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# TANNER

Accountants & Advisors



**Consolidated Financial Statements  
and Single Audit Information  
For the Year Ended June 30, 2023  
Together with Independent Auditors' Reports**



# TANNER

## Independent Auditors' Report

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### **To the Audit Committee of the Board of Trustees WGU Corporation**

#### ***Opinion***

We have audited the accompanying consolidated financial statements of WGU Corporation and affiliates (collectively, the Organization) which comprise the consolidated statement of financial position as of June 30, 2023, the related consolidated statements of activities and cash flows for the year then ended, and the related notes to consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of WGU Corporation and affiliates as of June 30, 2023, and the changes in their net assets and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America (US GAAP).

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Recently Adopted Accounting Pronouncement***

As discussed in Note 1 to the consolidated financial statements, the Organization changed its method of accounting for leases due to the adoption of Accounting Standards Update No. 2016-02, Leases (Topic 842). Our opinion is not modified with respect to this matter.

#### ***Merger of Entities Under Common Control***

As discussed in Note 2 to the consolidated financial statements, during the year ended June 30, 2023, the Organization merged with several affiliate entities that were previously under common control. The transaction was effectuated via board restructuring and modifications to various entities' articles of incorporation. No cash consideration was paid or received in the transaction. As required under US GAAP for such a transaction: (1) all assets, liabilities, and net assets acquired in the transaction were recorded at carry-over basis; and (2) the transaction was accounted for as if it had occurred at the beginning of the reporting period. Our opinion is not modified with respect to this matter.

#### ***Responsibilities of Management for the Financial Statements***

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

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2023, as required by 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)*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility

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of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. 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 a report dated November 3, 2023, on our consideration of the Organization'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 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 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 Organization's internal control over financial reporting and compliance.

*Tanner LLC*

November 3, 2023

## Consolidated Statement of Financial Position

As of June 30, 2023

In thousands of dollars

### Assets

Cash and cash equivalents	\$	71,756
Student accounts receivable, net of allowance for doubtful accounts of \$4,468		62,087
Pledges receivable, net		5,820
Prepaid expenses and other assets		30,756
Investments		525,817
Property and equipment, net		23,881
Internally developed software, net		37,376
Program development costs, net		14,078
Operating lease right-of-use assets		43,968
Total assets	\$	<u>815,539</u>

### Liabilities and Net Assets

#### Liabilities:

Accounts payable and accrued liabilities	\$	116,172
Deferred revenue and student deposits		267,609
Lease liabilities		47,661
Total liabilities		<u>431,442</u>

Commitments and contingencies (see Notes 15 and 18)

#### Net assets:

##### Without donor restrictions:

Attributable to controlling interest	353,897
Attributable to noncontrolling interest	9,676
Total net assets without donor restrictions	<u>363,573</u>

##### With donor restrictions

20,524

Total net assets	<u>384,097</u>
Total liabilities and net assets	\$ <u>815,539</u>

## Consolidated Statement of Activities

For the Year Ended June 30, 2023

<i>In thousands of dollars</i>	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Revenues and support:			
Education services, net	\$ 1,125,215	\$ -	\$ 1,125,215
Contributions and grants	6,310	2,654	8,964
Other income	3,030	-	3,030
Net assets released from restrictions	2,434	(2,434)	-
<b>Total revenues and support</b>	<b>1,136,989</b>	<b>220</b>	<b>1,137,209</b>
Expenses:			
Academic expenses	694,573	-	694,573
Marketing	234,007	-	234,007
Information systems	124,213	-	124,213
Institutional support	72,051	-	72,051
Research	7,421	-	7,421
Fundraising	3,609	-	3,609
<b>Total expenses</b>	<b>1,135,874</b>	<b>-</b>	<b>1,135,874</b>
Change in net assets from operating activities	1,115	220	1,335
Net gain (loss) on investments	24,423	(475)	23,948
Change in net assets from operating and investment activities	25,538	(255)	25,283
Other changes in net assets:			
Adjustment for additional investment in Juvo Ventures, LP	(3,866)	-	(3,866)
External capital contributions	835	-	835
<b>Total other changes in net assets</b>	<b>(3,031)</b>	<b>-</b>	<b>(3,031)</b>
Increase (decrease) in net assets	22,507	(255)	22,252
Net assets, beginning of the year	341,066	20,779	361,845
Net assets, end of the year	\$ 363,573	\$ 20,524	\$ 384,097

Note: The change in net assets from operating and investment activities of \$25,538 (thousands) reflected above includes a decrease of \$52 (thousands) attributable to non-controlling interest.

## Consolidated Statement of Cash Flows

For the Year Ended June 30, 2023

In thousands of dollars

### Cash flows from operating activities:

Increase in net assets	\$	22,252
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization		12,883
Amortization of right-of-use assets		9,876
Gain on investments		(20,871)
Bad debt expense		4,550
Loss on the disposal of property and equipment		186
Decrease (increase) in operating assets:		
Student accounts receivable		(32,294)
Pledges receivable		804
Prepaid expenses and other assets		(8,455)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities		20,385
Deferred revenue and student deposits		40,808
Lease liabilities		(10,592)
Net cash provided by operating activities		<u>39,532</u>

### Cash flows from investing activities:

Net purchase of investments		(41,148)
Purchases of property and equipment		(11,839)
Expenditures for internally developed software		(13,965)
Expenditures for program development		(12,506)
Net cash used in investing activities		<u>(79,458)</u>
Net change in cash and cash equivalents		(39,926)
Cash and cash equivalents, beginning of the year		<u>111,682</u>
Cash and cash equivalents, end of the year	\$	<u>71,756</u>

