

Hood & Strong

Advisory, Tax  
and Assurance

# Samuel Merritt University

**December 31, 2023 and 2022**

Independent Auditors' Report and  
Financial Statements

# Samuel Merritt University

## Independent Auditors' Report and Financial Statements

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## Independent Auditors' Report

THE BOARD OF REGENTS  
SAMUEL MERRITT UNIVERSITY  
Oakland, California

### Opinion

We have audited the financial statements of **SAMUEL MERRITT UNIVERSITY (the University)** which comprise the statement of financial position as of December 31, 2023 and 2022, the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 audits. 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 Financial Statements

Management is responsible for the preparation and fair representation of these 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 representation 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 one year from the date of this report.

## **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 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, 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.

*Hood & Strong LLP*

San Francisco, California  
July 8, 2024

# Samuel Merritt University

## Statement of Financial Position

<i>December 31,</i>	2023	2022
<b>Assets</b>		
Cash and equivalents	\$ 21,501,211	\$ 11,361,617
Restricted cash:		
Government loan funds	1,239,866	1,198,467
Accounts receivable, net:		
Students (net of allowance of \$897,000 in 2023 and \$940,000 in 2022)	1,446,247	1,385,197
Grants	4,043,344	3,585,340
Contributions	1,444,270	442,387
Prepaid expenses and other assets	4,337,306	1,289,370
Investments	351,575,030	378,830,673
Notes receivable, (net of allowance of \$279,000 in 2023 and \$513,000 in 2022)	6,155,376	6,552,921
Plant and equipment, net	73,342,681	23,152,119
Operating lease right-of-use assets	100,949,030	102,483,146
<b>Total assets</b>	<b>\$ 566,034,361</b>	<b>\$ 530,281,237</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 17,160,769	\$ 8,205,136
Accrued bond interest payable	581,438	581,438
Deferred revenues and deposits	3,700,475	4,278,763
Refundable loan program advances	6,216,267	5,828,756
Bonds payable, net	137,516,014	137,910,070
Other liabilities	1,024,263	150,000
Operating lease liabilities	103,855,361	104,581,278
<b>Total liabilities</b>	<b>270,054,587</b>	<b>261,535,441</b>
<b>Net Assets:</b>		
Without donor restrictions:		
Board designated	867,316	799,018
Undesignated	200,940,516	184,475,764
<b>Total without donor restrictions</b>	<b>201,807,832</b>	<b>185,274,782</b>
<b>Total with donor restrictions</b>	<b>94,171,942</b>	<b>83,471,014</b>
<b>Total net assets</b>	<b>295,979,774</b>	<b>268,745,796</b>
<b>Total liabilities and net assets</b>	<b>\$ 566,034,361</b>	<b>\$ 530,281,237</b>

See accompanying notes to the financial statements.

# Samuel Merritt University

## Statement of Activities

*Year ended December 31, 2023*

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Revenue and Support:</b>			
Tuition and fees	\$ 93,392,519	\$ -	\$ 93,392,519
Less revenue share arrangements	(1,939,431)	-	(1,939,431)
Less scholarships and grants	(8,956,586)	-	(8,956,586)
Net tuition and fees	82,496,502	-	82,496,502
Endowment income appropriated for operations	3,269,068	-	3,269,068
Private gifts, grants and bequests	61,052	3,526,057	3,587,109
Government grants	2,070,258	-	2,070,258
Kaiser Permanente grants	2,474,719	5,000	2,479,719
Other sources	3,338,795	-	3,338,795
Net assets released from restrictions	4,667,526	(4,667,526)	-
<b>Total operating revenue and support</b>	<b>98,377,920</b>	<b>(1,136,469)</b>	<b>97,241,451</b>
<b>Operating Expenses:</b>			
Education and general:			
Instruction	49,549,540	-	49,549,540
Academic support	12,120,479	-	12,120,479
Student services	7,035,366	-	7,035,366
Institutional support	22,733,426	-	22,733,426
<b>Total operating expenses</b>	<b>91,438,811</b>	<b>-</b>	<b>91,438,811</b>
<b>Change in Net Assets from Operating Activities</b>	<b>6,939,109</b>	<b>(1,136,469)</b>	<b>5,802,640</b>
<b>Non-Operating Activities</b>			
Net investment returns	13,676,442	11,838,969	25,515,411
Endowment income appropriated for operations	(3,269,068)	-	(3,269,068)
Other non-operating expenses	(813,433)	(1,572)	(815,005)
<b>Total non-operating activities</b>	<b>9,593,941</b>	<b>11,837,397</b>	<b>21,431,338</b>
<b>Change in Net Assets</b>	<b>16,533,050</b>	<b>10,700,928</b>	<b>27,233,978</b>
<b>Net Assets - beginning of year</b>	<b>185,274,782</b>	<b>83,471,014</b>	<b>268,745,796</b>
<b>Net Assets - end of year</b>	<b>\$ 201,807,832</b>	<b>\$ 94,171,942</b>	<b>\$ 295,979,774</b>

See accompanying notes to the financial statements.

# Samuel Merritt University

## Statement of Activities

*Year ended December 31, 2022*

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Revenue and Support:</b>			
Tuition and fees	\$ 93,248,793	\$ -	\$ 93,248,793
Less: revenue share arrangements	(2,796,327)	-	(2,796,327)
Less: scholarships and grants	(7,427,300)	-	(7,427,300)
<hr/>			
Net tuition and fees	83,025,166	-	83,025,166
Endowment income distributed for operations	2,264,049	-	2,264,049
Private gifts, grants and bequests	12,174	10,799,465	10,811,639
Government grants	2,197,797	-	2,197,797
Kaiser Permanente grants	2,054,263	-	2,054,263
Other sources	395,150	-	395,150
Net assets released from restrictions	3,704,617	(3,704,617)	-
<hr/>			
Total operating revenue and support	93,653,216	7,094,848	100,748,064
<hr/>			
<b>Operating Expenses:</b>			
Education and general:			
Instruction	48,834,890	-	48,834,890
Academic support	12,907,320	-	12,907,320
Student services	7,336,329	-	7,336,329
Institutional support	20,546,371	-	20,546,371
<hr/>			
Total operating expenses	89,624,910	-	89,624,910
<hr/>			
<b>Change in Net Assets from Operating Activities</b>	4,028,306	7,094,848	11,123,154
<hr/>			
<b>Non-Operating Activities</b>			
Net investment (losses)/returns	(27,241,687)	1,220,326	(26,021,361)
Endowment income distributed for operations	(2,264,049)	-	(2,264,049)
Other non-operating expenses	(176,307)	-	(176,307)
<hr/>			
Total non-operating activities	(29,682,043)	1,220,326	(28,461,717)
<hr/>			
<b>Change in Net Assets</b>	(25,653,737)	8,315,174	(17,338,563)
<hr/>			
<b>Net Assets - beginning of year</b>	210,928,519	75,155,840	286,084,359
<hr/>			
<b>Net Assets - end of year</b>	\$ 185,274,782	\$ 83,471,014	\$ 268,745,796

See accompanying notes to the financial statements.

