

Educational Testing Service

Consolidated Financial Statements as of and for
the Years Ended September 30, 2021 and 2020,
Schedule of Expenditures of Federal Awards for
the Year Ended September 30, 2021, and
Independent Auditors' Reports in Accordance
with *Government Auditing Standards* and the
Uniform Guidance

EDUCATIONAL TESTING SERVICE

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2021 and 2020:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5-6
Notes to Financial Statements	7-36
SUPPLEMENTAL SCHEDULE FOR THE YEAR ENDED SEPTEMBER 30, 2021:	37
Schedule of Expenditures of Federal Awards	38-41
Notes to Schedule of Expenditures of Federal Awards	42-43
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	44-45
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	46-47
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	48-49
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS	50



Deloitte & Touche LLP
100 Kimball Drive
Parsippany, NJ 07054-2176
USA

Tel: +1 973 602 6000
Fax: +1 973 602 5050
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

The Audit Committee of Educational Testing Service
660 Rosedale Road
Princeton, New Jersey 08541

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Educational Testing Service ("ETS") and Subsidiaries (the "Enterprise"), which comprise the consolidated statements of financial position as of September 30, 2021 and 2020, 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 Consolidated 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. The financial statements of the subsidiaries of ETS were not audited in accordance with *Government Auditing Standards*.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Educational Testing Service and Subsidiaries as of September 30, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Schedule of Expenditures of Federal Awards (the "Schedule"), as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of the Enterprise's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2021, on our consideration of the Enterprise's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Enterprise's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Enterprise's internal control over financial reporting and compliance.

Deloitte & Touche LLP

December 16, 2021

EDUCATIONAL TESTING SERVICE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF SEPTEMBER 30, 2021 AND 2020 (Dollars in thousands)

	<u>2021</u>	<u>2020</u>
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 101,218	\$ 144,042
Accounts receivable—net	85,300	59,596
Unbilled amounts under contracts	45,126	47,144
Prepaid expenses and other current assets	28,252	29,205
Current assets held for sale	<u>27,451</u>	<u>18,141</u>
Total current assets	287,347	298,128
INVESTMENTS—At fair value	1,539,608	1,336,644
PROPERTY AND EQUIPMENT—Net	80,444	102,730
CAPITALIZED SOFTWARE—Net	103,322	90,045
GOODWILL—Net	18,125	14,707
IDENTIFIABLE INTANGIBLE ASSETS—Net	810	922
OTHER LONG-TERM ASSETS	53,689	16,361
NONCURRENT ASSETS HELD FOR SALE	<u>-</u>	<u>35,186</u>
TOTAL ASSETS	<u><u>\$ 2,083,345</u></u>	<u><u>\$ 1,894,723</u></u>
LIABILITIES AND NET ASSETS:		
CURRENT LIABILITIES:		
Accounts payable	\$ 48,750	\$ 44,631
Accrued expenses and other current liabilities	166,590	144,401
Short-term debt	15,904	15,911
Deferred revenue	88,357	97,566
Current liabilities held for sale	<u>23,073</u>	<u>10,096</u>
Total current liabilities	342,674	312,605
LONG-TERM DEBT	11,917	27,809
OTHER LONG-TERM LIABILITIES	<u>48,701</u>	<u>141,193</u>
TOTAL LIABILITIES	403,292	481,607
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET ASSETS	<u>1,680,053</u>	<u>1,413,116</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,083,345</u></u>	<u><u>\$ 1,894,723</u></u>

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

EDUCATIONAL TESTING SERVICE

CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020 (Dollars in thousands)

	<u>2021</u>	<u>2020</u>
REVENUES:		
Operating revenues	\$ 1,071,304	\$ 1,020,228
EXPENSES:		
Operating expenses:		
Salaries, wages, and employee benefits	411,771	415,659
Subcontracted services	209,548	186,448
Test administrators, readers, item writers, and other professional services	286,511	246,515
Depreciation and amortization	39,748	48,550
COVID-19 expenses	-	33,910
Other operating and administrative expenses	156,954	170,089
Total operating expenses	<u>1,104,532</u>	<u>1,101,171</u>
OPERATING LOSS	<u>(33,228)</u>	<u>(80,943)</u>
Net realized/unrealized financial gains from investments	271,643	31,838
Interest income—Net	1,311	980
Other expense—Net	<u>(1,257)</u>	<u>(2,064)</u>
INCREASE/(DECREASE) IN NET ASSETS FROM CONTINUING OPERATIONS, BEFORE INCOME TAX EXPENSE	238,469	(50,189)
Income tax expense	<u>(4,161)</u>	<u>(4,157)</u>
INCREASE/(DECREASE) IN NET ASSETS FROM CONTINUING OPERATIONS	234,308	(54,346)
DECREASE IN NET ASSETS FROM DISCONTINUED OPERATIONS	<u>(65,629)</u>	<u>(31,104)</u>
INCREASE/(DECREASE) IN NET ASSETS FROM OPERATIONS	168,679	(85,450)
Postretirement benefits	97,257	7,051
Foreign currency translation	<u>250</u>	<u>360</u>
INCREASE/(DECREASE) IN NET ASSETS	266,186	(78,039)
NET ASSETS—Beginning of year (Note 1)	<u>1,413,867</u>	<u>1,491,155</u>
NET ASSETS—End of year	<u><u>\$ 1,680,053</u></u>	<u><u>\$ 1,413,116</u></u>

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

EDUCATIONAL TESTING SERVICE

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020 (Dollars in thousands)

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase/(decrease) in net assets from operations	\$ 168,679	\$ (85,450)
Less: Decrease in net assets from discontinued operations	(65,629)	(31,104)
Increase/(decrease) in net assets from continuing operations	<u>234,308</u>	<u>(54,346)</u>
Adjustments to reconcile increase/(decrease) in net assets from operations to net cash (used in)/provided by operating activities:		
Depreciation and amortization	39,748	48,550
Other - goodwill, customer relationships and long-lived assets	-	2,509
Net realized financial gains from investments	(81,391)	(12,768)
Net unrealized financial gains from investments	(190,252)	(19,070)
Deferred income taxes	227	(1,146)
Amortization of debt issuance costs	85	17
Bad debt expense	2,205	462
Net unrealized foreign exchange transaction loss	355	221
Changes in operating assets and liabilities:		
Accounts receivable	(27,868)	83,036
Unbilled amounts under contracts	3,284	36,367
Prepaid expenses and other assets	(459)	2,871
Accounts payable	4,370	(11,241)
Accrued expenses and other current liabilities	21,645	(10,339)
Deferred revenue	(9,188)	(16,018)
Other long-term liabilities	<u>4,872</u>	<u>7,577</u>
Net cash provided by activities from continuing operations	1,941	56,682
Net cash used in activities from discontinued operations	<u>(9,698)</u>	<u>(16,707)</u>
Net cash (used in)/provided by operating activities	<u>(7,757)</u>	<u>39,975</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Consideration paid for acquisitions	(3,496)	(4,150)
Purchases of property and equipment	(2,002)	(7,016)
Purchases of capitalized software	(41,396)	(25,659)
Proceeds from sales of investments	68,681	54,071
Purchases of investments	<u>(36,345)</u>	<u>(55,934)</u>
Net cash used in activities from continuing operations	(14,558)	(38,688)
Net cash used in activities from discontinued operations	<u>(2,504)</u>	<u>(5,092)</u>
Net cash used in investing activities	<u>(17,062)</u>	<u>(43,780)</u>

(Continued)

EDUCATIONAL TESTING SERVICE

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020 (Dollars in thousands)

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from debt	\$ -	\$ 47,950
Repayments of debt	(15,984)	(66,346)
Payments of overdraft funds	(154)	(1,144)
	<u>(16,138)</u>	<u>(19,540)</u>
Net cash used in financing activities		
Effect of foreign exchange rate changes on cash and cash equivalents	53	(420)
DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(40,904)	(23,765)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—Beginning of year	148,160	171,925
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—End of year	<u>\$ 107,256</u>	<u>\$ 148,160</u>
SUPPLEMENTARY DISCLOSURES:		
Interest paid	<u>\$ 841</u>	<u>\$ 1,926</u>
Income taxes paid	<u>\$ 3,932</u>	<u>\$ 5,113</u>
Capitalized software expenditures included in liabilities	<u>\$ 145</u>	<u>\$ 948</u>
Property and equipment expenditures included in liabilities	<u>\$ 1,493</u>	<u>\$ 511</u>

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

(Concluded)

EDUCATIONAL TESTING SERVICE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—Educational Testing Service (“ETS”) is a non-stock corporation exempt from federal income tax under Internal Revenue Code Section 501(c)(3). ETS has wholly-owned for-profit subsidiaries which are not exempt from federal income tax.

Consolidation—The consolidated financial statements include the accounts of ETS and its subsidiaries (the “Enterprise”). All intercompany balances and transactions have been eliminated.

Business—The Enterprise develops, administers and scores assessments for clients across numerous market segments. In addition to assessments, the Enterprise develops a variety of customized services and products for elementary, secondary (“K-12”) and postsecondary education. The revenue mix includes an array of products and services provided to individuals, educational institutions, foundations and government agencies, as well as a portfolio of proprietary products—including TOEFL®, TOEIC®, GRE® and The Praxis Series®.

Basis of Presentation—The accompanying consolidated financial statements and notes to the consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”).

In September 2021, the Enterprise entered into sale agreements that qualified for discontinued operations. The Enterprise has classified these related assets and liabilities as held for sale in the consolidated statements of financial position as of September 30, 2021 and 2020. The operating results are reported in discontinued operations in the consolidated statements of activities for the years ended September 30, 2021 and 2020 (see Note 6).

Net Assets—Net assets are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Enterprise.

Use of Estimates—The preparation of consolidated financial statements in accordance with U.S. GAAP requires the Enterprise to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 period. Estimates and assumptions that are significant to the consolidated financial statements include the valuation of the allowance for doubtful accounts receivable, investments, goodwill, identifiable intangible assets, postretirement benefits and income taxes. Actual results may differ from those estimates.

Investments—Investments in securities with readily determinable fair value are reported at fair value in the consolidated statements of financial position, with associated realized and unrealized gains and losses reported in the consolidated statements of activities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Enterprise’s Finance Committee, acting within the authority delegated from the Board of Trustees, oversees investment and valuation policies for investments and has processes in place to ensure that fair value is reasonably estimated. Valuation approaches are reviewed on an ongoing basis. In determining fair value, the Enterprise uses various valuation approaches including the observability of prices and inputs, as well as net asset value (“NAV”) per share. A downturn in market conditions may lead to a decline in the valuation of investments.

