractual terms of the KW2010 Program student loans and the related debt and indenture. Significant inputs to this computation consist primarily of the discount rate used to compute the net present value of the residual equity. This discount rate is not observable. The residual liability is classified as Level 3.

KnowledgeWorks Foundation

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring Level 3 fair value measurements at June 30, 2021 and 2020:

	Fair Value at June 30, 2021	Valuation Technique	Unobservable Inputs	Range
Student Loan Residual	\$ 8,304,634	Present value	Constant prepayment rate Discount rate	8.00% 1.95%
	Fair Value at June 30, 2020	Valuation Technique	Unobservable Inputs	Range
Student Loan Residual	\$ 8,158,981	Present value	Constant prepayment rate Discount rate	8.00% 2.00%

Note 12: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of current vulnerabilities due to certain concentrations. Those matters include the following:

Grant Revenue

Approximately 74 percent of all grant revenue were received from five donors in 2021. There were no significant concentrations in 2020.

General Litigation

In the normal course of business, the Foundation may become involved in legal proceedings. The Foundation accrues a liability for such matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. When only a range of possible loss can be established, the most probable amount in the range is accrued. If no amount within this range is a better estimate than any other amount within the range, the minimum amount in the range is accrued.

KnowledgeWorks Foundation

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Litigation

The Foundation is a defendant in a lawsuit that asserts the Foundation received redemption payments made by the plaintiff under unjust enrichment, money had and received, mistaken payment, unfair preference under the British Virgin Islands (BVI) Insolvency Act, and undervalue transaction under the BVI Insolvency Act. The plaintiff has claimed actual damages of approximately \$2,248,000. The Foundation has accrued approximately \$847,000, which, in the opinion of management, is the best estimate of loss that will result from the litigation, including defense costs. The amount could ultimately differ materially.

COVID-19

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Foundation. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Note 13: Subsequent Events

The Foundation has evaluated subsequent events through November 9, 2021, the date the consolidated financial statements were available to be issued, to determine if either recognition or disclosure of significant events or transactions is required.

Supplementary Information

KnowledgeWorks Foundation

Consolidating Statement of Financial Position Information

June 30, 2021

Assets

	Student Loan Program			Knowledge Works Foundation	Knowledge Works Consolidated
	KW2010	Eliminations	Total		
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 5,235,527	\$ 5,235,527
Accounts receivable	-	-	-	302,026	302,026
Interest receivable:					
Investments	-	-	-	2,030	2,030
Student loans	927,231	-	927,231	-	927,231
Grants receivable	-	-	-	3,400,037	3,400,037
Investments, at fair value	-	-	-	126,969,553	126,969,553
Restricted cash and cash equivalents	706,322	-	706,322	-	706,322
Student loans receivable	19,898,952	1,451,615	21,350,567	-	21,350,567
Other assets	-	-	-	205,740	205,740
Right-of-use assets - operating leases	-	-	-	1,335,663	1,335,663
Property and equipment, net	-	-	-	261,145	261,145
Total assets	<u>\$ 21,532,505</u>	<u>\$ 1,451,615</u>	<u>\$ 22,984,120</u>	<u>\$ 137,711,721</u>	<u>\$ 160,695,841</u>

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 155,475	\$ -	\$ 155,475	\$ 2,596,663	\$ 2,752,138
Operating lease liabilities	-	-	-	1,238,260	1,238,260
Interest payable	16,212	-	16,212	-	16,212
Student loan program residual	-	-	-	8,304,634	8,304,634
Deferred revenue	-	-	-	406,043	406,043
Bonds payable, net	14,043,072	-	14,043,072	-	14,043,072
Total liabilities	<u>14,214,759</u>	<u>-</u>	<u>14,214,759</u>	<u>12,545,600</u>	<u>26,760,359</u>

Net Assets

Without donor restrictions	7,317,746	1,451,615	8,769,361	117,560,839	126,330,200
With donor restrictions	-	-	-	7,605,282	7,605,282
Total net assets	<u>7,317,746</u>	<u>1,451,615</u>	<u>8,769,361</u>	<u>125,166,121</u>	<u>133,935,482</u>
Total liabilities and net assets	<u>\$ 21,532,505</u>	<u>\$ 1,451,615</u>	<u>\$ 22,984,120</u>	<u>\$ 137,711,721</u>	<u>\$ 160,695,841</u>

KnowledgeWorks Foundation

Consolidating Statement of Financial Position Information

June 30, 2020

Assets

	Student Loan Program			Knowledge	Knowledge
	KW2010	Eliminations	Total	Works	Works
				Foundation	Consolidated
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 5,743,909	\$ 5,743,909
Accounts receivable	-	-	-	191,528	191,528
Interest receivable:					
Investments	-	-	-	7,810	7,810
Student loans	1,118,605	-	1,118,605	-	1,118,605
Grants receivable	-	-	-	3,049,395	3,049,395
Investments, at fair value	-	-	-	105,151,150	105,151,150
Restricted cash and cash equivalents	789,405	-	789,405	-	789,405
Student loans receivable	22,023,774	1,848,913	23,872,687	-	23,872,687
Other assets	-	-	-	311,178	311,178
Property and equipment, net	-	-	-	726,632	726,632
Total assets	<u>\$ 23,931,784</u>	<u>\$ 1,848,913</u>	<u>\$ 25,780,697</u>	<u>\$ 115,181,602</u>	<u>\$ 140,962,299</u>

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 154,944	\$ -	\$ 154,944	\$ 4,429,722	\$ 4,584,666
Interest payable	22,478	-	22,478	-	22,478
Student loan program residual	-	-	-	8,158,981	8,158,981
Deferred revenue	-	-	-	337,781	337,781
Bonds payable, net	16,763,657	-	16,763,657	-	16,763,657
Total liabilities	<u>16,941,079</u>	<u>-</u>	<u>16,941,079</u>	<u>12,926,484</u>	<u>29,867,563</u>