# Samuel Merritt University

## Statement of Functional Expenses

*Year Ended December 31, 2023*

	Institutional Support					Total
	Instruction	Academic Support	Student Services	General & Administrative	Advancement	
Salaries and wages	\$ 30,086,038	\$ 6,179,044	\$ 4,309,289	\$ 7,858,306	\$ 1,052,700	\$ 49,485,377
Benefits	6,312,449	1,515,897	1,054,431	2,969,693	302,289	12,154,759
Purchased services	2,256,020	1,705,441	371,154	2,059,204	227,492	6,619,311
Professional fees	171,069	119,442	-	1,956,594	12,988	2,260,093
Repairs and maintenance	379,191	17,554	5,124	30,905	-	432,774
Supplies	693,178	76,617	115,346	59,442	3,722	948,305
Depreciation	1,436,627	967,437	154,610	1,180,235	-	3,738,909
Rentals and leases	6,619,807	505,578	386,272	1,349,226	-	8,860,883
Insurance	3,225	420	310	1,484,357	-	1,488,312
Utilities and telephone	74,241	120,655	6,135	134,479	-	335,510
Travel/mileage/meals	259,603	82,566	224,468	128,822	51,488	746,947
Software	376,460	475,199	141,182	608,638	1,971	1,603,450
Recruiting and advertising	10,068	64,578	127,619	339,466	-	541,731
Credit losses	-	-	-	381,364	-	381,364
Other expenses	871,564	290,051	139,426	524,284	15,761	1,841,086
<b>Total Operating Expenses</b>	<b>49,549,540</b>	<b>12,120,479</b>	<b>7,035,366</b>	<b>21,065,015</b>	<b>1,668,411</b>	<b>91,438,811</b>
<b>Non-Operating Expenses:</b>						
<b>Professional Fees and Purchased Services</b>	-	-	-	815,005	-	815,005
<b>Total Expenses</b>	<b>\$ 49,549,540</b>	<b>\$ 12,120,479</b>	<b>\$ 7,035,366</b>	<b>\$ 21,880,020</b>	<b>\$ 1,668,411</b>	<b>\$ 92,253,816</b>

See accompanying notes to the financial statements.



# Samuel Merritt University

## Statement of Functional Expenses

Year Ended December 31, 2022

	Institutional Support					Total
	Instruction	Academic Support	Student Services	General & Administrative	Advancement	
Salaries and wages	\$ 29,090,804	\$ 6,391,506	\$ 3,231,724	\$ 6,760,044	\$ 937,726	\$ 46,411,804
Benefits	5,874,674	1,838,483	1,353,979	3,286,276	245,828	12,599,240
Purchased services	1,849,976	1,707,998	274,776	1,652,494	143,116	5,628,360
Professional fees	895,506	405,169	93,098	1,652,556	36,525	3,082,854
Repairs and maintenance	439,276	31,216	7,125	55,958	701	534,276
Supplies	499,387	155,343	200,583	87,211	9,990	952,514
Depreciation	1,748,765	814,906	148,451	1,111,355	9,308	3,832,785
Rentals and leases	6,691,798	504,045	384,360	1,465,153	36,437	9,081,793
Insurance	1,102	-	-	1,116,180	-	1,117,282
Utilities and telephone	6,974	94,636	235	94,635	-	196,480
Travel/mileage/meals	258,254	91,024	159,149	98,472	51,588	658,487
Software	35,135	441,554	138,124	575,063	8,176	1,198,052
Recruiting and advertising	1,257	107,194	163,341	152,610	75	424,477
Credit losses	-	-	-	599,444	-	599,444
Other expenses	1,441,982	324,246	1,181,384	298,059	61,391	3,307,062
<b>Total Operating Expenses</b>	<b>48,834,890</b>	<b>12,907,320</b>	<b>7,336,329</b>	<b>19,005,510</b>	<b>1,540,861</b>	<b>89,624,910</b>
<b>Non-Operating Expenses:</b>						
<b>Professional Fees and Purchased Services</b>	-	-	-	176,307	-	176,307
<b>Total Expenses</b>	<b>\$ 48,834,890</b>	<b>\$ 12,907,320</b>	<b>\$ 7,336,329</b>	<b>\$ 19,181,817</b>	<b>\$ 1,540,861</b>	<b>\$ 89,801,217</b>

See accompanying notes to the financial statements.

# Samuel Merritt University

## Statement of Cash Flows

December 31,	2023	2022
<b>Cash Flows from Operating and Non-Operating Activities:</b>		
Change in net assets	\$ 27,233,978	\$ (17,338,563)
Adjustments to reconcile net increase in net assets to net cash used in operating and non-operating activities:		
Amortization of bond premium	(465,554)	(39,494)
Amortization of debt issuance costs	71,498	5,958
Allowance for student notes receivable	(233,750)	217,681
Loss on disposal of property, plant and equipment	41,950	34,248
Contributions restricted for long-term use	(1,968,338)	(10,285,427)
Depreciation expense	3,738,909	3,832,784
Net realized and unrealized (gains) losses on investments	(21,411,831)	31,387,220
Investment income	(9,744,343)	(5,426,718)
Operating lease right-of-use assets	1,534,116	7,227,091
Changes in assets and liabilities:		
Accounts receivable	(1,520,937)	438,682
Prepaid expenses and other assets	(3,047,936)	486,735
Accounts payable and accrued liabilities	3,982,193	(12,354,592)
Accrued bond interest payable	-	581,438
Operating lease liabilities	(725,917)	(6,189,662)
Deferred revenues and deposits	(578,288)	(16,340)
Net cash used in operating and non-operating activities	(3,094,250)	(7,438,959)
<b>Cash Flows from Investing Activities:</b>		
Acquisitions of fixed assets	(48,123,713)	(12,063,839)
Student notes receivable activity, net	631,295	211,639
Purchases of investments	(175,415,990)	(388,009,590)
Proceeds from the sale of investments	233,827,802	242,835,579
Net cash provided by (used in) investing activities	10,919,394	(157,026,211)
<b>Financing Activities:</b>		
Contributions restricted for long-term use	1,968,338	10,285,427
Change in refundable loan program advances	387,511	(521,148)
Series 2022 Tax-exempt bonds, net of issuance costs	-	137,943,606
Net cash provided by financing activities	2,355,849	147,707,885
<b>Net Increase (Decrease) in Cash and Equivalents and Restricted Cash</b>	<b>10,180,993</b>	<b>(16,757,285)</b>
<b>Cash and Equivalents and Restricted Cash, beginning of year</b>	<b>12,560,084</b>	<b>29,317,369</b>
<b>Cash and Equivalents and Restricted Cash, end of year</b>	<b>\$ 22,741,077</b>	<b>\$ 12,560,084</b>
<b>Reconciliation of Cash and Equivalents and Restricted Cash to</b>		
<b>Amounts Shown on the Statement of Financial Position:</b>		
Cash and cash equivalents	\$ 21,501,211	\$ 11,361,617
Cash restricted for federal loans	1,239,866	1,198,467
<b>Total Cash and Equivalents and Restricted Cash Shown in the Statement of Cash Flows</b>	<b>\$ 22,741,077</b>	<b>\$ 12,560,084</b>
<b>Supplemental Cash Flow Information:</b>		
Interest paid	\$ 5,922,914	\$ -
Non-cash transactions:		
Construction in progress expenditures included in accounts payable	\$ 5,847,707	\$ 1,210,773