Non-consolidated investments in entities are accounted for using the equity method when the Enterprise has an investment in common stock or in-substance common stock, and either (a) has the ability to significantly influence the operating decisions of the investee, or (b) if the Enterprise has a voting percentage generally equal to or greater than 20% but less than 50%, and for non-majority owned investments in partnerships generally greater than 5%. Under this method of accounting the Enterprise records its proportionate share of the net earnings or losses of the equity method investee in changes in net assets and a corresponding increase or decrease in the investment balance. The cost method is used for investments where the Enterprise does not have the ability to significantly influence the operating decisions of the investee, or if the Enterprise's investment is in securities other than common stock.

For investments without readily determinable fair value, during the year, the Enterprise makes a qualitative assessment considering impairment indicators to evaluate whether the investment is impaired. Impairment indicators that the Enterprise considers include, but are not limited to (a) the deterioration of earnings performance, credit rating, asset quality, or business prospects of the investee, (b) a significant adverse change in the regulatory, economic, or technological environment of the investee or (c) a significant adverse change in the general market condition of either the geographic area or the industry in which the investee operates. If a qualitative assessment indicates that the investment is impaired, the Enterprise estimates the investment's fair value. If the fair value is less than the investment's carrying value, the Enterprise recognizes an impairment loss (see Note 3).

Cash and Cash Equivalents—Investments that are highly liquid in nature and have an original maturity of three months or less from the date of purchase are considered to be cash equivalents. Cash and cash equivalents approximate fair value due to the short-term nature of these instruments.

Restricted Cash—As of September 30, 2021 and 2020, restricted cash was approximately \$6.0 million and \$4.1 million, respectively, reported in "Other long-term assets" in the consolidated statements of financial position. Restricted cash is generally not available for use in operations.

The following provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated statements of financial position to the same amounts reported within the consolidated statements of cash flows (dollars in thousands):

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 101,218	\$ 144,042
Restricted cash reported in other long-term assets	<u>6,038</u>	<u>4,118</u>
Total cash, cash equivalents and restricted cash	<u>\$ 107,256</u>	<u>\$ 148,160</u>

Accounts Receivable and Allowance for Doubtful Accounts—Accounts receivable are primarily due from government agencies, professional associations and corporations. Accounts receivable are recorded at invoiced amounts, and generally do not bear interest or require collateral. The Enterprise establishes an allowance for doubtful accounts to reduce accounts receivable to its realizable value based upon factors surrounding the credit risk of specific clients, historical trends, existing economic conditions and other information, which is the Enterprise's estimate of probable losses. As of September 30, 2021 and 2020, the allowance for doubtful accounts is approximately \$4.2 million and \$1.9 million, respectively.

Unbilled Amounts Under Contracts—As of September 30, 2021 and 2020, unbilled revenues in the amount of approximately \$45.1 million and \$47.1 million, respectively, relate primarily to services provided to clients that are billed in arrears.

Concentrations of Credit Risk—For the years ended September 30, 2021 and 2020, the Enterprise earned approximately 26.3% and 25.7% of operating revenues, respectively, from one client under a contract that expires on June 30, 2024.

As of September 30, 2021, there were three clients, which represented approximately 34.2%, 24.5% and 15.6% of the accounts receivable outstanding. As of September 30, 2020, there were two clients, which represented approximately 37.7% and 27.1% of the accounts receivable outstanding.

Property and Equipment—Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily on a straight-line basis over the following estimated useful lives:

Land improvements	10 years
Buildings and improvements	10–45 years
Leasehold improvements	Lesser of lease term or estimated useful life
Furniture and equipment	3–15 years

Capitalized Software—Capitalized software consists of purchased software and internally developed software. Purchased software relates to software products and licenses which are amortized over their estimated useful life which range from three to seven years. Internally developed software costs consist of fees and wages paid to third parties and employees who work on such software development. Capitalized costs are amortized using the straight-line method over the estimated lives which range from three to seven years. Software development projects generally include three stages: the preliminary project stage (all costs are expensed as incurred), the application development stage (certain costs are capitalized as permissible while others are expensed as incurred), and the post-implementation/operation stage (all costs are expensed as incurred).

Business Combinations—The Enterprise accounts for business combinations using the acquisition method. Under the acquisition method, identifiable net assets are recorded at fair value at the acquisition date. The sum of the consideration transferred less the fair value of net assets acquired is recorded to goodwill. The transaction costs of acquiring a business typically include legal, accounting and other advisory fees, as well as the costs to integrate acquired business processes all of which are expensed as incurred.

Goodwill—The Enterprise follows the impairment provisions and disclosure requirements in accordance with the accounting guidance related to goodwill and other intangibles. The Enterprise accounts for goodwill by amortizing it on a straight-line basis over a period of 10 years. If a triggering event were to occur, the Enterprise tests goodwill for impairment. When testing for goodwill impairment, the Enterprise, at its option, may perform a qualitative or quantitative assessment. If qualitative factors indicate that the fair value of goodwill is greater than its carrying amount, additional impairment testing is not required. In performing its quantitative assessment, the Enterprise compares the fair value of the respective reporting unit with its carrying amount. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss would be recognized in an amount equal to the excess (see Note 7).

Identifiable Intangible Assets—The Enterprise's indefinite-lived intangible assets are tested for impairment annually, as of July 1st of each year, or more frequently if circumstances warrant. The Enterprise, at its option, may perform a qualitative or quantitative assessment. If qualitative factors indicate that the fair value of an indefinite-

lived intangible asset is greater than its carrying amount, additional impairment testing is not required. In performing its quantitative assessment, the Enterprise compares the estimated fair value of an indefinite-lived intangible asset with its carrying value. If the carrying value exceeds its fair value an impairment loss would be recognized in an amount equal to the excess. Intangible assets that have finite useful lives are amortized over their useful lives using the straight-line method (see Note 7).

Impairment of Long-Lived Assets—The carrying values of long-lived assets other than indefinite-lived intangible assets and goodwill are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such evaluation relies on a number of factors, including operating results, future anticipated cash flows, and other nonfinancial data. Recoverability of long-lived assets other than indefinite-lived intangible assets and goodwill is assessed based on comparing the asset group's carrying amount to the estimated undiscounted future net cash flows. If the estimated undiscounted future net cash flows are less than the carrying amount, the asset group is tested further for impairment. If necessary, the carrying amount of the asset group is reduced to its fair value based on discounted future net cash flows (see Notes 4, 5 and 7).

Self-Insurance—Certain insurable risks such as health and welfare benefits and workers compensation are self-insured by the Enterprise. However, the Enterprise's claims exposure is mitigated, subject to specified limits, due to stop-loss insurance coverage. The Enterprise analyzes its claims experience and other information provided by its administrators to determine an adequate liability for self-insured claims for both reported, and incurred but not yet reported claims. As of September 30, 2021 and 2020, self-insurance obligations of approximately \$4.9 million and \$5.4 million, respectively, are reported in "Accrued expenses and other current liabilities" in the consolidated statements of financial position.

Postretirement Benefits—The accumulated postretirement benefit obligation represents the actuarial present value of benefits attributed to employee services already rendered. The measurement of the benefit obligation and net periodic benefit cost includes certain assumptions including estimates of discount rates, healthcare assumptions and mortality rates.

Deferred Revenue—The Enterprise receives candidate payments in advance of test administrations and fees from clients under contract in advance of service obligations. The Enterprise records these payments as contract liabilities in deferred revenue in the consolidated statements of financial position prior to revenue being recognized. As of September 30, 2021 and 2020, the Enterprise has collected all amounts, other than \$7.8 million and \$7.4 million, respectively, related to the timing of client billing.

Recognition of Revenue—Revenue is recognized based on the transfer of control of promised goods and services to clients in an amount that reflects the consideration to which the Enterprise expects to be entitled in exchange for goods and services. The Enterprise identifies its contract with the client which is generally through a master services agreement, statement of work, or candidate registration order. Within each contract judgment is applied to determine the extent to which promises within the contract give rise to distinct performance obligations and the total amount of transaction price the Enterprise is entitled. The transaction price excludes taxes. Where a contract contains variable consideration, a level of estimation is required in determining the transaction price in which the Enterprise is entitled. Variable consideration is not included in the transaction price if it is constrained.

Revenue is recognized when or as performance obligations are satisfied, which is at or over the period of time where control of the related goods or services transfer to the client. When revenue is recognized over time, judgment is used to determine the method which most clearly depicts the transfer of control to the client. Where an input method is used to recognize revenue over time, estimation is required to determine the progress toward completion of satisfying the performance obligations. The Enterprise accounts for shipping and handling activities in fulfilling the obligations to the client, which is at the point in time when the client obtains control of the goods. The Enterprise primarily acts as a principal under its contracts when it assumes responsibility for providing all services to the client. Contract assets are reported in "Account receivable—net" and "Unbilled amounts under contracts" in the consolidated statements of financial position. Contract liabilities are reported in "Deferred revenue" in the consolidated statements of financial position.

Multiple Performance Obligations—The Enterprise accounts for contracts with multiple performance obligations by allocating the total transaction consideration to each performance obligation based on the relative standalone selling price. If no observable price exists, the Enterprise estimates its costs of satisfying the performance obligation and adds an appropriate margin for the goods or services, or the Enterprise evaluates the market in which it sells the goods and services and estimates the price clients would be willing to pay. The Enterprise will determine the transaction price if sold on a standalone basis via actual contract prices or based on internal pricing analysis. When determining transaction price, the Enterprise will consider market conditions such as competitor pricing strategies, customer demands, geographical regions and industry practices.

The Enterprise's arrangements with multiple promised services primarily require the delivery of test development services, test administration, and test delivery, scoring and reporting services. Arrangements typically include non-distinct obligations that have value to the client in combination with other services, and therefore are highly integrated and are accounted for as a single performance obligation.

Revenue for these arrangements that represent a single performance obligation is recognized generally over time, or the expected period of performance, on a straight-line or proportional performance basis. In general, the Enterprise has determined cost as an appropriate input measure to recognize revenue over time on a proportional performance basis.

Test Development Services—Test development services include psychometric analysis, test design and construction, item development, job analysis and test publishing or any combination of such services. In general, the Enterprise recognizes revenue for test development services as part of a single performance obligation arrangement.

Test Administration—Revenue is recognized for Enterprise-owned test assessments when the tests are scored, unless recognized as a part of a single performance obligation arrangement.

Test Delivery, Scoring and Reporting Services—Test delivery arrangements include system management, registration, scheduling, administration and results processing or any combination of such services. The Enterprise recognizes revenue for test delivery, scoring and reporting services as part of a single performance obligation arrangement.

Ancillary Assessment Services and Products—Revenue for test preparation products is recognized when the products are shipped as control has passed to the client by way of transfer of title and risk of loss.

