

Audited Financial Statements

PelotonU, Inc.

*For the Years Ended December 31, 2019 and 2018
With Independent Auditor's Report*

PelotonU, Inc.
Audited Financial Statements
For the Years Ended December 31, 2019 and 2018

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Independent Auditor's Report

To the Board of Directors of
PelotonU, Inc.
Austin, Texas

We have audited the accompanying financial statements of PelotonU, Inc. ("PelotonU") (a nonprofit organization), which comprise the statements of assets, liabilities, and net assets – modified cash basis as of December 31, 2019 and 2018, and the related statements of revenues, expenses, and changes in net assets – modified cash basis and functional expenses – modified cash basis for the years 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

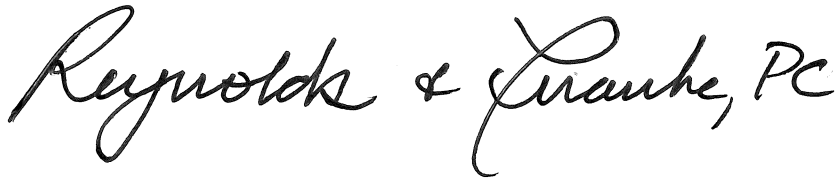
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of PelotonU, Inc. as of December 31, 2019 and 2018, and its revenues, expenses, and changes in net assets for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

A handwritten signature in black ink that reads "Reynolds & Franke, PC". The signature is written in a cursive, flowing style.

Austin, Texas
April 15, 2020

Audited Financial Statements

PelotonU, Inc.

Statements of Assets, Liabilities, and Net Assets - Modified Cash Basis

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 427,132	\$ 270,799
Total current assets	<u>427,132</u>	<u>270,799</u>
 Cash and cash equivalents with restrictions	 <u>71,852</u>	 <u>78,303</u>
 Total assets	 <u>\$ 498,984</u>	 <u>\$ 349,102</u>
 Liabilities and Net Assets		
Current Liabilities:		
Other liabilities	\$ 219	\$ -
Total current liabilities	<u>219</u>	<u>-</u>
 Total liabilities	 <u>219</u>	 <u>-</u>
 Net Assets:		
Without restrictions	426,913	270,799
With restrictions	<u>71,852</u>	<u>78,303</u>
Total net assets	<u>498,765</u>	<u>349,102</u>
 Total liabilities and net assets	 <u>\$ 498,984</u>	 <u>\$ 349,102</u>

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

PelotonU, Inc.
Statement of Revenues, Expenses, and Changes in Net Assets -
Modified Cash Basis
For the Year Ended December 31, 2019

	Without Restrictions	With Restrictions	Total
Support and other income:			
Grants and contributions	\$ 308,687	\$ 437,210	\$ 745,897
Coaching income	194,760	-	194,760
Advocate's club	22,701	-	22,701
Consulting fees	56,083	-	56,083
Other income	43	-	43
Total support and other income	<u>582,274</u>	<u>437,210</u>	<u>1,019,484</u>
Net assets released from restrictions	<u>443,661</u>	<u>(443,661)</u>	<u>-</u>
Total revenues, other support, and reclassifications	<u>1,025,935</u>	<u>(6,451)</u>	<u>1,019,484</u>
Expenses:			
Program services	744,501	-	744,501
Fundraising	63,185	-	63,185
Management, general, and administrative	62,135	-	62,135
Total expenses	<u>869,821</u>	<u>-</u>	<u>869,821</u>
Total change in net assets	156,114	(6,451)	149,663
Net assets, beginning of year	<u>270,799</u>	<u>78,303</u>	<u>349,102</u>
Net assets, end of year	<u><u>\$ 426,913</u></u>	<u><u>\$ 71,852</u></u>	<u><u>\$ 498,765</u></u>

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

PelotonU, Inc.
Statement of Revenues, Expenses, and Changes in Net Assets -
Modified Cash Basis
For the Year Ended December 31, 2018

	Without Restrictions	With Restrictions	Total
Support and other income:			
Grants and contributions	\$ 139,566	\$ 318,857	\$ 458,423
Coaching income	183,386	-	183,386
Advocate's club	19,902	-	19,902
Consulting fees	6,000	-	6,000
Total support and other income	348,854	318,857	667,711
Net assets released from restrictions	307,277	(307,277)	-
Total revenues, other support, and reclassifications	656,131	11,580	667,711
Expenses:			
Program services	476,449	-	476,449
Fundraising	30,197	-	30,197
Management, general, and administrative	47,315	-	47,315
Total expenses	553,961	-	553,961
Total change in net assets	102,170	11,580	113,750
Net assets, beginning of year	168,629	66,723	235,352
Net assets, end of year	\$ 270,799	\$ 78,303	\$ 349,102