See accompanying notes to the financial statements.

# Samuel Merritt University

## Notes to the Financial Statements

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### **Note 1 - Organization and Operations:**

Samuel Merritt University (the University) is a private, nonprofit, specialized institution of higher education whose main campus is located in Oakland, California, and includes other locations in California which offers doctoral, masters and baccalaureate degrees in health sciences. Its primary fields of study are nursing, occupational therapy, physical therapy, physician assistant and podiatric medicine.

The University's operations are primarily funded through revenue generated by tuition and fees. Additionally, the University receives private contributions from donors that increase the University's ability to provide instruction.

The University assists students in financing their education through private and institutional awards as well as federal student aid programs.

The University is accredited by WASC Senior College and University Commission (WSCUC). The University programs are accredited by Accredited Council for Occupational Therapy Education, California Board of Registered Nursing, Commission on Collegiate Nursing Education, Commission on Accreditation in Physical Therapy Education, Council on Accreditation of Nurse Anesthesia Educational Programs, Accreditation Review Commission on Education for the Physician Assistant, and Council on Podiatric Medical Education. Accreditations are required for participation in federal and state student financial aid programs.

On November 4, 2021, Samuel Merritt University and Sutter Health (Sutter) executed a disaffiliation agreement, with an effective date of January 1, 2022, by which the two entities would no longer be affiliated, and Sutter would no longer consolidate the results of operations of the University. The University amended and restated its bylaws effective January 1, 2022 and has no financial reporting or other fiduciary responsibilities to Sutter as of this date. See Note 10 for related party transactions.

### **Note 2 - Significant Accounting Policies:**

#### Basis of Presentation

The University's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

#### Net Assets

Net assets, revenue, and support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net Assets without Donor Restrictions* – net assets not subject to donor-imposed stipulations and available for operations or designated as quasi-endowment or Board-designated funds.

# Samuel Merritt University

## Notes to the Financial Statements

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- *Net Assets with Donor Restrictions* – net assets subject to donor-imposed stipulations and may be restricted by time or purpose, or may be restricted in perpetuity. Those restricted by time or purpose contain stipulations that may be or will be met either by actions of the University and/or by the passage of time. Those restricted in perpetuity are subject to stipulations that the asset be maintained permanently by the University. Generally, the donors permit the University to use all or part of the income earned on related investments for general or specific uses.

All revenues and gains not restricted by donors are included in net assets without donor restrictions and are generally available for operations. Contributions are reported as increases in the appropriate category of net assets, except contributions with restrictions that are met in the same fiscal year they are received are included in revenues without donor restrictions. Expirations of restrictions recognized on net assets, i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed, are reported as net assets released from restrictions. Restrictions on gifts to acquire or construct long-lived assets are considered met in the period in which the assets are placed in service.

### Operating and Non-Operating Classification

Operating revenues and expense in the statement of activities include the operating activities associated with furthering the University's educational mission.

Non-operating revenue and expense in the statement of activities consists of amounts which, due to their nature, are not considered by management as part of operations. Specific items include investment returns, disaffiliation expenses, costs related to the University's development of a new campus that do not qualify for capitalization, and other non-recurring items.

### Cash and Cash Equivalents

Cash and cash equivalents consist of cash available for immediate use. The University considers all instruments with a maturity of three months or less at the time of purchase to be cash equivalents.

### Restricted Cash

Government loan funds represent cash that is restricted for specific purposes, including cash held in trust for the University's federal loan programs.

### Investments

Investments are stated at fair value. Net gains or losses on investments, which consist of the realized gains or losses and the unrealized appreciation or depreciation on those investments, are shown in the accompanying statement of activities. Realized gains or losses on the sale of investments are recorded on the trade date.

# Samuel Merritt University

## Notes to the Financial Statements

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The alternative investments, which are not readily marketable, are carried at fair values as provided by the investment managers. The University reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those fair values may differ significantly from the values that would have been used had a ready market for these securities existed as well as the ultimate sale that may be received upon disposition.

Securities acquired by gift are recorded at their fair value at the date of the gift. The University's policy is to liquidate all gifts of securities immediately upon receipt. Tax-exempt bond proceeds are stated at fair value and are invested in cash and U.S. Treasury notes with scheduled maturities ranging from three to fifteen months, coinciding with the necessity of construction draws to reimburse the University for capital expenses pertaining to the new Oakland campus construction and are restricted for use pursuant to the loan agreement (see Note 16).

### Fair Value of Financial Instruments

U.S. GAAP has established a framework for measuring fair value and related disclosures that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing participants at the measurement date. The three levels of fair value established by the standard are as follows:

- Level 1 – unadjusted quoted prices are in active markets for identical assets or liabilities
- Level 2 – quoted prices in markets that are not active or other pricing inputs that are either directly or indirectly observable
- Level 3 – prices or valuation techniques in which one or more significant inputs or significant value drivers are unobservable. The determination of fair value for these instruments required on or more inputs subject to significant management judgment or estimation.