Net Assets

Without donor restrictions	6,990,705	1,848,913	8,839,618	95,897,838	104,737,456
With donor restrictions	-	-	-	6,357,280	6,357,280
Total net assets	<u>6,990,705</u>	<u>1,848,913</u>	<u>8,839,618</u>	<u>102,255,118</u>	<u>111,094,736</u>
Total liabilities and net assets	<u>\$ 23,931,784</u>	<u>\$ 1,848,913</u>	<u>\$ 25,780,697</u>	<u>\$ 115,181,602</u>	<u>\$ 140,962,299</u>

KnowledgeWorks Foundation

Consolidating Statement of Activities Information

Year Ended June 30, 2021

	Student Loan Program			KnowledgeWorks Foundation		Knowledge Works Consolidated
	Without Donor Restrictions	Eliminations	Total	Without Donor Restrictions	With Donor Restrictions	
KW2010						
Revenues						
Income from investments, net	\$ 380	\$ -	\$ 380	\$ 2,314,794	\$ 1,715	\$ 2,316,889
Interest and fees on student loans receivable, net	769,184	(397,298)	371,886	234	-	372,120
Other revenue	-	-	-	351,048	-	351,048
Grant revenue	-	-	-	1,000,000	4,205,276	5,205,276
Contract service revenue	-	-	-	1,371,169	-	1,371,169
Unrealized and realized gains on investment securities, net	-	-	-	25,045,293	-	25,045,293
Net assets released from restrictions	-	-	-	2,958,989	(2,958,989)	-
Total revenues	769,564	(397,298)	372,266	33,041,527	1,248,002	34,661,795
Cost of Debt						
Interest expense	190,341	-	190,341	-	-	190,341
Amortization	65,169	-	65,169	-	-	65,169
Total cost of debt	255,510	-	255,510	-	-	255,510
Net Revenue After Cost of Debt	514,054	(397,298)	116,756	33,041,527	1,248,002	34,406,285
Provision for Student Loan Loss	-	-	-	-	-	-
Unrealized Loss on Liability for Student Loan Program Residual	-	-	-	(145,653)	-	(145,653)
Program and Supporting Expenses						
Operating programs	-	-	-	1,858,839	-	1,858,839
Student lending programs	187,013	-	187,013	-	-	187,013
Other programs	-	-	-	5,056,235	-	5,056,235
Total program expenses	187,013	-	187,013	6,915,074	-	7,102,087
General and administrative	-	-	-	4,317,799	-	4,317,799
Total program and supporting expenses	187,013	-	187,013	11,232,873	-	11,419,886
Change in Net Assets	327,041	(397,298)	(70,257)	21,663,001	1,248,002	22,840,746
Net Assets, Beginning of Year	6,990,705	1,848,913	8,839,618	95,897,838	6,357,280	111,094,736
Net Assets, End of Year	\$ 7,317,746	\$ 1,451,615	\$ 8,769,361	\$ 117,560,839	\$ 7,605,282	\$ 133,935,482

KnowledgeWorks Foundation

Consolidating Statement of Activities Information

Year Ended June 30, 2020

	Student Loan Program			KnowledgeWorks Foundation		Knowledge Works
	Without Donor Restrictions			Without Donor	With Donor	Works
	KW2010	Eliminations	Total	Restrictions	Restrictions	Consolidated
Revenues						
Income from investments, net	\$ 20,248	\$ -	\$ 20,248	\$ 2,755,137	\$ 7,747	\$ 2,783,132
Interest and fees on student loans receivable, net	1,122,622	(452,631)	669,991	1,511	-	671,502
Other revenue	-	-	-	101,078	-	101,078
Grant revenue	-	-	-	1,000	3,778,761	3,779,761
Contract service revenue	-	-	-	1,806,834	-	1,806,834
Unrealized and realized losses on investment securities, net	-	-	-	(1,913,349)	-	(1,913,349)
Net assets released from restrictions	-	-	-	5,893,522	(5,893,522)	-
Total revenues	1,142,870	(452,631)	690,239	8,645,733	(2,107,014)	7,228,958
Cost of Debt						
Interest expense	564,647	-	564,647	-	-	564,647
Amortization	121,222	-	121,222	-	-	121,222
Total cost of debt	685,869	-	685,869	-	-	685,869
Net Revenue After Cost of Debt	457,001	(452,631)	4,370	8,645,733	(2,107,014)	6,543,089
Provision for Student Loan Loss	(41,094)	-	(41,094)	-	-	(41,094)
Unrealized Loss on Liability for Student Loan Program Residual	-	-	-	(936,674)	-	(936,674)
Program and Supporting Expenses						
Operating programs	-	-	-	7,465,998	-	7,465,998
Student lending programs	206,109	-	206,109	-	-	206,109
Other programs	-	-	-	4,978,484	-	4,978,484
Total program expenses	206,109	-	206,109	12,444,482	-	12,650,591
General and administrative	-	-	-	3,381,809	-	3,381,809
Total program and supporting expenses	206,109	-	206,109	15,826,291	-	16,032,400
Change in Net Assets	209,798	(452,631)	(242,833)	(8,117,232)	(2,107,014)	(10,467,079)
Net Assets, Beginning of Year	6,780,907	2,301,544	9,082,451	104,015,070	8,464,294	121,561,815
Net Assets, End of Year	\$ 6,990,705	\$ 1,848,913	\$ 8,839,618	\$ 95,897,838	\$ 6,357,280	\$ 111,094,736