

SOUTH UNIVERSITY – MEMBER, LLC
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
South University – Member, LLC
and Subsidiaries

Opinion

We have audited the consolidated financial statements of South University – Member, LLC and Subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2022, and the related consolidated statement of activities and changes in net assets, and consolidated statement of cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of South University – Member, LLC and Subsidiaries as of December 31, 2022, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of South University – Member, LLC and Subsidiaries 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.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about South University – Member, LLC and Subsidiaries ability to continue as a going concern within one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 consolidated 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 consolidated 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 consolidated 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 South University – Member, LLC and Subsidiaries 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about South University – Member, LLC and Subsidiaries 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 audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position and consolidating statement of activities and changes in net assets as required by management are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of 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 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 March 23, 2023 on our consideration of South University – Member, LLC and Subsidiaries 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 South University – Member, LLC and Subsidiaries 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 South University – Member, LLC and Subsidiaries internal control over financial reporting and compliance.



Savannah, Georgia
March 23, 2023

SOUTH UNIVERSITY - MEMBER, LLC
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2022
(In Thousands)

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	15,435
Restricted cash		1,235
Student accounts receivable, net		31,464
Accounts receivable - other		1,323
Prepaid expenses		2,098
Total current assets		51,555

LONG-TERM ASSETS

Property and equipment, net		19,134
Right-of-use assets, net		71,048
Intangible assets, net		3,401
Other long-term assets		11,636
Total long-term assets		105,219

Total assets	\$	156,774
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	1,615
Accrued expenses		5,901
Right-of-use liabilities, short-term		13,640
Current portion-long-term debt		7,738
Student advance payments		1,351
Unearned tuition		13,659
Total current liabilities		43,904

LONG-TERM LIABILITIES

Long-term debt		43,848
Other long-term liabilities, long-term		919
Right-of-use liabilities, long-term		66,429
Total long-term liabilities		111,196

Total liabilities		155,100
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NET ASSETS

Without donor restrictions		1,639
With donor restrictions		35
Total net assets		1,674

Total liabilities and net assets	\$	156,774
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See Notes to Consolidated Financial Statements.

SOUTH UNIVERSITY - MEMBER, LLC
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended December 31, 2022
(In Thousands)

OPERATING REVENUES	
Tuition and fees, net	\$ 208,466
Sales and services of auxiliary enterprises, net	3,244
Other income	402
Total operating revenues	212,112
OPERATING EXPENSES	
Educational and Support Services	
Employee compensation	86,660
Advertising	41,875
Rent expense	16,254
Outside services	6,347
Bad debt expense	18,660
Depreciation and amortization	6,249
Interest expense, net	3,714
Other expenses	21,055
Total operating expenses	200,814
CHANGES IN NET ASSETS FROM OPERATING ACTIVITIES	11,298
OTHER NON-OPERATING CHANGES IN NET ASSETS	4,998
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	16,296
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS, NET OF EXPENSES	(4,999)
CHANGES IN NET ASSETS	11,297
NET ASSETS - beginning of year	(9,623)
NET ASSETS - end of year	\$ 1,674

SOUTH UNIVERSITY - MEMBER, LLC
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2022
(In Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	
Changes in net assets	\$ 11,297
Adjustments to reconcile changes in net assets to net cash used in operating activities	
Depreciation and amortization	6,249
Bad debts	18,660
Net effect of implementation of Topic ASC 842	9,458
Changes in operating assets and liabilities	
(Increase) decrease in assets	
Student accounts receivable, net	(24,172)
Other assets	612
Increase (decrease) in liabilities	
Accounts payable	(1,460)
Accrued expenses	(10,387)
Student advance payments	196
Unearned tuition	2,598
Other liabilities	(9,028)
Net cash provided by operating activities	<u>4,023</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	<u>(2,286)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES	
Repayments of finance lease obligations	<u>(28)</u>
 INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	 1,709
 BEGINNING CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	 <u>14,961</u>
 ENDING CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	 <u>\$ 16,670</u>
 CASH PER CONSOLIDATED STATEMENT OF FINANCIAL POSITION:	
Cash	\$ 15,435
Restricted cash	<u>1,235</u>
Total cash and restricted cash	<u>\$ 16,670</u>

SOUTH UNIVERSITY – MEMBER, LLC
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022
(In Thousands)

NOTE 1. NATURE OF OPERATIONS

Description of Business

South University – Member, LLC (the “University”) is a nonsectarian, coeducational institution of higher education with campuses in the following cities:

- Savannah, Georgia
- Atlanta, Georgia (a learning site)
- West Palm Beach, Florida
- Montgomery, Alabama
- Columbia, South Carolina
- Tampa, Florida
- Richmond, Virginia
- Virginia Beach, Virginia
- Austin, Texas
- High Point, North Carolina (a learning site)
- Orlando, Florida (a learning site)

The University has multiple 100 percent owned subsidiaries that it fully controls. The University’s subsidiaries are as follows:

- South University Savannah, LLC
- South University of Alabama, LLC
- South University of North Carolina – Member, LLC
- South University Research II, LLC
- South University of Carolina, LLC
- South University of Virginia – Member, LLC
- South Education of Texas – Member, LLC
- South University Florida – Member, LLC

The subsidiaries are set up to operate and function in their respective geographic locations and are consolidated with the University for presentation purposes.

The University is a wholly owned subsidiary of Education Principle Foundation (“EPF”), and the University is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools Commission on Colleges (“SACSCOC”) to award Associate’s, Bachelor’s, Master’s, and Doctoral degrees. Additionally, the University offers degree programs fully-online through South University – Savannah or through a flexible combination of both online and campus-based instruction. See Note 22. Subsequent Events.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentations

The consolidated statement of financial position includes the accounts of the University and its wholly owned subsidiaries. All interuniversity transactions and balances have been eliminated.

SOUTH UNIVERSITY – MEMBER, LLC
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022
(In Thousands)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The accounts of the University are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose, and are maintained in separate accounts. In accordance with accounting principles generally accepted in the United States of America (“GAAP”), the University classifies its net assets based on the existence or absence of donor-imposed restrictions. This is accomplished by the classification of balances into two classes of net assets:

Net assets without donor restrictions – Primarily consist of net tuition and fees, net sales and services of auxiliary enterprises, expenses related to the core activities of the University’s schools, and certain other contributions for which the donor did not impose restrictions. Also included in this category are net assets which the board has designated for certain programs and projects.

Net assets with donor restrictions – Net assets that are subject to donor-imposed restrictions that will be met either by actions of the University or the passage of time. Primarily consist of contributions for which donor-imposed restrictions have not been met in the year of receipt. Expirations of restrictions on net assets with donor restrictions are reported as net assets released from restrictions. The University had \$35 thousand in net assets with donor restrictions as of December 31, 2022.

When a donor’s restriction is satisfied, the net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor restrictions. Expenses are reported as decreases in net assets without donor restrictions.

The cost of providing the program and other activities has been summarized on a functional basis as expenses in the consolidated statement of activities and changes in net assets. Accordingly, certain costs have been allocated to the program and the supporting service benefited.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the University’s 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents, and Restricted Cash

For purposes of the consolidated statement of cash flows, cash, cash equivalents, and restricted cash include cash on hand, checking accounts, and restricted cash.

The University’s institutions hold funds from the United States Department of Education under various student aid grant and loan programs in separate bank accounts, and serve as trustees for the United States Department of Education or respective lender or student borrower as applicable. The University does not record funds held in these bank accounts as cash or restricted cash until the authorization and disbursement process has occurred.

SOUTH UNIVERSITY – MEMBER, LLC
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022
(In Thousands)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Once the authorization and disbursement process to the student has been completed, the funds are transferred to unrestricted accounts and become available for use in current operations, except as noted in the footnote to the table below. This transfer generally occurs for the period of the academic term for which such funds were authorized, with no term being more than 16 weeks in length.