Certain investments that are measured using Net Asset Value (NAV) per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The NAV amounts presented in the table in Note 4 are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

### Plant and Equipment

Plant and equipment are stated at cost, if purchased, or estimated fair value at date of receipt, if donated. Depreciation is recorded using the straight-line method over estimated useful lives of 10 to 40 years for buildings and improvements, 3 to 25 years for furniture and equipment, and 7 years for library resources.

# Samuel Merritt University

## Notes to the Financial Statements

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The University, using its best estimates based on reasonable and supportable assumptions and projections, reviews long-lived assets held for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets might not be recoverable.

When assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss arising from such disposition is recorded. Expenditures for repairs and maintenance are charged to expenses as incurred and included in the accompanying statement of activities.

### Refundable Loan Program Advances

The University records funds received for federally funded student loans as refundable advances. The amount includes U.S. Department of Education and U.S. Department of Health and Human Services funds received and interest earned on the loans less certain allowable costs. These funds are used to make loans to students.

### Revenue Recognition

Tuition revenue, presented net of reductions for institutional student aid and revenue share, are recorded as revenue during the year in which the related services are provided to students. The performance obligation of delivering educational services is simultaneously received and consumed by the students; therefore, the revenue is recognized ratably over the course of the academic period. Payments received for tuition for future periods are reported as deferred revenue.

The University recognizes contributions when cash, securities or other assets, an unconditional promise to give (pledge), or a notification of an irrevocable beneficial interest is received. Conditional promises to give that have measurable performance or other barriers and a right of return are not recognized until the conditions on which they depend have been met. Pledges receivable represent amounts committed by donors that have not been received by the University. Pledges are discounted to their estimated net present value using risk adjusted interest rates applicable to the years in which the promises are received.

Government grants are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Grant revenue is recorded when the requirements are met and incurrence of expense are made.

The University reports gifts of land, buildings, and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

# Samuel Merritt University

## Notes to the Financial Statements

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Contributions of assets other than cash are recorded at their estimated fair value as of the date donated.

### Charitable Remainder Trust Receivable

Charitable remainder trust receivable represents the percentage of trust assets the University is entitled to. The trust receivable is recorded at fair value, which approximates net present value. The fair value of these assets at December 31, 2023 and 2022 was \$368,870 and \$328,272 respectively, and is included in contributions receivable in the accompanying statement of financial position.

### Functional Expense Allocations

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain expenses such as depreciation, technology and facility department needs and period expenses are allocated between program services and institutional support on the basis of square footage.

### Income Taxes

The University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (Code), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The University has also been recognized by the California Franchise Tax Board as exempt from California franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. The University has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions.

The University follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The University has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

# Samuel Merritt University

## Notes to the Financial Statements

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### Use of Estimates

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

### Endowment Funds

For endowments that donors have not specifically defined a spending policy, state law allows the University to appropriate so much of net appreciation on endowment investments as is prudent considering the University's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. The University's endowment spending policy allows the appropriation of between 4% and 5% of the quarterly rolling average market value of assets in the endowed fund(s), based on at least 12 and at most 20 quarters of data. Amounts appropriated for spending may exceed actual realized earnings from endowments.

The Board of Regents of the University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) enacted by California as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as perpetually restricted net assets a) the original value of gifts donated to the perpetual endowment, b) the original value of subsequent gifts to the perpetual endowment, and c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in perpetually restricted net assets is classified as donor-restricted net assets until those amounts are appropriated for expenditures by the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

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



# Samuel Merritt University

## Notes to the Financial Statements

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From time to time, the fair value of assets associated with individual donor-restricted funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration which is referred to as underwater. At December 31, 2023 and 2022 there were no funds that were underwater.

### Student Accounts and Notes Receivables

Student accounts receivable and notes receivable are reported at net realizable value less an allowance for credit losses. Student accounts receivable are primarily related to student balances related to tuition and fees, and notes receivable are primarily related to student financial aid programs. Notes receivable consist of federal student loans and University funded loans which bear interest at 3 to 5 percent annually. The notes are generally payable in monthly installments over a 10-year period beginning six months after graduation.

Management estimates the credit loss allowance balance by performing an aging analysis and determining the probability of default using relevant available internal and external information, considering past and current conditions, the likelihood of future enrollment, changes in the overall economic environment and reasonable and supportable forecasts.

Student receivables are written off when deemed uncollectible. Student loans made under Federal programs may be assigned to the appropriate Federal agency minimizing the risk of credit losses and resulting in an allowance for these loans losses being immaterial to the financial position of the University. Recoveries of receivables previously written off are recorded when received.

The allowance for credit losses is a valuation account that is deducted from student loan and student receivables to present the net amount expected to be collected on these receivables. The change in the allowance for credit losses is recorded in credit loss expense in the accompanying statement of activities.

### Recently Adopted Accounting Standards

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, which was later clarified with ASU 2022-02, *Financial Instruments-Credit Losses Topic 326, Troubled Debt Restructuring and Vintage Disclosures*. ASU 2016-13 introduced the current expected credit losses (CECL) model, which requires organizations to estimate credit losses immediately upon exposure. The guidance applies to financial assets measured at amortized cost including financing receivables (loans) and trade receivables. The University adopted the provisions of ASU 2016-13 for fiscal year ending December 31, 2023. The adoption of this ASU had no material impact to the University.

# Samuel Merritt University

## Notes to the Financial Statements

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In September 2020, the FASB issued (ASU) No. 2020-07, Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets. This ASU changes the required presentation and disclosures for contributed nonfinancial assets (in-kind contributions). The adoption of this ASU had no material impact to the University as of December 31, 2022.

In November 2021, the FASB issued ASU No. 2021-09, *Discount Rate for Lessees That Are Not Public Business Entities*. The core principle of this ASU is to provide lessees who are not public entities with a practical expedient that allows them to elect, as an accounting policy, to use a risk-free rate as the discount rate for leases for which the implicit rate within the lease is not readily available. The ASU also allows lessees to make the risk-free rate election by class of underlying asset, rather than at the entity-wide level. An entity that makes the risk-free rate election is required to disclose the asset classes for which it has elected to apply a risk-free rate. The University adopted the provisions of this ASU for fiscal year ending December 31, 2022, which resulted in the classification of its leases into two classes: ground and building. Building leases will continue to use the risk-free rate election while ground leases will use the incremental borrowing rate as the permitted discount rate.

Effective January 1, 2022, the University adopted FASB ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This update provides optional expedients under which the University can prospectively adjust the effective interest rate for contracts impacted by reference rate reform provided those contract modifications are made before December 31, 2022. The adoption of this ASU had no material impact to the University.

### Subsequent Events

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure from December 31, 2023, through July 8, 2024, the date the financial statements were issued.

