



UNIVERSITY OF MASSACHUSETTS GLOBAL
(formerly Brandman University)

Basic Financial Statements

Period from September 1, 2021 (inception) to June 30, 2022

(With Independent Auditors' Report Thereon)

UNIVERSITY OF MASSACHUSETTS GLOBAL
(formerly Brandman University)

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Independent Auditors' Report

The Board of Regents
University of Massachusetts Global:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the University of Massachusetts Global (the University), a component unit of the University of Massachusetts, as of June 30, 2022 and for the period from September 1, 2021 (inception) to June 30, 2022, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the University, as of June 30, 2022 and the changes in its financial position and, its cash flows for the period from September 1, 2021 (inception) to June 30, 2022 in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University 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.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, in fiscal year 2022, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Management has omitted management's discussion and analysis that U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2022 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an



audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Irvine, California
November 11, 2022

UNIVERSITY OF MASSACHUSETTS GLOBAL
(formerly Brandman University)

Statement of Net Position (Deficit)

June 30, 2022

Assets

Current assets:	
Cash	\$ 49,797,176
Restricted cash	421,890
Accounts receivable, net	8,130,269
Prepaid expenses, and other	<u>2,747,609</u>
Total current assets	<u>61,096,944</u>
Noncurrent assets:	
Capital assets, net	<u>50,196,951</u>
Total noncurrent assets	<u>50,196,951</u>
Total assets	<u>111,293,895</u>

Liabilities

Current liabilities:	
Accounts payable and accrued expenses	15,226,389
Unearned revenues	13,974,660
Notes payable, current portion	5,000,000
Lease liabilities, current portion	<u>2,182,988</u>
Total current liabilities	<u>36,384,037</u>
Noncurrent liabilities:	
Notes payable, noncurrent portion	135,786,722
Lease liabilities, noncurrent portion	<u>3,487,899</u>
Total noncurrent liabilities	<u>139,274,621</u>
Total liabilities	<u>175,658,658</u>

Net Position (Deficit)

Net investment in capital assets	7,526,064
Restricted – expendable	905,144
Unrestricted	<u>(72,795,971)</u>
Total net position (deficit)	<u>\$ (64,364,763)</u>

See accompanying notes to financial statements.

UNIVERSITY OF MASSACHUSETTS GLOBAL
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Statement of Revenues, Expenses, and Changes in Net Position (Deficit)

For the period from September 1, 2021 (inception) to June 30, 2022

Operating revenues:		
Tuition and fees (net of University scholarship allowances of \$5,615,975)	\$	97,308,313
Auxiliary enterprises		1,181,409
Other operating revenues		<u>60,213</u>
Total operating revenues		<u>98,549,935</u>
Operating expenses:		
Educational and general:		
Instruction		26,245,736
Academic support		9,201,970
Student services		53,602,921
Institutional support		19,080,189
Depreciation and amortization		4,292,283
Scholarships and fellowships		<u>3,037,333</u>
Total operating expenses		<u>115,460,432</u>
Operating loss		<u>(16,910,497)</u>
Nonoperating revenues (expenses):		
Federal grants		3,034,583
Private gifts and grants		349,408
Investment income		123
Interest on indebtedness		(2,701,548)
Gain on disposal of capital assets		1,929
Other expenses		<u>(311,975)</u>
Total nonoperating revenues		<u>372,520</u>
Decrease in net position		<u>(16,537,977)</u>
Net deficit at beginning of period		<u>(47,826,786)</u>
Net deficit at end of period	\$	<u><u>(64,364,763)</u></u>

See accompanying notes to financial statements.