Software and Other Services—The Enterprise primarily delivers or hosts software via licensing arrangements, which typically do not have significant service commitments following the delivery of the software. The license fee is earned upon delivery of the software that represents functional right to use intellectual property and the remaining service commitments, if any, are recognized ratably over the contract term. Revenue for each element is based on the relative standalone selling price method. Fees for hosting arrangements where the customer does not take possession of the Enterprise’s software or run the software on client-owned hardware are recognized as service arrangements ratably over the term of the agreement.

For the year ended September 30, 2021, revenue was recognized as follows (dollars in thousands):

	<u>2021</u>
Revenue recognized over time	\$ 555,761
Revenue recognized at a point in time	<u>515,543</u>
Total	<u><u>\$1,071,304</u></u>

Recognition of Expense—Items are Enterprise test assessment questions and related content. Item development costs consist of payments to third party item writers and wages to employee item writers. The Enterprise expenses item development costs as incurred and records these expenses in “Test administrators, readers, item writers, and other professional services” in the consolidated statements of activities.

The Enterprise defers expenses incurred for test administration and recognizes the expenses when the related revenue is recognized. The Enterprise also defers client contract transition expenditures, which relate to the set-up of processes, personnel and systems, and expenses them ratably over the period that the respective services are provided. As of September 30, 2021 and 2020, deferred expenses of approximately \$6.9 million and \$9.1 million, respectively, which relate to expenses incurred for test administration and client contract transition expenses, and are reported in “Prepaid expenses and other current assets” in the consolidated statements of financial position.

Measure of Operations—The consolidated statements of activities report all changes in net assets, including changes in net assets from operating activities. Operating activities consist of those items attributable to revenue from the Enterprise’s program services, research programs and other activities. Net realized/unrealized financial gains from investments, interest income—net, other expense—net, income tax expense, decrease in net assets from discontinued operations, changes in postretirement benefits and foreign currency translation are excluded from operating loss.

Functional Expenses—The costs of providing program services and other supported activities have been summarized by natural classification in the consolidated statements of activities. In addition, costs have been allocated among program services and support services (see Note 11).

Advertising Costs—For the years ended September 30, 2021 and 2020, advertising costs of approximately \$7.7 million and \$9.7 million, respectively, were expensed as incurred and reported in “Test administrators, readers, item writers and other professional services” in the consolidated statements of activities.

Income Taxes—The Enterprise does not record a provision for federal or state income taxes with respect to income generated from not-for-profit activities because of its tax-

exempt status. An income tax provision is recorded for non-exempt foreign activities as well as for the for-profit activities of Enterprise subsidiaries.

Deferred tax assets and liabilities are recognized for the expected future consequences of differences between the financial statement and income tax basis assets and liabilities. Deferred tax assets and liabilities are determined based on the temporary differences between the financial and tax reporting of particular assets, liabilities and loss carryforwards using tax rates for the years in which the differences are expected to reverse. The effect of a change in tax law and rates on deferred tax assets and liabilities is recognized as a change in net assets in the period that includes the enactment date. A valuation allowance is recorded to offset deferred tax assets if, based on the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

The calculation of tax liabilities includes estimates for uncertainties in tax positions. The impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained based on technical merits. The Enterprise records liabilities for uncertain tax benefits net of deferred tax assets associated with tax loss carryforwards, for liabilities arising in the same and in different years from the asset, provided the related tax loss can be carried back or forward to offset the liability.

Income tax expense is the aggregate of tax that is payable for the current period and the change in deferred tax assets and liabilities. The Enterprise classifies interest, penalties, and foreign exchange related to income tax liabilities as income tax expense.

Foreign Currency Translation/Transactions—For all operations outside the United States of America (“U.S.”) in which the local currency has been designated as the functional currency, assets and liabilities are translated into U.S. dollars using year-end exchange rates, and revenue and expenses are translated using average exchange rates for the year. Foreign currency translation adjustments are accumulated as changes in “Net assets”. As of September 30, 2021, net accumulated foreign currency translation gains of \$223,000 are reported in “Net assets” in the consolidated statement of financial position. As of September 30, 2020, net accumulated foreign currency translation losses of approximately \$27,000 are reported in “Net assets” in the consolidated statement of financial position.

Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains or losses which are recorded upon settlement of the transactions. For the years ended September 30, 2021 and 2020, net transaction losses of approximately \$1.3 million and \$1.1 million, respectively, are reported in “Other operating and administrative expenses” in the consolidated statements of activities. Income taxes related to transaction gains and losses are reported in “Income tax expense” in the consolidated statements of activities.

Contingencies—The Enterprise may be subject to loss contingencies such as legal proceedings and various claims in the normal course of business. The Enterprise accrues for such loss contingencies, including related legal fees, when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Enterprise discloses loss contingencies when there is a reasonable possibility that a loss may have occurred.

Recently Adopted Accounting Pronouncements— In May 2014, the Financial Accounting Standards Board (“FASB”) issued authoritative accounting guidance for recognizing revenue from contracts with customers, which supersedes the existing revenue recognition standard. The guidance introduces a single, comprehensive, five-step revenue recognition model, and

enhances disclosures related to revenue recognition. In June 2020, the FASB issued accounting guidance permitting private entities that have not issued their financial statements to defer the adoption of the guidance by one year, and the Enterprise elected to defer. The Enterprise has adopted the guidance as of October 1, 2020 using the modified retrospective approach, and as such, the comparative 2020 consolidated financial statements have not been restated. The Enterprise has applied this guidance to all contracts that were not yet completed as of October 1, 2020. As of October 1, 2020, net assets increased by approximately \$751,000. Unbilled accounts receivable increased by approximately \$662,000 and deferred revenue decreased by approximately \$89,000. The increase in net assets is attributable to two main components. First, award fee revenue is included as estimated variable consideration in the assessment of the transaction price. Secondly, contract renewal periods are no longer considered in the assessment of the contract term.

In August 2018, the FASB issued authoritative accounting guidance which amends fair value disclosures. The following disclosures are no longer required: (1) the policy, amounts and reasons for transfers between Level 1 and Level 2 fair value measurements, (2) the valuation processes for Level 3 fair value measurements, and (3) the reporting of changes in unrealized gains/(losses) for the period for recurring fair value measurements held at the end of the reporting period. The following disclosures have been modified: (1) in lieu of a rollforward for Level 3 fair value measurements, disclosure of purchases and transfers into/out of Level 3 shall be made, (2) for investments reported at NAV, entities shall disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption may lapse, and (3) information regarding any uncertainty in measurements as of the reporting date shall be disclosed as applicable. The Enterprise adopted the guidance prospectively on October 1, 2020 and it did not have a material impact on the disclosures in the consolidated financial statements.

In March 2021, the FASB issued authoritative accounting guidance which amends the accounting for goodwill. The guidance provides an alternative to perform the goodwill impairment triggering event evaluation as of the end of the reporting period. Entities that elect the alternative are not required to monitor for goodwill impairment triggering events during the reporting period, but rather, should evaluate the facts and circumstances as of the end of the reporting period to determine whether triggering events exists, and if so, whether it is more likely than not that goodwill is impaired. The guidance was effective October 1, 2020. The Enterprise adopted the guidance and it did not have a material impact on the consolidated financial statements.

Recently Issued Accounting Pronouncements—

In February 2016, the FASB issued authoritative accounting guidance for leases, which supersedes the existing standard. The new guidance increases transparency and comparability among entities by recognizing lease assets and liabilities on the statement of financial position and disclosing key information about leasing arrangements. For leases with a term of twelve months or less, a lessee is permitted to elect an accounting policy by class of underlying asset, not to recognize lease assets and liabilities. In June 2020, the FASB issued accounting guidance permitting private entities to defer the adoption of the guidance by one year. The guidance is effective October 1, 2022. The Enterprise is evaluating the impact of this guidance on its consolidated financial statements.

In June 2016, the FASB issued authoritative accounting guidance for current expected credit losses. Under this guidance the Enterprise will recognize as an allowance, an estimate of expected credit losses, if any. The guidance permits early adoption and is effective October 1, 2023. The Enterprise is evaluating the impact of this guidance on its consolidated financial statements.

In August 2018, the FASB issued authoritative accounting guidance which amends defined postretirement benefit plan disclosures. The following disclosures are no longer required: (1) the amounts in accumulated other comprehensive income expected to be recognized into net periodic benefit cost over the next fiscal year, (2) the rollforward for Level 3 fair value measurements, and (3) the effects of a one-percentage change in assumed healthcare cost trend rate on net the periodic benefit cost and the benefit obligation. The following disclosures have been added: (1) the weighted-average crediting interest rate for plans with promised crediting interest rates and (2) an explanation for the reasons for significant gains/(losses) related to the change in the benefit obligation. The guidance permits early adoption, is effective October 1, 2021, and may be applied either retrospectively or prospectively. The Enterprise is evaluating the impact of this guidance on its disclosures in the consolidated financial statements.

In December 2019, the FASB issued authoritative accounting guidance which simplify the accounting for income taxes by removing certain exceptions to the general principles. The guidance also improves consistent application and simplifies generally accepted accounting principles for other areas of accounting for income taxes by clarifying and amending existing guidance. The guidance permits early adoption, is effective October 1, 2022, and may be applied prospectively. The Enterprise is evaluating the impact of this guidance on its consolidated financial statements.

In March 2020, the FASB issued authoritative accounting guidance related to reference rate reform. The guidance provides temporary optional expedients and exceptions to the guidance on contract modifications to ease the burdens of the expected market transition from the London Interbank Offered Rate ("LIBOR") to alternative reference rates. The new guidance was effective upon issuance and the Enterprise may elect to apply the guidance prospectively through December 31, 2022. The Enterprise is evaluating the impact of this guidance on its consolidated financial statements.

2. LIQUIDITY AND THE AVAILABILITY OF RESOURCES

The Enterprise has resources available to meet the cash needs for expenditures within one year of the date of the consolidated statement of financial position. These resources include cash and cash equivalents of approximately \$101.2 million. In addition, the Enterprise has additional resources through the collection of accounts receivable of approximately \$85.3 million and unbilled amounts under contracts of approximately \$45.1 million. The Enterprise also has long-term investments of approximately \$1.5 billion should there be a need to meet cash requirements for any unanticipated expenditures, subject to certain redemption notice periods and redemption restrictions as disclosed in Note 3.