Restricted cash consisted of the following at December 31, 2022:

Cash deposits as collateral	\$	836
Title IV funds received in excess of charges applied*		134
Cash donations with donor and other restrictions		<u>265</u>
	\$	<u>1,235</u>

* The United States Department of Education regulations require Title IV program funds to be received by the University's educational institutions in excess of the charges applied to the relevant students at that time to be, with these students' permission, maintained and classified as restricted. In addition, some states have similar requirements. Such funds are recorded as restricted cash due to legal restrictions on the use of the funds and as student advance payments on the University's consolidated statement of financial position.

Revenue Recognition and Costs

Tuition revenues are recognized ratably over the term of enrollment, as control of the promised goods or services is transferred to the customers ("student" or "students") in an amount that reflects the consideration the University expects to be entitled to in exchange for those goods or services. Costs of providing services to students are charged to expenses as incurred. Unearned tuition represents amounts remitted by students or on behalf of students through financial aid sources in excess of earned tuition. Amounts collected in advance of providing the instruction are deferred and recognized as revenue when the instruction is provided. See Note 10. Revenue Recognition for more information on revenue recognition.

Contributions and Support

Contributions are recognized when the donor makes a promise to give to the University that is, in substance unconditional. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions. Based on the opinion of management, the University had determined that an allowance for uncollectible promises is not necessary.

No amounts for donated services have been reflected in the consolidated statement of financial position. The University generally pays for services requiring specific expertise. While the University does have individuals volunteer their time to assist in various administrative tasks, these services do not meet the criteria for recognition as donated services.

Donated marketable securities and other non-cash donations are recorded as contributions at their fair market values at the date of donation.

SOUTH UNIVERSITY – MEMBER, LLC
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022
(In Thousands)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Student Accounts Receivable

The University records student accounts receivable at cost less an estimated allowance for doubtful accounts, which is determined on a quarterly basis based on the likelihood of collection considering the students' enrollment status and historical payment experience. Historical collection is analyzed by disaggregating the student accounts receivable balances based on predominant risk characteristics, such as whether the student is currently in-school, recently withdrew from school, or has not made a payment for a longer period of time. The level of disaggregation of student receivables results in individual pools of receivables. Management believes these pools appropriately differentiate credit risk in the portfolio and provide a reasonable basis to compute the estimate of loss. When certain criteria are met, which is generally when receivables age past the due date by more than four months, and internal collection measures have been taken without success, the accounts of former students are placed with a collection agency. Student accounts that have been placed with a collection agency are almost fully reserved and are written off after collection attempts have been unsuccessful.

Bad debt expense for the year ended December 31, 2022, was \$18.7 million.

Leases

The University leases certain classroom and office space, as well as equipment, under operating leases. Before entering into a new lease, an analysis is performed to determine whether a lease should be classified as capital or operating.

Certain of the University's lease agreements include tenant improvement allowances. Once the lease agreement is signed, these tenant improvement allowances are recorded as assets with an equal amount recorded to deferred rent liabilities (other long-term liabilities) on the consolidated statement of financial position. Concurrent with the expenditures for lease improvements, the University records increases to leasehold improvement assets in property and equipment. Other current assets are reduced once the landlord reimburses the University.

Many of the University's lease agreements contain escalation clauses under which, if fixed and determinable, rent expense is recognized on a straight-line basis over the lives of the leases, which generally range from three to nine years, with one or more renewal options. For leases with renewal options, the University records rent expense over the original lease term, exclusive of the renewal period. When a renewal occurs, the University records rent expense over the new lease term.

Property and Equipment

The property and equipment acquired as part of purchase transactions were recorded at fair value on the acquisition date, less accumulated depreciation. Property and equipment acquired since the purchase transactions have been recorded at cost less accumulated depreciation. Depreciation policies for such assets are as follows:

- Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease term, exclusive of any renewal periods, or their estimated useful lives; and
- The remainder of the University's property and equipment is depreciated over their estimated useful lives ranging from three to 10 years using the straight-line method, depending on the asset.

Unearned Tuition and Student Advance Payments

Student advance payments, representing amounts collected in advance of providing instruction, are deferred and recognized as revenue when the instruction is provided.

Due to the fact that some of the University's institutions have academic terms with starting and ending dates differing throughout the period, there may be tuition from these academic terms for which the associated revenue has not been earned. Such amounts are recorded as unearned tuition, a current liability, in the accompanying consolidated statement of financial position.

See Notes to Consolidated Financial Statements.

SOUTH UNIVERSITY – MEMBER, LLC
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022
(In Thousands)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Student advance payments are generally refundable and relate to payments received for future academic periods and are also recorded as a current liability in the accompanying consolidated statement of financial position.

Asset Retirement Obligations

The University assumed a number of leases, as a result of the purchase transactions, which include asset retirement obligation (“ARO”) clauses which will require the University to remove certain leasehold improvement assets which are necessary for certain of the University’s campuses’ programs. As of December 31, 2022, the University recorded an ARO liability of approximately \$673 thousand, which is recorded within other long-term liabilities in the accompanying consolidated statement of financial position.

Advertising Costs

Advertising costs are expensed as they are incurred. Advertising costs for the year ended December 31, 2022, were \$41.9 million, and include direct and indirect expenses.

Costs and Expenses

Operating expenses consist of those items attributable to the University’s academic programs, related auxiliary activities, and activity related to contributions, grants, and contracts. Non-operating activities include non-recurring gains and losses pertaining to acquisitions, divestitures, asset impairment, debt refinancing activities, and restructuring plans, including employee severance, net lease abandonment, and related consulting and advisory expenses.

Change in Accounting Principal - Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2016-02, *Leases (Topic 842)* (“ASU No. 2016-02”). The guidance in ASU No. 2016-02 supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the consolidated statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statement of activities and changes in net assets. In September 2017, the FASB issued ASU No. 2017-13, *Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs*, which rescinds certain SEC Observer comments and staff announcements from the lease guidance and incorporates SEC staff announcements on the effect of a change in tax law on leveraged leases from ASC 840 into ASC 842. In January 2018, the FASB issued ASU No. 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*, which amends the new lease guidance to add an optional transition practical expedient that permits an entity to continue applying its current accounting policy for land easements that exist or expire before the ASC 842 effective date. In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*, which makes narrow scope improvements to the standard for specific issues. In July 2018, the FASB also issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method allowing the standard to be applied at the adoption date. In March 2019, the FASB issued ASU No. 2019-01, *Leases (Topic 842): Codification Improvements*, which exempts entities from having to provide the interim disclosures required by ASC 250-10-50-3 in the fiscal year in which a University adopts the new leases standard.

SOUTH UNIVERSITY – MEMBER, LLC
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022
(In Thousands)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncement – Leases (continued)

In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, which defers the effective date for one year for entities in the “all other” category and public NFP entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of Topic 842. Therefore, under the amendments, Topic 842 is effective for entities within the “all other” category for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the consolidated financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The University expects to adopt the guidance retrospectively at the beginning of the period of adoption, January 1, 2022, through a cumulative-effect adjustment, and will not apply the new standard to comparative periods presented.

The new standard provides a number of practical expedients in which the University adopted. See Note 8. Leases for more information.

NOTE 3. HIGHER EDUCATION EMERGENCY RELIEF FUNDS

In April 2020, the University's campuses were awarded a total of \$7.7 million through the Higher Education Emergency Relief Fund (“HEERF”) as part of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”).

As part of this HEERF I award, the student portion of \$3.9 million was allocated to eligible students who demonstrated need. The institutional portion of \$3.9 million was restricted for specific uses as determined legislatively by the CARES Act.

As of the year ending December 31, 2022, the University has distributed \$3.9 million of the HEERF I student portion to eligible students who demonstrated need. The funds related to amounts given to students are recorded as zero to net revenue since there is no effect on the University's results of operations or cash.

As of the year ending December 31, 2022, the University has distributed \$3.9 million of the institutional portion related to HEERF I in accordance with the legislation.

In December 2020, the University was allocated an additional student portion of \$5.2 million under HEERF II, as part of the Coronavirus Response and Relief Supplemental Appropriations Act (“CRRSAA”). This amount was calculated by the United States Department of Education based on the student population at both our in-person campuses and online campuses.

For the year ending December 31, 2022, the University has distributed \$5.2 million of the HEERF II student portion to eligible students who demonstrated need. The funds related to amounts given to students are recorded as zero to net revenue since there is no effect on the University's results of operations.