### Non-cash items:

Increase in investments associated with deferred compensation liability	\$	436
Adoption of ASU 842 - right-of-use assets obtained in exchange for lease obligations	\$	689

## **Notes to Consolidated Financial Statements**

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### **1. Summary of Significant Accounting Policies**

#### **Organization**

WGU Corporation is a not-for-profit corporation with headquarters in Salt Lake City, Utah, that was founded in 1997 by various governors of the western United States. Prior to January 1, 2023, WGU Corporation was named Western Governors University and functioned as an online, competency-based, degree-granting, higher-education institution. As of that date, the legal and governance structure and operations were updated, such that the newly named WGU Corporation transitioned into a supporting role, and the university operations were transitioned to an entity that was renamed Western Governors University (WGU). As of January 1, 2023, WGU Corporation supports the operations of WGU and other affiliated organizations, which are controlled by WGU Corporation through board governance.

WGU is accredited by the Northwest Commission on Colleges and Universities, the Commission on Accreditation for Health Informatics and Information Management Education, the Commission on Collegiate Nursing Education, and the National Council for Accreditation of Teacher Education. WGU's mission is to improve quality and expand access to post-secondary educational opportunities by providing a means for individuals to learn independent of time or place and to earn competency-based degrees and other credentials that are credible to both academic institutions and employers.

In addition to WGU, the following entities are included in the consolidated financial statements: WGU Labs; WGU Advancement (merged into WGU Corporation on December 31, 2022); WGU Academy; Juvo Ventures, LLC; Juvo Ventures Fund GP, LLC; Juvo Ventures Fund, LP; MeasurEd, LLC; Pineview Financial, LLC; Suncrest Financial, LLC; WGU Labs Management, LLC; WGU Labs General Partnership, LLC; WGU Labs Fund I, LP; WGU Holding, LLC; WGU Reserve, LLC; and certain other affiliates with insignificant operations and assets in relation to the overall consolidated financial statements.

#### **Consolidated Financial Statements**

The accompanying consolidated financial statements include the accounts of WGU Corporation, WGU, and other affiliated entities noted above, which are collectively referred to as the "Organization" throughout the notes to the consolidated financial statements. All significant intercompany balances and transactions have been eliminated in consolidation.

#### **Basis of Presentation**

The financial statements of the Organization have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

**Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and Board of Trustees.

**Net assets with donor restrictions:** Net assets subject to restrictions imposed by donors and grantors. Some donor restrictions are temporary in nature, which restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where the donor stipulates the funds be maintained in perpetuity.

#### **Use of Estimates**

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

#### **Recently Adopted Accounting Pronouncement**

Effective July 1, 2022, the Organization adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. The Organization has elected the package of practical expedients permitted in Topic 842. Accordingly, the Organization accounted for its existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contracts contain a lease under Accounting Standards Codification (ASC) Topic 842, (b) whether classification

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of the leases would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments (as of June 30, 2022) would have met the definition of initial direct costs in ASC Topic 842 at lease commencement. The Organization also adopted the private company practical expedient to use the risk-free rate as the discount rate in estimating the operating lease liability as of July 1, 2022. As a result of the adoption of the new lease accounting guidance, the Organization recognized on July 1, 2022 (a) an operating lease liability (in thousands of dollars) of \$57,564, which represents the present value of the remaining lease payments (in thousands of dollars) of \$63,588, discounted using the Organization's weighted-average risk-free rate of 2.9%, and (b) an operating right-of-use asset (in thousands of dollars) of \$53,155, which represents the lease liability (in thousands of dollars) of \$57,564 adjusted for deferred rent (in thousands of dollars) of \$4,409.

#### ***Cash Equivalents***

The Organization considers all money market funds and highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents.

#### ***Student Accounts Receivable***

Student accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on student accounts receivable using the allowance method which is based on past experience of payments received. According to the Organization's policy, student accounts receivable are considered due and payable at the beginning of each term. Students on an installment plan are required to pay their tuition and fees by a specified due date. Any amounts not paid by the due date are considered past due. The Organization's policy is to write off uncollectible student accounts receivable when management determines the possibility of collection to be remote.

#### ***Contributions and Pledges Receivable***

Contributions without conditions are recognized at fair value in the period the donor's commitment is made. Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk adjusted rate applicable to the commitments received. Amortization of the discounts is included in contribution revenue. Conditional promises to give, that is, those with a measurable performance or other barriers, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

The Organization reports gifts of equipment (or other long-lived assets) as support without donor restrictions at estimated fair value, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. The Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Allowance is made for uncollectible contributions receivable based upon management's judgment and analysis of past collection experience and other relevant factors.

#### ***Investments***

The Organization maintains accounts with several brokerage firms, which accounts contain cash and marketable securities. Marketable securities are recorded at fair value as described in Note 5. The Organization's investments in marketable securities are exposed to various risks, such as interest rate, currency exchange rate, credit, and overall market volatility. Due to the level of risk associated with these marketable securities, it is at least reasonably possible that changes in the values of marketable securities will occur in the near term and that such changes could materially affect the amounts reported in the Organization's financial statements.

The Organization also, as further described in Note 5, has investments in real estate properties and various private companies in the form of stock, simple agreements for future equity (SAFE), and convertible debt. These investments are accounted for at fair value with changes in fair value recognized in the statement of activities. Since these investments do not have a readily determinable fair value, the fair value is measured at cost plus or minus changes resulting from observable price changes in orderly transactions of an identical or a similar investment of the same issuer, less impairment.

In addition, as described in Note 5, the Organization has an investment in a private company, which is accounted for using the equity method wherein the Organization records in its financial statements its proportionate share of the earnings and losses of the investee.