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

PelotonU, Inc.
Statement of Functional Expenses - Modified Cash Basis
For the Year Ended December 31, 2019

	Program Services	Fundraising	Management, General, and Administrative	Total
Payroll expenses	\$ 536,379	\$ 23,886	\$ 35,786	\$ 596,051
Innovation	54,564	-	-	54,564
Fundraising	-	36,684	-	36,684
Student scholarships	30,016	-	-	30,016
Student workspace rent	26,716	-	-	26,716
Advising	20,783	-	-	20,783
Accounting and tax	-	-	16,539	16,539
Furniture	14,145	890	1,451	16,486
Childcare	14,396	-	-	14,396
Student resources and support	14,002	-	-	14,002
AmeriCorps	9,750	-	-	9,750
Travel	8,895	-	-	8,895
Computers & equipment	7,804	-	-	7,804
Student events	5,186	-	-	5,186
Insurance and taxes	-	-	3,911	3,911
Software and Systems	-	-	3,619	3,619
Staff development	1,865	105	126	2,096
Bank and credit card fees	-	1,620	-	1,620
Other expenses	-	-	403	403
Legal fees	-	-	300	300
Total expenses	\$ 744,501	\$ 63,185	\$ 62,135	\$ 869,821
Percentage of total expenses	86%	7%	7%	100%

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

PelotonU, Inc.
Statement of Functional Expenses - Modified Cash Basis
For the Year Ended December 31, 2018

	Program Services	Fundraising	Management, General, and Administrative	Total
Payroll expenses	\$ 400,703	\$ 21,048	\$ 18,666	\$ 440,417
Student scholarships	31,610	-	-	31,610
Student workspace rent	24,470	-	-	24,470
Staff development	-	-	12,534	12,534
Fundraising	-	9,149	-	9,149
Student recruitment costs	7,429	-	-	7,429
Accounting and tax	-	-	7,300	7,300
Student resources and support	4,416	-	-	4,416
Student events	3,811	-	-	3,811
Recurring operations	-	-	2,280	2,280
Travel	1,993	-	-	1,993
Bank and credit card fees	-	-	1,839	1,839
Insurance and taxes	-	-	1,784	1,784
Other expenses	-	-	1,652	1,652
Computers & equipment	1,358	-	-	1,358
Legal fees	-	-	1,260	1,260
Innovation	659	-	-	659
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	<u>\$ 476,449</u>	<u>\$ 30,197</u>	<u>\$ 47,315</u>	<u>\$ 553,961</u>
Percentage of total expenses	<u>86%</u>	<u>5%</u>	<u>9%</u>	<u>100%</u>

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

PelotonU, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018

Note 1 – Summary of Significant Accounting Policies

Nature of Operations

PelotonU, Inc. (“PelotonU”) is a non-profit organization that provides working students with a pathway and the support to graduate from college on-time and with little to no debt. PelotonU’s vision is that any student with the will and drive to graduate from college can earn a degree, regardless of geography or economics. PelotonU is supported primarily through grants and contributions and coaching income.

Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting. This other comprehensive basis of accounting differs from accounting principles generally accepted in the United States of America primarily because PelotonU has not included contributions receivable, prepaid expenses, deferred revenue, accounts payable to vendors, all non-cash contributions, and their related effects on the change in net assets.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Assets

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Financial statement presentation follows the recommendations of the *Not-for-Profit Entities* Topic of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC 958). Accordingly, net assets of PelotonU and changes therein are classified and reported as follows:

Net assets without restrictions – These types of net assets are not subject to donor-imposed stipulations. This also includes net assets with Board designations for specific purposes, since these designations may be reversed by the Board of Directors at any time in the future.

Net assets with restrictions – These types of net assets are subject to donor-imposed stipulations, which limit their use by PelotonU, either permanently or temporarily, to a specific purpose and/or the passage of time. When a restriction expires, net assets with restrictions are reclassified to net assets without restrictions and reported in the statements of revenues, expenses, and changes in net assets – modified cash basis as net assets released from restrictions.

PelotonU, Inc.
Notes to Financial Statements (continued)
For the Years Ended December 31, 2019 and 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

PelotonU considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Income Taxes

PelotonU, Inc. is a non-profit organization described in Section 501(c)(3) of the Internal Revenue Code and is exempt from Federal income taxes on their operating income, except to the extent of unrelated business income, if any.

