



Consolidated Financial Statements and
Report of Independent Certified Public
Accountants

AccessLex Institute

March 31, 2021 and 2020

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
AccessLex Institute

We have audited the accompanying consolidated financial statements of AccessLex Institute and subsidiaries, which comprise the consolidated statements of financial position as of March 31, 2021 and 2020, and the related consolidated statements of activities 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 financial position of AccessLex Institute and subsidiaries as of March 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Philadelphia, Pennsylvania
July 1, 2021

AccessLex Institute

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

March 31,

ASSETS	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 7,949	\$ 12,294
Investments, at fair value	740,773	566,317
Restricted cash and cash equivalents	107,810	108,024
Student loans receivable, net	1,478,228	2,413,855
Student loans receivable, held-for-sale	583,743	-
Accrued interest receivable	58,713	54,919
Other assets	<u>6,807</u>	<u>5,200</u>
Total assets	<u><u>\$ 2,984,023</u></u>	<u><u>\$ 3,160,609</u></u>
 LIABILITIES AND NET ASSETS		
Asset-backed notes, net	\$ 1,772,768	\$ 2,529,085
Short-term credit facility	303,821	-
Other liabilities	<u>11,789</u>	<u>11,405</u>
Total liabilities	<u>2,088,378</u>	<u>2,540,490</u>
Net assets, without donor restrictions	<u>895,645</u>	<u>620,119</u>
Total liabilities and net assets	<u><u>\$ 2,984,023</u></u>	<u><u>\$ 3,160,609</u></u>

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

AccessLex Institute

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended March 31,

	2021	2020
Operating revenues:		
Interest income	\$ 59,290	\$ 116,307
Interest expense	42,257	90,902
Net interest income	17,033	25,405
Provision for loan losses	7,500	5,000
Net interest income after provision for loan losses	24,533	30,405
Other operating income	2,243	435
Total operating revenues	26,776	30,840
Operating expenses:		
Program services expenses	23,875	20,516
Management and general expenses	7,055	6,756
Total operating expenses	30,930	27,272
Change in net assets from operations	(4,154)	3,568
Nonoperating revenues (expenses):		
Investment return	248,260	(80,003)
Gain on extinguishment of debt	31,420	-
Total nonoperating revenues (expenses)	279,680	(80,003)
Change in net assets	275,526	(76,435)
Net assets, beginning of year	620,119	696,554
Net assets, end of year	\$ 895,645	\$ 620,119

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

AccessLex Institute

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31,

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 275,526	\$ (76,435)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net amortization of deferred costs and fees	3,184	560
Net amortization of note discount	873	1,050
Debt accretion	10,965	10,252
Gain on extinguishment of debt	(31,420)	-
Accretion of interest income	(15,411)	(17,754)
Depreciation	704	673
Loss on disposal of assets	154	-
Provision for loan losses	(7,500)	(5,000)
Net realized and unrealized (gain) loss on investments	(240,969)	91,272
Reinvested investment dividends	(7,784)	(11,577)
Deferred financing costs	173	294
(Increase) decrease in operating assets:		
Accrued interest receivable	(18,535)	(15,504)
Prepaid expenses and other current assets	(24)	(160)
Increase (decrease) in operating liabilities	384	(949)
Net cash used in operating activities	<u>(29,680)</u>	<u>(23,278)</u>
Cash flows from investing activities:		
Student loan principal payments	386,354	444,401
Purchases of property and equipment	(2,615)	(1,674)
Proceeds from sale of investments	199,522	154,438
Purchases of investments	<u>(159,356)</u>	<u>(155,605)</u>
Net cash provided by investing activities	<u>423,905</u>	<u>441,560</u>
Cash flows from financing activities:		
Repayment of debt principal	(702,605)	(436,926)
Repayment on short term credit facility	(26,588)	-
Borrowings from credit facility	330,409	-
Net cash used in financing activities	<u>(398,784)</u>	<u>(436,926)</u>
Net decrease in cash, cash equivalents and restricted cash	(4,559)	(18,644)
Cash, cash equivalents and restricted cash at beginning of year	<u>120,318</u>	<u>138,962</u>
Cash, cash equivalents and restricted cash at end of year	<u>\$ 115,759</u>	<u>\$ 120,318</u>
Reconciliation to amounts on consolidated statement of financial position		
Cash and cash equivalents	\$ 7,949	\$ 12,294
Restricted cash and cash equivalents	107,810	108,024
Total cash, cash equivalents and restricted cash	<u>\$ 115,759</u>	<u>\$ 120,318</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 32,653	\$ 83,114
Supplemental disclosures of noncash investing transactions:		
Capitalization of accrued interest to student loans receivable	\$ 14,742	\$ 12,366
Reinvested dividend income	7,784	11,577