***Property and Equipment***

The Organization capitalizes all expenditures for property and equipment for which the cost exceeds \$5,000 and the useful life is one year or longer. Depreciation and amortization are calculated using the straight-line method over the estimated economic useful lives of the assets or over the related lease terms (if shorter) as follows:

<b>Assets</b>	<b>Useful Lives</b>
Computers	3 Years
Software	4-5 Years
Equipment and automobiles	5 Years
Furniture and fixtures	5 Years
Leasehold improvements	10 Years
Buildings	20 Years

Expenditures that materially increase values or capacities or extend useful lives of property and equipment are capitalized. Routine maintenance, repairs, and renewal costs are expensed as incurred. Upon sale or other retirement of depreciable property, the cost and accumulated depreciation and amortization are removed from the related accounts and any gain or loss is reflected in the consolidated statement of activities. Donated property and equipment is recorded at fair value on the date of donation.

***Internally Developed Software***

The Organization’s development costs for internal-use software are charged to expense as incurred until the preliminary project stage has been completed and application development begins. The Organization discontinues capitalization upon entering the post-implementation stage and expenses ongoing maintenance and support costs. Software development costs consist primarily of compensation and benefits paid to software engineers as well as third-party contractors. After becoming available for general use, the costs are amortized over a period of four years.

***Capitalized Program Development Costs***

The Organization internally develops curriculum and electronic instructional materials for certain courses. The curriculum is primarily developed by employees and contractors and is integral to WGU’s learning system. Students do not acquire the curriculum or future rights to it.

The Organization capitalizes course development costs. Costs that qualify for capitalization are external direct costs, payroll, and payroll-related costs. Costs related to general and administrative functions are not capitalized and are expensed as incurred. Capitalization ends at such time that the course and/or material is available for general use by faculty and students. After becoming available for general use, the costs are amortized on a course-by-course basis over a period of three to five years. After the amortization period commences, the cost of maintenance and support is expensed as incurred, because it does not provide future benefit. If it is determined that the curriculum will not be used, the capitalized curriculum costs are written off and expensed in the period of this determination.

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### **Long Lived Assets**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. When such events or changes in circumstances indicate that an asset may not be recoverable, an impairment loss is recognized for the amount by which the asset's carrying amount exceeds its estimated fair value.

### **Leases**

The Organization leases certain office space. The Organization assesses whether an arrangement qualifies as a lease (i.e., conveys the right to control the use of an identified asset for a period of time in exchange for consideration) at inception and only reassesses its determination if the terms and conditions of the arrangement are changed. For all arrangements where it is determined that a lease exists, the related right-of-use assets and lease liabilities are recorded within the statement of financial position as either operating or finance leases. At inception or modification, the Organization has adopted the private company election, which allows the Organization to calculate the present value of lease payments using the risk-free rate applicable to the lease. The present value is adjusted for prepaid lease payments, lease incentives, and initial direct costs (e.g. commissions). The Organization's leases may require fixed rental payments, variable lease payments based on usage or sales and fixed non-lease costs relating to the leased asset. Variable lease payments are generally not included in the measurement of the right-of-use assets and lease liabilities. Leases with an initial term of 12 months or less are not recorded on the statement of financial position. Lease expense is recognized for these leases on a straight-line basis over the lease term. Fixed non-lease costs, such as taxes and insurance, are included in the measurement of the right-of-use asset and lease liability as the Organization does not separate lease and non-lease components.

### **Revenue Recognition, Deferred Revenue and Student Deposits**

The Organization follows the revenue recognition guidance of ASC Topic 606, *Revenue from Contracts with Customers*. This ASC outlines five steps to achieve proper revenue recognition: (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies the performance obligations. Under this standard, revenue is recognized on the basis of when control passes to the customer, instead of the previous model based upon when risks and rewards pass to the customer.

The standard requires that entities analyze their contracts with customers and identify all performance obligations required to be satisfied, whether those performance obligations include transferring goods or services. Revenue is then recognized when control of each good or service is transferred to the customer.

The Organization's contracts with students consist of a single performance obligation to provide degree program academic services during a six-month term and non-degree program academic services over terms that are less than one year. Tuition and fees become due once a student has enrolled in courses and the first day of the term begins. Students are also awarded scholarships, waivers, and discounts, which are considered part of the total contract price and amortized to revenue, along with tuition and fees, over the student's six-month term. The academic services revenue is amortized rateably over the term on the basis that the student has access to and simultaneously consumes the benefits from the learning resources and course material over the entire term. Deferred revenue represents the net amount of tuition, fees, scholarships, waivers, and discounts not yet recognized as of the date of the accompanying consolidated statement of financial position. Student deposits received in advance of the related services being rendered are also recorded as a liability.

Assessment fees provide students a third opportunity to pass an exam, which is not part of the initial contract with the student. As a result, assessment fees are recognized separately from the academic services revenue when the student takes an exam. All other student fees are part of the total contract price and are recognized rateably over the term.

If a student elects to withdraw from the Organization prior to the completion of a degree program term, a portion of the tuition is refunded to the student provided that less than 60% of the term has been completed. The Organization records a withdrawal reserve for expected future withdrawals, which reserve, as of June 30, 2023, is classified as a liability in the accompanying consolidated statement of financial position.

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The Organization has elected to use the practical expedient of not accounting separately for a financing component, since students are obligated to pay all amounts due in less than one year.

