

SAMUEL MERRITT UNIVERSITY

DECEMBER 31, 2019 AND 2018

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INDEPENDENT AUDITORS' REPORT,

FINANCIAL STATEMENTS

AND

SUPPLEMENTAL SCHEDULE

# Samuel Merritt University

## Independent Auditors' Report, Financial Statements and Supplemental Schedule

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A Century Strong

## **Independent Auditors' Report**

THE BOARD OF REGENTS  
SAMUEL MERRITT UNIVERSITY  
Oakland, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of **SAMUEL MERRITT UNIVERSITY (the University)** which comprise the statement of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expense and cash flows for the years then ended and the related notes to the financial statements.

### **Management's Responsibility 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; this includes 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of December 31, 2019 and 2018, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matter**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedule of changes in endowments is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Hood & Strong LLP*

San Francisco, California  
May 28, 2020

# Samuel Merritt University

## Statement of Financial Position

<i>December 31,</i>	2019	2018
<b>Assets</b>		
Cash and equivalents	\$ 28,196,523	\$ 22,461,246
Restricted cash	2,387,420	1,717,263
Accounts receivable, net:		
Students (net of allowance of \$628,553 in 2019 and \$475,108 in 2018)	1,617,270	26,520,329
Grants	2,097,927	2,827,709
Contributions (net of allowance is zero in 2019 and 2018)	509,921	438,844
Prepaid expenses and other assets	1,066,139	1,400,065
Investments	196,264,416	165,908,796
Notes receivable (net of allowance is \$704,296 in 2019 and \$694,495 in 2018)	5,859,543	5,673,303
Plant and equipment, net of depreciation	16,262,925	15,659,941
Operating lease right-of-use assets	9,592,638	-
<b>Total assets</b>	<b>\$ 263,854,722</b>	<b>\$ 242,607,496</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 10,141,878	\$ 9,493,030
Deferred revenues and deposits	3,920,746	29,477,959
Refundable loan program advances	7,360,501	6,642,276
Other liabilities	547,055	414,688
Operating lease liabilities	10,624,230	-
<b>Total Liabilities</b>	<b>32,594,410</b>	<b>46,027,953</b>
<b>Net Assets:</b>		
Without donor restrictions:		
Board designated (\$700,000 net of accumulated gains of \$331,883 in 2019 and \$386,675 in 2018)	1,031,885	1,086,675
Undesignated	161,527,396	134,827,695
<b>Total without donor restrictions</b>	<b>162,559,281</b>	<b>135,914,370</b>
<b>With donor restrictions</b>	<b>68,701,031</b>	<b>60,665,173</b>
<b>Total net assets</b>	<b>231,260,312</b>	<b>196,579,543</b>
<b>Total liabilities and net assets</b>	<b>\$ 263,854,722</b>	<b>\$ 242,607,496</b>

See accompanying notes to financial statements.

# Samuel Merritt University

## Statement of Activities

*Year ended December 31, 2019*

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and Support:</b>			
Tuition and fees	\$ 86,338,398		\$ 86,338,398
Less: University funded scholarships	(9,343,479)		(9,343,479)
Net tuition and fees	76,994,919		76,994,919
Private gifts, grants and bequests	6,016	\$ 2,875,862	2,881,878
Government grants	280,596		280,596
Kaiser and Alameda grants	1,339,822		1,339,822
Other sources	159,073		159,073
Total revenue and support	78,780,426	2,875,862	81,656,288
Net assets released from restrictions	3,570,589	(3,570,589)	-
Net revenue and support	82,351,015	(694,727)	81,656,288
<b>Expenses:</b>			
Instruction	44,297,076		44,297,076
Academic support	10,226,076		10,226,076
Student services	6,133,291		6,133,291
Institutional support	17,205,283		17,205,283
Auxiliary enterprises	1,407,764		1,407,764
Total expenses	79,269,490		79,269,490
<b>Change in Net Assets Before Other Activities</b>	3,081,525	(694,727)	2,386,798
<b>Other Activities:</b>			
Investment earnings:			
Realized and unrealized gains	20,342,584	7,575,472	27,918,056
Investment income	3,233,865	1,155,113	4,388,978
Subtotal	23,576,449	8,730,585	32,307,034
Loss on disposal of fixed assets	(13,063)	-	(13,063)
<b>Change in Net Assets</b>	26,644,911	8,035,858	34,680,769
<b>Net Assets, beginning of year</b>	135,914,370	60,665,173	196,579,543
<b>Net Assets, end of year</b>	\$ 162,559,281	\$ 68,701,031	\$ 231,260,312

See accompanying notes to financial statements.

# Samuel Merritt University

## Statement of Activities

*Year ended December 31, 2018*

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and Support:</b>			
Tuition and fees	\$ 85,182,420		\$ 85,182,420
Less: University funded scholarships	(10,628,312)		(10,628,312)
Net tuition and fees	74,554,108		74,554,108
Private gifts, grants and bequests	-	\$ 2,032,643	2,032,643
Government grants	325,972		325,972
Kaiser and Alameda grants	933,030		933,030
Other sources	31,796		31,796
Total revenue and support	75,844,906	2,032,643	77,877,549
Net assets released from restrictions	4,333,176	(4,333,176)	-
Net revenue and support	80,178,082	(2,300,533)	77,877,549
<b>Expenses:</b>			
Instruction	43,217,054		43,217,054
Academic support	10,399,433		10,399,433
Student services	5,690,471		5,690,471
Institutional support	16,302,522		16,302,522
Auxiliary enterprises	1,224,196		1,224,196
Total expenses	76,833,676		76,833,676
<b>Change in Net Assets Before Other Activities</b>	3,344,406	(2,300,533)	1,043,873
<b>Other Activities:</b>			
Investment earnings:			
Realized and unrealized gains	(6,426,784)	(3,601,795)	(10,028,579)
Investment income, net	2,832,716	1,017,952	3,850,668
Subtotal	(3,594,068)	(2,583,843)	(6,177,911)
Loss on disposal of fixed assets	(230,425)	-	(230,425)
<b>Change in Net Assets</b>	(480,087)	(4,884,376)	(5,364,463)
<b>Net Assets, beginning of year</b>	136,394,457	65,549,549	201,944,006
<b>Net Assets, end of year</b>	\$ 135,914,370	\$ 60,665,173	\$ 196,579,543

See accompanying notes to financial statements.