### **Note 3 - Liquidity Management:**

The following reflects the University's financial assets at December 31, 2023 and 2022, reduced by amounts not available for general use within one year of the date of the statement of financial position because of contractual or donor-imposed restrictions. Amounts not available include amounts set aside as Board-designated funds, which, with the approval of the board, could be drawn upon.

# Samuel Merritt University

## Notes to the Financial Statements

	<u>2023</u>	<u>2022</u>
Financial assets due within one year or generally available:		
Cash and cash equivalents	\$ 21,501,211	\$ 11,361,617
Investments	351,575,030	378,830,673
Receivables, net	6,933,861	5,412,924
<b>Total available funds</b>	<b>380,010,102</b>	<b>395,605,214</b>
Less:		
Amounts not available for general operating expenditures within one year:		
Endowment funds restricted by donor in perpetuity	(78,895,048)	(70,545,783)
Other donor-restricted gifts	(15,276,894)	(12,925,231)
Tax-exempt bond proceeds	(92,434,838)	(137,755,222)
Charitable remainder trust receivable	(368,870)	(328,272)
<b>Total amounts unavailable due to donor restrictions</b>	<b>(186,975,650)</b>	<b>(221,554,508)</b>
<b>Total financial assets available to management for general expenditures before amounts subject to Board of Regents approval</b>	<b>193,034,452</b>	<b>174,050,706</b>
Less:		
Board-designated funds:		
Funds functioning as endowment	(867,316)	(799,018)
<b>Total Board-designated funds</b>	<b>(867,316)</b>	<b>(799,018)</b>
<b>Total financial assets available for general expenditure before endowment draw</b>	<b>192,167,136</b>	<b>173,251,688</b>
Plus:		
Amount authorized for endowment appropriation within one year	3,530,229	3,269,068
<b>Financial assets available for general expenditure within one year</b>	<b>\$ 195,697,365</b>	<b>\$ 176,520,756</b>

The University structures its financial assets to be available as general expenditures, liabilities and other obligations come due. Investments held for operations and Board designations are in liquid securities and cash accounts.

# Samuel Merritt University

## Notes to the Financial Statements

### Note 4 - Fair Value Measurements of Financial Instruments:

The University's assets measured at fair value on a recurring basis consisted of the following as of:

**December 31, 2023**

	Totals	Fair Value Measurements Using			Net Asset Value (NAV)
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Investments:</b>					
Cash equivalents	\$ 19,087,552	\$ 19,087,552	\$ -	\$ -	\$ -
Treasury notes - U.S.	4,009,479	-	4,009,479	-	-
Fixed income securities - U.S.	65,007,443	-	65,007,443	-	-
Fixed income securities - non-U.S.	24,060,518	-	24,060,518	-	-
Mutual funds - equity	97,928,953	97,928,953	-	-	-
Mutual funds - fixed income	27,484,343	27,484,343	-	-	-
Mutual funds - real assets	6,878,762	6,878,762	-	-	-
Hedge fund of funds	14,683,142	-	-	-	14,683,142
	259,140,192	151,379,610	93,077,440	-	14,683,142
<b>Tax-Exempt Bond Proceeds:</b>					
Cash equivalents	30,120,474	30,120,474	-	-	-
Treasury notes - U.S.	62,314,364	-	62,314,364	-	-
<b>Total Tax-Exempt Bond Proceeds</b>	92,434,838	30,120,474	62,314,364	-	-
<b>Total Investments</b>	\$ 351,575,030	\$ 181,500,084	\$ 155,391,804	\$ -	\$ 14,683,142

# Samuel Merritt University

## Notes to the Financial Statements

December 31, 2022

	Totals	Fair Value Measurements Using			Net Asset Value (NAV)
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Investments:</b>					
Cash equivalents	\$ 98,990,695	\$ 98,990,695	\$ -	\$ -	\$ -
Equity securities - U.S.	20,139	20,139	-	-	-
Fixed income securities - U.S.	12,269,626	-	12,269,626	-	-
Mutual funds - equity	87,672,678	87,672,678	-	-	-
Mutual funds - fixed income	25,640,380	25,640,380	-	-	-
Mutual funds - real assets	6,345,328	6,345,328	-	-	-
Hedge fund of funds	10,136,605	-	-	-	10,136,605
	241,075,451	218,669,220	12,269,626	-	10,136,605
<b>Tax-Exempt Bond Proceeds:</b>					
Cash equivalents	48,596,024	48,596,024	-	-	-
Treasury notes - U.S.	89,159,198	-	89,159,198	-	-
<b>Total Tax-Exempt Bond Proceeds</b>	<b>137,755,222</b>	<b>48,596,024</b>	<b>89,159,198</b>	<b>-</b>	<b>-</b>
<b>Total Investments</b>	<b>\$ 378,830,673</b>	<b>\$ 267,265,244</b>	<b>\$ 101,428,824</b>	<b>\$ -</b>	<b>\$ 10,136,605</b>

### Equity securities – U.S.

These are comprised of common stocks in U.S. companies and are intended to provide income and capital growth. Those traded on an active exchange and priced using unadjusted market quotes for identical assets are classified as Level 1.

### Equity securities – non-U.S.

These are comprised of common stocks in companies located in Europe and Asia and are intended to provide income and capital growth. Those traded on an active exchange and priced using unadjusted market quotes for identical assets are classified as Level 1.

### Fixed income securities – U.S.

These are U.S. assets and include U.S. Treasury and Agency issues, corporate bonds, and other asset-backed securities. These securities are intended to provide long-term real returns while focusing on principal preservation. They are classified as Level 2 as the valuation is derived from pricing inputs other than unadjusted market quotes of identical assets.

# Samuel Merritt University

## Notes to the Financial Statements

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### Fixed income securities – non-U.S.

These are non-U.S. corporate securities. These securities are intended to provide long-term real returns while focusing on principal preservation. They are classified as Level 2 as the valuation is derived from pricing inputs other than unadjusted market quotes of identical assets.

### Mutual funds

These consist of several distinct funds with varying portfolio compositions and objectives. These investments are traded on an active exchange, are priced using unadjusted market quotes for identical assets, and are classified as Level 1.

### Treasury notes – U.S.

These consist of U.S. Treasury notes with scheduled maturity dates ranging from 3 to 15 months. These notes are intended to provide long-term real returns while focusing on principal preservation. They are classified as Level 2 as the valuation is derived from pricing inputs other than unadjusted market quotes of identical assets.