#### ***Federal, State, and Private Grants***

The Organization has been awarded various grants from private foundations, the federal government, and several states. Government grants normally provide for the recovery of direct and indirect costs, subject to audit. Unspent amounts may be subject to return at the request of the grantor. When determined to be exchange transactions, grants are recognized as revenue when control of the related goods and services passes to the grantor. If the grant is determined to be a contribution, the grant is recognized as revenue when receipt or retention of the grant funds becomes unconditional.

#### ***Expense Allocation***

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. All direct costs are charged to the related functional area. Indirect costs are allocated to the functional areas based on estimates made by management taking into account the nature of the expense and how it relates to the functional area. The Organization's significant indirect costs of benefits, office and equipment costs, and depreciation and amortization are allocated to the functional areas based upon the number of employees or number of employees occupying office space. Institutional support costs include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

#### ***Advertising Costs***

Advertising costs are expensed when incurred. Advertising expense was approximately \$176 million for the year ended June 30, 2023.

#### ***Income Taxes***

WGU Corporation, Western Governors University, WGU Labs, WGU Advancement, and WGU Academy qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and are generally exempt from federal and state income taxes, except for taxes on income from activities unrelated to their exempt purposes. The consolidated wholly-owned LLC partnerships are treated as disregarded entities for income tax purposes to the extent that their activities are related to an exempt purpose of their tax-exempt parent. The Organization records its allocated income or loss from other majority-owned LLCs, and based on the nature of the operations of those LLCs, determines if any income tax will be due. Activities unrelated to the exempt purpose are subject to income tax. The consolidated LP partnerships seek investments in early-stage, mission-aligned companies. Certain activities of the LP partnerships could be subject to taxation and such taxes are recorded in the consolidated financial statements as applicable. Management believes the Organization has taken no tax positions that more likely than not would not be sustained upon examination by taxing authorities. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements.

#### ***Fair Value Measurement***

The Organization reports certain assets and liabilities at fair value on a recurring or non-recurring basis depending on the underlying policy for the particular item, in accordance with fair value standards. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. In addition, the Organization reports certain investments using the net asset value (NAV) per share as determined by investment managers as a practical expedient.

Fair value standards also require the Organization to classify the financial instruments measured at fair value into a three-level hierarchy, based on the priority of inputs to the valuation technique. Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 Quoted prices in active markets for identical instruments as of the reporting date.

Level 2 Observable inputs, other than Level 1, including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.

**Level 3** Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

## 2. Legal and Governance Restructuring

To streamline board-level governance of the Organization and to better support WGU systems expansion and impact on higher education, the legal and governance structure of the entities formerly known as Western Governors University and The Corporation of Western Governors University (CWGU) were updated effective January 1, 2023. The structural updates involved CWGU being renamed to Western Governors University and assuming its role and mission, and the entity formerly known as Western Governors University being renamed to WGU Corporation and transitioning into a supporting role. The articles of incorporation of Western Governors University (formerly known as CWGU) were amended such that its board is nearly identical to that of the entity renamed to WGU Corporation. Because of the control through the board, WGU and all affiliated entities are consolidated with WGU Corporation.

Since the restructuring involved entities under common control, the accounts of the formerly named CWGU and its subsidiaries and affiliated entities are included in the consolidated financial statements of WGU Corporation as of and for the year ended June 30, 2023, as if the restructuring had occurred as of the beginning of that fiscal year. The below table consolidates the assets, liabilities, and net asset beginning balances as of July 1, 2022.

	Previously Reported			Eliminations	Consolidated Balances
	WGU	CWGU			
Assets	\$ 647,791	\$ 82,784	\$ (41,296)	\$ 689,279	
Liabilities	315,982	23,889	(12,437)	327,434	
Net assets	331,809	58,895	(28,859)	361,845	

## 3. Liquidity and Availability

Financial assets which are available for general expenditure, meaning they are without donor or other restrictions limiting their use within one year of the most recent date of the statement of financial position, comprise the following as of June 30, 2023 (in thousands of dollars):

Cash and cash equivalents	\$ 71,756
Student accounts receivable, net	62,087
Pledges receivable, net	5,820
Investments	443,477
	<u>583,140</u>
Less amounts not available to be used for general expenditure within one year:	
Net assets with donor restrictions not segregated from general assets	(20,524)
Long-term portion of pledges receivable	<u>(3,724)</u>
	<u>\$ 558,892</u>

The Organization has financial assets comprised of cash and cash equivalents, student accounts receivable, and investments, which can be liquidated within one year of the date of the consolidated statement of financial position.

Included within the Organization’s investments at fair value is a hedge fund, and due to the existence of lock-up or redemption restrictions, only a portion of the hedge fund is redeemable within one year of the date of the consolidated statement of financial position. As a result, a portion of the hedge fund investment is excluded from investments in the table above. Additionally, due to the illiquidity of level 3 investments and other private company investments, all level 3 investments and the Organization’s equity method investments were also excluded from investments in the table above.

The Organization is not dependent on contributions from public or private sources to fund its operations. Rather, the Organization derives the majority of its revenues from fees for services rendered, which are primarily funded by students obtaining federal student loans and/or grants from United States Government Title IV funds as well as by individual payment plans. Therefore, only limited amounts of the Organization’s financial assets are not available for expenditure within one year due to donor restrictions. The Organization’s private investment funds and hedge fund had unfunded commitments of approximately \$32.4 million as of June 30, 2023, meaning that those funds have the ability to call for a capital contribution from the Organization.

The Organization monitors its liquidity and cash flow needs through the use of a budget as well as daily and monthly reviews to ensure that cash balances are sufficient to cover cash outflows. No external financing has been needed to fund operations. However, if additional funds were needed, the Organization could liquidate a portion of its investments to cover any cash flow needs. The accompanying consolidated statement of cash flows identifies the sources and uses of the Organization’s cash and the positive cash flow generated from operating activities for the year ended June 30, 2023.

