

*Tentative Draft
Subject to Change*

SCHOLARMATCH, INC.

SEPTEMBER 30, 2021

INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS

**HOOD &
STRONG** LLP
CERTIFIED PUBLIC ACCOUNTANTS

ScholarMatch, Inc.

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Financial Statements**

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Independent Auditors' Report

THE BOARD OF DIRECTORS
SCHOLARMATCH, INC.
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of **SCHOLARMATCH, INC.** which comprise the statement of financial position as of September 30, 2021, the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ScholarMatch, Inc. as of September 30, 2021, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited ScholarMatch's September 30, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 29, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

San Francisco, California
[DATE]

ScholarMatch, Inc.

Statement of Financial Position

<i>September 30, 2021 (with comparative totals for 2020)</i>	2021	2020
Assets:		
Cash and cash equivalents	\$ 2,812,134	\$ 4,314,827
Contribution receivable	2,240,402	3,272,914
Fixed assets, net	3,824	19,612
Prepaid expenses and other assets	18,400	37,726
Total assets	\$ 5,074,760	\$ 7,645,079
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 91,031	\$ 148,119
Paycheck Protection Plan loan		504,255
Total liabilities	91,031	652,374
Net Assets:		
Net assets without donor restrictions	1,345,448	1,368,254
Net assets with donor restrictions	3,638,281	5,624,451
Total net assets	4,983,729	6,992,705
Total liabilities and net assets	\$ 5,074,760	\$ 7,645,079

See accompanying notes to financial statements.

ScholarMatch, Inc.

Statement of Activities

Year Ended September 30, 2021 (with comparative totals for 2020)				
	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Revenue and Support:				
Contributions	\$ 861,543	\$ 1,085,796	\$ 1,947,339	\$ 6,199,043
Program service fees	306,820		306,820	2,764,615
Investment income	11,472		11,472	(25,397)
Other income	16,551		16,551	50,518
Net assets released from restriction	3,071,966	(3,071,966)	-	-
Total revenue and support	4,268,352	(1,986,170)	2,282,182	8,988,779
Expenses:				
Student assistance programs	2,298,808		2,298,808	2,842,786
Scholarships	1,510,793		1,510,793	965,359
Management and general	433,506		433,506	484,679
Fundraising	552,306		552,306	372,365
Total expenses	4,795,413		4,795,413	4,665,189
Changes in Net Assets from Operations	(527,061)	(1,986,170)	(2,513,231)	4,323,590
Other Changes in Net Assets:				
Gain on extinguishment of debt	504,255		504,255	
Total Change in Net Assets	(22,806)	(1,986,170)	(2,008,976)	4,323,590
Net Assets, beginning of year	1,368,254	5,624,451	6,992,705	2,669,115
Net Assets, end of year	\$ 1,345,448	\$ 3,638,281	\$ 4,983,729	\$ 6,992,705

See accompanying notes to financial statements.

ScholarMatch, Inc.

Statement of Functional Expenses

Year Ended September 30, 2021 (with comparative totals for 2020)

	Program	Management and General	Fundraising	2021 Total	2020 Total
Salaries	\$ 1,466,080	\$ 253,223	\$ 350,000	\$ 2,069,303	\$ 2,457,586
Payroll taxes	118,818	20,082	28,449	167,349	189,281
Total Salaries and Payroll taxes	1,584,898	273,305	378,449	2,236,652	2,646,867
Scholarships	1,510,793			1,510,793	965,359
Occupancy	167,375	28,289	40,076	235,740	240,552
Employee benefits	169,868	28,710	40,673	239,251	268,774
Student events and travel	50,607			50,607	89,513
Professional services	296,861	50,174	71,079	418,114	232,618
Office expenses	3,432	15,125	14,512	33,069	65,713
Depreciation		15,789		15,789	21,114
Conferences and meetings	5,870	992	1,405	8,267	85,028
Staff and donor appreciation		1,072	1,072	2,144	4,372
Insurance	14,857	14,857		29,714	26,022
Information technology	5,040	5,193	5,040	15,273	19,257
Total functional expenses	\$ 3,809,601	\$ 433,506	\$ 552,306	\$ 4,795,413	\$ 4,665,189

See accompanying notes to financial statements.

ScholarMatch, Inc.