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

AccessLex Institute

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

AccessLex Institute, incorporated in 1993, and its subsidiaries (collectively, the Company), is a Delaware nonstock, nonprofit membership corporation organized to promote access and affordability to legal and other higher education through financing and related services. The Company's members are comprised of state-operated/affiliated/supported and nonprofit American Bar Association-approved law schools located in the United States and Puerto Rico and number 193 as of March 31, 2021. The Company has received an Internal Revenue Service (the IRS) determination that it is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code) and that it is not a private foundation within the meaning of Section 509(a) of the Code because it is an organization described in Section 509(a)(2) of the Code.

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

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

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

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

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

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

AccessLex Institute

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

The acquisition was treated as a business combination under purchase accounting, and the associated financial impact is considered immaterial for separate disclosure.

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

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

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

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

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

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

Basis of Accounting and Principles of Consolidation

The consolidated financial statements of the Company are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) which requires reporting on the accrual basis of accounting. In accordance with Accounting Standards Codification (ASC) 958-810, the Company consolidates all entities for which it has control and an economic interest. All intercompany accounts have been eliminated. Certain amounts reported in the 2020 consolidated financial statements have been reclassified to conform to the 2021 consolidated financial statement presentation.

Basis of Presentation

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Company's management and the board of directors.

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by the actions of the Company or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

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

The Company has no net assets with donor restrictions.

Income Taxes

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

The Company accounts for uncertainties in income taxes based on a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Company has no uncertain tax positions meeting the threshold. The Company remains subject to federal, state and local income tax examinations for the year ended March 31, 2018 to the present.

Cash and Cash Equivalents

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

Investments

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Student Loans Receivable

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

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

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

Deferred Costs

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

Property and Equipment

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue Recognition

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

Functional Allocation of Expenses

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

Use of Estimates

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

Loans Securitized

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

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases*, which requires that most leased assets be recognized on the balance sheet as assets and liabilities for the rights and obligations created by these leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2020. Early application is permitted. An entity is required to apply the amendments in ASU 2016-02 under the modified retrospective transition approach. This approach includes a number of optional practical expedients, which are described in the final standard. Under these practical expedients, an organization will continue to account for leases that commence before the effective date in accordance with current U.S. GAAP, unless the lease is modified. However, lessees are required to recognize on the balance sheet leased assets and liabilities for operating leases at each reporting date. The Company is evaluating the impact of the pronouncement at this time.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

NOTE 2 - RESTRICTED CASH AND CASH EQUIVALENTS

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

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

Restricted cash and cash equivalents consist of the following at March 31, 2021 and 2020 (in thousands):

	2021	2020
Accounts pledged to financings	\$ 107,239	\$ 107,924
Accounts pledged to pay default claims	571	100
Total	<u>\$ 107,810</u>	<u>\$ 108,024</u>

NOTE 3 – INVESTMENTS

Investment balances by category, at fair value, consist of the following at March 31, 2021 and 2020 (in thousands):

	2021	2020
U.S. Large Cap Equities	\$ 203,077	\$ 143,724
U.S. Small Cap Equities	46,401	25,189
Fixed Income Funds	20,675	25,817
International, excluding U.S. Equities	173,872	120,523
Hedged Equities	62,907	45,933
Absolute Return	93,245	77,930
Emerging Market Equity Funds	83,991	84,802
Privates	10,566	6,439
Real Asset Funds	46,039	35,960
	<u>\$ 740,773</u>	<u>\$ 566,317</u>

AccessLex Institute

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

NOTE 4 - STUDENT LOANS

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

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

Net student loans receivable, at carrying value, consist of the following at March 31, 2021 and 2020 (in thousands):

	2021	2020
FFELP loans	\$ 1,083,820	\$ 1,889,699
Private loans	416,944	545,275
Student loans receivable, gross	1,500,764	2,434,974
(Less) plus deferred income and costs:		
Deferred origination income	(1,233)	(1,748)
Premiums paid for student loans	827	1,285
Deferred loan fees	(2,138)	(3,778)
Deferred origination costs	8,496	15,350
Less allowance for loan losses	(28,488)	(32,228)
Student loans receivable, net	\$ 1,478,228	\$ 2,413,855

Student loans receivable classified as held-for-sale are recorded at the lower of amortized cost or market fair value as of March 31, 2021 and represent the carrying value of certain FFELP loans that the Company is actively marketing for sale.