#### 4. Pledges Receivable

Pledges receivable consist of promises to give by donors to provide scholarships to the Organization or support other organization objectives. Pledges due in more than one year were discounted at 2.0% to reflect the present value of the estimated future cash flows, which discount is amortized over the life of the related pledge.

Pledges receivable consist of the following as of June 30, 2023 (in thousands of dollars):

Amounts in subsequent fiscal years:	
Year 1	\$ 2,096
Year 2	814
Year 3	777
Year 4	766
Year 5	761
Thereafter	911
Total	6,125
Less unamortized discount	(305)
Total	\$ 5,820

#### 5. Investments

The valuation procedures applied for investments in private companies include consideration of economic and market conditions, current and projected financial performance of the investee companies, recent financing transactions, recent sales of similar companies, and the investee companies’ management teams. The Organization believes that the cost of an investment in a private company is initially considered the best indication of estimated fair value unless there have been significant subsequent positive or negative developments that justify an adjustment in the fair value estimate.

The Organization primarily acquires its investments in private companies by direct purchase from the issuers, and the Organization values the securities on the premise that, in most instances, they may not be sold without registration under the Securities Act of 1933. The price of these investments is determined by direct negotiations between the Organization and the issuer.

During the year ended June 30, 2023, WGU Corporation purchased an additional interest in Juvo Ventures, LP for \$3,866 (in thousands of dollars), which interest was held by a third party. Since Juvo Ventures, LP is consolidated, this caused an additional elimination of net assets on the consolidated statement of activities.

The following table sets forth, by level within the fair value hierarchy, the investments measured on a recurring basis at fair value as of June 30, 2023 (in thousands of dollars):

	Level 1	Level 2	Level 3	Total
Corporate securities	\$ 115,967	\$ -	\$ -	\$ 115,967
Index/mutual funds/REITs	68,939	-	-	68,939
Exchange traded products	19,719	-	-	19,719
Fixed income funds	17,866	-	-	17,866
Corporate notes and bonds	-	139,740	-	139,740
US and municipal bonds	-	35,141	-	35,141
Private company stock	-	-	33,220	33,220
Real estate properties	-	-	8,186	8,186
Convertible promissory notes	-	-	5,908	5,908
Simple agreements for future equity (SAFE)	-	-	5,574	5,574
	<u>\$ 222,491</u>	<u>\$ 174,881</u>	<u>\$ 52,888</u>	<u>450,260</u>
Private investment funds - measured at the NAV per unit practical expedient				13,427
Alternative investments - measured at the NAV per unit practical expedient				57,631
Investment - equity method				4,499
<b>Total</b>				<u>\$ 525,817</u>

The following table summarizes the return on investments for the year ended June 30, 2023 (in thousands of dollars):

	Without Donor Restrictions	With Donor Restrictions	Total
Income, interest and dividends	\$ 15,255	\$ -	\$ 15,255
Net realized and unrealized gains (losses)	10,794	(475)	10,319
Management fees	(1,626)	-	(1,626)
<b>Net gain (loss) on investments</b>	<u>\$ 24,423</u>	<u>\$ (475)</u>	<u>\$ 23,948</u>

The following table summarizes information about investments measured at the NAV per share practical expedient (in thousands of dollars).

	<b>Fair Value June 30, 2023</b>	<b>Unfunded Commitments June 30, 2023</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Private investment funds	\$ 13,427	\$ 11,491	*	*
Alternative investments	57,631	20,886	**	**

\*The private investment funds have various redemption frequencies and notice periods, which range from monthly and quarterly redemptions with 30 and 60-day notices required, respectively, to funds with a one-year lock or funds only being redeemable upon a liquidity event of the underlying investments. The unfunded commitments are funded with Organization investment balances already held with the respective financial institution.

\*\*The funds within the alternative investments have various redemption frequencies and notice periods and include monthly, quarterly, semi-annual, and annual redemption frequencies with a required notice period ranging from 60 to 120 days. Certain of the funds also have a lock-up provision, where redemption is not possible until one or two years after the initial investment date.

## 6. Property and Equipment

Property and equipment consisted of the following as of June 30, 2023 (in thousands of dollars):

Computers	\$ 14,885
Leasehold improvements	18,991
Software	5,755
Furniture and fixtures	4,944
Assets under development	4,432
Equipment	2,063
Buildings	957
Automobiles	586
Total cost	52,613
Accumulated depreciation and amortization	(28,732)
Property and equipment, net	\$ 23,881

Depreciation and amortization expense for property and equipment for the year ended June 30, 2023 totaled approximately \$11.5 million.

## 7. Internally Developed Software

Internally developed software consisted of the following as of June 30, 2023 (in thousands of dollars):

Internally developed software in progress	\$	25,149
Internally developed software in use		15,416
Total cost		40,565
Accumulated amortization		(3,189)
Internally developed software, net	\$	37,376

Amortization expense for internally developed software for the year ended June 30, 2023 totaled approximately \$1.1 million.

## 8. Program Development Costs

Program development costs consisted of the following as of June 30, 2023 (in thousands of dollars):

Program development in progress	\$	11,548
Course curriculum		2,823
Total cost		14,371
Accumulated amortization		(293)
Program development costs, net	\$	14,078

Amortization expense for program development costs for the year ended June 30, 2023 totaled approximately \$293 thousand.