Statement of Cash Flows

<i>Year Ended September 30, 2021 (with comparative totals for 2020)</i>	2021	2020
Cash Flows from Operating Activities:		
Change in net assets	\$ (2,008,976)	\$ 4,323,590
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	15,788	21,115
Realized and unrealized gains		42,512
Gain on extinguishment of debt	(504,255)	
Changes in operating assets and liabilities:		
Contributions receivable	1,032,512	(2,968,396)
Prepaid expense and other assets	19,326	(19,244)
Accounts payable and accrued expenses	(57,088)	59,532
Cash (used) provided by operating activities	(1,502,693)	1,459,109
Cash Flows from Investing Activities:		
Purchase of fixed assets		(1,105)
Sale of investments		1,006,378
Cash provided by investing activities	-	1,005,273
Cash Flows from Financing Activities:		
Proceeds of PPP loan		504,255
Cash provided by financing activities	-	504,255
Change in Cash	(1,502,693)	2,968,637
Cash and Cash Equivalents, beginning of year	4,314,827	1,346,190
Cash and Cash Equivalents, end of year	\$ 2,812,134	\$ 4,314,827

See accompanying notes to financial statements.

ScholarMatch, Inc.

Notes to Financial Statements

Note 1 - Nature of Organization:

Founded in 2010 by author Dave Eggers, ScholarMatch provides holistic college access and persistence support to approximately 1,500 first-generation, low-income students annually. We envision a world where all students have access to higher education, support to persist to graduation, and the opportunity to succeed in a fulfilling career.

The ScholarMatch program spans seven years and provides students with holistic support through three key transitions: college access, college persistence, and career readiness. The ScholarMatch model emphasizes ongoing mentorship and coaching from caring adults, connection with community, data-driven solutions to maximize impact, and targeted financial support. ScholarMatch core programming includes:

- a. **Destination College (College Access):** Starting in junior year of high school, ScholarMatch students are matched with a volunteer college coach who works 1:1 with them for a full year. Volunteer coaches receive robust training from ScholarMatch and support students through all aspects of the college application process – from choosing where to apply, to writing personal statements, to evaluating financial aid. Students also receive access to college access workshops, info sessions with college admissions officers, and online tools including ScholarMatcher, an online college search engine designed specifically for low-income and first-generation students.

While ScholarMatch previously hosted students and coaches at drop-in centers in Los Angeles' Boyle Heights neighborhood, and San Francisco's Mission District as well as virtually through a partnership with Bloomberg Philanthropies' CollegePoint Initiative, all programming has now moved to a fully virtual model.

- b. **Scholars Program (College Persistence):** Students who successfully complete the Destination Program become eligible to apply to the Scholars Program, which currently serves 430 students. ScholarMatch Scholars are matched with a professional college advisor on staff who provides year-round advising and will receive up to \$25,000 in targeted financial aid, including student loan repayment, emergency funds, and more. Students also participate in workshops to support their wellbeing, academic performance, and career preparedness, and may request to be matched to a volunteer career coach as they continue through college.

ScholarMatch receives the majority of its contributions from individuals, corporations, and foundations.

ScholarMatch, Inc.

Notes to Financial Statements

Note 2 - Significant Accounting Policies:

a. Basis of Presentation and Description of Net Assets

The financial statements of ScholarMatch have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in United States of America (U.S. GAAP). Net assets and changes therein are classified as follows:

Net Assets Without Donor Restrictions – The portion of net assets that is not restricted by donor-imposed stipulations. These net assets are intended for use of management and the Board of Directors for educational scholarships and general operations.

Net Assets With Donor Restrictions – The portion of net assets whose use by ScholarMatch is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of ScholarMatch.

b. Revenue Recognition

Contributions and pledges are recognized at their fair value when an unconditional promise to pay is made by the donor. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires or is satisfied in the reporting period in which the support is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires or is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Contributions of assets other than cash are recorded at fair value. Contributions receivable represent amounts committed by donors that have not been received by ScholarMatch.

ScholarMatch uses the allowance method to account for uncollectible contributions based on historical experience and an evaluation of the outstanding receivables at the end of the year. No allowance for uncollectible contributions was deemed necessary at September 30, 2021.

c. Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash and money market funds.

d. Investments

Investments consist primarily of fixed income securities and exchange traded funds.

Investments are recorded at fair value, with realized and unrealized gains and losses reflected in the Statement of Activities.

ScholarMatch, Inc.

Notes to Financial Statements

e. Fair Value Measurements

ScholarMatch carries certain assets and liabilities at fair value. Fair value is defined as 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. ScholarMatch classifies its financial assets and liabilities measured at fair value on a recurring basis based on a fair value hierarchy with three levels of inputs. Level 1 values are based on unadjusted quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect ScholarMatch's determination of assumptions that market participants might reasonably use in valuing the securities. The valuation levels are not necessarily an indication of the risk or liquidity associated with the assets and liabilities measured at fair value.

f. Donated Goods and Services

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. A number of unpaid volunteers have made significant contributions of their time to ScholarMatch. However, the value of these services is not reflected in these statements because the criteria for recognition have not been satisfied.

g. Income Taxes

ScholarMatch is a tax-exempt organization under Internal Revenue Service Code Section 501(c)(3) and the applicable California tax code.