3. INVESTMENTS AND FAIR VALUE MEASUREMENTS

As of September 30, 2021 and 2020, investments were as follows (dollars in thousands):

Asset Category	2021		2020	
	Fair Market Value	Cost	Fair Market Value	Cost
Money market funds ^(*)	\$ 88,103	\$ 88,103	\$ 134,659	\$ 134,659
Investments:				
Mutual funds	163,504	160,898	155,399	145,789
Commingled funds	1,040,687	853,950	945,073	914,643
Alternative investments	<u>335,417</u>	<u>276,403</u>	<u>236,172</u>	<u>218,108</u>
Subtotal investments	<u>1,539,608</u>	<u>1,291,251</u>	<u>1,336,644</u>	<u>1,278,540</u>
Total assets	<u>\$ 1,627,711</u>	<u>\$ 1,379,354</u>	<u>\$ 1,471,303</u>	<u>\$ 1,413,199</u>

(*) Money market funds are classified in "Cash and cash equivalents" in the consolidated statements of financial position.

For the years ended September 30, 2021 and 2020, the Enterprise reported net realized/unrealized financial gains from investments of approximately \$271.6 million and \$31.8 million, net of related expenses of approximately \$4.3 million and \$4.5 million, respectively, in "Net realized/unrealized financial gains from investments" in the consolidated statements of activities.

The accounting framework for fair value provides a hierarchy that prioritizes the inputs for valuation techniques. The hierarchy gives the highest priority to Level 1 measurements and the lowest priority to Level 3 measurements. The most observable inputs are used when available. The three levels of the fair value hierarchy are described as follows:

Level 1—Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Enterprise has the ability to access.

Level 2—Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived from or corroborated by observable market data by correlation or other means.

Level 3—Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The Enterprise invests with professional managers in separately managed accounts, or in professionally managed funds among diversified asset classes with a variety of investment managers. The categorization of an investment within the fair value hierarchy is based on the pricing transparency of the investment and does not necessarily correspond to the Enterprise's perceived risk of the investment.

The following is a description of the valuation methodologies and inputs used for assets measured at fair value. There were no significant changes in the methodologies used as of September 30, 2021 and 2020.

Mutual Funds—Mutual funds are investments in registered investment companies that are valued at quoted market prices at the close of the Enterprise's last business day of the year and are classified within Level 1.

Money Market Funds—Money market funds are managed to maintain a constant value, though not guaranteed, of \$1 and are classified within Level 1.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While the Enterprise believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments may result in different fair value measurements at the reporting date.

The Enterprise's policy is to report investment transfers in and out, or between the levels at the end of the reporting period. During the years ended September 30, 2021 and 2020, there were no transfers of investments between the Levels.

The Enterprise also follows the accounting guidance for measuring fair value using NAV as a practical expedient for commingled funds and alternative investment funds. The practical expedient allows for measurement, without adjustment, for certain investments that do not have a readily determinable fair value, and that prepare financial statements consistent with the principals of an investment company. The NAVs are reported by the investment managers, which may use third-party pricing sources, and are determined principally from the fair value of the underlying fund holdings.

Commingled Funds at NAV—Commingled funds consist of funds of traded securities from several accounts blended together and multi-strategy fund-of-funds, organized by trust agreements under state registration.

Alternative Investment Funds at NAV—Alternative investment funds consist of investments in hedge funds and private equity funds. The estimated valuation of certain investments of the underlying funds, which may include private placements, and other securities for which prices are not readily available, are determined by management of the respective underlying funds and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may not be realized.

These funds invest in directional market strategies (primarily long/short-term equity) as well as non-directional strategies (such as event driven and relative value).

As of September 30, 2021 and 2020, assets measured at fair value were as follows (dollars in thousands):

Asset Category	2021			Total
	Level 1	Level 2	Level 3	
Money market funds ^(a)	\$ 88,103	\$ -	\$ -	\$ 88,103
Investments:				
Mutual funds	163,504	-	-	163,504
Commingled funds at NAV ^(b)				1,040,687
Alternative investment funds at NAV ^(b)				<u>335,417</u>
Subtotal investments				<u>1,539,608</u>
Total assets				<u>\$ 1,627,711</u>

Asset Category	2020			Total
	Level 1	Level 2	Level 3	
Money market funds ^(a)	\$ 134,659	\$ -	\$ -	\$ 134,659
Investments:				
Mutual funds	155,399	-	-	155,399
Commingled funds at NAV ^(b)				945,073
Alternative investment funds at NAV ^(b)				<u>236,172</u>
Subtotal investments				<u>1,336,644</u>
Total assets				<u>\$ 1,471,303</u>

^(a) Money market funds are classified in "Cash and cash equivalents" in the consolidated statements of financial position.

^(b) In accordance with the accounting guidance for fair value measurements, investments measured at NAV have not been classified in the fair value hierarchy. The amounts presented in this table are intended to permit a reconciliation to the amounts presented in the consolidated statements of financial position.

As of September 30, 2021 and 2020, additional information relative to the Enterprise's investments reported at NAV was as follows (dollars in thousands):

Asset Category	Fair Value		Redemption Notice Period	Other Restrictions
	2021	2020		
Commingled funds ^(a)	\$ 1,040,687	\$ 945,073	1-110 days	See below
Alternative investments funds ^(b)	335,417	236,172	See below	See below
Total	<u>\$ 1,376,104</u>	<u>\$ 1,181,245</u>		

(a) All commingled funds, except for a real estate equity fund, require notice of 1 to 3 business days and may be redeemed when settled within 1 to 2 days. A real estate equity fund requires notice of 110 calendar days and may be redeemed 20 calendar days after the quarter end. Redemption requests for the real estate equity fund will be allocated on a pro-rata basis based on available liquidity. Redemption frequency for commingled funds is daily.

(b) Alternative investments in hedge funds, depending on the fund, generally require notice ranging from 31 to 90 calendar days and may be redeemed within 15 to 90 calendar days. Most hedge funds include hold-backs ranging from 2.5 to 10% that are released after the fund's annual financial statement audit. Redemption frequency for alternative investments in hedge funds range from monthly to quarterly.

In closed-end limited partnership and private equity funds, the funds cannot be redeemed voluntarily. The fund will initiate distributions as soon as practicable following the dissolution of the underlying investment vehicles. Client directed redemptions are not available.

As of September 30, 2021 and 2020, there were approximately \$120.6 million and \$116.2 million, respectively, in unfunded commitments to alternative investments in limited partnership and private equity funds.

The Enterprise is focused on expanding through strategic investments primarily in privately held equity securities, convertible notes and limited partnerships. These investments do not have a readily determinable fair value and are accounted for using the equity method if the Enterprise has the ability to significantly influence the operating decisions of the investees, and if not, the cost method. The Enterprise's proportionate share of the net earnings or losses of equity method investees were not material to its changes in net assets. The Enterprise is a limited partner in an investment that is not material to its consolidated financial statements. A member of the Enterprise's Board of Trustees is a managing partner of a general partnership which has also invested in the limited partnership. The Enterprise's investments without readily determinable fair values as of September 30, 2021 and 2020 were \$42.2 million and \$10.6 million, respectively, and are reported in "Other long-term assets" in the consolidated statements of financial position. These investments are periodically analyzed to determine whether there are any impairment indicators.

4. PROPERTY AND EQUIPMENT

As of September 30, 2021 and 2020, property and equipment—net was as follows (dollars in thousands):

	<u>2021</u>	<u>2020</u>
Buildings and leasehold improvements	\$ 199,394	\$ 219,868
Furniture and equipment	78,870	80,564
Land and land improvements	<u>11,665</u>	<u>11,708</u>
Total	289,929	312,140
Less accumulated depreciation	<u>(209,485)</u>	<u>(209,410)</u>
Net	<u>\$ 80,444</u>	<u>\$ 102,730</u>

For the years ended September 30, 2021 and 2020, depreciation expense was approximately \$9.7 million and \$14.6 million, respectively, reported in "Depreciation and amortization" in the consolidated statements of activities.

As of September 30, 2021, the Enterprise has classified a building and its related assets as held for sale. The net book value of the aggregate building assets of approximately \$15.6 million was reported in "Current assets held for sale" in the consolidated statement of financial position as of September 30, 2021 (see Note 15).

5. CAPITALIZED SOFTWARE

As of September 30, 2021 and 2020, capitalized software—net was as follows (dollars in thousands):

	<u>2021</u>	<u>2020</u>
Capitalized software:		
Internally developed	\$ 580,132	\$ 541,291
Purchased	<u>19,314</u>	<u>18,494</u>
Total	599,446	559,785
Less accumulated amortization	<u>(496,124)</u>	<u>(469,740)</u>
Net	<u>\$ 103,322</u>	<u>\$ 90,045</u>

For the years ended September 30, 2021 and 2020, amortization expense was approximately \$27.8 million and \$32.1 million, respectively, reported in "Depreciation and amortization" in the consolidated statements of activities.

For the year ended September 30, 2021, in connection with entering into a definitive agreement to divest a subsidiary (see Note 6), the Enterprise determined that certain capitalized software assets were no longer recoverable, and an impairment of approximately \$25.8 million was recorded and reported in "Decrease in net assets from discontinued operations" in the consolidated statement of activities. For the year ended September 30, 2020, the Enterprise determined that certain capitalized software assets were no longer recoverable, and an impairment of approximately \$1.4 million was recorded and reported in "Other operating and administrative expenses" in the consolidated statement of activities.

6. ACQUISITIONS AND DIVESTURES

Acquisitions

On June 24, 2020, the Enterprise acquired 100% of the capital stock of a language skills assessment company. The acquisition is a strategic fit with the Enterprise to improve capabilities for English language assessments. The fair value of the consideration transferred was approximately \$3.0 million and was recorded to "Goodwill—net" in the consolidated statement of financial position. Contingent consideration in the form of earnout payments are payable for three years ending September 30, 2021, 2022 and 2023. The earnout payments are based on achieving certain annual benchmarks of operating revenue and net income. For the year ended September 30, 2021, earnouts of approximately \$414,000 were accrued for and are payable by December 31, 2021. For the year ended September 30, 2020, there were no earnout payments required to be made.

On September 15, 2020 the Enterprise acquired select assets of an internet-driven software platform. The acquisition is a strategic fit with the Enterprise's graduate admissions testing. The fair value of the consideration transferred was approximately \$1.2 million, of which approximately \$900,000 was recorded to "Capitalized software—net" and approximately \$300,000 of client relationships was recorded to "Identifiable intangible assets—net" in the consolidated statement of financial position.

On February 23, 2021, the Enterprise acquired 100% of the assets of a company that delivers interviews for international student admissions and assessment. The acquisition is a strategic fit for the Enterprise to enhance capabilities for English language assessments. The fair value of the consideration transferred was approximately \$5.0 million of which, approximately \$4.6 million was reported in "Goodwill—net" in the consolidated statement of financial position.

On June 15, 2021, the Enterprise acquired 100% of the assets of a company that distributes certain English language learning products. The acquisition is a strategic fit for the Enterprise to enhance capabilities for English language assessments. The fair value of the consideration transferred was approximately \$1.4 million, of which, approximately \$900,000 was reported in "Goodwill—net" in the consolidated statement of financial position.