# Samuel Merritt University

## Statement of Functional Expenses

*Year Ended December 31, 2019*

	Instruction	Academic Support	Student Services	Institutional Support		Auxiliary Enterprises	Total
				General & Administrative	Development		
Salaries and wages	\$ 24,836,082	\$ 5,193,993	\$ 3,053,340	\$ 5,037,438	\$ 359,664	\$ 485,370	\$ 38,965,887
Benefits	7,908,159	2,233,790	1,347,863	2,354,077	172,227	214,653	14,230,769
Purchased services	1,022,224	1,188,443	198,389	778,034	46,701	386,797	3,620,588
Professional fees	1,030,665	243,725	45,507	1,497,560	28,938	69,718	2,916,113
Repairs and maintenance	314,366	22,048	-	28,967	-	13,013	378,394
System allocation fee	-	-	-	2,752,214	-	-	2,752,214
Supplies	650,877	116,459	184,567	93,832	2,464	75,664	1,123,863
Depreciation	2,453,104	242,835	163,975	652,805	15,469	-	3,528,188
Rentals and leases	4,115,619	312,000	212,000	841,432	20,000	-	5,501,051
Insurance	-	-	-	669,941	-	-	669,941
Utilities and telephone	8,573	72,592	273	1,531	273	70,854	154,096
Travel/mileage/meals	467,661	115,011	113,428	130,296	5,796	12,191	844,383
Software	515	224,414	56,805	72,519	-	75,269	429,522
Recruiting and advertising	-	104,108	429,055	177,169	-	-	710,332
Bad debt expense	-	-	-	218,075	-	-	218,075
Other expenses	1,489,231	156,658	328,089	1,196,178	51,683	4,235	3,226,074
<b>Total expenses</b>	<b>\$ 44,297,076</b>	<b>\$ 10,226,076</b>	<b>\$ 6,133,291</b>	<b>\$ 16,502,068</b>	<b>\$ 703,215</b>	<b>\$ 1,407,764</b>	<b>\$ 79,269,490</b>

See accompanying notes to financial statements.



# Samuel Merritt University

## Statement of Functional Expenses

*Year Ended December 31, 2018*

	Instruction	Academic Support	Student Services	Institutional Support		Auxiliary Enterprises	Total
				General & Administrative	Development		
Salaries and wages	\$ 23,764,835	\$ 5,551,054	\$ 2,832,070	\$ 4,588,412	\$ 228,732	\$ 385,099	\$ 37,350,202
Benefits	7,360,762	2,198,737	1,296,896	2,320,370	117,037	176,241	13,470,043
Purchased services	992,563	1,038,249	190,297	1,004,606	4,748	367,642	3,598,105
Professional fees	1,312,975	276,648	24,978	1,839,882	40,950	100,003	3,595,436
Repairs and maintenance	112,249	18,101	-	21,966	-	108,373	260,689
System allocation fee	-	-	-	2,174,940	-	-	2,174,940
Supplies	588,495	41,501	213,939	122,228	5,953	5,102	977,218
Depreciation	2,048,646	199,069	134,523	534,539	13,706	-	2,930,483
Rentals and leases	5,222,180	302,325	212,000	1,556,523	39,911	-	7,332,939
Insurance	-	-	-	702,239	-	-	702,239
Utilities and telephone	7,125	62,434	164	704	-	3,650	74,077
Travel/mileage/meals	418,266	115,230	117,462	187,220	1,739	7,943	847,860
Software	-	344,204	-	277,684	-	66,519	688,407
Recruiting and advertising	2,052	32,219	403,390	208,465	-	-	646,126
Other expenses	1,386,906	219,662	264,752	308,944	1,024	3,624	2,184,912
<b>Total expenses</b>	<b>\$ 43,217,054</b>	<b>\$ 10,399,433</b>	<b>\$ 5,690,471</b>	<b>\$ 15,848,722</b>	<b>\$ 453,800</b>	<b>\$ 1,224,196</b>	<b>\$ 76,833,676</b>

See accompanying notes to financial statements.

# Samuel Merritt University

## Statement of Cash Flows

<i>December 31,</i>	2019	2018
<b>Operating Activities:</b>		
Change in net assets	\$ 34,680,769	\$ (5,364,463)
Adjustments to reconcile net increase in net assets to net cash provided by operating activities:		
Contributions restricted for long term use	(250,560)	(164,640)
Loss on disposal of fixed asset	13,063	230,425
Depreciation	3,528,188	2,930,483
Realized and unrealized (gains) losses	(27,918,056)	10,028,579
Changes in operating assets and liabilities:		
Accounts receivable	25,561,764	176,284
Prepaid and other assets	333,926	(13,063)
Accounts payable and accrued liabilities	781,214	(193,757)
Operating lease liabilities	10,624,230	-
Operating lease right-of-use assets	(9,592,638)	-
Deferred student tuition and deposits	(25,557,213)	(1,676,351)
Net cash provided by operating activities	12,204,687	5,953,497
<b>Investing Activities:</b>		
Acquisitions of fixed assets	(4,144,235)	(6,358,688)
Purchases of investments	(14,552,976)	(8,462,735)
Proceeds from the sale of investments	12,115,413	7,915,439
Student loans activity, net	(186,240)	193,444
Net cash used by investing activities	(6,768,038)	(6,712,540)
<b>Financing Activities:</b>		
Contributions restricted for long term use	250,560	164,640
Return of government loan funds	-	(582,207)
Advances for government loan funds	718,225	61,325
Net cash provided (used) by financing activities	968,785	(356,242)
<b>Net Increase (Decrease) in Cash and Equivalents and Restricted Cash</b>	<b>6,405,434</b>	<b>(1,115,285)</b>
<b>Cash and Equivalents and Restricted Cash, Beginning of year</b>	<b>24,178,509</b>	<b>25,293,794</b>
<b>Cash and Equivalents and Restricted Cash, End of year</b>	<b>\$ 30,583,943</b>	<b>\$ 24,178,509</b>

**Supplemental Cash Flow Information:**

Non-cash transaction:

Accrued purchase of plant and equipment	\$ 969,093	\$ -
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See accompanying notes to financial statements.