The University elected not to participate in HEERF III as part of the American Rescue Plan Act (“ARPA”).

SOUTH UNIVERSITY – MEMBER, LLC
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022
(In Thousands)

NOTE 4. STUDENT ACCOUNTS RECEIVABLE

The University offers four types of financing arrangements to its students to assist with the obligation associated with tuition and fees: retail installment contracts, commitment agreements, paid in full amounts, and lines of credit. These financing arrangements help students fund the difference between total tuition and fees and the amount covered by various sources of financial aid, including amounts awarded under Title IV programs and private loans. Paid in full amounts are short-term extensions of credit for typically small balances which are repayable upon demand by the University. Retail installment contracts, commitment agreements, and lines of credit are extensions of credit which include monthly minimum payment amounts, permit the students to repay amounts borrowed over a specified period of time, and incur interest charges that accrue each month on unpaid balances when the accounts reach an out-of-school enrollment status.

Student accounts receivable include \$11.6 million (net of \$8.9 million allowance) recorded in other long-term assets on the accompanying consolidated statement of financial position related to retail installment contracts, commitment agreements, and lines of credit to students for amounts due beyond December 31, 2022.

The University monitors its student accounts receivable based on enrollment status. Receivables from former students who are in collections are almost fully reserved. Receivables from former students that are out-of-school are reserved at a higher rate than the receivables from students that are in-school. The gross current and non-current student receivables, which exclude loans awarded under the student lending program further described below, by student status, were as follows at December 31, 2022:

In-school	\$	29,307
Out-of-school		45,912
		75,219
Less allowance for doubtful accounts		32,133
Less other long-term assets		11,622
		\$ 31,464

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2022:

Leasehold improvements	\$	27,012
Software		5,409
Technology		3,098
Furniture and equipment		5,171
Library books		2,005
Work in progress		2,018
		44,713
Less accumulated depreciation		25,579
		\$ 19,134

Depreciation and amortization expense related to property and equipment was approximately \$6.2 million for the year ended December 31, 2022. Included in depreciation expense was approximately \$1.6 million related to the depreciation of software.

SOUTH UNIVERSITY – MEMBER, LLC
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022
(In Thousands)

NOTE 6. ACCRUED EXPENSES

Accrued expenses consisted of the following at December 31, 2022:

Payroll and related taxes	\$	3,361
Advertising		1,343
E-books		191
Real estate taxes		65
Other		941
		941
	\$	5,901

NOTE 7. LONG-TERM DEBT

On December 4, 2020, the University closed on a loan from Blue Ridge Bank under the Main Street Lending Program (“MSLP”). The University assumed \$50 million in debt. The loan was used to pay off the \$44 million note that the University’s parent EPF held and the University guaranteed up to the issuance of the MSLP note. The University also received \$5 million in proceeds to be held in restricted cash (cash collateral account). The terms of the note include LIBOR plus a 3% interest rate throughout the duration of the note. No interest or principal is required to be paid in year 1, and interest only is to be paid in years 2 and 3. The unpaid interest of \$1.6 million during year 1 was capitalized and added to the principal balance to be repaid over the remaining life of the loan. At the end of years 3 and 4, 15% of the principal balance is due, and the remainder of the principal balance is due at the end of year 5 as reflected in the maturity schedule below.

Outstanding long-term debt matures as follows over the next five years:

Year Ended December 31,	Debt Obligation
2023	\$ 7,738
2024	7,738
2025	36,110
Total	\$ 51,586

The MSLP note has financial covenants that are tested and certified quarterly. The University was in compliance with all covenants at December 31, 2022. The \$5.0 million previously placed in a collateral account was returned to the University in 2022 and a covenant requiring minimum cash balance of \$8.0 million will be tested quarterly beginning in Q1 2023. In addition, the University will be required to fund a MSLP principal collateral account at Blue Ridge Bank. Funded in equal monthly installments through November 2023 to be applied to the first principal installment.

SOUTH UNIVERSITY – MEMBER, LLC
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022
(In Thousands)

NOTE 8. LEASES

The University has entered into various written agreements to lease facilities and equipment, under noncancellable leases. The leases range in duration from one to ten years and in most instances, provide for renewal options. The University analyzes each lease agreement to determine whether it should be classified as a finance lease or an operating lease. As a result of adopting Topic 842 on January 1, 2022, the University recorded on the consolidated balance sheet significant asset and liability balances associated with the operating leases, as described further below.

Finance lease agreements are for classroom equipment and are presented as right-of-use (“ROU”) assets and lease liabilities related to finance leases.

Operating lease agreements are primarily for real estate space and are included within ROU assets and lease liabilities. The terms of the University’s operating leases vary and generally contain renewal options. Certain of these operating leases provide for increasing rent over the term of the lease. The University also leases certain equipment under noncancellable operating leases, which are typically for terms of 60 months or less.

Leases with a term of less than one year are recorded as lease expense in accordance with the practical expedient described in Note 1.

ROU assets represent the University’s right to use an underlying asset for the lease term, and lease liabilities represent the University’s obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the commencement date of the lease based on the estimated present value of lease payments over the lease term. The University’s variable lease payments consist of non-lease services related to the lease. Variable lease payments are excluded from the ROU assets and lease liabilities and are recognized in the period in which the obligation for those payments is incurred. As most of the University’s leases do not provide an implicit rate, the University uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. Many of the University’s lessee agreements include options to extend the lease, which the University does not include in its minimum lease terms unless they are reasonably certain to be exercised.

In accordance with Topic 842 the University properly eliminated the deferred rent liability and related accounts in the amount of \$9.3 million, upon implementation on January 1, 2022. These accounts are properly reflected as a part of the ROU liabilities at December 31, 2022.

SOUTH UNIVERSITY – MEMBER, LLC
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022
(In Thousands)

NOTE 8. LEASES (continued)

Supplemental consolidated balance sheet information related to leases was as follows as of:

<u>Leases</u>	<u>Classification</u>	<u>January 1, 2022</u>	<u>December 31, 2022</u>
Assets			
Operating	Right-of-use assets held under operating leases	\$ 82,422	\$ 70,419
Finance	Right-of-use assets held under finance leases	410	629
		<u>\$ 82,832</u>	<u>\$ 71,048</u>
Liabilities			
Current			
Operating	Current portion of operating lease obligations	\$ 12,142	\$ 13,406
Finance	Current portion of finance lease obligations	132	234
Noncurrent			
Operating	Operating lease obligations net of current portion	78,448	66,206
Finance	Finance lease obligations net of current portion	182	223
		<u>\$ 90,904</u>	<u>\$ 80,069</u>

Weighted average remaining lease term and discount rate were as follows as of:

	<u>January 1, 2022</u>	<u>December 31, 2022</u>
Weighted average remaining lease term, in months		
Operating leases	63	75
Finance leases	31	19
Weighted average discount rate		
Operating leases	1.52%	1.52%
Finance leases	3.29%	3.29%

SOUTH UNIVERSITY – MEMBER, LLC
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022
(In Thousands)

NOTE 8. LEASES (continued)

The components of lease cost were as follows as of December 31, 2022:

Operating lease cost	\$	14,878
Short-term lease cost		-
Variable lease cost		-
Finance lease cost		
Amortization of leased assets		189
Interest on lease liabilities		140
		<u>140</u>
Net lease cost	<u>\$</u>	<u>15,207</u>

As of December 31, 2022, maturities of lease liabilities were as follows:

<u>Year Ended December 31,</u>	<u>Operating Leases</u>	<u>Finance Leases</u>
2023	\$ 14,526	\$ 245
2024	14,361	230
2025	13,366	-
2026	11,674	-
2027	10,906	-
Thereafter	18,858	-
	<u>83,691</u>	<u>475</u>
Less amount representing interest	<u>4,079</u>	<u>18</u>
Present value of net minimum lease payment	<u>\$ 79,612</u>	<u>\$ 457</u>

NOTE 9. NET ASSETS

Net assets consisted of the following at December 31, 2022:

Net assets without donor restrictions	
Undesignated	<u>\$ 1,639</u>
Total net assets without donor restrictions	1,639
Total net assets with donor restrictions	<u>35</u>
Total net assets	<u>\$ 1,674</u>

SOUTH UNIVERSITY – MEMBER, LLC
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(In Thousands)

NOTE 10. REVENUE RECOGNITION

The University determines revenue recognition through the five-step model outlined in ASU 2014-09, “Revenue from Contracts with Customers” Topic 606, as follows:

1. Identification of the contract with a student;
2. Identification of the performance obligations in the contract;
3. Determination of the transaction price;
4. Allocation of the transaction price to the performance obligations in the contract; and
5. Recognition of revenue when, or as, the University satisfies a performance obligation.