NOTE 5 - 2010-A ON-BALANCE SHEET SECURITIZATION

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

Loans

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

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

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

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

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

The following table shows the balances of loans that are accounted for in accordance with ASC 310-30, at March 31, 2021 and 2020 (in thousands):

	<u>2021</u>	<u>2020</u>
Outstanding principal balance	<u>\$ 211,397</u>	<u>\$ 248,858</u>
Carrying amount	<u>\$ 101,805</u>	<u>\$ 130,612</u>

The carrying amounts of \$101.8 million and \$130.6 million at March 31, 2021 and 2020, respectively, are included within the balance of student loans receivable on the consolidated statements of financial position.

The following table presents changes in the accretable discount on the transferred loans, for which the Company applies ASC 310-30, for the years ended March 31, 2021 and 2020 (in thousands):

	<u>2021</u>	<u>2020</u>
Balance, beginning of the year	\$ 68,796	\$ 86,550
Accretion	<u>(15,411)</u>	<u>(17,754)</u>
Balance, end of the year	<u>\$ 53,385</u>	<u>\$ 68,796</u>

Debt

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

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

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

The following table presents changes in the carrying value of the Class R certificates, for the years ended March 31, 2021 and 2020 (in thousands):

	2021	2020
Balance, beginning of the year	\$ 52,268	\$ 67,693
Debt accretion	10,965	10,252
Distributions	(4,277)	(25,677)
Balance, end of the year	<u>\$ 58,956</u>	<u>\$ 52,268</u>

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

NOTE 6 - ALLOWANCE FOR LOAN LOSSES

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

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

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

The private loans included in the 2010-A on-balance sheet securitization, as described in Note 5, do not require an allowance for loan losses. Delinquency on the 2010-A balances past due 30+ days was 2.29% and 3.19% as of March 31, 2021 and 2020, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

NOTE 6 - ALLOWANCE FOR LOAN LOSSES - Continued

A summary of changes in the allowance for loan losses for the years ended March 31, 2021 and 2020 follows (in thousands):

	2021		
	FFELP	Private	Consolidated
Balance, beginning of year	\$ 3,626	\$ 28,602	\$ 32,228
Provision for loan losses	-	(7,500)	(7,500)
Charge-offs (includes accrued interest):			
Gross charge-offs	(130)	(2,534)	(2,664)
Recoveries	-	6,424	6,424
Net (charge-offs) recoveries	(130)	3,890	3,760
Balance, end of year	\$ 3,496	\$ 24,992	\$ 28,488
	2020		
	FFELP	Private	Consolidated
Balance, beginning of year	\$ 4,151	\$ 33,796	\$ 37,947
Provision for loan losses	-	(5,000)	(5,000)
Charge-offs (includes accrued interest):			
Gross charge-offs	(525)	(7,189)	(7,714)
Recoveries	-	6,995	6,995
Net charge-offs	(525)	(194)	(719)
Balance, end of year	\$ 3,626	\$ 28,602	\$ 32,228

Student Loan Status and Delinquencies

The following tables show outstanding balances of FFELP and Private student loan portfolio segments, including accrued interest, by repayment and delinquency status at March 31, 2021 and 2020 (in thousands):

	FFELP March 31, 2021			FFELP March 31, 2020		
	Outstanding balance	% of repayment loans	% of total	Outstanding balance	% of repayment loans	% of total
In school/grace/ deferment (a)(b)(c)	\$ 36,754		2.1%	\$ 40,964		2.1%
Forbearance (d)	82,161		4.8%	137,013		7.1%
Repayment: (e)						
Current	1,538,880	96.0%		1,694,167	96.1%	
Delinquent 30-59 days	26,483	1.6%		24,036	1.4%	
Delinquent 60-89 days	12,122	0.8%		13,341	0.7%	
Delinquent 90 days or greater	25,566	1.6%		31,943	1.8%	
Total in repayment	1,603,051	100.0%	93.1%	1,763,487	100.0%	90.8%
Total	\$ 1,721,966		100.0%	\$ 1,941,464		100.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