The most significant tax positions of PelotonU are its assertion that it is exempt from income taxes and its determination of whether any amounts are subject to unrelated business income tax (UBIT). Management has determined that PelotonU had no activities subject to UBIT during the years ended December 31, 2019 and 2018. All significant tax positions have been considered by management and it has determined that it is more likely than not that all tax positions would be sustained upon examination by taxing authorities.

PelotonU is required to file Form 990 (Return of Organization Exempt from Income Tax), which is subject to examination by the Internal Revenue Service (IRS) generally up to three years from the later of the original due date or the date the tax return was filed. The Forms 990 for 2018, 2017, and 2016 are open to examination by the IRS as of December 31, 2019.

Contributions

Contributions received are recorded as increases in net assets without restrictions and net assets with restrictions, depending on the existence and/or nature of any donor restrictions. All donor-restricted contributions are reported as increases in net assets with restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is met), net assets with restrictions are reclassified to net assets without restrictions and reported in the statements of revenues, expenses, and changes in net assets – modified cash basis as net assets released from restrictions.

PelotonU, Inc.
Notes to Financial Statements (continued)
For the Years Ended December 31, 2019 and 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

PelotonU follows the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*, whose provisions relate to PelotonU's financial assets and liabilities be carried at fair value and PelotonU's fair value disclosures related to financial assets and liabilities. FASB ASC 820 defines fair value, expands related disclosure requirements, and specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. 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.

There are three levels of inputs to fair value measurements – Level 1, meaning the use of quoted prices for identical instruments in active markets; Level 2, meaning the use of quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable; and Level 3, meaning the use of unobservable inputs.

PelotonU's financial instruments consist principally of cash and cash equivalents, cash and cash equivalents with restrictions, and other liabilities. PelotonU believes all of the financial instruments' recorded values approximate current fair values.

Functional Accounting

PelotonU follows FASB ASC 958 which requires that nonprofit organizations provide information about expenses by their functional classification. Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are charged to program and supporting services on the basis of periodic time and expense studies. Management, general, and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of PelotonU. Payroll expenses are allocated based on estimated time spent by the employees for each function. Furniture expenses are allocated on estimated usage in each function.

Date of Management's Review

These financial statements considered subsequent events through April 15, 2020, the date the financial statements were available to be issued.

PelotonU, Inc.
Notes to Financial Statements (continued)
For the Years Ended December 31, 2019 and 2018

Note 2 – Concentration of Credit Risk

Financial instruments which potentially subject PelotonU to credit risk principally consist of cash and cash equivalents. To minimize this risk, PelotonU places its temporary cash investments with high credit quality financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Effective January 1, 2013, deposit insurance coverage by the FDIC changed to \$250,000 per bank per entity for all interest bearing and non-interest bearing accounts. At December 31, 2019 and 2018, PelotonU had \$245,239 and \$77,410 of uninsured cash balances, respectively. PelotonU has not experienced any losses in such accounts in the past.

Note 3 – Concentrations of Revenue

During the year ended December 31, 2019, grants and contributions from two different donors/grantors represented 32%, and 18%, respectively, of total revenue. During the year ended December 31, 2018, grants and contributions from two different donors/grantors represented 41%, and 25%, respectively, of total revenue. In the event that these funding sources were reduced or eliminated, it could have a major impact on PelotonU.

Note 4 – Scholarship Commitments

PelotonU has awarded various scholarships to their students to help cover the cost of tuition to the university they attend. At December 31, 2019 and 2018, PelotonU projected scholarship commitments totaling \$137,771 and \$50,242, respectively. The estimate is based on student persistence along with projected graduation dates of their students.

Note 5 – Operating Leases

During 2018, PelotonU extended a contract to lease office space under a non-cancelable operating lease which expires September 30, 2021. During 2019, PelotonU entered another operating lease for office space which expires on November 30, 2021. Rental expense for the leased spaces for the years ended December 31, 2019 and 2018 was \$26,716 and \$24,470, respectively. The following is a schedule by years of future minimum lease payments under the above lease agreements:

Year Ending December 31,	
2020	\$ 43,755
2021	36,958
Total	\$ 80,713

PelotonU, Inc.
Notes to Financial Statements (continued)
For the Years Ended December 31, 2019 and 2018

Note 6 – Net Assets with Restrictions

PelotonU had the following net assets with restrictions activity during the year ended December 31, 2019:

	Beginning Balance	Contributions	Released from Restrictions	Ending Balance
Long Foundation	\$ -	\$ 13,000	\$ (13,000)	\$ -
Sherman Fund	-	2,500	(2,500)	-
Webber Foundation	13,368	25,000	(9,950)	28,418
Michael & Susan Dell Foundation	64,935	327,710	(380,625)	12,020
Women's Fund	-	50,000	(18,586)	31,414
United Way	-	15,000	(15,000)	-
Hindu Charities for America	-	2,000	(2,000)	-
The Majesty Foundation	-	2,000	(2,000)	-
	<u>\$ 78,303</u>	<u>\$ 437,210</u>	<u>\$ (443,661)</u>	<u>\$ 71,852</u>

PelotonU had the following net assets with restrictions activity during the year ended December 31, 2018:

	Beginning Balance	Contributions	Released from Restrictions	Ending Balance
Long Foundation	\$ -	\$ 10,000	\$ (10,000)	\$ -
Sherman Fund	-	2,500	(2,500)	-
Austin Community Foundation	4,999	10,000	(14,999)	-
Webber Foundation	-	25,000	(11,632)	13,368
Michael & Susan Dell Foundation	61,724	271,357	(268,146)	64,935
	<u>\$ 66,723</u>	<u>\$ 318,857</u>	<u>\$ (307,277)</u>	<u>\$ 78,303</u>

Note 7 – Master Service Agreement

PelotonU, Inc. ("PelotonU") entered into a master service agreement with Southern New Hampshire University (the "University"), a private nonprofit 501(c)(3) institution of higher education, effective June 1, 2018 (which was a continuation of an original agreement that began in May 2016). The agreement shall remain in effect for a term of four years with the option to extend this agreement for subsequent one year terms upon agreement of both parties, subject to early termination in accordance with its terms. This contract, and any Statement of Work, may be terminated without cause by the University or PelotonU by giving written notice to the other party at least 270 calendar days prior to the effective date of termination stated in the notice.

PelotonU, Inc.
Notes to Financial Statements (continued)
For the Years Ended December 31, 2019 and 2018

Note 7 – Master Service Agreement (continued)

The Statement of Work – Project #1 will provide to students enrolled in College for America, a program of the University (“CfA at SNHU”). The bundled services to be provided by PelotonU include student outreach through PelotonU network, enrollment application assistance, financial aid application assistance, student coaching and onsite support for navigating online courses delivered by CfA at SNHU, technology support for students including facilities, equipment, and onsite assistance, career counseling and placement assistance generally. Once students begin their degree program, PelotonU coaches will provide ongoing and personalized service to support students’ progress towards graduation. College for America will pay a flat services rate to PelotonU at the on-going sum of \$125,000 for each six month semester of the first year of this agreement. Prior to the new agreement, College for America paid a flat service rate to PelotonU at the sum of \$1,250, per semester based on the term enrollment report, for each CfA at SNHU student who received PelotonU services.

Note 8 – Liquidity and Availability of Financial Assets

PelotonU’s working capital and cash flows have seasonal variations during the year attributable to the timing of the funding of grants and the receipt of contributions and coaching income.

The following reflects PelotonU’s financial assets as of the statements of assets, liabilities, and net assets – modified cash basis date, reduced by amounts not available for general use within one year of the statements of assets, liabilities, and net assets – modified cash basis date because of contractual or donor-imposed restrictions or internal designations. Amounts available include donor-restricted amounts that are available for expenditure in the following year. Amounts not available include amounts set aside for operating and other reserves that could be drawn upon if PelotonU’s Board approves that action.

	2019	2018
Cash and cash equivalents	\$ 427,132	\$ 270,799
Cash and cash equivalents with restrictions	71,852	78,303
Total financial assets	498,984	349,102
With restrictions	(71,852)	(78,303)
Financial Assets Available to Meet Cash Needs For Expenditures Within One Year	\$ 427,132	\$ 270,799

PelotonU, Inc.
Notes to Financial Statements (continued)
For the Years Ended December 31, 2019 and 2018

Note 9 – Subsequent Event

On March 13, 2020, the Government of the United States declared the COVID-19 Pandemic (“COVID-19”) as a national emergency. COVID-19 has caused a significant impact on the United States economy affecting various businesses in different ways. COVID-19 may have an impact on future enrollment and grants/contributions. PelotonU does not have insurance to cover the loss of revenue from these events in the case of a Pandemic. However, impacts to PelotonU from COVID-19 cannot be quantified at this time.