UNIVERSITY OF MASSACHUSETTS GLOBAL
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Statement of Cash Flows

For the period from September 1, 2021 (inception) to June 30, 2022

Cash flows from operating activities:	
Tuition and fees	\$ 81,431,931
Payments to suppliers	(38,033,210)
Payments to employees	(54,545,302)
Payments for benefits	(13,836,638)
Payments for scholarships and fellowships	(3,037,333)
Auxiliary enterprises receipts	1,277,826
Other receipts	<u>60,328</u>
Net cash used in operating activities	<u>(26,682,398)</u>
Cash flows from noncapital financing activities:	
Private gifts and grants for other than capital purposes	349,408
Nonoperating federal grants	3,381,203
Other nonoperating payments	<u>(815,844)</u>
Net cash provided by noncapital financing activities	<u>2,914,767</u>
Cash flows from capital and other financing activities:	
Purchases of capital assets	(741,139)
Interest paid on leases	(135,633)
Principal paid on leases	<u>(2,079,781)</u>
Net cash used in capital and other financing activities	<u>(2,956,553)</u>
Cash flows from investing activities:	
Interest on investments	<u>123</u>
Net cash provided by investing activities	<u>123</u>
Net decrease in cash	(26,724,061)
Cash and restricted cash – beginning of the period	<u>76,943,127</u>
Cash and restricted cash – end of period	<u>\$ 50,219,066</u>

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Statement of Cash Flows

For the period from September 1, 2021 (inception) to June 30, 2022

Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (16,910,497)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	2,027,908
Amortization of lease assets	2,264,375
Changes in assets and liabilities:	
Accounts receivable, net	8,999,168
Other assets	279,580
Accounts payable and accrued expenses	(6,742,596)
Unearned revenues and advances	(24,779,017)
Other liabilities	<u>8,178,681</u>
Net cash used in operating activities	<u>\$ (26,682,398)</u>
Supplemental schedule of noncash activities:	
Assets acquired in exchange for lease obligation	\$ 680,733

See accompanying notes to financial statements.

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Notes to Financial Statements

For the period of September 1, 2021 to June 30, 2022

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

University of Massachusetts Global (the University), a not-for-profit institution of higher learning, and its blended component unit, CBE Educational Services Company, Inc., (CBEEESC) a taxable corporation, are located in Orange County, California, and Washington D.C. respectively. The University is a component unit of the University of Massachusetts.

CBEEESC was acquired in March of 2017 for the primary purpose of creating and maintaining the competency-based learning management software platform which The University offers to its students. CBEEESC is wholly owned by The University. CBEEESC is blended in the financial statements of the University given the exclusivity of its financial relationship with the University. CBEEESC has generated no net income since its acquisition in 2017 and is not material to the University's overall financial statements.

On September 1, 2021, Chapman University and affiliates (Chapman University) transferred control of Brandman University and Brandman's governing board to the University of Massachusetts as a result of a change of control transaction. After the close of this transaction, Brandman University changed its name to UMass Global, and on March 9, 2022 it changed once again to University of Massachusetts Global.

(b) Basis of Presentation and Accounting

The accompanying financial statements are presented using the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). Revenues for exchange transactions are recognized when earned and expenses are recognized when incurred. Restricted grant revenue is recognized only when all eligibility requirements have been met.

On the Statement of Revenues, Expenses, and Changes in Net Position (Deficit), the University's operating activities consist of tuition and fees, sales and services, auxiliary enterprises and other operating revenues.

Operating expenses include, among other items, payroll, utilities, supplies and services, depreciation, and amortization. Nonoperating revenues or expenses are those in which the University receives or gives value without directly giving or receiving equal value, such as CARES Act revenue, Federal Pell grants, private gifts, interest expense, and investment income.

During the period from September 1, 2021 (inception) to June 30, 2022, the University adopted the following standards: In June 2017, GASB issued Statement No. 87, *Leases* (GASB 87), which is effective for reporting periods beginning after December 15, 2020. The objective of GASB 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as deferred inflows of resources or deferred outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset.

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For the period of September 1, 2021 to June 30, 2022

Under GASB 87, a lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The University adopted GASB 87 in the current period as of September 1, 2021, which included the recording of right of use assets and lease liabilities on the statements of net position as of June 30, 2022. The impact of the adoption is further described in note (5).

(c) Cash

The following table provides a reconciliation of cash and restricted cash reported within the statement of net position (deficit).

	<u>June 30, 2022</u>
Cash	\$ 49,797,176
Restricted cash	<u>421,890</u>
Total cash, and restricted cash	<u>\$ 50,219,066</u>

Amounts included in restricted cash represent those required to be set aside by an agreement with donors restricted for specific projects or purposes.