NOTE 6 - ALLOWANCE FOR LOAN LOSSES - Continued

Includes Special Allowance Payments (SAP) and Interest Subsidy Payments (ISP)

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

NOTE 6 - ALLOWANCE FOR LOAN LOSSES - Continued

	Private March 31, 2021			Private March 31, 2020		
	Outstanding Balance	% of Repayment Loans	% of Total	Outstanding Balance	% of Repayment Loans	% of Total
In school/grace/deferment						
(a)(b)	\$ 940		0.3%	\$ 1,012		0.2%
Forbearance (c)	4,066		1.3%	10,181		2.4%
Repayment: (d)						
Current	304,458	97.7%		391,171	96.5%	
Delinquent 30-59 days	3,797	1.3%		6,916	1.7%	
Delinquent 60-89 days	1,650	0.5%		2,348	0.6%	
Delinquent 90 days or greater	1,663	0.5%		5,030	1.2%	
Total in repayment	<u>311,568</u>	<u>100.0%</u>	<u>98.4%</u>	<u>405,465</u>	<u>100.0%</u>	<u>97.4%</u>
						100.0
Total	<u>\$316,574</u>		<u>100.0%</u>	<u>\$416,658</u>		<u>%</u>

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment (included in other assets on the consolidated statements of financial position) consists of the following at March 31, 2021 and 2020 (in thousands):

	2021	2020
Computer software	\$ 1,487	\$ 1,740
Computer hardware and electronic equipment	154	563
Furniture and fixtures	34	157
Leasehold improvements	228	440
	1,903	2,900
Accumulated depreciation	(939)	(1,747)
Net property and equipment in service	964	1,153
Capitalized costs in process	3,344	1,400
Total property and equipment, net	\$ 4,308	\$ 2,553

Capitalized costs in process consist of costs incurred through March 31, 2021 and 2020 to develop major new software systems and for the development of content associated with the Helix product(s) not yet placed into service.

\$1.2 million and \$0.0 million of fully depreciated fixed assets were disposed during the years ended March 31, 2021 and 2020, respectively.

NOTE 8 - EMPLOYEE BENEFIT PLAN

The Company maintains a defined contribution pension plan (the Plan) covering all eligible employees. The Plan is funded through individually owned assets, such as annuities and mutual funds. Contributions made to the Plan by the Company are equal to 6% of each participant's regular salary up to applicable statutory limits, with an additional matching contribution of up to 2% of the participant's regular salary. Participants are eligible to receive employer contributions after having completed one year of service. The Company's contribution to the Plan totaled \$0.5 million for both years ended March 31, 2021 and 2020, respectively. Employees must meet certain eligibility requirements to participate in the Plan. Participants are fully and immediately vested.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table details the carrying value and fair value of the Company's financial instruments at March 31, 2021 and 2020 (in thousands):

	2021		2020	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Cash and cash equivalents	\$ 7,949	\$ 7,949	\$ 12,294	\$ 12,294
Investments	740,773	740,773	566,317	566,317
Restricted cash and cash equivalents	107,810	107,810	108,024	108,024
Student loans receivable, net	1,478,228	1,582,388	2,413,855	2,557,877
Student loans receivable, held-for-sale	583,743	586,001	-	-
Accrued interest receivable	51,997	51,997	52,319	52,319
Financial liabilities:				
Asset-backed notes, net	1,772,768	1,616,980	2,529,085	2,267,205
Short-term credit facility	303,821	303,821	-	-
Accrued interest payable	1,620	1,620	4,845	4,845

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued

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

Level 1 Quoted prices for identical instruments in active markets;

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

Level 3 Instruments whose primary value drivers are unobservable.

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

Items Measured at Fair Value on a Recurring Basis

The following tables present the Company's financial assets that are measured at fair value on a recurring basis for each of these hierarchy levels at March 31, 2021 and 2020 (in thousands). The Company does not have any financial liabilities that are measured at fair value on a recurring basis.