The University’s net revenues consist primarily of tuition and fees, E-book sales, and sales of related study materials. Net revenues are reduced for student refunds and scholarships. The University derived approximately 100% of its net revenues from tuition and fees in the year ended December 31, 2022.

The University bills tuition at the beginning of an academic term and, given that the University has a contractual relationship with the student and collectability of revenue is reasonably assured, recognizes revenue on a pro rata basis over the term of the instruction. Some of the University’s academic terms have starting and ending dates that differ from the University’s fiscal quarters. Therefore, at the end of each fiscal quarter, the University has tuition from academic terms for which the associated revenue has not yet been earned. Such amounts are recorded as unearned tuition, which is a current liability in the accompanying consolidated statement of financial position. Student advance payments are generally refundable and relate to payments received for future academic periods and are also recorded as a current liability in the accompanying consolidated statement of financial position.

If a student withdraws from one of the University’s schools, the extent of his or her obligation for tuition and fees depends on when the withdrawal occurs during an academic term. The University reduces the student’s obligation depending on its refund policies, which vary by state and institution and take into account the refund requirements of the United States Department of Education, most state education authorities that regulate the University’s schools, the accrediting commissions that accredit the University’s schools, and the University’s institutional policies (collectively “Refund Policies”). In the vast majority of situations, if a student withdrew from school after attending classes for at least 60.0% of a term of instruction, he or she would not be eligible for any reduction in tuition under the University’s Refund Policies. Accordingly, the student would have to pay the University the balance of tuition and fees that has not been received already either in the form of financial aid or payments from the student. However, if a student withdraws from school prior to attending classes for at least 60.0% of a term of instruction, the University may reduce the amount of a student’s obligation for tuition and fees based on a tiered approach under which, in general, the greater the portion of the academic term that has elapsed at the time the student withdraws, the greater the student’s obligation is to the school for the tuition and fees related to that academic term.

NOTE 11. LITIGATION

The University is subject to certain claims and lawsuits arising out of the normal conduct of business. Additionally, the University is subject to compliance reviews by various state and federal agencies which provide student financial aid programs, of which noncompliance may result in liability for educational benefits paid, as well as fines and other corrective action. In the opinion of management, based upon an investigation of these matters and discussion with legal counsel, the ultimate outcome of such legal proceedings and compliance reviews, individually and in the aggregate, is not expected to have a material adverse effect on the University’s consolidated financial position, results of operations, or liquidity.

SOUTH UNIVERSITY – MEMBER, LLC
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(In Thousands)

NOTE 12. INCOME TAXES

The University is a not-for-profit corporation that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) whereby only unrelated business income as defined by Section 512(a)(1) of the IRC is subject to federal income tax. Any tax on the unrelated business activities is not significant to the consolidated financial statements. Accordingly, no provision or liability for federal or state income taxes is recorded in these consolidated financial statements.

The FASB requires management to annually evaluate the University's tax position, including accounting for and measurement of uncertain tax positions. For the year ended December 31, 2022, management concluded that no uncertain tax positions had been taken that would require adjustment to or disclosure in the consolidated financial statements. With few exceptions, the Organization is no longer subject to income tax examinations by federal, state, or local tax authorities for years before 2019.

NOTE 13. EMPLOYEE BENEFIT PLAN

The University has a defined contribution 401(k) retirement plan (the "Plan") covering substantially all employees. The Board of Trustees annually determines the amount, if any, that the University contributes to the Plan. The University made employer match contributions to the Plan in the amount of \$765 thousand for the year ended December 31, 2022. The employer match contributions started in August 2021, and was a 2 percent match of eligible participants contributions.

NOTE 14. ASSET RETIREMENT OBLIGATIONS ("ARO")

GAAP requires that an ARO associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable, as defined by the standard, even when the timing and/or method of settlement may be conditional on a future event. The University's conditional ARO primarily relates to the restoration costs in buildings in which the University leases space.

A roll forward of the changes in the University's ARO for the year ended December 31, 2022, is as follows:

Asset retirement obligations, beginning balance	\$ 616
Accretion expense	<u>57</u>
Asset retirement obligations, ending balance	<u><u>\$ 673</u></u>

NOTE 15. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of December 31, 2022, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt were as follows:

Cash	\$ 15,435
Student accounts receivable, net	31,464
Accounts receivable - other	<u>1,323</u>
Total financial assets available within one year	<u><u>\$ 48,222</u></u>

The University finances its operating activities primarily by cash generated from operations, and its primary source of cash is tuition collected from students.

SOUTH UNIVERSITY – MEMBER, LLC
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022
(In Thousands)

NOTE 15. FINANCIAL ASSETS AND LIQUIDITY RESOURCES (continued)

Most of the University's students rely, at least in part, on financial assistance programs to pay for their education, the most significant of which are federal student aid programs under Title IV of the Higher Education Act of 1965 ("HEA"). The University's student accounts receivable balance reaches a peak immediately after the billing of tuition and fees at the beginning of each academic period. It collects the majority of these receivables at or near the start of each academic term when it receives federal financial aid proceeds and cash payments from continuing students. Because the academic terms of the University's programs do not all coincide with the quarterly reporting periods, it may have quarterly fluctuations in cash receipts, reported net cash flows from operating activities, net student accounts receivable, unearned tuition, and student advance payment balances.

NOTE 16. CONCENTRATION OF CREDIT RISK

The University maintains its cash accounts at various commercial banks. At times throughout the year, the amount on deposit at the banks may exceed the insurance limits of the Federal Deposit Insurance Corporation ("FDIC") of \$250,000, per depositor, per insured bank. At December 31, 2022, cash deposits exceeded the insurance limits of the FDIC by \$15.9 million.

Concentration of credit risk with respect to student receivables is high due to the nature of the accounts. Exposure is mitigated by the large number of students comprising the University's customer base and the allowance for uncollectible accounts as described in Note 2. A significant amount of the University's revenues is realized through student grants and loans funded by government grant programs which are dependent upon institutional eligibility and continuing favorable government legislation.

NOTE 17. CONSOLIDATED STATEMENT OF CASH FLOWS – SUPPLEMENTAL INFORMATION

Cash used to pay interest for the year ended December 31, 2022, was \$2.5 million. Right-of-use assets and lease liabilities were placed in service on January 1, 2022 through non-cash transfers approximating \$83.4 million and \$90.9 million, respectively.

Due to implementation of Topic 842 the elimination of the deferred rent liability occurred on January 1, 2022. No cash outflow was related to this change in accounting principle. See Note 8 Leases.

NOTE 18. GOVERNMENT REGULATIONS

Most of the students at the University's schools rely, at least in part, on financial assistance to pay for the cost of their education. In the United States, the largest sources of such support are the federal student aid programs under Title IV of the HEA. Additional sources of funds include other federal grant programs, state grant and loan programs, private loan programs, and institutional grants and scholarships. To provide students access to financial assistance resources available through Title IV programs, a post-secondary institution must be (i) authorized to offer its programs of instruction by the relevant agency of the states in which it is physically located and comply with applicable state requirements regarding fully-online programs, (ii) institutionally accredited by an agency recognized by the United States Department of Education, and (iii) certified as an eligible institution by the United States Department of Education. In addition, the post-secondary institution must ensure that Title IV program funds are properly accounted for and disbursed in the correct amounts to eligible students and remain in compliance generally with the Title IV program regulations. Most of the United States Department of Education's requirements, such as the financial responsibility standards, which are described in greater detail below, are applied on an institutional basis, with an institution defined as a main campus and its additional locations, if any.