Divestures

On September 1, 2021, the Enterprise entered into a definitive asset sale agreement for the sale of a proprietary product, of approximately \$3.6 million to an unrelated party. The sale closed on November 1, 2021. Following a strategic review, the divestiture enables the Enterprise to further focus on its other proprietary products.

On September 16, 2021, the Enterprise entered into a definitive asset agreement for the sale of a subsidiary, other certain assets, and the contribution of approximately \$10.0 million to an unrelated party. The sale is subject to the satisfaction of customary closing conditions and is expected to close in January 2022. Following a strategic review, the divestiture enables the Enterprise to further focus on its mission to advance quality and equity in education worldwide.

As of September 30, 2021, the Enterprise determined that the assets and liabilities related to these agreements met the criteria to be classified as a discontinued operation and, as a result, the historical financial results are reflected in the Enterprises consolidated financial statements as discontinued operations, and related assets and liabilities were classified as assets and liabilities held for sale.

As of September 30, 2021 and 2020, the carrying amount of assets and liabilities reported as held for sale in the consolidated statements of financial position were as follows (dollars in thousands):

	<u>2021</u>	<u>2020</u>
Accounts receivable—net	\$ 5,148	\$ 12,007
Unbilled amounts under contracts	1,007	1,184
Prepaid expenses and other current assets	4,434	4,950
Capitalized software—net	<u>1,287</u>	<u>-</u>
Total current assets held for sale	<u>\$ 11,876</u>	<u>\$ 18,141</u>
Property and equipment—net	\$ -	526
Capitalized software—net	-	32,763
Identifiable intangible assets—net	-	1,857
Other long-term assets	<u>-</u>	<u>40</u>
Total noncurrent assets held for sale	<u>\$ -</u>	<u>\$ 35,186</u>
Accounts payable	\$ 1,063	\$ 634
Accrued expenses and other current liabilities	18,827	5,588
Deferred revenue	<u>3,183</u>	<u>3,874</u>
Total current liabilities held for sale	<u>\$ 23,073</u>	<u>\$ 10,096</u>

For the years ended September 30, 2021 and 2020, the components of “Decrease in net assets from discontinued operations” in the statements of activities were as follows (dollars in thousands):

	<u>2021</u>	<u>2020</u>
REVENUES:		
Operating revenues	\$ 30,494	\$ 30,051
EXPENSES:		
Salaries, wages and employee benefits	25,905	29,134
Test administrators, readers, item writers and other professional services	8,768	11,157
Depreciation and amortization	8,453	9,340
Other operating and administrative expenses	51,693	10,911
Interest expense—net	<u>(1,304)</u>	<u>(613)</u>
Decrease in net assets from discontinued operations	<u>\$ (65,629)</u>	<u>\$ (31,104)</u>

For the years ended September 30, 2021 and 2020, net cash used in operating activities from discontinued operations was approximately \$9.7 million and \$16.7 million, respectively and net cash used in investing activities from discontinued operations was approximately \$2.5 million and \$5.1 million, respectively.

7. IDENTIFIABLE INTANGIBLE ASSETS AND GOODWILL

As of September 30, 2021 and 2020, identifiable intangible assets—net were as follows (dollars in thousands):

	2021			Net Carrying Amount
	Gross Carrying Amount	Accumulated Amortization	Other	
Client relationships	\$ 2,100	\$ (1,860)	\$ -	\$ 240
Tradenames and trademarks	570	-	-	570
Total	<u>\$ 2,670</u>	<u>\$ (1,860)</u>	<u>\$ -</u>	<u>\$ 810</u>
	2020			Net Carrying Amount
	Gross Carrying Amount	Accumulated Amortization	Other	
Client relationships	\$ 2,100	\$ (1,748)	\$ -	\$ 352
Tradenames and trademarks	570	-	-	570
Total	<u>\$ 2,670</u>	<u>\$ (1,748)</u>	<u>\$ -</u>	<u>\$ 922</u>

Finite lived intangible assets are amortized over their estimated useful lives as follows:

Range of Useful Lives in Years

Client relationships 7 to 9

For the years ended September 30, 2021 and 2020, amortization expense was approximately \$112,000 and \$264,000, respectively, reported in "Depreciation and amortization" in the consolidated statements of activities.

As of September 30, 2021, the estimated amortization expense was as follows (dollars in thousands):

For the Year Ending September 30,	Estimated Amortization Expense
2022	\$ 60
2023	60
2024	60
2025	60

For the year ended September 30, 2021 the Enterprise recorded an impairment related to client relationship assets of approximately \$1.4 million reported in "Decrease in net assets

from discontinued operations” in the consolidated statement of activities. For the year ended September 30, 2020, there was no impairment of the client relationships intangible asset.

The impairment tests of the Enterprise’s indefinite-lived tradenames and trademarks involved a comparison of estimated fair values with their carrying values. During 2021 and 2020, the Enterprise completed its impairment tests for indefinite-lived tradenames and trademarks and determined that there was no impairment for the year ended September 30, 2021 and 2020.

In valuing its tradenames and trademarks, the Enterprise utilized a quantitative income approach, specifically, the relief-from-royalty-method. In estimating the fair values, the Enterprise calculated the present value of future earnings associated with the royalty savings related to the trademarks, using a weighted average cost of capital. The projections and calculations used in the Enterprise’s impairment models include Level 3 fair value inputs and reflect its assumptions regarding revenue growth rates, market trends, business mix, cost structure and other assumptions about the anticipated short-term and long-term operating results.

The changes in the carrying value of goodwill are as follows (dollars in thousands):

	<u>2021</u>	<u>2020</u>
Balance—October 1,	\$ 14,707	\$ 13,522
Additions	5,595	2,950
Amortization	(2,177)	(1,588)
Impairment	-	(177)
	<u> </u>	<u> </u>
Balance—September 30,	<u>\$ 18,125</u>	<u>\$ 14,707</u>

For the years ended September 30, 2021 and 2020, amortization expense for goodwill was approximately \$2.2 million and \$1.6 million, respectively, reported in “Depreciation and amortization” in the consolidated statements of activities. As a result of changes in client contracts, the Enterprise performed a goodwill impairment test for one of its reporting units and determined that it was impaired for the year ended September 30, 2020. Changes in the competitive marketplace led to adjusted revenue expectations. As a result, the Enterprise expected a reduction in future cash flows that have decreased the fair value of the reporting unit and goodwill by approximately \$177,000 reported in “Other operating and administrative expenses” in the consolidated statement of activities for the years ended September 30, 2020.

For the year ended September 30, 2020, the Enterprise performed a quantitative assessment for goodwill impairment testing for a reporting unit. In performing the impairment testing, the Enterprise estimated the fair value of its reporting unit based on a weighting of two models, a discounted cash flow model and a market multiple model, both of which included Level 3 fair value inputs. The discounted cash flow model used the reporting unit’s business plans and projections as the basis for expected operating performance, future cash flows, and discounts the cash flows using a weighted average cost of capital based on the target capital structure of the industry. The market multiple approach utilizes market multiples of revenues or earnings for companies comparable to the Enterprise’s reporting units. The Enterprise believes the assumptions used for the impairment test are consistent with those that would only be utilized by a market participant performing similar valuations for the reporting unit.

8. DEBT

As of September 30, 2021 and 2020, debt was comprised as follows (dollars in thousands):

	2021			
	Amount Available	Maturity	Carrying Amount	Rate
Term loan (*)	\$ 47,950	2023	\$ 27,821	1.75%
Line of credit secured	50,000	2023	-	-
Total			27,821	
Less short-term			(15,904)	
Long-term portion of debt			\$ 11,917	

	2020			
	Amount Available	Maturity	Carrying Amount	Rate
Term loan (*)	\$ 47,950	2023	\$ 43,720	1.75%
Line of credit secured	50,000	2023	-	-
Total			43,720	
Less short-term			(15,911)	
Long-term portion of debt			\$ 27,809	

(*) Carrying value is reported net of amortizing debt issuance costs.

Term Loan—On August 14, 2020, the Enterprise entered into a \$48.0 million term loan that matures on August 14, 2023. The loan proceeds were used to repay its previous term loan. The term loan is secured by the Enterprise's investments and is guaranteed by a subsidiary of the Enterprise. Interest accrues at the daily three-month LIBOR plus 150 basis points, and is payable quarterly. Scheduled principal payments are due each quarter through the maturity date, at which time all remaining principal becomes due.

Line of Credit—The Enterprise has a \$50.0 million line of credit, which bears interest at a rate of one-month LIBOR plus 150 basis points, and expires August 14, 2023. The line of credit is secured by the Enterprise's investments and is guaranteed by a subsidiary of the Enterprise. The Enterprise may request, in lieu of cash advances, standby letters of credit not to exceed \$5.0 million. There were no borrowings or outstanding balances under the secured line of credit during the years ended September 30, 2021 and 2020. The line of credit is subject to earlier termination in the event of default, whereas outstanding balances, if any, are due on demand.

As of September 30, 2021, the aggregate minimum maturities of debt were as follows (dollars in thousands):

Years Ending September 30,	Term Loan
2022	\$ 15,983
2023	<u>11,988</u>
Total minimum payments	<u>\$ 27,971</u>

Covenants—The Enterprise’s debt facilities contain various financial and non-financial covenants. The Enterprise believes it was in compliance with all covenants as of September 30, 2021 and 2020.

9. INCOME TAXES

The Enterprise has provided for income taxes based upon the tax laws and rates in effect within the jurisdictions where the Enterprise’s activities are conducted. For the years ended September 30, 2021 and 2020, the increase/(decrease) in net assets from continuing operations, before income tax expense, by jurisdiction were as follows (dollars in thousands):

	2021	2020
United States	\$ 240,149	\$ (42,031)
Other jurisdictions	<u>(1,680)</u>	<u>(8,158)</u>
Total	<u>\$ 238,469</u>	<u>\$ (50,189)</u>

For the years ended September 30, 2021 and 2020, the components of income tax expense from continuing operations were as follows (dollars in thousands):

	2021	2020
United States:		
Current	\$ 11	\$ 81
Deferred	<u>(199)</u>	<u>(22)</u>
Total United States	<u>(188)</u>	<u>59</u>
Other jurisdictions:		
Current	3,882	5,222
Deferred	<u>467</u>	<u>(1,124)</u>
Total other jurisdictions	<u>4,349</u>	<u>4,098</u>
Total	<u>\$ 4,161</u>	<u>\$ 4,157</u>

For the years ended September 30, 2021 and 2020, the Enterprise’s effective tax rate was 1.7% and (5.1)%, respectively, and differed from the statutory U.S. federal income tax rate

primarily due to its tax exempt status in the U.S., permanent items, foreign taxes and a change to the valuation allowance.