# Samuel Merritt University

## Notes to Financial Statements

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### Note 1 - Organization and Operations:

Samuel Merritt University (the University) is a specialized institution of higher education; its main campus is located in Oakland, 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 started developing another location in 2018 in Fresno, California to broaden the number of potential students to avail themselves of the University's academic offerings.

The University is a California nonprofit public benefit corporation whose sole corporate member is Sutter Bay Hospitals. Sutter Bay Hospitals' sole corporate member is Sutter Health (Sutter). Prior to March 1, 2018, the University's sole corporate member was Sutter East Bay Hospitals. Effective March 1, 2018, Sutter East Bay Hospitals merged into Sutter Bay Hospitals, and Sutter East Bay Hospitals no longer exists as a separate legal entity.

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 (Western Association of Schools and Colleges) Senior College and University Commission. 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 (CPME). Accreditations are required for participation in federal and state student financial aid programs.

### Note 2 - Significant Accounting Policies:

#### a. Basis of Presentation

The University's financial statements are prepared on an accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for not-for-profit organizations which classifies resources into two net asset categories pursuant to any donor-imposed restrictions and applicable law. The categories are net assets without donor restrictions and net assets with donor restrictions.

#### b. Cash Equivalents

The University considers all instruments with a maturity of three months or less at the time of purchase to be cash equivalents, except for cash equivalents included in and managed with the University's pooled investments.

# Samuel Merritt University

## Notes to Financial Statements

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c. Restricted Cash

Restricted cash represents cash that is restricted for specific purposes, including cash held in trust for students and alumni and cash for the University's federal loan programs.

d. Investments

Non-pooled investments in marketable equity securities are carried at fair value based upon the observable quoted market price. Realized investment gains or losses are determined based upon the carrying values of specific investment funds sold.

Pooled investments are mainly invested in marketable securities by Sutter under its investment pools. The pooled investments are carried at fair value based upon the University's proportional share of the investments.

e. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The University classifies its financial assets and liabilities measured at fair value on a recurring basis based on a fair value hierarchy with three levels of inputs. Level 1 values are based on unadjusted quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect the University's determination of assumptions that market participants might reasonably use in valuing the securities. The valuation levels are not necessarily an indication of the risk or liquidity associated with the assets and liabilities measured at fair value.

Certain investments that are measured using the 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.

f. Notes Receivable

Notes receivable consist principally of Federal student loans which bear interest at 3 to 5 percent annually. The notes are generally payable in monthly installments over a 10-year period beginning nine months after graduation.

g. 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. The University conducts a physical inventory of plant and equipment every five years. The most recent inventory was conducted in 2018. As a result, there was a loss on the disposal of assets of \$230,425 that was recorded in 2018.

# Samuel Merritt University

## Notes to Financial Statements

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### h. 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.

### i. Description of Net Assets

Net Assets Without Donor Restrictions – Net assets that are not subject to donor- imposed stipulations. The governing board has designated, from net assets without donor restriction for the board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. If a restriction is fulfilled in the same fiscal year in which the contribution is received, the University classifies the support as net assets without donor restrictions.

### j. Revenue Recognition

Tuition revenue, reflected net of reductions from institutional student aid, 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; or a notification of a beneficial interest is received. Conditional promises to give that is, those with a measurable performance or other barrier 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. Grants revenue is recorded when the requirements are met and incurrence of expense are made.

# Samuel Merritt University

## Notes to Financial Statements

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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.

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

k. Charitable Remainder Trust Receivable

Charitable remainder trust receivable represents the estimated net present value of the University's remainder interest in various irrevocable trusts held by third party trustees. Such receivables are estimated to be collected in periods beginning after 2019. The net present value of these receivables was actuarially determined using IRS life annuities and mortality tables and an annual investment return of 2.39 percent.

l. 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 expenses are allocated among program services and institutional support on the basis of square footage.

m. Income Taxes

The principal activities of the University are exempt from income taxes under provisions of the U.S. Internal Revenue Code, Section 501(c) (3) and the California Tax Code.

Management evaluated the University's tax positions and concluded that the University had maintained its tax-exempt status and had not taken uncertain tax positions that required adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

n. 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.

# Samuel Merritt University

## Notes to Financial Statements

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o. 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. Under the University's endowment spending policy, 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, may be appropriated. Amounts appropriated for spending may exceed actual realized earnings from endowments.

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified assets allocation including investments in pooled investments managed by Sutter, a related party that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Board of Regents of the University has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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 SPMIFA.

In accordance with SPMIFA, 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 investments policies of the University

# Samuel Merritt University

## Notes to 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 SPMIFA requires the University to retain as a fund of perpetual duration. At December 31, 2019 and 2018 there were no funds that were underwater.

p. Student Accounts and Loan Receivables and Government Funds

Student tuition accounts receivable are recorded at net realizable value. Student accounts receivables are written off when deemed uncollectible. Recoveries of student accounts receivable previously written off are recorded when received.

Collection or development of payment plans for tuition is required prior to registration for the following term. A student account receivable is considered to be past due if a payment is not made by the payment due date unless the student had previously agreed to the terms of a payment plan and maintains that payment plan in good standing.

Student loans receivable are carried at the amount of unpaid principal. Student loans are written off when deemed uncollectible and may be assigned to the Department of Education. Recoveries of student loans receivable previously written off are recorded when received. After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is paid. Late charges are charged if payments are not paid by the payment due date and are recognized as they are charged. Student loans receivable are considered to be past due if a payment is not made within 30 days of the payment due date. After loans receivable become past due, the accrual of late charges is suspended. Students may be granted a deferment, forbearance or cancellation of their student loan receivable based on eligibility requirements defined by the Department of Education and the University. Under an arrangement with the Federal Government, portions of the principal and interest due on student notes receivable may be canceled under certain conditions. The University receives directly or acts as a pass-through agent for a variety of federal financial aid programs.