Management evaluated ScholarMatch's tax positions and concluded that ScholarMatch has maintained its tax-exempt status and had taken no uncertain tax positions that would require adjustments to the statement of financial position.

h. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

ScholarMatch, Inc.

Notes to Financial Statements

i. Functional Allocation of Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, costs have been allocated among the programs and supporting services that are benefited based on direct costs and depreciation, insurance, occupancy and salaries and related costs have been allocated by management using time spent in each functional area.

Management and general represent expenses for salary and overhead related expenses incurred in administering ScholarMatch's programs.

j. New Accounting Pronouncements

Pronouncements Effective in the Future

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Under the new guidance, lessees will be required to recognize, at commencement date, a lease liability representing the lessee's obligation to make payments arising from the lease and a right-of-use asset representing the lessee's right to use, or control the use of, a specified asset for the lease term. This guidance is effective for fiscal years beginning after December 15, 2021. This ASU will apply to ScholarMatch, which is still evaluating its implementation.

k. Subsequent Events

ScholarMatch has reviewed its results of operations for the period of time from its fiscal year ended September 30, 2021 through [DATE], the date the financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor subsequent events have occurred, the nature of which would require disclosure excepted as in Notes 6.

Note 3 - Paycheck Protection Program Loan:

In May 2020, ScholarMatch received a Paycheck Protection Program (PPP) loan in the amount of \$504,255 at 1% interest rate. ScholarMatch applied for loan forgiveness for certain qualifying costs incurred during the eight-week period beginning on the date of first disbursement of the loan. ScholarMatch was informed that the loan payable was forgiven on April 1, 2021.

Note 4 - Net Assets with Restrictions:

Net assets with restrictions of \$3,638,281 are available for scholarship awards and student assistance programs and \$3,071,966 was released in accordance with donor restrictions during the year ended September 30, 2021.

ScholarMatch, Inc.

Notes to Financial Statements

Note 5 - Concentration of Credit Risk and Support:

ScholarMatch has identified its financial instruments which are potentially subject to credit risk. These financial instruments consist principally of cash and contributions receivable.

Note 6 - Commitments and Contingencies:

ScholarMatch has operating lease agreements for its headquarters in San Francisco (subleased as of January 2021) and office in Los Angeles through November 30, 2021, which require minimum base lease payments. The following represents the annual lease obligations at September 30,

2022	\$	23,928
2023	\$	2,500
		\$ 26,428

During 2021, ScholarMatch entered into a lease termination agreement to cancel one of its offices leases in Los Angeles. ScholarMatch made a lump sum payment to cancel the lease of \$80,000 on March 25, 2021.

The second office lease in Los Angeles was not renewed and expired on November 30, 2021.

Rental expense under these agreements for the year ended September 30, 2021 was approximately \$210,066.

Note 7 - Liquidity and Availability:

ScholarMatch's financial assets at September 30, 2021 that are available to meet general expenditures over the next twelve months are as follows:

Financial assets:	
Cash and cash equivalents	\$ 2,812,134
Contributions receivable	2,240,402
	5,052,536
Less:	
Net assets with restrictions	3,638,281
	\$ 1,414,255

ScholarMatch, Inc.

Notes to Financial Statements

ScholarMatch will likely fulfill the donor restrictions during the year ended September 30, 2022. ScholarMatch experienced a decrease in revenue during fiscal year 2021, however, funding began to rebound during fiscal year 2022. ScholarMatch had received approximately \$2.8 million in contributed revenue as of March 31, 2022 including \$1.4 million in unrestricted revenue.

Note 8 - COVID-19:

An outbreak of respiratory disease caused by a novel (new) coronavirus was first detected in China and has now been detected in more than 100 locations internationally, including in the United States. The virus has been named “SARS-CoV-2” and the disease it causes has been named “coronavirus disease 2019” (abbreviated “COVID-19”). On March 11, 2020, the World Health Organization publicly characterized COVID-19 as a pandemic.

On March 16, 2020, the individual governments of the Greater San Francisco Bay Area announced a mandatory shelter in place order for all residents in the area due to the COVID-19 pandemic. The orders required that all non-essential businesses close until the orders are lifted. ScholarMatch is currently evaluating on-going and long-term recovery plans and adaptations to current business plans to help ScholarMatch recover from these circumstances and adhere to any continuing Health Department orders.

Employees continued to work the majority of their time remotely during 2021 and 2022 and ScholarMatch downsized its leased office space as mentioned above in Note 6.