### Hedge fund of funds

These funds are primarily composed of equities, specialized debt and credit instruments, and multi-strategy assets. The underlying funds invest in long and short common stocks of the U.S. and non-U.S. issuers; long and short corporate bonds and other fixed income securities, including but not limited to risk arbitrage, convertible bond arbitrage, and intra-capital arbitrage. The NAV may be utilized to determine the fair value for the investment. If so, they are disclosed under the “NAV” category.

The FASB issued guidance on how organizations should estimate the fair value of certain alternative investments. The fair value of such investments can be determined using NAV as a practical expedient unless it is probable that the asset will be sold at something other than NAV.

# Samuel Merritt University

## Notes to the Financial Statements

The following table lists the University's alternative investments by major investment category as of December 31, 2023:

Category of Investment	Investment Strategy	Fair Value Determined Using NAV	Number of Funds	Unfunded Commitments	Remaining Life	Redemption Restrictions and Terms
Hedge Fund Fund of Funds	Employing directional, defensive, and other strategies through a combination of U.S. and foreign assets	\$ 14,683,142	1	\$ -	Not Applicable	Semi-annual redemption on investment anniversary with 95-day notice.
Total		<u>\$ 14,683,142</u>				

The following table lists the University's alternative investments by major investment category as of December 31, 2022:

Category of Investment	Investment Strategy	Fair Value Determined Using NAV	Number of Funds	Unfunded Commitments	Remaining Life	Redemption Restrictions and Terms
Hedge Fund Fund of Funds	Employing directional, defensive, and other strategies through a combination of U.S. and foreign assets	\$ 10,136,605	1	\$ -	Not Applicable	Semi-annual redemption on investment anniversary with 95-day notice.
Total		<u>\$ 10,136,605</u>				

# Samuel Merritt University

## Notes to the Financial Statements

### Note 5 - Student Accounts and Notes Receivable:

At December 31, student accounts receivable, net, in the accompanying statement of financial position, consisted of the following at December 31:

	<u>2023</u>	<u>2022</u>
Balance, beginning of year	\$ 2,343,219	\$ 2,324,623
<hr/>		
Less allowance for credit losses:		
Beginning of year	(940,077)	(963,170)
Provision for credit losses	(365,600)	(381,633)
Amounts written-off	408,705	405,377
<hr/>		
End of year	(896,972)	(939,426)
<hr/>		
Student Accounts Receivable, net	\$ 1,446,247	\$ 1,385,197

At December 31, student loan receivables, which are included in notes receivable, net, in the accompanying statement of financial position, consisted of the following:

	<u>Perkins</u>	<u>HPSL</u>	<u>NSL</u>	<u>Institutional</u>	
<b>2023</b>	<u>Loans</u>	<u>Loans</u>	<u>Loans</u>	<u>Loans</u>	<u>Total</u>
Notes Receivable	\$ 72,333	\$ 1,717,244	\$ 3,250,343	\$ 1,394,320	\$ 6,434,240
<hr/>					
Less allowance for credit losses:					
Beginning of year	-	-	-	(512,614)	(512,614)
Provision for credit losses	-	-	-	(15,764)	(15,764)
Amounts written-off	-	-	-	249,514	249,514
<hr/>					
End of year	-	-	-	(278,864)	(278,864)
<hr/>					
Notes Receivable, net	\$ 72,333	\$ 1,717,244	\$ 3,250,343	\$ 1,115,456	\$ 6,155,376



# Samuel Merritt University

## Notes to the Financial Statements

2022	Perkins <u>Loans</u>	HPSL <u>Loans</u>	NSL <u>Loans</u>	Institutional <u>Loans</u>	<u>Total</u>
Notes Receivable	\$297,927	\$ 1,807,930	\$ 3,177,873	\$ 1,781,805	\$ 7,065,535
Less allowance for credit losses:					
Beginning of year	-	-	-	(294,933)	(294,933)
Provision for credit losses	-	-	-	(217,811)	(217,811)
Amounts written-off	-	-	-	130	130
End of year	-	-	-	(512,614)	(512,614)
Notes Receivable, net	\$297,927	\$ 1,807,930	\$ 3,177,873	\$ 1,269,191	\$ 6,552,921

The availability of funds for loans under the federal programs is dependent on reimbursement to the pool by receiving repayments on outstanding loans. Funds advanced by the federal government and other programs are \$6,216,267 and \$5,828,756 at December 31, 2023 and 2022, respectively. These funds are ultimately refundable to the government and are classified as liabilities in the statement of financial position. Outstanding loans canceled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

Federal Perkins Loans – Perkins loans were made to students who demonstrated financial need. Historically, participating schools received a certain amount of funds each year from the federal government for distribution under this program, which supplement funds in a school’s revolving fund, from which new disbursements were made. Once the full amount of the school’s funds had been awarded to students, no more loans could be made under this program for the year. This program officially expired on September 30, 2017. Amounts due under the Perkins loan program are guaranteed by the government and therefore, no allowance for credit losses are placed on any past-due balances under the program.

Health Professional Student Loans (HPSL) are only available to qualifying students enrolled in the Podiatric program. Amounts due under the HPSL program are guaranteed by the government and therefore, no allowance for credit losses are placed on any past-due balances under the program.

Nursing Student Loans (NSL) are only available to qualifying students enrolled in any of the Nursing programs. Amounts due under the NSL program are guaranteed by the government and therefore, no allowance for credit losses are placed on any past-due balances under the program.

# Samuel Merritt University

## Notes to the Financial Statements

Institutional Loans are designed for students that have a tuition balance and are paying over time. There are specific qualifications that need to be met by each applicant. The University management's approval is required for these loans.

Past due amounts under the University's Institutional Loan programs were \$872,299 and \$863,645 as of December 31, 2023 and 2022, respectively.

### Note 6 - Contributions Receivable:

Unconditional contributions receivable consisted of the following at December 31:

	<u>2023</u>	<u>2022</u>
Pledges receivable, net of \$0 allowance in 2023 and 2022	\$ 1,075,400	\$ 114,115
Charitable remainder trusts receivable	368,870	328,272
	<u>\$ 1,444,270</u>	<u>\$ 442,387</u>

All pledges receivable, contracts and grants are expected to be collected in the following year.

### Note 7 - Plant and Equipment:

Plant and equipment consisted of the following at December 31:

	<u>2023</u>	<u>2022</u>
Building and leasehold improvements	\$ 16,204,304	\$ 16,176,768
Furniture and equipment	28,286,394	28,967,279
Construction in progress	63,283,041	10,341,827
Library resources	50,761	263,110
	<u>107,824,500</u>	<u>55,748,984</u>
Less accumulated depreciation and amortization	<u>(34,481,819)</u>	<u>(32,596,865)</u>
	<u>\$ 73,342,681</u>	<u>\$ 23,152,119</u>

Depreciation expense amounted to \$3,738,909 and \$3,832,784 during the years ended December 31, 2023 and 2022, respectively.