Student loan funds received from the Federal Government under revolving loan programs are reflected as liabilities in the statement of financial position.



# Samuel Merritt University

## Notes to Financial Statements

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q. New Accounting Pronouncements:

*Pronouncements adopted:*

In July 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-11, Leases (Topic 842): Targeted Improvements, which enhances ASU No. 2016-02, Leases (Topic 842). The guidance of these ASUs requires the rights and obligations arising from the lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet and allows for an option to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented in an entity's financial statements. The University adopted this guidance using the retrospective method as of the January 1, 2019, effective date. The 2019 Audited Financial Statements are presented under the new standard, while the comparative period is not adjusted and continues to be reported in accordance with the University's historical accounting policy. Adoption of the new standard resulted in the recording of an additional right-of-use assets (ROU) and lease liabilities of \$8,992,938 as of January 1, 2019. The adoption of the lease standard did not result in a cumulative catch-up adjustment to beginning net assets.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or modified retrospective transition method. The University adopted this standard on a modified retrospective basis as of January 1, 2019. The adoption had no impact on the recognition of revenue and thus no cumulative affect of adoption was required. As a result of the adoption of the standard no receivables were recorded at December 31, 2019 for tuition related to future academic periods. Payments received in advance of an academic period are recorded as deferred revenue.

In June 2018, the FASB issued ASU No. 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This guidance clarifies and improves the scope and the accounting guidance for contributions received and made with the objective of reducing the existing diversity in practice. The University adopted this standard as of January 1, 2019 on a modified prospective basis. The adoption of this standard did not have an impact on the University's financial statements.

# Samuel Merritt University

## Notes to Financial Statements

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r. Subsequent Events

An outbreak of respiratory disease, known as coronavirus disease 2019 (COVID-19) has been detected in more than 200 locations internationally, including in the United States. On March 11, 2020 the World Health Organization publicly characterized COVID-19 as a pandemic. States of emergency have been declared in many federal, state and local jurisdictions and shelter in place orders have been instituted in many cities and states, including California, which impacts general business operations in most industries and sectors. On March 27, 2020, the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic.

The University has moved all classes to distance learning platforms. It is anticipated that there will be delays in four cohorts of one academic program that were due to begin studies in 2020. This is expected to negatively impact the University's tuition and fee revenue but is also expected to be partially offset by reductions in related program expenses. The University is considering enacting measures to fully offset the negative financial impact of this delay.

In addition, financial markets volatility has significantly increased with general decreases in the value of major market equity indices. A decline in market valuations may negatively impact the University's financial investments and future spending available from endowment funds.

The University is evaluating its eligibility to apply for various government subsidies available through the CARES ACT as well as the Federal Emergency Management Agency.

At this point the extent to which COVID-19 may impact the University's financial condition or results of operations is uncertain.

# Samuel Merritt University

## Notes to Financial Statements

### Note 3 - Liquidity Management:

The following reflects the University's financial assets at December 31<sup>st</sup> reduced by amounts not available for general use within one year of the balance sheet date because of the 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.

	2019	2018
Cash	\$ 28,196,523	\$ 22,461,246
Investments	196,264,416	165,908,796
Receivables	4,225,118	29,786,882
	<hr/>	<hr/>
	228,686,057	218,156,924
Contractual or donor-imposed restrictions:		
Endowment funds	(53,229,293)	(47,189,544)
Other donor restrictions	(15,471,738)	(13,475,629)
Charitable remainder trust receivable	(421,063)	(356,288)
Private equity – illiquid investments	(6,413,410)	(7,837,078)
Board designations – endowment	(1,031,883)	(1,086,675)
	<hr/>	<hr/>
	(76,567,387)	(69,945,214)
Financial assets available to meet cash needs for general expenditures within one year	\$ 152,118,670	\$ 148,211,710

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 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, 2019 and 2018:

	Quoted Prices In Active Markets for Identical Instruments (Level 1)	2019 Significant Other Inputs (Level 2)		2019 Total
<b>Non-pooled investments:</b>				
Cash equivalents	\$ 46,442		\$	46,442
U.S. equity securities	76,042,113			76,042,113
U.S. corporate securities	40,907,885			40,907,885
<hr/>				
<b>Total</b>	<b>\$ 116,996,440</b>		<b>\$</b>	<b>116,996,440</b>
<hr/>				
<b>Pooled investments:</b>				
Cash equivalents	1,544,719			1,544,719
<b>Equity securities:</b>				
U.S. equity securities	13,068,244			13,068,244
Foreign equity securities	9,532,584			9,532,584
<b>Fixed income securities:</b>				
U.S. government securities	2,327,839			2,327,839
U.S. government agencies securities		\$ 7,201		7,201
U.S. state and local government securities		345,555		345,555
U.S. federal agency mortgage backed securities		2,853,147		2,853,147
Foreign government securities		1,077,618		1,077,618
U.S. corporate securities		3,778,939		3,778,939
Foreign corporate securities		1,301,422		1,301,422
<hr/>				
<b>Total</b>	<b>\$ 26,473,386</b>	<b>\$ 9,363,882</b>		<b>35,837,268</b>
<hr/>				
Other pooled investments measured at net asset value				43,430,708
<hr/>				
<b>Grand total – non-pooled and pooled investments</b>				<b>\$ 196,264,416</b>