## 9. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following as of June 30, 2023 (in thousands of dollars):

Accrued payroll, benefits, and general liabilities	\$	78,470
Vendor payables		30,226
Withdrawals reserve		7,476
Total	\$	116,172

## 10. Margin Line of Credit

The Organization negotiated a margin line of credit with an investment broker. Under the terms of the line of credit, the Organization may borrow 33.3% of the current value of investments held with the investment broker up to a maximum of \$50 million, with interest at the Secured Overnight Financing Rate plus 1.10%. No draws on the line of credit have yet been made as of June 30, 2023. The line expires if the investments securing the line are liquidated from the investment broker.

## 11. Endowment

The Organization's endowment includes donor-restricted investments. As required by US GAAP, net assets associated with endowment funds are classified based on the existence or absence of donor-imposed restrictions.

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### ***Interpretation of Relevant Law***

The Board of Trustees of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the directions of the applicable donor gift instrument at the time the accumulation is added to the fund. Earnings on endowment funds are classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with donor stipulation or the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and investment appreciation
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

### ***Return Objectives and Risk Parameters***

The Organization's investment portfolio is managed to provide for the long-term support of the Organization. Accordingly, these funds are managed with disciplined long-term investment objectives and strategies designed to meet cash flow and spending requirements. Management of the assets is designed to attain the maximum total return consistent with acceptable and agreed upon levels of risk.

### ***Strategies Employed for Achieving Objectives***

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Changes in endowment net assets for the year ended June 30, 2023 were as follows (in thousands of dollars):

Endowment net assets, beginning of year, July 1, 2022	\$	1,327
Investment income		141
Appropriation of endowment assets for expenditure		(49)
Restricted contributions into endowment		334
Matching contributions		880
Endowment net assets, end of year, June 30, 2023	\$	2,633

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires. In accordance with US GAAP, deficiencies of this nature would be reported as net assets with donor restrictions. As of June 30, 2023, there were no deficiencies of this nature. Total net assets designated by the Organization to be included in the endowment were \$880 (in thousands of dollars) as of June 30, 2023, which represent matching contributions from the Organization.

Distributions of endowment funds are approved by the Board of Trustees and are made when deemed appropriate.

## 12. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following as of June 30, 2023 (in thousands of dollars):

<b>Purpose restrictions:</b>	
Foundation determined programs	\$ 10,924
Endowment earnings not yet appropriated for scholarships	81
Total purpose restriction for scholarship programs	11,005
Other activities or programs	6,557
Total purpose restrictions	17,562
<b>Restricted in perpetuity:</b>	
Pledges and endowments for scholarships	2,962
Total net assets with donor restrictions	\$ 20,524

## 13. Revenues

The Organization's net education services revenues, disaggregated by timing of recognition, are as follows for the year ended June 30, 2023 (in thousands of dollars):

Academic services:	
Degree program revenues (over-time)	\$ 1,119,513
Assessment fees (point-in-time)	1,740
Non-degree program revenues (over-time)	3,962
Total	\$ 1,125,215

## 14. Expenses by Nature and Function

Expenses by nature and function for the year ended June 30, 2023 are as follows (in thousands of dollars):

	Academic expenses	Information systems	Institutional support	Marketing	Fundraising	Research	Total
Wages, taxes and benefits	\$ 554,155	\$ 65,767	\$ 48,250	\$ 33,839	\$ 2,488	\$ 5,488	\$ 709,987
Marketing costs	-	-	-	176,350	-	-	176,350
Student resources	58,912	-	-	-	-	-	58,912
Consulting and other fees	17,395	2,097	10,655	8,913	564	887	40,511
Technology costs	2,425	28,446	1,381	342	-	32	32,626
Other labor costs	17,837	8,263	1,447	1,885	94	428	29,954
Office and equipment costs	7,659	15,131	1,892	1,873	98	198	26,851
External assessment costs	23,435	-	-	-	-	-	23,435
Travel, meetings and events	4,162	737	1,898	10,288	334	241	17,660
Depreciation and amortization	4,040	3,772	4,506	427	12	126	12,883
Other costs	4,553	-	2,022	90	19	21	6,705
Total expenses	\$ 694,573	\$ 124,213	\$ 72,051	\$ 234,007	\$ 3,609	\$ 7,421	\$ 1,135,874

## 15. Commitments

### Operating Leases

The Organization leases several office spaces under non-cancelable operating lease agreements expiring on various dates through June 2037. Lease assets and liabilities consisted of the following as of June 30, 2023 (in thousands of dollars):

Right-of-use operating assets	\$	43,968
Operating lease liabilities		47,661

The following table reconciles the undiscounted future cash flows to the operating lease liabilities recorded within the statement of financial position:

<b>Years ending June 30,</b>		
2024	\$	10,380
2025		11,341
2026		10,724
2027		7,693
2028		6,074
Thereafter		5,256
Total lease payments		51,468
Less: Interest		(3,807)
Present value of lease liabilities	\$	47,661

The weighted average remaining lease terms and discount rate were as follows as of June 30, 2023:

<b>Lease Term and Discount Rate</b>	
Weighted average remaining lease term (years) of operating leases	5.25
Weighted average discount rate of operating leases	2.9%

The components of lease costs were as follows for the year ended June 30, 2023 (in thousands of dollars):

Operating lease costs	\$	10,630
Variable lease costs		1,248
Less sublease income		(780)
Total lease costs	\$	11,098

As of June 30, 2023, the Organization had entered into an operating lease for office space for which the lease term had not yet commenced. The right-of-use asset and lease liability are expected to be approximately \$2.3 million. This lease has a term of seven years and will commence during the year ending June 30, 2024.

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## **16. Concentrations**

The Organization places its cash and cash equivalents with financial institutions. Balances on deposit generally exceed federally insured limits of \$250 (in thousands of dollars) per financial institution. The Organization monitors its exposure with these institutions and has not experienced any losses related to these accounts and does not believe that, as a result of this concentration, it is subject to unusual financial risk beyond the normal risk associated with commercial banking relationships.