The historical cumulative earnings of foreign subsidiaries are expected to be reinvested indefinitely, and, therefore, U.S. deferred tax liabilities are not provided on these amounts. As of September 30, 2021 and 2020, cumulative foreign earnings related to ongoing operations were approximately \$246,000 and \$163,000, respectively.

Deferred income taxes result from temporary differences between the amount of assets and liabilities recognized for financial and tax reporting purposes. As of September 30, 2021 and 2020, the components of the net deferred tax assets and net deferred tax liabilities, were as follows (dollars in thousands):

	<u>2021</u>	<u>2020</u>
Accounts receivable	\$ 329	\$ 241
Accrued expenses	2,405	1,722
Deferred revenue	25	25
Credit carryforwards	-	40
Other long-term assets	1,116	-
Net capital losses	2,762	2,762
Net operating losses	<u>54,109</u>	<u>40,047</u>
Total deferred tax assets	60,746	44,837
Valuation allowance	<u>(59,368)</u>	<u>(40,200)</u>
Net deferred tax assets	<u>1,378</u>	<u>4,637</u>
Goodwill and other long-lived assets	<u>-</u>	<u>(2,991)</u>
Total deferred tax liabilities	<u>-</u>	<u>(2,991)</u>
Net deferred tax assets	<u><u>\$ 1,378</u></u>	<u><u>\$ 1,646</u></u>

As of September 30, 2021 and 2020, the Enterprise reported foreign capital loss carryforwards in the amount of approximately \$12.0 million, which have an indefinite carryforward period. As of September 30, 2021 and 2020, the Enterprise reported federal, state and foreign operating loss carryforwards in the amount of approximately \$330.2 million and \$227.1 million, respectively, of which, approximately \$101.6 million and \$46.0 million, respectively, have an indefinite carryforward period and approximately \$228.6 million and \$181.1 million, respectively, expires in future years between 2022 and 2041.

As of September 30, 2021 and 2020, the valuation allowance for deferred tax assets of approximately \$59.4 million and \$40.2 million, respectively, relates to the uncertainty of the utilization of certain deferred tax assets, primarily net operating and capital losses. The Enterprise has evaluated positive and negative evidence regarding the realization of these assets and has concluded that they are not likely to be realized.

As of September 30, 2021, the Enterprise had a net income tax payable of approximately \$592,000, reported in "Accrued expenses and other current liabilities" in the consolidated statement of financial position. As of September 30, 2020, the Enterprise had a net income tax receivable of approximately \$176,000, reported in "Prepaid expenses and other current assets" in the consolidated statement of financial position.

As of September 30, 2021 and 2020, the total gross amount of income tax reserves, reported in "Other long-term liabilities" in the consolidated statements of financial position, was approximately \$11.4 million and \$11.7 million, respectively. Accrued interest and penalties as of September 30, 2021 and 2020 were approximately \$4.2 million and \$4.1 million, of which an approximate \$43,000 and \$379,000 of expense was recognized for the years ended September 30, 2021 and 2020, respectively.

As of September 30, 2021 and 2020, net long-term deferred tax assets, reported in "Other long-term assets" in the consolidated statements were approximately \$1.4 million and \$1.6 million, respectively.

An unrecognized tax benefit is the aggregate tax effect of differences between tax return positions and the benefits recognized in the consolidated financial statements. It is reasonably possible that the Enterprise's balance of gross unrecognized tax benefits may change within the next twelve months due to the lapse of applicable statutes of limitation in various jurisdictions, or if the Enterprise becomes subject to examination. The Enterprise assessed that it has made adequate provision for income tax uncertainties, including accrued interest and penalties, if applicable. The Enterprise is not currently under examination by the Internal Revenue Service. Additionally, the statute of limitations for tax years 2017 through 2019 remain open for three years from the date of filing. For state income tax purposes, the statute of limitations includes tax years from 2016 through 2019 with statutes ranging from three to four years. For international jurisdictions, open statutes primarily range from three to ten years.

10. COMMITMENTS AND CONTINGENCIES

Lease Commitments—Future minimum rental payments under operating and capitalized leases, inclusive of escalation clauses, relate principally to certain office space and other equipment that have initial or remaining non-cancelable lease terms in excess of one year. As of September 30, 2021, future lease commitments were as follows (dollars in thousands):

Years Ending September 30,	Operating	Capital
2022	\$ 7,193	\$ 79
2023	5,983	52
2024	4,392	16
2025	3,403	-
2026	2,665	-
Thereafter	<u>4,268</u>	<u>-</u>
Total minimum payments	<u>\$ 27,904</u>	147
Less interest		<u>(9)</u>
Total capitalized lease obligation		138
Less short-term portion of capitalized lease obligation		<u>(71)</u>
Long-term portion of capitalized lease obligation		<u>\$ 67</u>

As of September 30, 2021 and 2020, the short and long-term capitalized lease obligations were reported in "Accrued expenses and other current liabilities" and "Other long-term liabilities", respectively, in the consolidated statements of financial position.

For the years ended September 30, 2021 and 2020, rent expense was approximately \$11.0 million and \$13.1 million, respectively, and is reported in "Other operating and administrative expenses" in the consolidated statements of activities.

For the years ended September 30, 2021 and 2020, the Enterprise recorded for certain leases, additional rent expense due to the cessation of use of approximately \$2.2 and \$8.0 million, respectively, in "Other operating and administrative expenses" in the consolidated statements of activities.

Commitments—As of September 30, 2021 and 2020, the Enterprise's material future purchase commitments under contractual obligations were as follows (dollars in thousands):

Years Ending September 30,	Computer Systems ^(a)	Software and Hosted Services ^(b)
2022	\$ 18,866	\$ 2,211
2023	9,419	1,400
	<hr/>	<hr/>
Total minimum payments	<u>\$ 28,285</u>	<u>\$ 3,611</u>

(a) In March 2018, the Enterprise renewed its outsourced computer systems services by entering into an agreement that will expire on June 30, 2023. The agreement includes early termination provisions that require 6-month pre-notification at any time and the reimbursement of certain expenses. For the years ended September 30, 2021 and 2020, expense related to this agreement was approximately \$25.7 million and \$33.2 million, respectively, and is reported in "Test administrators, readers, item writers, and other professional services" in the consolidated statements of activities.

(b) In December 2008, the Enterprise entered into an agreement to outsource the software testing, operation and maintenance of a portfolio of its information technology applications that was extended, and will expire on June 30, 2023. The agreement includes various partial and inclusive termination provisions. For the years ended September 30, 2021 and 2020, the expense related to this agreement was approximately \$23.5 million and \$22.4 million, respectively, and is reported in "Test administrators, readers, item writers, and other professional services" in the consolidated statements of activities.

In September 2018, the Enterprise entered into an agreement to outsource managed cloud and managed security services, that will expire on January 31, 2023. The agreement includes early termination provisions that require payments based on a prescribed scale. For the years ended September 30, 2021 and 2020, the expense related to this agreement was approximately \$16.6 million and \$13.5 million, respectively, and is reported in "Test administrators, readers, item writers, and other professional services" in the consolidated statements of activities.

In January 2018, the Enterprise entered into a master services agreement for primarily computer-based test delivery services through January 29, 2028. The agreement may be automatically extended and contains early termination provisions. The Enterprise shall purchase 100% of the volume-based services. For the years ended September 30, 2021 and

2020, the expense related to this agreement was approximately \$27.0 million and \$41.7 million, respectively, and is reported in "Subcontracted services" in the consolidated statements of activities.

The above agreements have certain variable components such as billings based on usage, performance standards, incentives for managing costs, and improvements in demand capabilities. Future obligations for such variable components may vary, and therefore have been excluded from the above commitments.

Liabilities for uncertain tax positions were excluded from the future purchase commitments under contractual obligations table as the Enterprise is not able to determine in which period payment would be required.

Litigation—The Enterprise is involved in various litigation matters arising in the ordinary course of business. The Enterprise is of the opinion that the liability, if any, resulting from pending legal actions and claims would not have a material effect on the consolidated financial statements.

Warranties and Indemnifications—Under the Enterprise's standard contractual terms and conditions with its clients, the Enterprise provides certain warranties and indemnifications in relation thereto. The Enterprise also provided a specific indemnification related to a subsidiary transaction. The Enterprise is not aware of any instances that would result in material payments being made as a result of these warranties and indemnifications.

11. EXPENSES BY FUNCTIONAL CLASSIFICATION

For the years ended September 30, 2021 and 2020, operating expenses by functional classification were as follows (dollars in thousands):

	2021		
	Program Services	Support Services	Total
Salaries, wages and employee benefits	\$ 237,304	\$ 174,467	\$ 411,771
Subcontracted services	179,221	30,327	209,548
Test administrators, readers, item writers and other professional services	192,290	94,221	286,511
Depreciation and amortization	10,014	29,734	39,748
Other operating and administrative expenses	71,309	85,645	156,954
Total	<u>\$ 690,138</u>	<u>\$ 414,394</u>	<u>\$ 1,104,532</u>

	2020		
	Program Services	Support Services	Total
Salaries, wages and employee benefits	\$ 218,791	\$ 196,868	\$ 415,659
Subcontracted services	159,671	26,777	186,448
Test administrators, readers, item writers and other professional services	174,068	72,447	246,515
Depreciation and amortization	20,646	27,904	48,550
COVID-19 expenses	-	33,910	33,910
Other operating and administrative expenses	83,091	86,998	170,089
Total	<u>\$ 656,267</u>	<u>\$ 444,904</u>	<u>\$ 1,101,171</u>

12. PERFORMANCE BONDS

The Enterprise provides performance bonds relating to matters arising in the ordinary course of business. As of September 30, 2021, the Enterprise has deposited approximately \$3.5 million as collateral for certain of its performance bonds.

13. POSTRETIREMENT BENEFITS

Retirement Plans—The Enterprise sponsors several defined contribution retirement plans offering retirement benefits that allow eligible employees to contribute a portion of their compensation through payroll deductions in accordance with specified plan guidelines. The Enterprise makes contributions to those plans that include a matching percentage of the employees' contributions up to certain limits. In addition, the Enterprise offers an employer contribution plan to eligible employees that vests over a two-year period, as well as supplemental contributory deferred compensation plans. For the years ended September 30, 2021 and 2020, the Enterprise's expense related to its defined contribution retirement plans approximated \$25.1 million and \$26.6 million, respectively, and is reported in "Salaries, wages, and employee benefits" in the consolidated statements of activities.