# Samuel Merritt University

## Notes to Financial Statements

	Quoted Prices In Active Markets for Identical Instruments (Level 1)	2018 Significant Other Inputs (Level 2)		2018 Total
<b>Non-pooled investments:</b>				
Cash equivalents	\$ 55,289		\$	55,289
U.S. equity securities	58,130,052			58,130,052
U.S. corporate securities	37,279,976			37,279,976
<hr/>				
Total	\$ 95,465,317			95,465,317
<hr/>				
<b>Pooled investments:</b>				
Cash equivalents		\$ 830,205		830,205
<b>Equity securities:</b>				
U.S. equity securities		11,173,020		11,173,020
Foreign equity securities		8,408,064		8,408,064
<b>Fixed income securities:</b>				
U.S. government securities		2,059,137		2,059,137
U.S. government agencies securities		3,323		3,323
U.S. state and local government securities		356,018		356,018
U.S. federal agency mortgage backed securities		2,199,397		2,199,397
Foreign government securities		1,035,977		1,035,977
U.S. corporate securities		3,465,563		3,465,563
Foreign corporate securities		1,267,503		1,267,503
<hr/>				
Total		\$ 30,798,207		30,798,207
<hr/>				
Other pooled investments measured at net asset value				39,645,272
<hr/>				
Grand total – non-pooled and pooled investments				\$ 165,908,796

Pooled investments held by Sutter are invested in the above types of securities. The University does not own individual investments in the pool. The University owns a certain percentage of the total pooled investments held by Sutter. The fair values recorded for each investment category are based on proportional percentage owned by the University to each investment category in the pooled investments fund held by Sutter. There are no restrictions on these pooled investments funds.

# Samuel Merritt University

## Notes to Financial Statements

### *Net Asset Value Disclosure:*

The University uses the NAV under the so-called “practical expedient” to determine the fair value of all the underlying investments which do not have readily determinable fair value and prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met.

The following table lists investments valued at NAV as of December 31:

	<u>Fair Value</u>		Redemption Frequency (if currently eligible)	Redemption Notice Frequency (if currently eligible)
	2019	2018		
Comingled funds				
- U.S. equity securities	\$ 4,214,137	\$ 3,766,102	Daily	1 day
Comingled funds				
- foreign equity securities	10,730,788	8,549,520	Monthly	5-30 days
Comingled funds			Daily, Monthly	3-15 days
- debt securities	1,737,791	1,538,829		
Commodity - linked funds	1,531,602	1,281,875	Daily	None
Multi-strategy hedge funds	18,802,980	16,671,868	Monthly, Quarterly	10-120 days
Private equity funds	1,107,714	604,672	None	None
Private equity real estate funds	<u>5,305,696</u>	<u>7,232,406</u>	None	None
	<u>\$ 43,430,708</u>	<u>\$ 39,645,272</u>		

Commingled Funds – U.S. and Foreign Equity Securities: This class includes investments in commingled funds that invest primarily in U.S. or foreign equity securities and attempt to match the returns of specific equity indices. As of December 31, 2019 and 2018, approximately 28% of this class is redeemable daily with a 1-day notice period. The remaining 72% of this class is redeemable monthly with a notice period of 3 to 30 days.

# Samuel Merritt University

## Notes to Financial Statements

**Commingled Funds – Debt Securities:** This class includes investments in commingled funds that invest primarily in foreign debt, of which the majority are traded in over-the-counter markets. As of December 31, 2019 and 2018, approximately 45% of the value of this class is redeemable daily, with a notice period of 3 days. The remaining 55% of this class is redeemable monthly with a 15-day notice period.

**Commodity – Linked Funds:** This class includes commodity-linked funds that pursue long-only fully collateralized commodity futures strategies to provide diversification and inflation protection. As of December 31, 2019 and 2018, these funds are redeemable daily with no notice period.

**Multi-Strategy Hedge Funds:** This class includes investments in hedge funds that expand the universe of potential investment approaches available by employing a variety of strategies and techniques within and across various asset classes. The primary objective for these funds is to balance returns while limiting volatility by allocating capital to external portfolio managers selected for expertise in one or more investment strategies which may include, but are not limited to, equity long/short, event driven, relative value, and directional. The following summarizes the redemption criteria for the hedge fund portfolio as of December 31, 2019 and 2018:

<b>% of Hedge Funds</b>	<b>Redemption criteria</b>	<b>Notice period</b>
71%	Redeemable monthly	10-90 days
4%	Redeemable quarterly	45-120 days
4%	Redeemable within one year, with quarterly gates from 25% to 100%	60-65 days
4%	Limited to a 25% gate, redeemable quarterly	60-90 days
2%	One-year lock-ups expiring through July 2020	75-90 days
	Two-year rolling lock-up expiring in December 2021 and quarterly gate	
13%	limited to 10% annually	120 and 60 days
2%	Redeemable over five years after a rolling annual election with quarterly payments or limited to a 5% quarterly gate	120 days

**Private Equity Funds:** This class includes domestic and foreign private equity funds that specialize in providing capital to a variety of investment groups, including but not limited to venture capital, leveraged buyout, mezzanine debt, distressed debt, and other strategies, which may include land, water processing, and alternative energy. There are generally no provisions for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at December 31, 2019 and 2018, to be over the next 10 to 15 years. There were unfunded commitments of \$1,302,121 on these funds as of December 31, 2019.

**Private Equity Real Estate Funds:** This class includes domestic and foreign investments in real estate that are held in limited partnership funds, joint ventures, and other investments comprised of retail, office, industrial, and multi-family properties. There is no provision for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at December 31, 2019 and 2018, to be over the next 10 years. There were unfunded commitments of \$5,296,196 on these funds as of December 31, 2019.