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2022, the bank balances of uninsured deposits totaled \$50.2 million. Uncollateralized bank balances include \$50 million in excess of the Federal Deposit Insurance Corporation (FDIC) limits at June 30, 2022.

(d) Accounts Receivable, Net

Accounts receivable primarily consist of receivables for tuition and fees. The University establishes an allowance for accounts receivable based on management's expectation regarding the collection of the receivables and the University's historical experience for collections.

(e) Capital Assets

The University capitalizes assets with useful lives greater than one year and acquisition costs greater than or equal to \$1,000. Capital assets are stated at cost or estimated fair value at date of donation, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

<u>Asset Type</u>	<u>Years</u>
Buildings and improvements	3–50
Equipment	3–15

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For the period of September 1, 2021 to June 30, 2022

(f) Leases (Lessee)

Measurement of Lease Amounts

At lease commencement, the University initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, less lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized into amortization expense on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. If the University is reasonably certain of exercising a purchase option contained in a lease, the lease asset will be amortized over the useful life of the underlying asset.

Key Estimates and Judgments

Key estimates and judgments include how the University determines (1) the discount rate it uses to calculate the present value of the expected lease payments, (2) lease term, and (3) lease payments.

(g) Compensated Absences

Employees earn the right to be compensated during absences for vacation leave. Upon retirement, termination, or death, certain employees are compensated for unused vacation leave, subject to certain limitations, at their current rate of pay. Within the Statement of Net Position (Deficit), a liability is recorded for vacation benefits earned as of the fiscal year-end. The recorded liability is classified as current on the statement of net position (deficit).

(h) Unearned Revenues

Unearned revenue consists of amounts billed or received in advance of the University providing educational services. Unearned revenue is subsequently earned as qualifying expenses are incurred.

(i) Net Position (Deficit)

Net position (deficit) is classified into the following categories:

Net Investment in Capital Assets: Capital assets at historical cost or estimated fair value on the date of gift, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted Expendable: Resources whose use by the University is subject to externally imposed stipulations. Such assets include restricted grants, restricted gifts, and other similar restricted funds.

Unrestricted: The net position (deficit) that is not subject to externally imposed restrictions governing their use.

The University applies restricted net assets first when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

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For the period of September 1, 2021 to June 30, 2022

(j) Tuition and Fees, Net of Scholarship Allowances

Student tuition and fees are reported net of any related University-funded discounts. Scholarships paid directly to students are separately reported as a scholarship expense.

(k) Grants and Contracts

The University receives grants and contracts from federal and state government agencies as well as private organizations. The University records revenue at the point all eligibility requirements (e.g. allowable costs are incurred) are met.

In response to the COVID-19 pandemic, the United States Congress passed legislative acts creating Higher Education Relief Funds (HEERF) I, II & III which have provided institutions of higher education with funding. As of June 30, 2022, the University has received a total of \$9,619,125 in grant funding under the HEERF I, HEERF II and HEERF III programs and distributed \$4,810,887 to students as emergency aid grants and \$4,808,238 towards offsetting lost revenues and COVID-related additional costs associated with the delivery of the academic program. The University distributed \$3,034,583 of the student emergency aid grants to students and reported \$3,034,583 as non-operating federal grants revenue in the statement of revenues, expenses, and changes in net position (deficit) in the period ended June 30, 2022.

(l) Use of Estimates

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

(m) Income Taxes

The University, with the exception of CBEESC, is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal or state income taxes. However, the University is subject to income taxes on any net income that is derived from a trade or business regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statements. CBEESC is subject to applicable federal and state income taxes, but no tax provision has been recorded as there has been no net income since its inception.

(n) Current Environment

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. The outbreak of the disease has affected travel, commerce, and financial markets globally, including in the United States. The continued spread of COVID-19 and its impact on social interaction, travel, economies, and financial markets may adversely affect operations and financial condition, including, among other things, (i) the ability of the University to conduct its operations and/or the cost of operations, and (ii) governmental and non-governmental funding.