Retiree Medical and Life Insurance Benefit Plan—The Enterprise provides postretirement medical and prescription drug and limited life insurance benefits for retired employees and their dependents ("participants") if they fulfill the eligibility requirements of the Retiree Medical and Life Insurance Benefit Plan (the "Plan"). Effective January 1, 2018, retiree life insurance coverage was no longer provided for participants not meeting the age and service eligibility requirements for coverage prior to January 1, 2018. Life insurance coverage for all retired participants already covered under the Plan was settled through a guaranteed life insurance funding account, which is a liability transfer solution, of approximately \$3.2 million for the year ended September 30, 2018. All active employees meeting the age and service eligibility requirement as of December 31, 2017 are eligible for life insurance within the Plan's prescribed timeframe.

The Plan's Employer Group Waiver Plan ("EGWP") subsidy design includes direct federal subsidies and coverage gap discounts. The EGWP subsidy is equivalent to the allowable percentage of costs that the Enterprise funds for prescription drug benefits to eligible Medicare beneficiaries. Participants who were hired or rehired after June 30, 2012 pay 100% of the actuarial-equivalent cost of postretirement medical coverage. Plan contributions are reviewed and changes if any, are implemented annually.

Effective January 1, 2022, eligible retirees age 65 and older, and eligible dependents, may obtain health care coverage under a private Medicare Exchange plan, which will replace

coverage under the Plan. The Enterprise will provide an annual subsidy to Medicare eligible retirees and dependents enrolled in the Medicare Exchange, through a tax-free Health Reimbursement Account.

For the years ended September 30, 2021 and 2020, the Enterprise's net periodic benefit costs were as follows (dollars in thousands):

Components of Net Periodic Benefit Cost	<u>2021</u>	<u>2020</u>
Service cost	\$ 3,663	\$ 4,082
Interest cost	2,745	3,563
Amortization of:		
Prior service credit	<u>(1,488)</u>	<u>(1,499)</u>
Net periodic benefit cost	<u><u>\$ 4,920</u></u>	<u><u>\$ 6,146</u></u>

As of September 30, 2021 and 2020, the service cost component of net periodic benefit cost of approximately \$3.7 million and \$4.1 million, respectively, is reported in "Salaries, wages, and employee benefits" in the consolidated statements of activities. As of September 30, 2021 and 2020, all other components of net periodic benefit cost of approximately \$1.3 million and \$2.1 million, respectively, are reported in "Other expense—net" in the consolidated statements of activities.

The accounting for postretirement benefit obligations requires the use of actuarial assumptions to reflect the uncertainties and the length of time over which the postretirement benefit obligations will be paid. The actual amount of future benefit payments depends on when participants retire, the amount of their benefit at retirement, and their lifespan. To reflect the obligation in current dollars, future payments are discounted to present value, using a rate that aligns with the time frame over which payments will be made.

As of September 30, 2021 and 2020, assumptions used in valuing the postretirement benefit obligation were as follows:

	2021	
Discount rate	2.69 %	
Service cost discount rate	3.07 %	
Interest cost discount rate	1.89 %	
Mortality table	PRI-2012 with white collar adjustment using MP-2020	
Health care cost trend:	<u>Pre-65:</u>	<u>Post-65:</u>
Select rate	6.04 %	6.06 %
Ultimate rate	4.50 %	4.50 %
Year until ultimate rate is reached	2030	2029
	2020	
Discount rate	3.11 %	
Service cost discount rate	3.32 %	
Interest cost discount rate	2.50 %	
Mortality table	PRI-2012 with white collar adjustment using MP-2019	
Health care cost trend:	<u>Pre-65:</u>	<u>Post-65:</u>
Select rate	6.49 %	6.80 %
Ultimate rate	4.50 %	4.50 %
Year until ultimate rate is reached	2029	2029

The assumptions used to measure the postretirement benefit obligation at the end of the year are used to measure the net periodic benefit cost in the following year. For the years ended September 30, 2021 and 2020, assumptions used in valuing the net periodic benefit cost were as follows:

	2021	
Discount rate	3.11 %	
Service cost discount rate	3.33 %	
Interest cost discount rate	2.49 %	
Mortality table	PRI-2012 with white collar adjustment using MP-2019	
Health care cost trend:	<u>Pre-65:</u>	<u>Post-65:</u>
Select rate	6.49 %	6.80 %
Ultimate rate	4.50 %	4.50 %
Year until ultimate rate is reached	2029	2029
	2020	
Discount rate	3.51 %	
Service cost discount rate	3.67 %	
Interest cost discount rate	3.14 %	
Mortality table	RP-2014 with white collar adjustment using MP-2018	
Health care cost trend:	<u>Pre-65:</u>	<u>Post-65:</u>
Select rate	6.80 %	7.30 %
Ultimate rate	4.50 %	4.50 %
Year until ultimate rate is reached	2025	2025

As of September 30, 2021 and 2020, a reconciliation of the Enterprise's benefit obligation was as follows (dollars in thousands):

Change in Benefit Obligation	<u>2021</u>	<u>2020</u>
Benefit obligation—October 1,	\$ 116,299	\$ 121,397
Service cost	3,663	4,082
Interest cost	2,745	3,563
Plan amendments	(50,024)	-
Actuarial gain	(48,721)	(8,550)
Plan participants' contributions	2,493	1,953
Actual benefits paid	(6,491)	(5,601)
Retiree life insurance transfer	(49)	(545)
	<u>\$ 19,915</u>	<u>\$ 116,299</u>
Benefit obligation—September 30,	<u>\$ 19,915</u>	<u>\$ 116,299</u>

As of September 30, 2021 and 2020, the unfunded status of the benefit obligation is approximately \$19.9 million and \$116.3 million, respectively. The decrease in the unfunded status of the benefit obligation is due to the move to a private Medicare Exchange plan, and an update to the assumptions based on historical data. It is expected that postretirement benefit obligations will be funded by the Enterprise and its pre-65 Plan participants.

As of September 30, 2021 and 2020, the unfunded status of the benefit obligation is reported in the consolidated statements of financial position as follows (dollars in thousands):

	<u>2021</u>	<u>2020</u>
Accrued expenses and other current liabilities	\$ 1,826	\$ 3,663
Other long-term liabilities	<u>18,089</u>	<u>112,636</u>
Total	<u>\$ 19,915</u>	<u>\$ 116,299</u>

As of September 30, 2021 and 2020, amounts included in "Net assets" in the consolidated statements of financial position that are expected to be amortized to net periodic benefit cost in future years are as follows (dollars in thousands):

	<u>2021</u>	<u>2020</u>
Net actuarial (gain)/loss	\$ (45,565)	\$ 3,156
Prior service credit	<u>(53,636)</u>	<u>(5,100)</u>
Total	<u>\$ (99,201)</u>	<u>\$ (1,944)</u>

For the year ending September 30, 2022, the Enterprise estimates that approximately \$6.6 million of prior service credit, and approximately \$4.0 million of net actuarial gain from "Net assets" will be recognized into net periodic benefit cost.

The following benefit payments, which reflect expected future service, as appropriate, were expected to be paid as follows (dollars in thousands):

Years Ending September 30,

2022	\$ 1,826
2023	1,678
2024	1,563
2025	1,467
2026	1,417
2027 to 2031	6,245

14. IMPACT RELATED TO COVID-19 PANDEMIC

The World Health Organization declared coronavirus ("COVID-19") a "Public Health Emergency of International Concern" on January 30, 2020 and a global pandemic on March 11, 2020. COVID-19 has severely impacted the global economies and the pandemic was disruptive to the Enterprise's business as a result of the temporary closures and restrictions mandated by various governmental authorities intended to combat the pandemic. As a result, testing activities decreased significantly for the years ended September 30, 2021 and 2020. To mitigate the negative impact of the COVID-19 pandemic, the Enterprise deployed various staffing actions that resulted in approximately \$33.9 million in severance and unemployment expenses reported in "COVID-19 expenses" in the statement of activities for the year ended September 30, 2020. These expenses have been paid for as of September 30, 2021. For the years ended September 30, 2021, testing activities have improved. The Enterprise continues to closely monitor the impact of COVID-19 on its business including how it is impacting its customers, vendors and business partners.

On March 27, 2020, the U.S. Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted in response to COVID-19. The CARES Act includes various financial measures to assist entities, including temporary changes to income and non-income-based tax laws. The CARES Act did not have a material effect on the consolidated financial statements for the year ended September 30, 2021 and 2020.

15. SUBSEQUENT EVENTS

The Enterprise has evaluated all material events or transactions that occurred after September 30, 2021 through December 16, 2021, the date the consolidated financial statements were available to be issued and has determined that, other than matters described in Note 6 and below, there were no other subsequent events requiring adjustment to or disclosure in the consolidated financial statements.

On November 1, 2021, the Enterprise entered into an agreement for the sale of the building, classified as held for as of September 30, 2021 (see Note 5), for \$20.0 million, subject to certain closing conditions. The sale is expected to close in December 2021.

On November 9, 2021, the Enterprise entered into a definitive agreement to purchase a controlling interest of an admissions assessment company for approximately \$26.7 million, which was paid in cash and is subject to working capital and other customary purchase price adjustments. The company is in the business of developing and marketing admissions assessment platforms designed for use by K-12 and post-secondary academic admissions departments to assess and enroll students.

* * * * *

SUPPLEMENTAL SCHEDULE

EDUCATIONAL TESTING SERVICE
Employer Identification #21-0634479
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

<u>Federal Agency Program Title</u>	<u>Federal ALN #</u>	<u>Grant/Award Period</u>	<u>Grant/Award Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Passthrough to Subrecipients</u>	<u>Total Federal Expenditures</u>
Research & Development Cluster:						
U.S. Department of Education						
Direct:						
USED/IES - National Assessment of Educational Progress ("NAEP") 2019-2024 - Planning and Coordination Contract	84.R&D	July 19 - June 24	91990019C0043	-	\$ -	\$ 4,505,829
USED/IES - National Assessment of Educational Progress ("NAEP") 2019-2024 - Design, Analysis and Reporting Contract	84.R&D	July 19 - June 24	91990019C0045	-	-	16,376,749
USED/IES - National Assessment of Educational Progress ("NAEP") 2019-2024 - Item Development Contract	84.R&D	July 19 - June 24	91990019C0046	-	-	12,297,654
USED/IES - National Assessment of Educational Progress ("NAEP") 2019-2024 - Platform Development Contract	84.R&D	July 19 - June 24	91990019C0051	-	-	25,451,499
USED/IES - Exploring Writing Achievement and Its Role in Success at 4-Year Postsecondary Institutions	84.305A	July 16 - June 21	R305A160115	-	-	51,578
USED/IES - A Theory and Data Driven Approach for Identifying Evidence of Collaborative Problem Solving Skills	84.305A	July 17 - June 22	R305A170432	-	23,233	154,778
USED/IES - Changing Together: Classroom Observation for Peer Feedback and Reflection (C2)	84.305A	July 18 - June 23	R305A180149	-	-	108,703
USED/IES - Improving Students' Mathematics Experiences: How does success impact students' memories, motivation and engagement?	84.305A	July 19 - June 22	R305A190024	-	101,239	233,840
USED/IES - Exploring and Assessing the Development of Students' Argumentation Skills	84.305A	August 19 - July 22	R305A190242	-	229,142	365,880
USED/IES - Validating Automated Measures of Student Writing and the Student Writing Process to Help Classroom Teachers Implement Formative Assessment Practices	84.305A	July 21 - June 22	R305A210297	-	-	63,781