	2021			
	Level 1	Level2	Level 3	Total
Assets:				
U.S. Large Cap Equities	\$ 203,077	\$ -	\$ -	\$ 203,077
U.S. Small Cap Equities	10,113	-	-	10,113
Fixed Income Funds	20,675	-	-	20,675
International Equity Funds ex-U.S. Equities	57,252	-	-	57,252
Emerging Market Equity Funds	14,805	-	-	14,805
Real Asset Funds	20,820	-	-	20,820
Total investments measured at fair value	<u>\$ 326,742</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 326,742</u>
2020				
	Level 1	Level2	Level 3	Total
Assets:				
U.S. Large Cap Equities	\$ 143,723	\$ -	\$ -	\$ 143,723
U.S. Small Cap Equities	10,497	-	-	10,497
Fixed Income Funds	25,817	-	-	25,817
International Equity Funds ex-U.S. Equities	49,099	-	-	49,099
Emerging Market Equity Funds	43,885	-	-	43,885
Real Asset Funds	17,184	-	-	17,184
Total investments measured at fair value	<u>\$ 290,205</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 290,205</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued

As of March 31, 2021, the Company had \$414.0 million of investments where fair values are based upon the investments' NAV. As of March 31, 2021 and 2020, the fair value of investments valued using NAV was:

	Fair Value	
	2021	2020
Global ex-U.S. SMID Fund (a)	\$ 17,666	\$ 11,582
Global Closed-End Fund (b)	48,551	30,594
Global ex-U.S. Equity Funds (c)	50,403	29,248
Quantitative Directional Hedge Fund (d)	34,058	44,742
MLP Fund (e)	13,385	7,748
Distressed/Restructuring Hedge Funds (f)	4,428	7,597
Equity Long/Short Hedge Funds (g)	63,954	48,515
Special Situations Hedge Funds (h)	53,706	23,692
Private Equity, Middle Market (i)	1,814	-
Appraisal Arbitrage (j)	6	675
MBS Fund (k)	11,834	11,028
Private Credit Fund (l)	5,875	4,342
Private Secondary Fund (m)	2,877	437
U.S. Small Cap Equities (n)	36,288	14,692
Emerging Market Equity Funds (o)	69,186	40,918
Global Macro Hedge Fund (p)	-	302
	<u>\$ 414,031</u>	<u>\$ 276,112</u>
	<u>2021</u>	<u>2020</u>

(a)	The Global ex-U.S. SMID Fund class consists of one fund that invests in international (ex-U.S.) small and mid-cap equities and is redeemable monthly, on the first business day, with a 10-day notice.	\$ 17,666	\$ 11,582
(b)	The Global Closed-End Fund class consists of one fund that invests in global closed-end mutual funds and is redeemable at the end of each month, with a 10-day notice.	48,551	30,594
(c)	The Global ex-U.S. Equity Funds consist of one fund that invests in equities outside of the United States and is redeemable twice a month (1 st and 15 th), with a nine-day notice.	50,403	29,248
(d)	The Quantitative Directional Hedge Fund consists of two funds.		
	Fund A This fund invests in market-based options. This fund is redeemable on the last business day of the month, with a five-business day notice.	26,216	34,078

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued

	<u>2021</u>	<u>2020</u>
Fund B		
This fund invests in equities, market indices, options, currencies, forwards, and futures utilizing a signal-based strategy. This fund is redeemable on a monthly basis with a 60-day notice.	\$ <u>7,842</u>	\$ <u>10,664</u>
	<u>34,058</u>	<u>44,742</u>
(e) The MLP Fund class consists of one fund that invests in publicly traded master limited partnership (MLP) commodity-based companies. This fund is redeemable monthly, on the last business day, with a 30-day notice.	13,385	7,748
(f) The Distressed/Restructuring Hedge Funds consist of three funds.		
Fund C		
This fund is redeemable every two years on the investment anniversary, with a 90-day notice, except for investments deemed not marketable by the fund's investment manager. The next available redemption date is June 1, 2021.	3,395	5,879
Fund D		
This fund announced on April 1, 2017, the orderly wind down of the fund. The fund has returned \$3.9 million to date, with the remaining illiquid portion to be returned at the fund manager's discretion.	1,028	1,451
Fund E		
This fund has a 4-year lock-up period subject to additional one-year extensions. The fund will provide a 30-day notice of liquidation events for distributions. The fund announced on April 1, 2020, the liquidation of the remaining investments.	<u>5</u>	<u>267</u>
	<u>4,428</u>	<u>7,597</u>
(g) The Equity Long/Short Hedge Fund class consists of eight hedge funds that invest in both long and short stocks. The redemption and lock-up periods vary by fund and are as follows:		
Fund F		
This fund announced on October 3, 2018 that it was ceasing operations initiating an orderly return of capital to limited partners. The fund has returned \$8.6 million to date, with the remaining illiquid portion to be returned at the fund manager's discretion.	239	398
Fund G		
This fund announced on June 28, 2017 that it was ceasing operations and initiating an orderly return of capital to limited partners. The fund has returned \$5.5 million to date, with the remaining illiquid portion to be returned at the fund manager's discretion.	914	977
Fund H		
This fund's lock-up period has expired. The fund was terminated on January 1, 2021 with funds returned on April 5, 2021.	9,575	8,784