SOUTH UNIVERSITY – MEMBER, LLC
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022
(In Thousands)

NOTE 18. GOVERNMENT REGULATIONS (continued)

Financial Responsibility Standards

Education institutions participating in Title IV programs must satisfy a series of specific standards of financial responsibility. The United States Department of Education has adopted standards to determine an institution's financial responsibility to participate in Title IV programs. The regulations establish three ratios: (i) the equity ratio, intended to measure an institution's capital resources, ability to borrow, and financial viability; (ii) the primary reserve ratio, intended to measure an institution's ability to support current operations from expendable resources; and (iii) the net income ratio, intended to measure an institution's profitability.

Each ratio is calculated separately, based on the figures in the institution's most recent annual audited consolidated financial statements, and then weighted and combined to arrive at a single composite score. The composite score must be at least 1.5 in order for the institution to be deemed financially responsible without conditions or additional oversight.

Beyond the composite score requirement, institutions also must maintain compliance with any financial obligations and make timely returns of Title IV funds for students who withdraw from their programs prior to earning the full amount of Title IV disbursements made on their behalf. If an institution fails to meet any of these requirements, the United States Department of Education may set restrictions on the institution's eligibility to participate in the Title IV programs. Institutions are evaluated for compliance with these requirements as part of the United States Department of Education's certification process and also annually as each institution submits its audited consolidated financial statements to the United States Department of Education.

The United States Department of Education instructed the University in November 2019, to submit its consolidated financial statements, including the financial responsibility (composite score), at the EPF level.

SOUTH UNIVERSITY – MEMBER, LLC
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022
(In Thousands)

NOTE 19. CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include educational services and support services, and they are allocated on the basis of estimates of time and effort. The consolidated schedule of functional expenses for the year ended December 31, 2022, is as follows:

	Educational Services			Total Educational Services
	Instructional	Academic Support	Student Services	
Employee compensation	\$ 43,362	\$ 6,008	\$ 31,754	\$ 81,124
Advertising	217	1	22	240
Rent	-	-	-	-
Outside services	381	1,005	187	1,573
Bad debts	18,660	-	-	18,660
Depreciation and amortization	-	-	-	-
Interest expense, net	-	-	-	-
Restructuring	-	-	-	-
Other expenses	5,583	594	1,277	7,454
	<u>\$ 68,203</u>	<u>\$ 7,608</u>	<u>\$ 33,240</u>	<u>\$ 109,051</u>
	Support Services			Total Educational and Support Services
	Institutional Support	Operational and Maintenance of Plant	Total Support Services	
Employee compensation	\$ 5,103	\$ 433	\$ 5,536	\$ 86,660
Advertising	41,635	-	41,635	41,875
Rent	1	16,253	16,254	16,254
Outside services	4,774	-	4,774	6,347
Bad debts	-	-	-	18,660
Depreciation and amortization	6,249	-	6,249	6,249
Interest expense, net	3,714	-	3,714	3,714
Other expenses	10,120	3,481	13,601	21,055
	<u>\$ 71,596</u>	<u>\$ 20,167</u>	<u>\$ 91,763</u>	<u>\$ 200,814</u>

SOUTH UNIVERSITY – MEMBER, LLC
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022
(In Thousands)

NOTE 20. RELATED PARTY TRANSACTIONS

The University participates in Federal programs authorized by Title IV of the HEA, which are administered by the United States Department of Education. The University must comply with the regulations promulgated under the HEA. Those regulations, found in 34 CFR 668.23(d), require that all related party transactions be disclosed, regardless of their materiality to the consolidated financial statements. This information is required by the United States Department of Education for the purpose of providing additional analysis and is provided in addition to related party disclosure requirements of basic consolidated financial statements.

As part of the January 7, 2019, transaction to separate from the former parent University, the University began the 2019 period with \$25 million of debt. During the period of January 7, 2019 to December 31, 2019, the University and its parent, EPF, underwent a diligence process that resulted in an amended and restated credit agreement. This was executed on December 20, 2019, and resulted in the \$25 million in debt obligation to be transferred to EPF and additional proceeds distributed to both the University and the Art Institutes. This two-step process concluded in March 2020 with the University receiving an additional \$3.9 million contribution from EPF, its parent. Throughout 2020, the University transferred \$3.6 million to EPF for debt service. As previously described in Note 7. Long-term Debt, during the year ended December 31, 2020, the University closed on a \$50 million note under the MSLP. The proceeds from the MSLP, along with an additional \$1.1 million cash payment, resulted in the termination of the University's obligation under the amended and restated credit agreement with EPF.

During the summer of 2022, the United State Department of Education (DOE) required EPF to secure an Irrevocable Letter of Credit (LOC) in amount of \$23.7 million naming the DOE as beneficiary. South University's portion of the LOC was \$20.3 million and the University pays the LOC service fees to EPF. The service fees paid for year ended December 31, 2022, was \$1.2 million.

NOTE 21. MANAGED SERVICES AGREEMENT

The University entered into a managed services agreement ("MSA") on January 7, 2019, and amended and restated on September 1, 2019, with Studio Enterprise Manager, LLC ("Studio") as a result of the EPF Purchase Transaction. Pursuant to the MSA, Studio provides certain non-core services to the University including marketing support, corporate technology, compliance support, and other administrative services. The University pays Studio a monthly service fee in advance for the non-core services provided. The University paid service fees totaling approximately \$47.3 million during the year ended December 31, 2022. The agreement was amended with an effective date of January 1, 2021, and an initial term of 15 years. See Note 22 Subsequent Events.

NOTE 22. SUBSEQUENT EVENTS

The University has evaluated the subsequent events through March 23, 2023, the date on which the consolidated financial statements were available to be issued.

On January 27, 2023 the South University Board of Trustees approved the third amended and restated MSA and supplemental framework agreement effective January 1, 2023, and an initial term of 15 years.



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

Independent Auditor's Report

To the Board of Trustees
South University – Member, LLC
and Subsidiaries

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 South University – Member, LLC and Subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2022, the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 23, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered South University – Member, LLC and Subsidiaries' 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 South University – Member, LLC and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of South University – Member, LLC and Subsidiaries' 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 South University – Member, LLC and Subsidiaries' consolidated financial statements are free from material misstatement, we performed tests of their 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. Such tests included compliance tests as set forth in the *Guide for Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs*, issued by the U.S. Department of Education, Office of Inspector General ("the Guide") including those relating to related parties and percentage of revenue derived from Title IV programs.

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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* or the Guide.

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

This report is intended solely for the information and use of the board of trustees, management, accrediting agencies, and the United States Department of Education and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Symphona LLP".

Savannah, Georgia
March 23, 2023

SUPPLEMENTARY INFORMATION

SOUTH UNIVERSITY - MEMBER, LLC
AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION — INFORMATION BY OPEID

See Independent Auditor's Report

December 31, 2022

(In Thousands)