# Samuel Merritt University

## Notes to the Financial Statements

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The University is constructing a new Oakland campus, breaking ground in May 2023. The project is currently budgeted at \$240M supported by \$140M of tax-exempt bond proceeds and the remainder from the University's unrestricted investments. Occupancy of the new campus is expected by December 2025. Costs associated with the development, construction and improvement of property are capitalized to construction in progress. Costs that do not meet the criteria for capitalization are expensed as incurred.

### Note 8 - Endowment Funds:

Endowment net asset composition by type of fund as of December 31, 2023:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 78,895,048	\$ 78,895,048
Board-designated funds	867,316	-	867,316
<b>Total Endowment Funds</b>	<b>\$ 867,316</b>	<b>\$ 78,895,048</b>	<b>\$ 79,762,364</b>

# Samuel Merritt University

## Notes to the Financial Statements

Changes in endowment net assets for the year ended December 31, 2023:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Net assets, beginning of year	\$ 799,018	\$ 70,545,783	\$ 71,344,801
Investment return:			
Investment income, net	18,153	1,635,690	1,653,843
Realized gain	5,659	508,608	514,267
Unrealized gain	84,856	7,580,822	7,665,678
Investment fees/bank fees	(2,241)	(200,746)	(202,987)
Total net appreciation	106,427	9,524,374	9,630,801
Contributions	-	1,968,338	1,968,338
Internal transfers	-	87,492	87,492
Appropriation of endowment assets for expenditure	-	2,055,830	2,055,830
assets for expenditure	(38,129)	(3,230,939)	(3,269,068)
Net assets, end of year	\$ 867,316	\$ 78,895,048	\$ 79,762,364

Appropriations spent during the year totaled \$2,493,928.

Endowment net asset composition by type of fund as of December 31, 2022:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 70,545,783	\$ 70,515,783
Board-designated funds	799,018	-	799,018
Total Endowment Funds	\$ 799,018	\$ 70,545,783	\$ 71,344,801

# Samuel Merritt University

## Notes to the Financial Statements

Changes in endowment net assets for the year ended December 31, 2022:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Net assets, beginning of year	\$ 832,478	\$ 60,467,732	\$ 61,300,210
Investment return:			
Investment income, net	19,822	1,704,735	1,724,557
Realized gain	-	700	700
Unrealized gain	(10,400)	(555,873)	(566,273)
Investment fees/bank fees	(42,882)	(156,982)	(199,864)
Total net appreciation	(33,460)	992,580	959,120
Contributions	-	10,285,427	10,285,427
Appropriation of endowment assets for expenditure	-	(2,264,049)	(2,264,049)
Endowment transfers	-	1,064,093	1,064,093
Net assets, end of year	\$ 799,018	\$ 70,545,783	\$ 71,344,801

**Note 9 - Donor Restricted - Net Assets:**

The following table presents the corpus of endowment net assets that are restricted for the following purposes at December 31:

	<u>2023</u>	<u>2022</u>
Scholarship	\$ 22,924,264	\$ 20,956,376
Programs and general operations	20,796,603	20,796,153
Total corpus of donor endowments	\$ 43,720,867	\$ 41,752,529

# Samuel Merritt University

## Notes to the Financial Statements

The following table presents net assets with donor purpose restrictions, including cumulative income from donor restricted endowments, as of December 31:

	<u>2023</u>	<u>2022</u>
Scholarship	\$ 12,577,996	\$ 15,102,332
Program	37,873,079	26,616,153
<hr/>		
Total purpose-restricted net assets	\$ 50,451,075	\$ 41,718,485

The following table presents net assets that were released from their donor restriction during the year by incurring expenses that satisfied the restricted purpose or by occurrence of other events specified by donors, as follows:

	<u>2023</u>	<u>2022</u>
Utilized for scholarship	\$ 3,235,510	\$ 2,632,515
Utilized for general operating purposes	1,432,016	1,072,102
<hr/>		
Total releases	\$ 4,667,526	\$ 3,704,617

### Note 10 - Related Party Transactions:

#### Sutter Health

As part of the disaffiliation agreement between Sutter and the University, certain supplier payments were made on behalf of the University. The University reimbursed Sutter for these amounts paid and as of December 31, 2023 and 2022, net payable due to Sutter was \$0 and \$384,756, respectively.

The University continues to lease certain buildings from Sutter Health and pay related operating costs through 2025 under operating leases recorded as right of use assets and liabilities and included in Note 15.

#### Contributions

For the year ended December 31, 2023, the University received \$130,516 in contributions from the University's Board of Regents and employees. As of December 31, 2023 there was approximately \$25,000 in contributions receivable from the University's staff and members of the Board. For the year ended December 31, 2022, the University received \$87,000 in contributions from the University's Board of Regents and employees. As of December 31, 2022 there was approximately \$107,000 in contributions receivable from the University's staff and members of the Board.

# Samuel Merritt University

## Notes to the Financial Statements

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### **Note 11 - Retirement Plan and Deferred Compensation Plan:**

Substantially all regular non-student employees are eligible to participate in the University's deferred compensation 403(b) plan. The University contributes 5% of employee compensation as well as a matching contribution of up to 2% of eligible compensation, for employees with one year and 1,000 hours of service. The University contributed \$2,523,850 and \$2,430,082 to the plan during the years ended December 31, 2023 and 2022, respectively.

The University offers a non-qualified retirement plan 457(b), for eligible executives and selected highly compensated employees. There is no University matching under this plan and employee contributions to the plan vest immediately.

The University also offers a Supplemental Executive Retirement Plan (SERP) for two of its officers. The plan is designated as a non-qualified deferred compensation plan and is exempt from filing and audit requirements under Title I of ERISA. The University contributed \$42,200 and \$45,965 to the plan during the years ended December 31, 2023 and 2022, respectively.

### **Note 12 - Concentrations of Risk:**

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash, investments and accounts and notes receivable. The University places substantially all of its cash and liquid investments with established commercial financial institutions; however, cash balances periodically exceed federally insured limits.

To address concentration of market risk in the investment area, the University maintains a formal investment policy which sets out performance criteria, investment guidelines and requires review of the investment performance.

The University grants credit to students in the normal course of operations and the credit risk with respect to these receivables is generally considered minimal due to the wide dispersion of receivables among individual students.