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued

		<u>2021</u>	<u>2020</u>
Fund I	This fund's lock-up period has expired. The fund announced on April 1, 2019 that a key partner was leaving the firm, initiating a "Key Man Event" allowing limited partners to withdraw from the fund. The Company notified the fund of its intentions to withdraw on April 3, 2019. The fund has returned \$5.5 million to date. Per the limited partnership agreement, capital will be returned within 30 business days, subject to the fund manager's discretion regarding illiquid holdings.	\$ 1,047	\$ 2,582
Fund J	This fund's lock-up period is 12 months which ended on March 26, 2020, afterwards, the fund is redeemable quarterly with a 90-day notice.	9,950	7,591
Fund K	Fund shares are redeemable on the last day of the third month following issuance, with a 45-day notice. Amount available for withdrawal is subject to an escalating amount, over eight consecutive quarters as follows: 12.5%, 14.1%, 16.6%, 20%, 25%, 33.3%, 50%, and 100%.	15,635	13,457
Fund L	This fund's lock-up period is 12 months which ended on March 26, 2020, afterwards, the fund is redeemable quarterly with a 45-day notice.	10,527	7,420
Fund M	This fund's lock-up period is 12 months ending on August 27, 2021, afterwards, the fund is redeemable quarterly on a 45-day notice.	16,067	-
Fund N	This fund's lock-up period has expired. The investment is redeemable each calendar quarter, with a 60-day notice. Final redemption was received March 2021.	-	7,306
		<u>63,954</u>	<u>48,515</u>
(h)	The Special Situations Hedge Fund class consists of six hedge funds that invest in a wide range of strategies, including merger arbitrage, convertible arbitrage, long/short equities and credit, distressed securities, and bankruptcy reorganizations:		
Fund O	This fund announced on March 28, 2016 the creation of a special purpose vehicle (SPV) for illiquid portfolio holdings that are being held for distribution to limited partners. The remaining SPV holdings will be distributed at the fund manager's discretion.	484	570

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued

		<u>2021</u>	<u>2020</u>
Fund P	This fund announced on January 4, 2019 that it was ceasing operations and initiating an orderly return of capital to limited partners. The fund has returned \$5.7 million to date, with the remaining illiquid portion to be returned at the fund manager’s discretion.	\$ 107	\$ 268
Fund Q	This fund’s lock up period is 12 months ending on September 30, 2020, afterwards the fund is redeemable the last day of each calendar quarter with a 75-day notice.	12,568	8,559
Fund R	This fund has no lock up and shares are redeemable each year on the anniversary of investment. The next available redemption date is July 31, 2021 with a 90-day notice.	15,978	12,635
Fund S	This fund has no lock up and shares are redeemable semi-annually at on June 30th and December 31st with 60-day notice.	7,639	1,660
Fund T	This fund has no lock up and shares are redeemable on the last day of each calendar quarter with a 65-day notice.	<u>16,930</u>	<u>-</u>
		<u>53,706</u>	<u>23,692</u>
(i)	The Private Equity, Middle Market Fund class consists of two funds that invest in U.S. middle market private equity growth and buy-out opportunities.		
Fund U	This fund has a 10-year term, with a 6-year investment period that commenced investing on April 1, 2020.	788	-
Fund V	This fund has a 10-year term, with a 5-year investment period that commenced investing on January 1, 2020.	<u>1,026</u>	<u>-</u>
		<u>1,814</u>	<u>-</u>
(j)	The Appraisal Arbitrage Fund class - This fund’s lock-up period of three years commenced on August 31, 2017, funds are redeemable based upon settlement or adjudication of lawsuits.	6	675
(k)	The MBS Fund class consists of one fund that invests in mortgage-backed securities within the United States. This fund’s lock-up period has expired. Up to 25% of the investment is redeemable each calendar quarter, with a 60-day notice. Withdrawals in excess of 25% will be distributed in stages over four successive calendar quarters. The next available redemption date is May 1, 2021.	11,834	11,028