# Samuel Merritt University

## Notes to Financial Statements

**Note 5 - Notes Receivable:**

Notes receivable constituted the University's student loans receivable and consist of the following:

<b>December 31, 2019</b>	<u>Perkins Loans</u>	<u>HPSL Loans</u>	<u>NSL Loans</u>	<u>Institutional Loans</u>	<u>Total</u>
Notes Receivable	\$ 1,201,918	\$ 1,814,049	\$ 2,318,088	\$ 1,229,784	\$ 6,563,839
Less allowance for doubtful accounts:					
Beginning of year	(367,649)	(175,403)	(138,368)	(13,075)	(694,495)
Decrease (Increase)			(9,801)		(9,801)
End of year	(367,649)	(175,403)	(148,169)	(13,075)	(704,296)
Notes Receivable, net	\$ 834,269	\$ 1,638,646	\$ 2,169,919	\$ 1,216,709	\$ 5,859,543

<b>December 31, 2018</b>	<u>Perkins Loans</u>	<u>HPSL Loans</u>	<u>NSL Loans</u>	<u>Institutional Loans</u>	<u>Total</u>
Notes Receivable	\$ 1,514,709	\$ 1,852,483	\$ 2,133,135	\$ 867,471	\$ 6,367,798
Less allowance for doubtful accounts:					
Beginning of year	(367,649)	(175,403)	(138,368)	(13,075)	(694,495)
Decrease (Increase)	-	-	-	-	-
End of year	(367,649)	(175,403)	(138,368)	(13,075)	(694,495)
Notes Receivable, net	\$ 1,147,060	\$ 1,677,080	\$ 1,944,767	\$ 854,396	\$ 5,673,303

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 are \$7,360,501 and \$6,642,276 at December 31, 2019 and 2018 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.

No new Perkins Loans are available effective December 31, 2016. The University is still collecting on previous issued outstanding Perkins notes.



# Samuel Merritt University

## Notes to Financial Statements

Health Professional Student Loans (HPSL) are only available to qualifying students enrolled in the Podiatric program.

Nursing Student Loans (NSL) are only available to qualifying students enrolled in any of the Nursing programs.

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.

### Note 6 - Contributions Receivable:

Unconditional contributions receivable consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Charitable remainder trusts receivable	\$ 421,063	\$ 356,288
Pledges receivable, net of \$0 allowance in 2019 and 2018	88,858	82,556
	<u>\$ 509,921</u>	<u>\$ 438,844</u>

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

### Note 7 - Plant and Equipment:

Plant and equipment at December 31 consisted of the following:

	<u>2019</u>	<u>2018</u>
Buildings and leasehold improvements	\$ 14,168,088	\$ 13,990,863
Furniture and equipment	21,430,848	19,221,784
Construction in progress	1,599,573	-
Library resources	259,608	260,272
	<u>37,458,117</u>	<u>33,472,919</u>
Less accumulated depreciation and amortization	<u>(21,195,192)</u>	<u>(17,812,978)</u>
	<u>\$ 16,262,925</u>	<u>\$ 15,659,941</u>

Land related to buildings is owned by Sutter.

# Samuel Merritt University

## Notes to Financial Statements

**Note 8 - Endowment Funds:**

Endowment net asset composition by type of fund as of December 31, 2019:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor-restricted endowment funds		\$ 53,229,291	\$ 53,229,293
Board designated funds	\$ 1,031,885		1,031,883
<hr/>			
<b>Total Endowment Funds</b>	<b>\$ 1,031,885</b>	<b>\$ 53,229,291</b>	<b>\$ 54,261,176</b>

Changes in endowment net assets for the year ended December 31, 2019:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Net assets, beginning of year	\$ 1,086,675	\$ 47,189,544	\$ 48,276,219
<hr/>			
Investment return:			
Investment income, net	19,176	902,962	922,138
Realized gain	53,367	2,499,652	2,533,019
Unrealized gain	70,787	3,493,108	3,563,895
<hr/>			
Total net appreciation	143,330	6,895,722	7,039,052
<hr/>			
Contributions		250,560	250,560
Appropriation of endowment assets for expenditure	(198,120)	(1,106,535)	(1,304,655)
<hr/>			
<b>Net assets, end of year</b>	<b>\$ 1,031,885</b>	<b>\$ 53,229,291</b>	<b>\$ 54,261,176</b>

# Samuel Merritt University

## Notes to Financial Statements

Endowment net asset composition by type of fund as of December 31, 2018:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor-restricted endowment funds		\$ 47,189,544	\$ 47,189,544
Board designated funds	\$ 1,086,675		1,086,675
<u>Total Endowment Funds</u>	<u>\$ 1,086,675</u>	<u>\$ 47,189,544</u>	<u>\$ 48,276,219</u>

Changes in endowment net assets for the year ended December 31, 2018:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
<u>Net assets, beginning of year</u>	<u>\$ 1,131,852</u>	<u>\$ 50,287,019</u>	<u>\$ 51,418,871</u>
Investment return:			
Investment income, net	18,000	806,611	824,611
Realized gain	32,675	1,505,367	1,538,042
Unrealized loss	(95,852)	(4,331,722)	(4,427,574)
<u>Total net appreciation</u>	<u>(45,177)</u>	<u>(2,019,744)</u>	<u>(2,064,921)</u>
Contributions		164,640	164,640
Appropriation of endowment assets for expenditure		(1,242,371)	(1,242,371)
<u>Net assets, end of year</u>	<u>\$ 1,086,675</u>	<u>\$ 47,189,544</u>	<u>\$ 48,276,219</u>

# Samuel Merritt University

## Notes to Financial Statements

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

Endowments are restricted by donors to be invested in perpetuity. Income from endowment related net assets are restricted for the following purposes at December 31:

	<u>2019</u>	<u>2018</u>
Scholarship	\$ 9,863,510	\$ 9,615,210
Programs and general operations	20,790,564	20,788,304
	<hr/>	
Total corpus of donor endowments	\$ 30,654,074	\$ 30,403,514

Net assets with donor purpose restrictions are as follows as of December 31:

	<u>2019</u>	<u>2018</u>
Scholarship	\$ 12,679,848	\$ 11,509,800
Program	25,367,109	18,751,859
	<hr/>	
Total purpose restricted net assets	\$ 38,046,957	\$ 30,261,659

Net assets were released from donor restricted net assets by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	<u>2019</u>	<u>2018</u>
Utilized for scholarship	\$ 3,066,373	\$ 3,822,476
Utilized for general operating purposes	504,216	510,700
	<hr/>	
Total releases	\$ 3,570,589	\$ 4,333,176

# Samuel Merritt University

## Notes to Financial Statements

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### **Note 10 - Related Party Transactions:**

Sutter and some of its affiliates provide the University with offices and classrooms in Oakland and various services. Total charges for the offices and classrooms in Oakland by Sutter was \$3,999,996 in 2019 and 2018 for each year. Charges for various services include:

- Allocation of shared systems operations of \$2,752,214 in 2019 and \$2,174,940 in 2018
- Temporary staffing of \$582,991 in 2019 and \$626,025 in 2018
- Flexible Spending of \$404,403 in 2019 and \$402,370 in 2018
- Insurance and healthcare premiums of \$923,425 in 2019 and \$325,023 in 2018
- HR Service Chargeback of \$160,580 in 2019 and \$117,310 in 2018
- Executive management salaries and expenses of \$0 in 2019 and \$0 in 2018. Two executive management members' positions were transitioned back to the University from Sutter effective January 15, 2017.
- Other miscellaneous services of \$37,110 in 2019 and \$274,678 in 2018

In addition, Sutter provides vendor payment service to all the University's external vendors, including corporate purchasing card accounts, which is then reimbursed by the University.

As of December 31, 2019 and 2018, net payable due to Sutter and its applicable affiliates related to transactions above was \$1,436,315 and \$2,621,882, respectively.

See Note 14 for benefit plans the University participates in with Sutter.

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

Employees with a minimum of one year of service are eligible to participate in the University's deferred compensation 403(b) plan. The employer contribution consists of 5% of employee compensation plus an additional 2%, provided the employee contributes at least 2%. The University contributed \$2,210,951 and \$2,179,204 to the plan during the years ended December 31, 2019 and 2018, respectively.

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

The primary concentrations of market risk exist in the cash and investments areas.

The University has cash deposits, including restricted cash, in financial institutions in excess of federally insured limits at December 31, 2019 and 2018.

# Samuel Merritt University

## Notes to Financial Statements

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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 and Fundraising Expenses:**

Advertising expense for the years ended December 31, 2019 and 2018 were \$295,253 and \$239,312, respectively. Fundraising expense for the years ended December 31, 2019 and 2018 were \$703,215 and \$453,800, respectively.

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

The University has various commitments and is contingently liable in connection with litigious claims and contracts arising in the normal course of its activities. In addition, the University receives funds from various federal and state government student financial aid programs which are subject to audit by these governmental agencies. University management believes that the outcome of such matters will not have a significant effect on the financial position of the University.

#### Leases

The University leases property under operating leases. The related assets and obligations are recorded at the present value of lease payments over the term of the agreements. 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 asset and lease liabilities and are 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 incremental borrowing rate is estimated to discount the lease payments based on information available at lease commencement. Upon adoption of the new lease standard, discount rates for existing leases were established at January 1, 2019.

The University elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the historical lease classification not to be reassessed. The University made an accounting policy election to not apply the recognition requirements of the guidance to short-term leases with a term of 12 months or less for equipment and vehicle classes of assets. 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.

# Samuel Merritt University

## Notes to Financial Statements

As of December 31, 2019, the weighted-average operating leases remaining term is 5 years and the weighted average operating lease discount rate is 3.6%.

The operating lease cost for the year ended December 31, 2019 was \$1,505,452 and the variable lease cost for the same period was \$343,461.

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

	<u>Year ended December 31, 2019</u>
Operating cash outflows for amounts included in the measurement of operating lease liabilities:	\$ 2,281,315
Right-of-use assets obtained in exchange for operating lease obligations:	\$ 3,620,378

Future lease payments as of December 31, 2019 for operating leases are:

2020	\$ 2,662,820
2021	2,230,379
2022	2,279,407
2023	2,127,483
2024	985,523
Thereafter	1,380,084
	<hr/> 11,665,696
Less imputed interest	(1,041,466)
	<hr/>
Total	\$ 10,624,230

On January 1, 2015, Sutter started charging the University for space owned by Sutter, it occupies in Oakland under a verbal arrangement. The amount is \$3,999,996 in 2019 and 2018, as disclosed in Note 10. This arrangement does not meet the definition of a lease under the new standard. Therefore the agreement has not been included in the assets or liabilities recorded as a result of the adoption of the new lease standard and payments related to this agreement are not included in the future lease payment table above nor was it included in the future minimum payment table below for the prior year.

# Samuel Merritt University

## Notes to Financial Statements

As of December 31, 2018, leases were reported in accordance with the University's historical accounting policy and were classified as operating leases, which were not recognized as assets and liabilities in the statement of financial position.

Future minimum payments, by year and in the aggregate, under noncancellable operating leases with terms of one year or more at inception consist of the following as of December 31, 2018:

The University leases certain teaching facilities and equipment under non-cancelable lease agreements. Estimated future minimum payments are as follows:

2019	\$ 2,928,500
2020	3,043,200
2021	2,274,500
2022	2,323,600
2023	2,168,000
Thereafter	1,774,500
<hr/>	
Total estimated minimum lease payments	\$ 14,512,300

Total rent expense for all lease agreements totaled \$7,332,939 in 2018.

### Self-Insured Health Insurance

The University participates in a self-insured health insurance plan which is controlled and administered by Sutter Bay Hospitals. The limit of self-insurance is \$750,000 per claim. The provisions for estimated health insurance claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported in accordance with past experience. Such claim reserves are based on the best data available to Sutter Bay Hospitals; however, these estimates are subject to a significant degree of inherent variability.

Accordingly, there is at least a reasonable possibility that a material change to the estimated reserves will occur in the near term. Such estimates are continually monitored and reviewed and reserves are adjusted; the differences are reflected in current operations. The University paid \$4,802,752 and \$4,625,331 in provisions for claims during 2019 and 2018, respectively. There is no liability being carried at the University level in 2019 and 2018.

### Post-Retirement Health Benefit Plan

The University participates in Sutter's noncontributory post retirement health benefit plan called Sutter Health Retiree Health Care Account Plan. Sutter allocated \$162,809 and \$150,279 in post retirement medical insurance expenses to the University in 2019 and 2018, respectively. This expense is reflected in the statement of activities as allocated benefits across the educational and general expense categories. The accumulated liability is reflected in the statement of financial position as part of the accounts payable and accrued liabilities. The balance of the liability to the Sutter post-retirement health benefit plan was \$1,936,129 and \$1,773,320 as of December 31, 2019 and 2018, respectively.