### **Note 13 - Advertising Expenses:**

Advertising costs are expensed in the year incurred. Advertising expenses for the years ended December 31, 2023 and 2022 were \$289,918 and \$109,404, respectively.

# Samuel Merritt University

## Notes to the Financial Statements

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### **Note 14 - Commitments and Contingencies:**

In the normal course of operations, the University is named as a defendant in lawsuits and is subject to periodic examinations by regulatory agencies. After consultation with legal counsel, management is of the opinion that liabilities, if any, arising from such litigation and examinations would not have a material effect on the University's financial statements.

Certain federal grants, including financial aid that the University administers and for which it receives reimbursements, are subject to audit and final acceptance by federal granting agencies. Current and prior year costs of such grants are subject to adjustment upon audit. The amount of expenditure that may be disallowed by the grantor, if any, cannot be determined at this time, although the University expects amounts, if any, would not have a significant impact on the financial position of the University.

### **Note 15 - Leases:**

The University determines if an arrangement is a lease at inception. All leases are recorded on the statement of financial position except for leases with an initial term of less than 12 months for which the University made the short-term lease election. The University has two classes of underlying assets: ground leases and building leases.

Operating lease right-of-use (ROU) assets and lease liabilities are recognized at the lease commencement date based on the present value of the lease payments over the lease term. Many of the University's leases include rental escalation clauses, renewal options and/or termination options that are factored into the determination of lease payments. Variable lease payments are non-lease services related to the lease and are excluded from the ROU assets and lease liabilities and recognized in the period in which the obligation of those payments is incurred. The University does not include renewal options in the lease terms for calculating the lease liability as the University maintains operational flexibility and is not reasonably certain the renewal options will be exercised. Most of the University's leases do not provide a readily determinable implicit rate in the contract, therefore, the risk-free rate is used to discount the lease payments based on information available at lease commencement for building leases and the incremental borrowing rate is used for ground leases. As of December 31, 2023, the weighted-average leases remaining term was 83.35 years and the weighted average lease discount rate is 4.79%. As of December 31, 2022, the weighted-average leases remaining term was 83.33 years and the weighted average lease discount rate is 4.84%.

The University elected the package of practical expedients permitted under the transition guidance within the new leasing standard, which among other things, allowed the historical lease classification not to be reassessed. The University also made an accounting policy election to not separate non-lease components from lease components for all classes of assets. The University did not elect the hindsight practical expedient, which permits entities to use hindsight in determining the lease term and assessing impairment. All leases have been determined to be operating leases.



# Samuel Merritt University

## Notes to the Financial Statements

Supplemental cash flow information related to the University's operating leases are as follows:

	Year Ended <u>December 31, 2023</u>	Year Ended <u>December 31, 2022</u>
Operating cash outflows for amounts included in the measurement of operating lease liabilities	\$ 5,976,807	\$ 6,957,467
Right-of-use assets obtained in exchange for operating lease obligations	\$ 946,671	\$ 101,898,930

Future lease payments as of December 31, 2023 for operating leases are:

2024	\$ 5,825,218
2025	5,858,237
2026	1,659,277
2027	1,176,984
2028	1,121,631
Thereafter	122,211,345
	137,852,692
Less: imputed interest	(33,997,331)
Present value of operating lease liabilities	<u>\$ 103,855,361</u>

On November 30, 2022, the University and the City of Oakland entered into a 99-year ground lease on the site where the new Oakland campus will reside. As a result, an increase in right-of-use asset and lease liability was recorded for \$88,074,502, on the statement of financial position as of December 31, 2022.

# Samuel Merritt University

## Notes to the Financial Statements

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### Note 16 - Bonds Payable:

Bonds payable included the following at December 31, 2023:

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount Outstanding</u>
CMFA Nontaxable Series 2022	6/1/2053	Fixed 5.25%	\$ 132,900,000
Add (less):			
Unamortized bond premium			6,683,514
Unamortized debt issuance costs			(2,067,500)
<hr/>			
Total bonds payable, net			<u>\$ 137,516,014</u>

In December 2022, the University entered into a Loan Agreement with California Municipal Finance Authority (“CMFA”) and U.S. Bank Trust Company, as Trustee, pursuant to which Revenue Bonds, SMU Series 2022 (the “Bonds”) were issued. The purpose of these Bonds is to finance construction of a new campus in Oakland, California. The Loan Agreement requires the University to comply with various covenants, conditions and restrictions. The University was in compliance with these covenants as of December 31, 2023.

The Bonds bear interest at 5.25% per annum with interest payable to the Trustee semiannually on June 1 and December 1 of each year. The Bonds mature and principal is payable on June 1, 2053. The interest cost incurred on the Bonds from inception of the borrowing through the date that the new campus is ready for use is eligible for capitalization. As of December 31, 2023, there was \$7,442,805 of interest costs incurred that have been capitalized to construction-in-progress and are presented as part of plant and equipment on the statement of financial position with no interest costs charged to operations.

Cost of issuance includes direct costs and underwriter’s discounts related to the issuance of Bonds and are being amortized over the life of the Bonds utilizing the straight-line method, which approximates the effective interest method. Bond premium is the result of the Bonds issued at an amount above par value and are being amortized over the life of the Bonds using the effective interest method. In addition, interest income of \$6,075,721 was earned on the cash held from the issuance of bonds and was capitalized to construction-in-progress.

Interest expense for the year ended December 31, 2022 was not material to the financial statements.

# Samuel Merritt University

## Notes to the Financial Statements

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### **Note 17 - CARES Act Funding:**

In March of 2020, the Coronavirus Aid Relief and Economic Security Act (CARES Act) was passed which established the Higher Education Emergency Relief Fund (HEERF), which instructs the U.S. Department of Education to allocate funding to eligible institutions of higher education to prevent, prepare for, and respond to costs associated with COVID-19. Following the CARES Act, which is commonly referred to as HEERF I, two additional acts were signed into law during calendar years 2020 and 2021, respectively: the Coronavirus Response and Relief Supplemental Appropriations Act (HEERF II), and the American Rescue Plan Act (HEERF III). The University was awarded a total of \$4,419,055 across all three HEERF programs during fiscal years 2020 and 2021.

During the years ended December 31, 2020 through December 31, 2022, the University received and spent a total of \$4,418,855 across all three HEERF programs to support student emergency aid, institutional expenses incurred to support remote learning, and lost revenue.

During fiscal year 2023, the University expended \$200 of HEERF III to support student emergency aid.

As of December 31, 2023, the balance of all HEERF funds was \$0.