EDUCATIONAL TESTING SERVICE
Employer Identification #21-0634479
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2021

<u>Federal Agency Program Title</u>	<u>Federal ALN #</u>	<u>Grant/Award Period</u>	<u>Grant/Award Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Passthrough to Subrecipients</u>	<u>Total Federal Expenditures</u>
Research & Development Cluster (Continued):						
U.S. Department of Education						
Sub Awards:						
UTSA - Educational Research Training Program P-20 Pipeline Issues	84.305B	September 16 - August 21	1000003254	R305B160008	\$ -	\$ 12,814
The Trustees of Indiana University - Education Research, DAT-CROSS: Developing Assessments & Tools to Support the Teaching & Learning of Science Crosscutting Concepts	84.305A	October 17 - September 21	IN4240214ETS	R305A170634	-	26,000
RTI International - High School and Beyond Assessments	84.R&D	May 18 - May 23	1-312-0216458-65283L	GS-00Q-14-OADU-217	-	54,137
USED/IES - WestEd - Reading Apprenticeship SEED 2018	84.423A	October 18 - September 21	S-00017017	U423A180020	-	1,756
USED/IES - University of Memphis - Developing and validating web-administered, reading for understanding assessments for adult education	84.305A	May 20 - August 21	A20-0176-S002	R305A190522	-	232
USED/IES - University of Memphis - Developing and implementing a technology-based, reading comprehension instruction system for adult literacy students.	84.305A	September 20 - August 21	A21-0054-S002	R305A200413	-	465
National Science Foundation						
Direct:						
NSF - Developing Preservice Elementary Teachers' Ability to Facilitate Goal-Oriented Discussion in Science and Math	47.076	August 16 - July 21	1621344	-	-	145,538
NSF - Development and Empirical Recovery for a Learning Progression-Based Assessment of the Function Concept	47.076	September 16 - August 21	1621117	-	119,702	190,187
NSF - Big Data Collaborative Research IA Latent and Graphic Models for Complex Dependent Data in Education	47.070	January 17 - December 21	1633353	-	-	79,861

EDUCATIONAL TESTING SERVICE
Employer Identification #21-0634479
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2021

<u>Federal Agency Program Title</u>	<u>Federal ALN #</u>	<u>Grant/Award Period</u>	<u>Grant/Award Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Passthrough to Subrecipients</u>	<u>Total Federal Expenditures</u>
Research & Development Cluster (Continued):						
National Science Foundation						
Direct:						
NSF - Developing & Validating Assessments to Measure & Build Elementary Teachers' Content Knowledge for Teaching about Matters & Its Interactions within Teacher Education Setting	47.076	July 18 - June 22	1813254	-	\$ -	\$ 144,922
NSF - Collaborative Research: Supporting Teachers in Responsive Instruction for Developing Expertise in Science	47.076	September 18 - August 22	1812660	-	-	111,605
NSF - RAPID: Learning to Teach During COVID-19: Leveraging Simulated Classrooms as Practice-Based Spaces for Preservice Elementary Teachers within Online Teacher Education Courses	47.076	June 20 - May 21	2032179	-	-	121,345
NSF - Student Reasoning Patterns in Next Generation Science Standards Assessment	47.076	July 20 - June 22	2000492	-	-	163,953
NSF - Online Practice Suite: Practice Spaces, Simulations and Virtual Reality Environments for Preservice Teachers to Learn to Facilitate Argumentation Discussions in Math and Science	47.076	August 20 - July 23	2037983	-	530,388	958,406
NSF - Investigating the Role of Collaboration on the Development of Student Ideas using a Learning Progression for the Function Concept	47.076	July 21 - June 22	2101393	-	-	58,312
NSF - Using Natural Language Processing to Inform Science Instruction	47.076	July 21 - June 22	2101670	-	-	2,448
Department of Defense						
Direct:						
Army Research Institute - Refinement and Validation of the Cross Cultural Competency Assessment System Battery	12.431	July 16 - October 22	W911NF-16-2-0011	-	230,971	301,959

EDUCATIONAL TESTING SERVICE
Employer Identification #21-0634479
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2021

<u>Federal Agency Program Title</u>	<u>Federal ALN #</u>	<u>Grant/Award Period</u>	<u>Grant/Award Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Passthrough to Subrecipients</u>	<u>Total Federal Expenditures</u>
Research & Development Cluster (Concluded):						
Department of Defense						
Direct:						
Army Research Institute - Scoring Situational Judgment Tests: The Effect of Subject Matter Expert Qualifications	12.630	February 18 - March 22	W911NF-18-2-0018	-	\$ -	\$ 5,634
Army Research Institute (ARI) Collaborative Problem Solving (CPS) Skills: Estimating an Individual's Contribution to Small Group Performance	12.431	June 19 - June 22	W911NF-19-1-0106	-	-	367,370
Department of Health and Human Services						
Sub Awards:						
RAND Corporation - Improving Causal Inference Tools for Addiction Researchers	93.279	October 18 - June 22	SCON-00000244	R01DA045049	-	82,241
TOTAL RESEARCH AND DEVELOPMENT CLUSTER					1,234,675	62,439,476
Other Programs						
U.S. Department of Education						
Direct:						
USED - Regional Comprehensive Center Program - Region 3	84.283B	October 19 - October 24	S283B190024	-	-	989,768
TOTAL FEDERAL EXPENDITURES					\$ 1,234,675	\$ 63,429,244

See notes to Schedule of Expenditures of Federal Awards

**EDUCATIONAL TESTING SERVICE
EMPLOYER IDENTIFICATION #21-0634479**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2021**

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Educational Testing Service ("ETS") is a non-stock corporation exempt from federal income tax under Internal Revenue Code Section 501(c)(3). ETS has wholly owned for-profit subsidiaries which are not exempt from federal income tax. The consolidated financial statements include the accounts of ETS and its subsidiaries (the "Enterprise"). All intercompany balances and transactions have been eliminated. The audits, in accordance with *Government Auditing Standards*, did not include the operations of the subsidiaries of ETS because those entities did not receive federal awards subject to audit in accordance with Title 2 U.S. *Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"), but those entities were subject to audit in accordance with auditing standards generally accepted in the United States of America. The accompanying consolidated financial statements and notes to the consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America.

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of ETS. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. The Schedule's expenditures are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain expenditures are not allowable or are limited for reimbursement.

Further, because the Schedule presents only the federal awards of ETS, it is not intended to, and does not, present the financial position, revenues, expenses, and changes in net assets of the Enterprise.

For purposes of the Schedule, federal awards include all grants, contracts, and similar agreements entered into directly between ETS and agencies or departments of the federal government and all sub awards to ETS by nonfederal organizations pursuant to federal grants, contracts, and similar agreements.

2. INDIRECT COST RATES

ETS utilizes indirect cost rates approved by the cognizant agency, in lieu of the 10.0% de minimis indirect cost rate allowed under the Uniform Guidance.

3. FEDERAL ASSISTANCE LISTING NUMBER ("ALN") IDENTIFYING NUMBERS

The programs' titles and Federal Assistance Listing Number (ALN) identifying numbers were obtained from the federal or pass-through grantor, or from <https://sam.gov>. When no ALN number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract or grant number was used. If the programs in the Schedule do not have a contract or grant number, the number shown as the ALN number could be the awarding agency's two-digit prefix (or 99, if the awarding agency is not specified within the catalog) followed by "R&D", for the Research & Development Cluster.

4. RELATIONSHIP TO FEDERAL AND PASS-THROUGH ENTITY FINANCIAL REPORTS

The regulations and guidelines governing the preparation of Federal and pass-through entities' financial reports vary by pass-through entity and Federal agency, and among programs administered by the same agency. Accordingly, the amounts reported in the Federal and pass-through entities' financial reports do not necessarily agree with the amounts reported in the accompanying Schedule of Expenditures of Federal Awards, which is prepared as explained in Note 1 above.



Deloitte & Touche LLP
100 Kimball Drive
Parsippany, NJ 07054-2176
USA
Tel: +1 973 602 6000
Fax: +1 973 602 5050
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Audit Committee of Educational Testing Service
660 Rosedale Road
Princeton, New Jersey 08541

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Educational Testing Service ("ETS") and Subsidiaries (the "Enterprise"), which comprise the consolidated statement of financial position as of September 30, 2021, the related consolidated statement of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 16, 2021. The financial statements of the subsidiaries of ETS were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the subsidiaries of ETS.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Enterprise's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Enterprise's internal control. Accordingly, we do not express an opinion on the effectiveness of the Enterprise's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Enterprise's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Enterprise's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Enterprise's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

December 16, 2021

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Audit Committee of Educational Testing Service
660 Rosedale Road
Princeton, New Jersey 08541

Report on Compliance for Each Major Federal Program

We have audited Educational Testing Service ("ETS") and Subsidiaries (the "Enterprise") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Enterprise's major federal programs for the year ended September 30, 2021. The Enterprise's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Our audit, described below, did not include the operations of the subsidiaries of ETS because those entities did not require an audit of compliance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Enterprise's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Enterprise's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Enterprise's compliance.

Opinion on Each Major Federal Program

In our opinion, the Enterprise complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2021.

Report on Internal Control Over Compliance

Management of the Enterprise is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Enterprise's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Enterprise's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Deloitte & Touche LLP

December 16, 2021

**EDUCATIONAL TESTING SERVICE
EMPLOYER IDENTIFICATION #21-0634479**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

SECTION I—SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified? Yes None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of major programs

ALN Number(s):

Name of Program or Cluster:

Various

Research and Development Cluster

84.283B

USED – Regional Comprehensive Center
Program – Region 3

Dollar threshold used to distinguish between Type A and Type B programs: \$1,902,877

Auditee qualified as low-risk auditee? Yes No

(Continued)

**EDUCATIONAL TESTING SERVICE
EMPLOYER IDENTIFICATION #21-0634479**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

SECTION II—FINANCIAL STATEMENT FINDINGS AND RESPONSES:

No matters were reported.

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

No matters were reported.

(Concluded)



**EDUCATIONAL TESTING SERVICE
EMPLOYER IDENTIFICATION #21-0634479**

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

Not applicable – There were no findings reported in the prior year.