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued

	<u>2021</u>	<u>2020</u>
(l) The Private Credit Fund class consists of two private funds:		
Fund W This fund has an initial investing period that is four years in duration from the closing date of the fund on November 1, 2019, with a subsequent harvesting period of two years beginning on November 2, 2023. The fund has an option to add another year to the harvesting period (at the manager’s discretion) to November 2, 2024, and another year should the majority of partners agree to November 2, 2025.	\$ 3,145	\$ 2,634
Fund X This fund will terminate five years following the conclusion of the commitment period on March 29, 2019, subject to two extensions of one year each.	<u>2,730</u>	<u>1,708</u>
	<u>5,875</u>	<u>4,342</u>
(m) The Private Secondary Fund class consists of one fund that has an initial investing period of 10 years in duration from the closing of the fund on October 5, 2018, with a subsequent harvesting period of three years beginning on October 5, 2028. The fund has an option to add another three years to the harvesting period (at the manager’s discretion) to October 5, 2031.	2,877	437
(n) The U.S. Small Cap Equities class consists of one fund investing in both public and private companies. The fund has a three-year hard lock up that commenced on January 1, 2020, with the first possible withdrawal set for December 31, 2022. Thereafter, withdrawals are semi-annual on June 1 and December 31, with 150-day notice.	36,288	14,692
(o) The Emerging Markets Equity Fund class consists of three funds which invest in emerging market stocks in various global markets:		
Fund Y This fund invests across various emerging markets. The fund is redeemable on three-day notice.	27,565	19,693
Fund Z This fund invests in Asia-Pacific emerging markets exclusively. The fund is redeemable at the end of the month with 30-day notice.	17,478	10,688
Fund AA This fund invests directly in China markets, both on and offshore stocks. The fund has two-year lock up with redemptions at the end of the calendar year with 60-day notice.	<u>24,143</u>	<u>10,537</u>
	<u>69,186</u>	<u>40,918</u>
(p) The Global Macro Hedge Fund class consisted of one fund that invested in global macro themes, including equities, credit, currencies, and interest rates. The fund was fully redeemed in April 2020.	-	302
	<u>\$ 414,031</u>	<u>\$ 276,112</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

NOTE 10 - ASSET-BACKED NOTES

Long-Term Debt Offerings

The Company has issued debt through numerous public and private offerings to obtain permanent financing for the student loans originated or acquired under a credit facility and to purchase student loans originated by the Company on behalf of a bank. The student loan asset-backed notes issued are limited obligations of the Company, payable solely from the trust estates created under the indentures of trust. The following table summarizes, by type of notes, the amounts outstanding and interest rates at March 31, 2021 and 2020 (in thousands):

	Carrying amount at March 31, 2021	Interest rates at March 31, 2021	Carrying amount at March 31, 2020	Interest rates at March 31, 2020
Auction rate notes:				
Interest bearing due 2033 - 2040 (1)	\$ 557,100	0.00% - 2.66%	\$ 671,350	0.96% - 5.75%
Floating rate notes:				
LIBOR and T-Bill based due 2017 - 2059	1,156,711	0.28% - 2.97%	1,805,466	1.20% - 4.54%
Class R certificates:				
Due 2044 (2)	<u>58,957</u>		<u>52,269</u>	
Total	<u>\$ 1,772,768</u>		<u>\$ 2,529,085</u>	

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

At March 31, 2021, the Company had outstanding debt with the following maturities (in thousands):

<u>Fiscal year maturity</u>	<u>Stated maturity</u>
2022	7,051
2023	50,446
2024	5,488
2025	76,006
2026	5,210
2027 – 2058	<u>1,673,788</u>
	<u>\$ 1,817,989</u>

The stated maturity does not include unamortized bond discount of \$6.9 million and accumulated debt accretion of \$38.3 million.