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For the period of September 1, 2021 to June 30, 2022

The COVID-19 pandemic has negatively affected national, state, and local economies and global financial markets, and the higher education landscape in general. While the financial impact on the University cannot be fully quantified at this time, the pandemic does not appear to have had a material adverse effect on the current and future financial profile and operating performance of the University. The University continues to monitor the course of the pandemic and is prepared to take additional measures to protect the health of the University community and promote the continuity of its academic mission.

(2) Accounts Receivable, Net

Accounts receivable as of June 30, 2022 is as follows:

Student accounts receivable	\$	8,779,717
Other		<u>3,201,118</u>
Total		11,980,835
Less allowance for doubtful accounts		<u>(3,850,566)</u>
Accounts receivable, net	\$	<u><u>8,130,269</u></u>

(3) Capital Assets

Capital assets at June 30, 2022 consists of the following:

Asset	As of September 1, 2021	Additions	Retirements/ Adjustments	As of June 30, 2022
Land	\$ 18,500,000	—	—	18,500,000
Buildings and improvements	20,396,034	409,482	—	20,805,516
Equipment	<u>27,389,957</u>	<u>331,657</u>	—	<u>27,721,614</u>
	66,285,991	741,139	—	67,027,130
Less accumulated depreciation:				
Buildings and Improvements	(795,262)	(422,321)	—	(1,217,583)
Equipment	<u>(18,803,049)</u>	<u>(1,605,587)</u>	—	<u>(20,408,636)</u>
Total accumulated depreciation	<u>(19,598,311)</u>	<u>(2,027,908)</u>	—	<u>(21,626,219)</u>
Total capital assets, net	\$ <u><u>46,687,680</u></u>	<u><u>(1,286,769)</u></u>	<u><u>—</u></u>	45,400,911
Lease assets, net (Note 5)				<u>4,796,040</u>
Total capital assets, net as reported in the statement of net position				<u><u>50,196,951</u></u>

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Notes to Financial Statements

For the period of September 1, 2021 to June 30, 2022

(4) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at June 30, 2022 consists of the following:

	June 30, 2022
Accounts payable	\$ 1,930,121
Accrued salaries and wages	4,052,421
Accrued interest payable	1,065,166
Other liabilities	8,178,681
	\$ 15,226,389

Other liabilities includes revenue share accruals and executive payouts.

(5) Leases (Lessee)

(a) Lease Assets

A summary of right of use asset activity during the period ended June 30 is as follows:

	As of September 1, 2021	Additions	Remeasurements/ terminations	As of June 30, 2022
Lease assets:				
Real estate	\$ 6,464,003	680,733	(198,143)	6,946,593
Equipment	113,822	—	—	113,822
Total lease assets	6,577,825	680,733	(198,143)	7,060,415
Less accumulated amortization:				
Real estate	—	(2,218,120)	—	(2,218,120)
Equipment	—	(46,255)	—	(46,255)
Total accumulated amortization	—	(2,264,375)	—	(2,264,375)
Total lease assets, net	\$ 6,577,825	(1,583,642)	(198,143)	4,796,040

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For the period of September 1, 2021 to June 30, 2022

(b) Lease Liabilities

A summary of change in the related lease liabilities during the period ended June 30, 2022, is as follows:

	As of September 1, 2021	Additions	Remeasurements	Deductions	As of June 30, 2022	Due in one year
Lease liabilities:						
Real estate	\$ 7,149,576	680,733	(198,143)	(2,024,516)	5,607,650	2,130,633
Equipment	118,503	—	—	(55,266)	63,237	52,355
Total lease liabilities	<u>\$ 7,268,079</u>	<u>680,733</u>	<u>(198,143)</u>	<u>(2,079,782)</u>	<u>5,670,887</u>	<u>2,182,988</u>

Future annual lease payments are as follows:

Fiscal year	Principal	Interest	Total
2023	\$ 2,182,988	107,264	2,290,252
2024	1,769,623	59,612	1,829,235
2025	1,237,731	22,006	1,259,737
2026	290,614	7,531	298,145
2027	189,931	2,749	192,680
Total	<u>\$ 5,670,887</u>	<u>199,162</u>	<u>5,870,049</u>

For the period ended June 30, 2022, the University recognized \$135,633 of interest expense and \$2,264,375 of amortization of the lease asset related to its lessee operating leases, which is included in depreciation and amortization expenses in the accompanying financial statements.