ASSETS

OPEID #	SU Savannah (013039-00)	SU West Palm Beach (013039-04)	SU Montgomery (013039-06)	SU Columbia (013039-07)	SU Tampa (013039-08)	SU Richmond (013039-10)	SU Virginia Beach (013039-11)	SU Austin (013039-15)	SU High Point (013039-23)	SU Orlando (013039-26)	South University Consolidated (013039-00)	South University, LLC (Corporate)	South University - Member, LLC
ASSETS													
CURRENT ASSETS													
Cash and cash equivalents	\$ (24)	\$ -	\$ 45	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21	\$ 15,414	\$ 15,435
Restricted cash	161	50	35	31	-	-	-	-	-	-	277	958	1,235
Total cash	137	50	80	31	-	-	-	-	-	-	298	16,372	16,670
Receivables:													
Student accounts receivable	33,366	2,871	2,406	4,569	3,808	2,287	1,745	2,753	433	448	54,686	-	54,686
Allowance for doubtful accounts	(13,389)	(1,418)	(1,248)	(2,196)	(1,671)	(1,021)	(871)	(1,161)	(157)	(90)	(23,222)	-	(23,222)
Accounts receivable - other	992	5	34	22	9	-	-	-	-	(1)	1,061	262	1,323
Prepaid expenses	44	21	5	3	2	5	1	15	-	184	280	1,818	2,098
Total current assets	21,150	1,529	1,277	2,429	2,148	1,271	875	1,607	276	541	33,103	18,452	51,555
LONG-TERM ASSETS													
Property and equipment, net	1,142	2,564	662	1,918	1,207	2,012	1,572	2,185	1,876	1,753	16,891	2,243	19,134
Right-of-use assets, net	8,956	14,925	4,798	13,321	8,088	4,452	2,976	8,703	3,325	1,016	70,560	488	71,048
Intangibles assets, net	964	1,081	-	-	-	-	-	1,010	-	346	3,401	-	3,401
Other long-term assets	4,178	910	635	1,360	1,190	1,303	814	1,019	141	86	11,636	-	11,636
Total long-term assets	15,240	19,480	6,095	16,599	10,485	7,767	5,362	12,917	5,342	3,201	102,488	2,731	105,219
Total assets	\$ 36,390	\$ 21,009	\$ 7,372	\$ 19,028	\$ 12,633	\$ 9,038	\$ 6,237	\$ 14,524	\$ 5,618	\$ 3,742	\$ 135,591	\$ 21,183	\$ 156,774
LIABILITIES AND NET ASSETS													
CURRENT LIABILITIES													
Accounts payable	\$ 73	\$ 15	\$ 23	\$ 16	\$ 10	\$ 16	\$ 10	\$ 118	\$ 3	\$ 23	\$ 307	\$ 1,308	\$ 1,615
Accrued expenses	1,911	220	97	420	227	210	184	104	13	83	3,469	2,432	5,901
Right-of-use liabilities, short term	2,308	1,899	930	2,019	1,188	1,580	1,363	1,506	412	262	13,467	173	13,640
Current portion-long term debt	-	-	-	-	-	-	-	-	-	-	-	7,738	7,738
Student advance payments	539	281	80	93	120	69	23	129	3	12	1,349	2	1,351
Unearned tuition	11,543	285	268	377	449	259	158	191	55	60	13,645	14	13,659
Total current liabilities	16,374	2,700	1,398	2,925	1,994	2,134	1,738	2,048	486	440	32,237	11,667	43,904
LONG-TERM LIABILITIES													
Long-term debt	-	-	-	-	-	-	-	-	-	-	-	43,848	43,848
Other long-term liabilities	93	100	31	185	-	72	38	103	39	178	839	80	919
Right-of-use liabilities, long term	6,768	14,950	3,869	11,851	8,057	4,113	2,419	9,755	3,442	1,028	66,252	177	66,429
Total long-term liabilities	6,861	15,050	3,900	12,036	8,057	4,185	2,457	9,858	3,481	1,206	67,091	44,105	111,196
Total liabilities	23,235	17,750	5,298	14,961	10,051	6,319	4,195	11,906	3,967	1,646	99,328	55,772	155,100
NET ASSETS													
Without donor restrictions	13,121	3,259	2,074	4,067	2,582	2,719	2,042	2,618	1,651	2,096	36,229	(34,590)	1,639
With donor restrictions	34	-	-	-	-	-	-	-	-	-	34	1	35
Total net assets	13,155	3,259	2,074	4,067	2,582	2,719	2,042	2,618	1,651	2,096	36,263	(34,589)	1,674
Total liabilities and net assets	\$ 36,390	\$ 21,009	\$ 7,372	\$ 19,028	\$ 12,633	\$ 9,038	\$ 6,237	\$ 14,524	\$ 5,618	\$ 3,742	\$ 135,591	\$ 21,183	\$ 156,774

SOUTH UNIVERSITY - MEMBER, LLC
AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS — INFORMATION BY OPEID

See Independent Auditor's Report

Year Ended December 31, 2022

(In Thousands)

OPEID #	SU Savannah (013039-00)	SU West Palm Beach (013039-04)	SU Montgomery (013039-06)	SU Columbia (013039-07)	SU Tampa (013039-08)	SU Richmond (013039-10)	SU Virginia Beach (013039-11)	SU Austin (013039-15)	SU High Point (013039-23)	SU Orlando (013039-26)	South University Consolidated (013039-00)	South University, LLC (Corporate)	South University - Member, LLC
OPERATING REVENUES													
Tuition and fees, net	\$ 139,322	\$ 13,355	\$ 6,753	\$ 10,212	\$ 16,473	\$ 8,831	\$ 4,734	\$ 6,568	\$ 909	\$ 1,309	\$ 208,466	\$ -	\$ 208,466
Sales and services of auxiliary enterprises, net	2,267	131	102	167	271	129	67	109	2	(1)	3,244	-	3,244
Other income	174	23	17	44	61	31	23	24	3	2	402	-	402
Total operating revenues	<u>141,763</u>	<u>13,509</u>	<u>6,872</u>	<u>10,423</u>	<u>16,805</u>	<u>8,991</u>	<u>4,824</u>	<u>6,701</u>	<u>914</u>	<u>1,310</u>	<u>212,112</u>	<u>-</u>	<u>212,112</u>
OPERATING EXPENSES													
Educational and Support Services													
Employee compensation	46,237	5,663	2,672	4,794	6,250	4,526	3,181	2,730	465	660	77,178	9,482	86,660
Advertising	30,886	1,606	1,179	1,402	1,658	1,354	1,120	1,620	430	617	41,872	3	41,875
Rent expense	2,699	2,908	1,053	2,562	1,659	1,524	1,408	1,735	438	231	16,217	37	16,254
Outside services	2,554	234	136	233	311	184	148	145	36	51	4,032	2,315	6,347
Bad debt expense	12,295	688	1,104	1,427	1,319	54	680	1,096	(85)	82	18,660	-	18,660
Depreciation and amortization	805	784	198	641	228	523	353	358	347	229	4,466	1,783	6,249
Interest expense, net	-	8	-	-	-	-	-	-	-	-	8	3,706	3,714
Other expenses	5,023	1,758	606	1,257	1,427	1,129	478	760	185	149	12,772	8,283	21,055
Total operating expenses	<u>100,499</u>	<u>13,649</u>	<u>6,948</u>	<u>12,316</u>	<u>12,852</u>	<u>9,294</u>	<u>7,368</u>	<u>8,444</u>	<u>1,816</u>	<u>2,019</u>	<u>175,205</u>	<u>25,609</u>	<u>200,814</u>
CHANGES IN NET ASSETS													
FROM OPERATING ACTIVITIES	41,264	(140)	(76)	(1,893)	3,953	(303)	(2,544)	(1,743)	(902)	(709)	36,907	(25,609)	11,298
OTHER NON-OPERATING CHANGES													
IN NET ASSETS	<u>(40,382)</u>	<u>(912)</u>	<u>(377)</u>	<u>657</u>	<u>(4,247)</u>	<u>224</u>	<u>2,207</u>	<u>2,315</u>	<u>684</u>	<u>1,342</u>	<u>(38,489)</u>	<u>43,487</u>	<u>4,998</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS													
	882	(1,052)	(453)	(1,236)	(294)	(79)	(337)	572	(218)	633	(1,582)	17,878	16,296
CONTRIBUTIONS WITH DONOR RESTRICTIONS, NET OF EXPENSES													
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,999)</u>	<u>(4,999)</u>
CHANGES IN NET ASSETS													
	882	(1,052)	(453)	(1,236)	(294)	(79)	(337)	572	(218)	633	(1,582)	12,879	11,297
NET ASSETS - beginning of year													
	<u>12,273</u>	<u>4,311</u>	<u>2,527</u>	<u>5,303</u>	<u>2,876</u>	<u>2,798</u>	<u>2,379</u>	<u>2,046</u>	<u>1,869</u>	<u>1,463</u>	<u>37,845</u>	<u>(47,468)</u>	<u>(9,623)</u>
NET ASSETS - end of year													
	<u>\$ 13,155</u>	<u>\$ 3,259</u>	<u>\$ 2,074</u>	<u>\$ 4,067</u>	<u>\$ 2,582</u>	<u>\$ 2,719</u>	<u>\$ 2,042</u>	<u>\$ 2,618</u>	<u>\$ 1,651</u>	<u>\$ 2,096</u>	<u>\$ 36,263</u>	<u>\$ (34,589)</u>	<u>\$ 1,674</u>



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

To the Board of Trustees
South University – Member, LLC
and Subsidiaries

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited South University – Member, LLC and Subsidiaries' 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 each of South University – Member, LLC and Subsidiaries' major federal programs for the year ended December 31, 2022. South University – Member, LLC and Subsidiaries' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, South University – Member, LLC and Subsidiaries 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 December 31, 2022.