The pledged funds created from all issues of notes are recorded as restricted cash and cash equivalents on the consolidated statements of financial position. The Company is subject to certain covenants under the indentures, and management believes it is in compliance with these covenants at March 31, 2021. These financings were recorded by the Company as secured borrowings with the pledge of collateral.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

NOTE 10 - ASSET-BACKED NOTES - Continued

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

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

In November 2020, LawyerMetrix, LLC purchased, from a third party, certain asset-backed notes previously issued to finance certain student loans originated by the Company. The purchase price of the notes was \$34.1 million. The investment and the face value of the related notes have been eliminated in consolidation with the discount on the sale price being recognized as a gain on debt extinguishment within the consolidated statements of activities for the year ended March 31, 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

NOTE 11 – 2020-1 WAREHOUSE FINANCING

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

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

The outstanding balance on the credit facility as of March 31, 2021 is \$303.8 million. As of the date that these consolidated financial statements were made available for issuance, the outstanding balance on the credit facility has been paid in full.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Operating Leases

In November 2012, the Company commenced a 10½ year noncancelable operating lease for its headquarters in West Chester, Pennsylvania. The terms of the lease include one five-year renewal option.

In September 2014, the Company commenced an 11-year noncancelable operating lease for its Washington, D.C. office.

Future minimum operating lease payments for the West Chester and Washington, D.C. offices as of March 31, 2021 are as follows (in thousands):

<u>Years Ending March 31:</u>	
2022	\$ 827
2023	841
2024	492
2025	471
2026	<u>238</u>
Total	<u>\$ 2,869</u>

Total operating lease expense was \$0.8 million for both of the years ended March 31, 2021 and 2020.

AccessLex Institute

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

NOTE 13 - FUNCTIONAL EXPENSE ANALYSIS

The following tables present expenses by both their nature and their function for the years ended March 31, 2021 and 2020 (in thousands):

	2021		
	Program services	Management and general	Total expenses
Personnel expense	\$ 8,557	\$ 3,939	\$ 12,496
Computer and office equipment	1,448	911	2,359
Loan servicing	2,643	-	2,643
Recovery expense	2,044	-	2,044
Occupancy	509	354	863
Grants to other organizations	1,851	-	1,851
Services and professional fees	392	1,218	1,610
Advertising and promotional	1,105	183	1,288
Other expenses	5,326	450	5,776
Total expenses	<u>\$ 23,875</u>	<u>\$ 7,055</u>	<u>\$ 30,930</u>

	2020		
	Program services	Management and general	Total expenses
Personnel expense	\$ 8,068	\$ 4,323	\$ 12,391
Computer and office equipment	1,218	704	1,922
Loan servicing	2,599	-	2,599
Recovery expense	2,299	-	2,299
Occupancy	602	284	886
Grants to other organizations	2,102	-	2,102
Services and professional fees	266	1,171	1,437
Advertising and promotional	1,835	54	1,889
Other expenses	1,527	220	1,747
Total expenses	<u>\$ 20,516</u>	<u>\$ 6,756</u>	<u>\$ 27,272</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

NOTE 14 - LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure within one year are as follows as of March 31, 2021 (in thousands):

Cash and cash equivalents	\$ 7,949
Liquidity investments	<u>665,765</u>
Total	<u>\$ 673,714</u>

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

Investments that are available for general expenditure within one year as reported above are determined by applying the overall liquidity percentage as of March 31, 2021 to the balance of investments recorded on the consolidated statements of financial position as of March 31, 2021.

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

NOTE 15 - LITIGATION

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

NOTE 16 – RISKS AND UNCERTAINTIES

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. As of the date of the issuance of these financial statements, management has determined that COVID-19 has not had a material impact on the operations of the Company. COVID-19 related restrictions on travel and quarantines imposed have had a negative impact on the U.S. economy and business activity globally, the full impact and duration of which is not yet known and may result in an adverse impact to the Company's future operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2021 and 2020

NOTE 17 - RELATED PARTIES

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

The Company serves as trust administrator for three unconsolidated subsidiary trusts. The Company received \$0.1 million in administrative fees from these trusts in accordance with the respective trust agreements during both years ended March 31, 2021 and 2020. These fees are included in other operating income within the consolidated statements of activities.

The Company paid grants to its member law schools totaling \$0.7 million and \$1.0 million for the years ended March 31, 2021 and 2020, respectively.

NOTE 18 - SUBSEQUENT EVENTS

The Company evaluated subsequent events through July 1, 2021, the date which the consolidated financial statements were available to be issued.

In April 2021, the Company sold the federally guaranteed student loan assets previously pledged as collateral in the AccessLex Series 2006-1 asset-backed securitization trust. These assets were classified as held-for-sale as of March 31, 2021.

In April 2021, the Company sold the federally guaranteed student loan assets previously pledged as collateral to 2020-1. These assets were classified as held-for-sale as of March 31, 2021.