The Organization had a vendor which comprised 23% of total purchases for the year ended June 30, 2023.

For the year ended June 30, 2023, approximately 53%, of the Organization's education services revenues were derived from student loans or grants, which were provided by United States Government Title IV funds.

## **17. Employee Benefit Plans**

The Organization has a defined contribution profit sharing plan (the "Plan") under section 403(b) of the Internal Revenue Code for the benefit of its employees. Participants may elect to contribute up to 100% of their annual eligible earnings on a pre-tax basis, subject to the maximum amount allowable by the Internal Revenue Code. Participants may also contribute amounts representing distributions from other tax qualified retirement plans. The Organization makes matching and nondiscretionary employer contributions each pay period based on the participants' eligible earnings. During the year ended June 30, 2023, the Organization contributed approximately \$26.4 million to the Plan.

## **18. Contingencies**

### ***Litigation and Claims***

Various claims, lawsuits, and other contingent liabilities arise in the ordinary course of the Organization's activities. In the opinion of management, all such matters have been either adequately provided for, are without merit, or are of such a nature that if disposed of unfavorably, would not have a material adverse effect on the consolidated financial position or change in net assets of the Organization.

## **19. Employment Agreements**

The Organization has employment agreements with several of its key executives which, among other things, specify salary amounts and provide compensation for involuntary termination for any reason other than acts of dishonesty or fraud. In one case, compensation for involuntary or voluntary termination, under certain conditions, could range from nothing to three times the executive's previous year's gross taxable earnings.

The Organization has entered into deferred compensation agreements with 15 executives which are fully funded and will be paid out in future years as specified by the agreements. The balance of the related investments for these deferred compensation agreements was approximately \$2.9 million as of June 30, 2023.

## **20. Subsequent Events**

Management has evaluated events and transactions for potential recognition or disclosure through November 3, 2023, which is the date the financial statements were available to be issued.

## Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2023

Federal Grantor/ Pass Through Grantor/ Program or Cluster Title	Federal AL Number	Pass- Through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Education</b>			
Student Financial Assistance Program Cluster:			
Federal Direct Student Loans	84.268	N/A	\$ 587,610,056
Federal Pell Grant Program	84.063	N/A	231,232,523
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	N/A	1,153,369
Federal Supplemental Educational Opportunity Grant (FSEOG)	84.007	N/A	6,883,331
Postsecondary Education Scholarship for Veteran's Dependents	84.408	N/A	6,501
Federal Work-Study Program (FWS)	84.033	N/A	<u>2,555,704</u>
Total U.S. Department of Education Student Financial Assistance Program Cluster			829,441,484
Passed through from multiple states - Vocational Rehabilitation Grants to States	84.126	Multiple	<u>584,738</u>
Total U.S. Department of Education			<u>830,026,222</u>
<b>U.S. Department of Agriculture</b>			
American Rescue Plan Act/Iowa TPRAs	21.027	Multiple	<u>503,316</u>
<b>U.S. Department of Labor</b>			
Passed through from multiple states - Trade Adjustment Assistance	17.245	Multiple	197,806
Passed through from multiple states - Workforce Innovation and Improvement Act	17.258	Multiple	<u>7,700</u>
Total U.S. Department of Labor			<u>205,506</u>
Total Expenditures of Federal Awards			<u>\$ 830,735,044</u>

### Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Western Governors University (WGU) under programs of the federal government for the year ended June 30, 2023. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of WGU, it is not intended to, and does not, present the consolidated financial position, changes in net assets, or cash flows of WGU. WGU includes loans granted under the Direct Student Loans Program as expenditures of federal awards.

## ***Schedule of Expenditures of Federal Awards – Continued***

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### **Note 2 – Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available and when applicable. WGU elected not to use the 10% de minimis indirect cost rate.

### **Note 3 – Federal Loans Disbursed**

WGU participated in the Federal Direct Student Loan Program. The dollar amounts are listed in the Schedule although WGU is not the recipient of the funds. Such programs are considered a component of the student financial assistance program cluster. Expenditures represent new loans processed for students during the year ended June 30, 2023.



# TANNER

## Independent Auditors' Report

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

**To the Audit Committee of the Board of Trustees  
WGU Corporation**

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 financial statements of WGU Corporation (which includes Western Governors University (WGU) (the Organization)), as of and for the year ended June 30, 2023, and the related notes to the consolidated financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated November 3, 2023.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered WGU'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 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 or significant deficiencies may exist that were not identified.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether WGU's 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 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*.

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**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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Tanner LLC*

November 3, 2023



# TANNER

## Independent Auditors' Report

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

**To the Audit Committee of the Board of Trustees  
WGU Corporation**

#### **Report on Compliance for Major Federal Programs**

##### **Opinion on Major Federal Program**

We have audited Western Governors University's (WGU) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2023. WGU's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, WGU complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2023.

##### **Basis for Opinion on Major Federal Program**

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)*. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of WGU and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of WGU's compliance with the compliance requirements referred to above.

##### **Responsibilities of Management for Compliance**

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to WGU's federal programs.