Basis for Opinion on Each 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 Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of South University – Member, LLC and Subsidiaries 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 each major federal program. Our audit does not provide a legal determination of South University – Member, LLC and Subsidiaries' 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 South University – Member, LLC and Subsidiaries' federal programs.

Auditor's 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 South University – Member, LLC and Subsidiaries' 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 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 South University – Member, LLC and Subsidiaries' 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 South University – Member, LLC and Subsidiaries' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of South University – Member, LLC and Subsidiaries' 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 South University – Member, LLC and Subsidiaries' 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.

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 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 Auditor's 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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of South University – Member, LLC and Subsidiaries as of and for the year ended December 31, 2022, and have issued our report thereon dated March 23, 2023, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in cursive script that reads "Symphona LLP".

Savannah, Georgia
March 23, 2023

SOUTH UNIVERSITY — MEMBER, LLC
AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
United States Department of Education				
Student Financial Assistance Cluster				
Federal Pell Grant Program	84.063		\$ -	\$ 45,601,558
Federal Direct Loan Program	84.268		-	190,479,418
Federal Supplemental Educational Opportunity Grant Program	84.007		-	1,459,015
Federal Work-Study Program	84.033		-	647,703
Total student financial assistance cluster			-	238,187,693
Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act				
Higher Education Emergency Relief Fund				
Student Aid Portion	84.425E		-	5,150,805
Higher Education Emergency Relief Fund				
Institutional Portion	84.425F		-	-
Total education stabilization fund under the coronavirus aid, relief, and economic security act			-	5,150,805
Total expenditures of federal awards			\$ -	\$ 243,338,498

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of South University – Member, LLC and Subsidiaries under programs of the federal government for the year ended December 31, 2022. The information in this Schedule is presented in accordance with the 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"). Because the Schedule presents only a selected portion of the operations of South University – Member, LLC and Subsidiaries, it is not intended to and does not present the consolidated financial position, changes in net assets, or cash flows of South University – Member, LLC and Subsidiaries.

SOUTH UNIVERSITY – MEMBER, LLC
AND SUBSIDIARIES

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2022

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash 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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3. INDIRECT COST RATE

South University – Member, LLC and Subsidiaries has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 4. FEDERAL PERKINS LOAN PROGRAM

At December 31, 2022, South University – Member, LLC and Subsidiaries had \$2,507 in Federal Perkins Loans outstanding to students.

At December 31, 2022, South University – Member, LLC and Subsidiaries had a Federal Perkins Loan Program cash balance of \$166,717.10.

On March 16, 2023, subsequent to the fiscal year end, South University – Member LLC and Subsidiaries has paid the Federal share owed of Perkins liquid capital in full. There are no remaining Perkins Loans outstanding as of the date of this report.

SOUTH UNIVERSITY – MEMBER, LLC
AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2022

SECTION 1. SUMMARY OF AUDITOR'S RESULTS

Consolidated Financial Statements

Type of report the auditor issued on whether the consolidated financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ___ Yes X No

Significant deficiency(ies) identified? ___ Yes X None Reported

Noncompliance material to consolidated financial statements noted? ___ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ___ Yes X No

Significant deficiency(ies) identified? ___ Yes X None Reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.063; 84.268; 84.007; 84.033 84.425E; 84.425F	Student Financial Assistance Cluster Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? ___ Yes X No

SOUTH UNIVERSITY – MEMBER, LLC
AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2022

SECTION 2. FINANCIAL STATEMENT FINDINGS

None noted.

SOUTH UNIVERSITY – MEMBER, LLC
AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2022

SECTION 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted.

SOUTH UNIVERSITY – MEMBER, LLC
AND SUBSIDIARIES

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2021

The Institution has taken corrective actions as indicated on the prior audit report issued by Symphona LLP f/k/a TJS Deemer Dana LLP on March 29, 2022, covering the Student Financial Assistance Cluster: Federal Pell Grant, Federal Direct Loan, Federal Supplemental Educational Opportunity Grant, Federal Work-Study, and Higher Education Emergency Relief Fund programs for the year ended December 31, 2021.



Independent Auditor's Report on Financial Responsibility Supplementary Schedule

To the Board of Trustees
South University – Member, LLC
and Subsidiaries

We have audited the consolidated financial statements of South University – Member, LLC and Subsidiaries as of and for the year ended December 31, 2022, and have issued our report thereon, dated March 23, 2023, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The accompanying financial responsibility supplemental schedule is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of 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.

Symphona LLP

Savannah, Georgia
March 30, 2023

SOUTH UNIVERSITY – MEMBER, LLC
AND SUBSIDIARIES

FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE

See Independent Auditor's Report

Year Ended December 31, 2022

(In Thousands)

As a condition of eligibility to participate in the various federal financial assistance programs, the University is required to demonstrate financial responsibility, as defined in United States Department of Education regulations, by maintaining a "composite score standard" of at least 1.5. The regulations also established a composite score zone between 1.0 and 1.4, demonstrating an institution as financially weak, but viable. Regulations allow institutions falling within this zone up to three consecutive years to improve their financial condition without requiring surety.

The following schedule outlines the components utilized in the calculation of South University – Member, LLC and Subsidiaries' total composite score for the year ended March 30, 2023:

Primary Reserve Ratio:			
Expendable Net Assets:			
Consolidated Statement of Financial Position - Net assets - without donor restrictions	Net assets without donor restrictions		\$ 1,639
Consolidated Statement of Financial Position - Net assets - with donor restrictions	Net assets with donor restrictions		\$ 35
Not Applicable	Net assets with donor restrictions: Other for purpose or time		\$ -
Not Applicable	Secured and Unsecured related party receivable	\$ -	
Not Applicable	Unsecured related party receivable		\$ -
Not Applicable	Unsecured other related party assets		\$ -
Consolidated Statement of Financial Position - Long-Term Assets - Property and equipment, net	Property, plant, and equipment, net (includes Construction in progress)	\$ 19,134	
Financial Responsibility Supplemental Schedule - Consolidated Statement of Financial Position - Net Property and Equipment - (A-PPE) (See table below)	Property, plant, and equipment - pre-implementation		\$ 13,083
Not Applicable	Property, plant, and equipment - post-implementation with outstanding debt for original purchase		\$ -
Financial Responsibility Supplemental Schedule - Consolidated Statement of Financial Position - Net Property and Equipment - (D-PPE) (See table below)	Property, plant, and equipment - post-implementation without outstanding debt for original purchase		\$ 4,033
Financial Responsibility Supplemental Schedule - Consolidated Statement of Financial Position - Net Property and Equipment - (C-PPE) (See table below)	Construction in progress		\$ 2,018

SOUTH UNIVERSITY – MEMBER, LLC
AND SUBSIDIARIES

FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE

See Independent Auditor's Report
Year Ended December 31, 2022
(In Thousands)