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Notes to Financial Statements

For the period of September 1, 2021 to June 30, 2022

(6) Long-Term Debt Obligations

(a) Notes Payable

Long-term debt consists of three note payables. The associated interest rate and maturity at June 30, 2022 are as follows:

Debt	Original borrowing	Maturity date	Interest rate	As of September 1, 2021	Additions	Reductions	As of June 30, 2022
Chapman University – working capital	\$ 21,100,000	2025	2.20 %	\$ 21,100,000	—	—	21,100,000
Chapman University – building	37,000,000	2027	2.20	37,000,000	—	—	37,000,000
Chapman University – change in control	96,000,000	2031	—	96,000,000	—	—	96,000,000
Total long-term debt				\$ 154,100,000	—	—	154,100,000
Imputed discount on 0% note at 2.2% per annum							(13,313,278)
Total long-term debt, net							\$ 140,786,722

Notes payable at June 30, 2022, are due as follows:

Fiscal year ending June 30:	Principal	Interest	Total
2023	\$ 5,000,000	4,139,680	9,139,680
2024	10,000,000	2,964,100	12,964,100
2025	15,000,000	2,744,594	17,744,594
2026	20,000,000	2,416,015	22,416,015
2027	10,594,189	2,018,264	12,612,453
2028 – 2031	80,192,533	3,807,467	84,000,000
Total	\$ 140,786,722	18,090,120	158,876,842

The \$96,000,000, note payable between UMG and Chapman University does not have a stated interest rate. As a result, the University has imputed an interest rate, which resulted in a discount of \$14,814,027, to be amortized over the life of the note payable. As of June 30, 2022, this amount totals \$13,313,278. The University of Massachusetts has guaranteed the debt and interest payments for each of the notes payable in the event that UMG is unable to make those payments.

Interest expense related to debt was \$2,565,915 for the period ended June 30, 2022.

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For the period of September 1, 2021 to June 30, 2022

(7) Contingencies

The University is subject to certain loss contingencies, such as litigation, arising in the normal conduct of its educational activities. In the opinion of management, the liability, if any, for such contingencies will not have a material effect on the University's financial position.

(8) Retirement Plan

The University has a defined contribution retirement plan. Employees working at least 20 hours a week are eligible to participate in the plan after 90 days of employment. The University contributes 3% of each employee's eligible annual salary, as defined by the plan. Eligible employees may contribute up to 6% of their eligible salary and the University matches their contributions. The University's total contribution to the plan was \$2,804,944 for the period from September 1, 2022 to June 30, 2022.

(9) Operating Expenses and Interest

Expenses by natural and functional classification for the period ended June 30, 2022, were as follows:

	Functional expenses by natural classification					2022 Total
	Compensation and benefits	Supplies and services	Scholarships and fellowships	Depreciation and amortization	Interest	
Instruction	\$ 21,962,854	4,282,882	—	—	—	26,245,736
Academic support	8,313,857	888,113	—	—	—	9,201,970
Student services	21,674,597	31,928,324	—	—	—	53,602,921
Institutional support	15,196,345	3,883,844	—	—	—	19,080,189
Depreciation and amortization	—	—	—	4,292,283	—	4,292,283
Scholarships and fellow ships	—	—	3,037,333	—	—	3,037,333
Total operating expenses	67,147,653	40,983,163	3,037,333	4,292,283	—	115,460,432
Interest on indebtedness	—	—	—	—	2,701,548	2,701,548
	<u>\$ 67,147,653</u>	<u>40,983,163</u>	<u>3,037,333</u>	<u>4,292,283</u>	<u>2,701,548</u>	<u>118,161,980</u>

Certain categories of expenses that are attributable to more than one program or supporting function are allocated based on various methods. Specifically, information technology costs are allocated based on software usage and the overall employees in the various functional categories. All other costs are charged directly to the appropriate functional category.

(10) Related Parties

On September 1, 2021, the University entered into three separate notes payable with Chapman University with original amounts of \$21,100,000, \$37,000,000, and \$96,000,000. Outstanding notes payable totaled \$154,100,000 as of June 30, 2022.