##### **Auditors' Responsibilities for the Audit of Compliance**

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on WGU's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing

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standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about WGU's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding WGU's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of WGU's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 WGU's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

#### **Other Matter**

During the performance of our audit we became aware of a matter which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2023-001. Our opinion on the major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on WGU's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. WGU's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

#### **Report on 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

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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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

*Tanner LLC*

November 3, 2023

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2023

### Summary of Auditors' Results

#### Financial Statements

Type of auditors' report issued: Unmodified opinion

Internal control over financial reporting:

Material weakness(es) identified?                    \_\_\_ yes                     X  no

Significant deficiency(ies) identified that are not  
considered to be material weaknesses?                    \_\_\_ yes                     X  none reported

Noncompliance material to financial statements noted?                    \_\_\_ yes                     X  no

#### Federal Awards

Internal control over federal program:

Material weakness(es) identified?                    \_\_\_ yes                     X  no

Significant deficiency(ies) identified that are not  
considered to be material weaknesses?                    \_\_\_ yes                     X  no

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

Any audit findings disclosed that are required to be  
reported in accordance with the Uniform Guidance?                     X  yes                    \_\_\_ no

Identification of major program:

<u>AL Number</u>	<u>Name of Federal Program or Cluster</u>
Cluster Program*	Student Financial Assistance Program Cluster

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as low-risk auditee?                     X  yes                    \_\_\_ no

\*See Schedule of Expenditures of Federal Awards for a complete listing of the student financial assistance programs cluster and their related AL numbers.

## ***Schedule of Findings and Questioned Costs – Continued***

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*For the Year Ended June 30, 2023*

### **Findings - Financial Statement Audit**

There were no financial statement findings noted during the audit for the year ended June 30, 2023.

### **Findings and Questioned Costs – Federal Award Program Audit**

Finding 2023-001

Federal Direct Student Loans—Assistance Listing No. 84.268; Grant period—Fiscal year ended June 30, 2023

#### **Finding:**

In June 2023, during an internal quality assurance review, WGU identified a population of students that had the comment code 282 – Total and Permanent Disability (TPD). Students with a TPD code have had prior loans discharged due to total and permanent disability and must be reviewed before they are eligible for additional Title IV funds. As a result of not reconfiguring WGU’s system after changes were made by the U.S. Department of Education (DOE) in how certain codes are reported to participating universities, WGU’s system did not properly identify students with the TPD code and, therefore, WGU did not initially obtain additional documentation from these students, as required, before disbursing additional Title IV funds to these students.

#### **Criteria:**

If a student has already received a TPD discharge, the student must meet additional student eligibility criteria before receiving additional Title IV loans or TEACH Grants. The criteria are: (1) a statement from his/her physician certifying that the student is able to engage in substantial gainful activity and (2) a statement, signed by the student, acknowledging that the new Title IV loan or TEACH Grant service obligation cannot be discharged in the future on the basis of any impairment present when the new loan or TEACH Grant is made, unless that impairment substantially deteriorates so that the student is once again totally and permanently disabled.

#### **Condition:**

After identifying this finding as part of its internal quality review, WGU performed procedures to determine the population of students affected and to quantify the amount of Title IV funds disbursed prior to eligibility being verified. WGU identified 86 students that were impacted and attempted to contact all 86 students to seek the additional required documentation. 29 students submitted the required documentation which allows them to receive additional loans after a TPD discharge. No documentation was obtained for the remainder of the 86 students; as such, the Title IV funds for those students are required to be returned to the DOE.

#### **Questioned Costs:**

The total of Title IV funds for students for which WGU was unable to obtain documentation is \$331,622.

#### **Cause:**

WGU failed to timely reconfigure its system to identify the TPD comment code after reporting changes were implemented by the DOE. However, as noted above, WGU identified this issue as part of its internal quality review and made changes in its system to ensure that TPD comments will be properly identified.

#### **Effect:**

Title IV funds were disbursed to ineligible students.

## ***Schedule of Findings and Questioned Costs – Continued***

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### **Recommendation:**

In response to this issue, WGU has established a periodic review of the comment codes in its Banner system to help ensure that all codes are properly configured to identify issues requiring further review or action. We recommend that WGU continue with this course of action.

### **View of Responsible Officials and Planned Corrective Actions:**

WGU has implemented the appropriate identification of the TPD comment codes with our new aid year configuration and will continue this course of action whenever the new aid year FAFSA is released. The comment code numbering changed in 2024-2025 from 2023-2024. WGU will review and match the new 2024-2025 codes with its corresponding 2023-2024 codes to ensure our system is configured to identify ISIR records that are flagged by FSA requiring further action accordingly.

Auditee Contact Person(s) Responsible for Corrective Action:

Patti Kohler

Vice President, Financial Aid.

***Summary Schedule of Prior Audit Findings***

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*For the Year Ended June 30, 2023*

**Findings and Questioned Costs – Major Federal Award Program Audit**

There were no findings noted during the audit for the year ended June 30, 2022.



## CORRECTIVE ACTION PLAN

October 31, 2023

U.S. Department of Education

Western Governors University respectfully submits the following corrective action plan for the year ended June 30, 2023.

Name and Address of independent public accounting firm:

Tanner LLC  
36 South State Street, Suite 600  
Salt Lake City, Utah 84111-1400

Audit period: Year ended June 30, 2023

The finding from the June 30, 2023 schedule of findings and questioned costs is discussed below. The finding is numbered consistently with the number assigned in the schedule.

**FINDING – FEDERAL AWARD PROGRAM AUDIT:**

**Compliance Matter - Finding 2023-001 - Schedule of Expenditures of Federal Awards**

**Recommendation:**

The University should review its systems configurations to ensure that all comment codes are adequately reviewed.

**Action Taken:**

We agree with the finding and corrective actions were implemented July 2023. We have updated our procedures and internal controls to ensure that all comment codes are appropriately configured each year.

For questions regarding this plan, please call Patti Kohler at (385) 428-8080, who is responsible for this corrective action plan.

David Grow  
Chief Operating Officer