	Primary Reserve Ratio: (continued)		
	Expendable Net Assets: (continued)		
Consolidated Statement of Financial Position - Long-Term Assets - Right-of-use assets, net	Lease right-of-use asset, net	\$ 71,048	
Financial Responsibility Supplemental Schedule - Supplemental Information - Lease right-of-use assets - pre-implementation - (A-L) (See table below)	Lease right-of-use asset pre-implementation		\$ 41,517
Financial Responsibility Supplemental Schedule - Supplemental Information - Lease right-of-use assets - post-implementation - (B-L) (See table below)	Lease right-of-use asset post-implementation		\$ 29,531
Consolidated Statement of Financial Position - Long-Term Assets - Intangible assets, net	Intangible assets		\$ 3,401
Not Applicable	Post-employment and pension liabilities		\$ -
Consolidated Statement of Financial Position - Long-Term Liabilities - Long-term debt	Long-term debt - for long-term purposes	\$ 51,586	
Not Applicable	Long-term debt - for long-term purposes pre-implementation		\$ -
Not Applicable	Long-term debt - for long-term purposes post-implementation		\$ -
Not Applicable	Line of Credit for Construction in progress		\$ -
Financial Responsibility Supplemental Schedule - Supplemental Information - Note 7 - Long-term debt for long-term purposes - (D-LTD) (See table below)	Long-term debt - not for the purchase of Property, Plant and Equipment or liability greater than assets value		\$ 51,586
Consolidated Statement of Financial Position - Right-of-use liabilities, short-term; Right-of-use liabilities, long-term	Lease right-of-use asset liability	\$ 80,069	
Financial Responsibility Supplemental Schedule - Supplemental Information - Lease right-of-use assets liability - pre-implementation - (A-L) (See table below)	Pre-implementation lease right-of-use asset liability		\$ 46,675
Financial Responsibility Supplemental Schedule - Supplemental Information - Lease right-of-use assets liability - post-implementation - (B-L) (See table below)	Post-implementation lease right-of-use asset liability		\$ 33,394
Not Applicable	Annuities with donor restrictions		\$ -
Not Applicable	Term endowments with donor restrictions		\$ -
Not Applicable	Life income funds with donor restrictions		\$ -
Not Applicable	Net assets with donor restrictions: restricted in perpetuity		\$ -

SOUTH UNIVERSITY – MEMBER, LLC
AND SUBSIDIARIES

FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE

See Independent Auditor's Report

Year Ended December 31, 2022

(In Thousands)

Primary Reserve Ratio: (continued)			
Total Expenses and Losses:			
Consolidated Statement of Activities and Changes in Net Assets - Operating Expenses - Total Operating Expenses; Other Non-Operating Changes in Net Assets	Total expenses without donor restrictions - taken directly from Consolidated Statement of Activities		\$ 200,814
Consolidated Statement of Activities Non-Operating (Investment return appropriated for spending), Investments, net of annual spending gain (loss), Other components of net periodic pension costs, Pension-related changes other than net periodic pension, Change in value of split-interest agreements and Other gains (loss) - (Total from Consolidated Statement of Activities prior to adjustments)	Non-Operating and Net Investment (loss)		\$ (4,999)
Not Applicable	Other components of net periodic pension costs		\$ -
Not Applicable	Change in value of split-interest agreements		\$ -
Not Applicable	Other losses		\$ -
Not Applicable	Net investment losses		\$ -
Not Applicable	Pension-related changes other than net periodic costs		\$ -

SOUTH UNIVERSITY – MEMBER, LLC
AND SUBSIDIARIES

FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE

See Independent Auditor's Report

Year Ended December 31, 2022

(In Thousands)

	Equity Ratio:		
	Modified Net Assets:		
Consolidated Statement of Financial Position - Net Assets - Without Donor Restrictions	Net assets without donor restrictions		\$ 1,639
Consolidated Statement of Financial Position - Net Assets - With Donor Restrictions	Net assets with donor restrictions		\$ 35
Consolidated Statement of Financial Position - Long-Term Assets - Intangible assets, net	Intangible assets		\$ 3,401
Not Applicable	Secured and Unsecured related party receivables	\$ -	
Not Applicable	Unsecured related party receivables		\$ -
Not Applicable	Unsecured related party other assets		\$ -
	Modified Assets:		
Consolidated Statement of Financial Position - Total assets	Total assets		\$ 156,774
Financial Responsibility Supplemental Schedule - Supplemental Information - Lease right-of-use assets - pre-implementation - (A-L) (See table below)	Lease right-of-use asset pre-implementation		\$ 41,517
Financial Responsibility Supplemental Schedule - Supplemental Information - Lease right-of-use assets liability - pre-implementation - (A-L) (See table below)	Pre-implementation lease right-of-use asset liability		\$ 46,675
Consolidated Statement of Financial Position - Long-Term Assets - Intangible assets, net	Intangible assets		\$ 3,401
Not Applicable	Secured and Unsecured related party receivables	\$ -	
Not Applicable	Unsecured related party receivables		\$ -
Not Applicable	Unsecured related party other assets		\$ -
	Net Income Ratio:		
Consolidated Statement of Activities and Changes in Net Assets - Changes in Net Assets Without Donor Restrictions	Change in Net Assets Without Donor Restrictions		\$ 16,296
Consolidated Statement of Activities - Operating Revenues - Total Operating Revenues	Total Revenues and Gains		\$ 212,112
Not Applicable	Total Operating Revenue and Other Additions (Gains)		\$ -
Not Applicable	Investment return appropriated for spending		\$ -
Statement of Activities and Changes in Net Assets - Contributions with donor restriction, net of expenses	Non-Operating Revenue and Other Gains		\$ 4,998

SOUTH UNIVERSITY – MEMBER, LLC
AND SUBSIDIARIES

FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE

See Independent Auditor's Report
Year Ended December 31, 2022
(In Thousands)

		Consolidated Statement of		Note 7 - Long-term debt	
		Financial Position		for long-term purposes	
		Net Property and Equipment			
A-PPE					
A-LTD	Pre-implementation	\$	13,083	\$	-
B-PPE					
B-LTD	Post-implementation / Allowable				
	Post-implementation		-		-
	Leasehold improvements	\$	-	\$	-
	Software		-		-
	Technology		-		-
	Furniture and equipment		-		-
	Library books		-		-
C-PPE					
C-LTD	Construction in progress		2,018		-
D-PPE	Post-implementation		4,033		
D-LTD	Long-term debt not for the purchase of property and equipment or liability greater than assets value				51,586
			<u>\$ 19,134</u>		<u>\$ 51,586</u>

- A-PPE This is the ending balance on the last consolidated financial statement submission prior to the implementation of the regulations – less any depreciation or disposals.
- B-PPE This is the balance of assets purchased after the implementation of the regulations that was purchased by obtaining debt.
- C-PPE Asset value of construction in progress.
- D-PPE Post-Implementation property and equipment with no outstanding debt.
- A-LTD This is the ending balance of the last consolidated financial statement submission prior to the implementation of the regulations – Less in repayments.
- B-LTD This is the lessor of actual outstanding debt of each asset or the value of the asset.
- C-LTD All debt associated with construction in progress up to the asset value for construction in progress is included.
- D-LTD Long-term debt not for the purchase of property and equipment (\$0 above value of property and equipment and \$51,586 for debt obtained for purposes other than fixed assets).

Lease right-of-use assets		
A-L	Lease right-of-use assets - pre-implementation	\$ 41,517
B-L	Lease right-of-use assets - post-implementation	29,531
		<u>\$ 71,048</u>
Lease right-of-use assets liability		
A-L	Lease right-of-use assets liability - pre-implementation	\$ 46,675
B-L	Lease right-of-use assets liability - post-implementation	33,394
		<u>\$ 80,069</u>

- A-L Balance for leases entered into prior to December 15, 2018.
- B-L Balance for leases entered on or after December 15, 2018, and modified on or after December 15, 2018.

SOUTH UNIVERSITY – MEMBER, LLC
AND SUBSIDIARIES

FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE

See Independent Auditor's Report
Year Ended December 31, 2022
(In Thousands)

Primary Reserve Ratio = Expendable Net Assets	\$ (15,703)	(0.0782)
/ Total Expenses and Losses Without Donor Restrictions	\$ 200,814	
Equity Ratio = Modified Net Assets	\$ 3,431	0.0307
/ Modified Assets	\$ 111,856	
Net Income Ratio = Change in Net Assets Without Donor Restrictions	\$ 16,296	0.0751
/ Total Revenues and Gains Without Donor Restrictions	\$ 217,110	

RATIO	Ratio	Strength Factor	Weight	Composite Scores
Primary reserve ratio	-0.0782	-0.7820	40%	-0.3128
Equity ratio	0.0307	0.1840	40%	0.0736
Net income ratio	0.0751	3.0000	20%	0.6000
				0.3608
Total Composite Score - Rounded				0.4