# Samuel Merritt University

## Supplemental Schedule of Changes in Endowments

December 31, 2019

	December 31, 2018 Corpus	Contributions of Assets	Reclassifications	Total Changes	December 31, 2019 Corpus	Board Designated Funds	Accumulated Unspent Earnings	December 31, 2019 Fair Market Value
<b>Endowment Funds:</b>								
Ella Sweep Award/Loan Fund	\$ 15,739	\$ 0	\$ 0	\$ 0	\$ 15,739	\$ 0	\$ 73,831	\$ 89,570
Dr. Howard & Patricia Milliken Scholarship-EF	141,127	0	0	0	141,127		21,728	162,855
Dr. H. M. "Mac" Reynolds Endowed Scholarship	117,419	0	0	0	117,419		21,996	139,415
Charlotte and Dan Clinkenbeard Scholarship Fund	70,000	0	0	0	70,000		89,068	159,068
Donald E. Kessler Scholarship	153,164	0	0	0	153,164		450,715	603,879
Cynthia Attwood-Gwen Tudor Memorial Scholarship Fund	6,369	0	0	0	6,369		9,929	16,298
Kathryn M. Livingston Scholarship Fund	5,190	0	0	0	5,190		17,795	22,985
Chaffee E. Hall & Emmy L. Hall Nursing Scholarship	25,579	0	0	0	25,579		41,356	66,935
Silvio P. Marraccini Scholarship Fund	0	0	0	0	0		0	0
Mr. and Mrs. Richard L. Highsmith Scholarship Fund	273,740	3,000	0	3,000	276,740		427,533	704,273
Ava Pischel Elliott Scholarship Fund	65,943	325	0	325	66,268		46,240	112,508
Henry & Bernice Bigge Scholarship Fund	18,231	0	0	0	18,231		37,138	55,369
Mabel Eugenia Hale Scholarship Fund	60,000	0	0	0	60,000		120,154	180,154
Betty Reed Moffitt Scholarship Fund	62,285	200	0	200	62,485		34,164	96,649
Juanita Hanan Wilson Scholarship Fund	14,033	0	0	0	14,033		10,879	24,912
Stella Seaton Memorial Scholarship Fund	7,774	0	0	0	7,774		12,975	20,749
Peter D. and Jennie Lim Shiu Memorial Scholarship Fund	30,342	150	0	150	30,492		26,091	56,583
Velora Buscher Memorial Scholarship Fund	19,840	0	0	0	19,840		20,585	40,425
William Randolph Hearst Endowed Scholarship Fund	200,000	0	0	0	200,000		128,807	328,807
Ed and Marilyn Chovanes Scholarship Fund	6,875	0	0	0	6,875		16,363	23,238
William Breslin Physical Therapy Scholarship Fund	5,922	0	0	0	5,922		8,303	14,225
President's Office	1,200,000	0	0	0	1,200,000		2,829,938	4,029,938
Ecker Family Endowed Scholarship Fund	437,060	116,027	0	116,027	553,087		25,261	578,348
David M. and Oolah B. Evans Physical Therapy * Scholarship Fund	37,174	0	0	0	37,174		14,151	51,325
Bernice E. Fornoff Nursing Scholarship Fund	11,200	0	0	0	11,200		7,018	18,218
Hitchcock Heydman Endowed Scholarship Fund	88,951	(1,000)	0	(1,000)	87,951		56,233	144,184
Ken and Jean Hofmann Nursing Scholarship Fund	178,340	0	0	0	178,340		204,575	382,915
Gordon "Skip" Huber Endowed Geriatric Nursing Scholarship Fund	108,578	0	0	0	108,578		134,185	242,763
Page Subtotal	\$ 3,360,875	\$ 118,702	\$ 0	\$ 118,702	\$ 3,479,577	\$ 0	\$ 4,887,011	\$ 8,366,588

# Samuel Merritt University

## Supplemental Schedule of Changes in Endowments

December 31, 2019

	December 31, 2018 Corpus	Contributions of Assets	Reclassifications	Total Changes	December 31, 2019 Corpus	Board Designated Funds	Accumulated Unspent Earnings	December 31, 2019 Fair Market Value
<b>Endowment Funds:</b>								
Subtotal from Previous Page	\$ 3,360,875	\$ 118,702	\$ 0	\$ 118,702	\$ 3,479,577	\$ 0	\$ 4,887,011	\$ 8,366,588
Helen M. Hussey Scholarship Fund	40,000	0	0	0	40,000		42,895	82,895
Elaine Jeffers Jennings '47 Scholarship Fund	24,690	0	0	0	24,690		15,086	39,776
Louise F. Graziano Endowment Fund	173,891	0	0	0	173,891		391,804	565,695
Robert N. Nelson M.D. Scholarship Fund	22,283	0	0	0	22,283		12,433	34,716
Yuri Nishimura Scholarship Fund	25,610	0	0	0	25,610		36,730	62,340
Northbr\$AC Woman's Club Nursing Scholarship Fund	15,306	0	0	0	15,306		22,592	37,898
James W. Porter Endowed Nursing Scholarship Fund	0	0	0	0	0		0	0
Providence College of Nursing Alumni Scholarship Fund	65,099	1,255	0	1,255	66,354		26,054	92,408
Shirley P. Fisher '50 Endowed Nursing Scholarship Fund	65,069	41,986	0	41,986	107,055		17,365	124,420
Paul C. Samson Professorial Chair	173,840	0	0	0	173,840		809,501	983,341
Nursing Education Endowment Fund	9,529,805	0	0	0	9,529,805		7,804,684	17,334,489
Operating Educational Endowment Fund	57,112	0	0	0	57,112		173,917	231,029
Marshall Steel Jr. Scholarship Fund	984,953	0	0	0	984,953		723,650	1,708,603
Strommen/Dillashaw Award Fund	11,370	0	0	0	11,370		9,328	20,698
Student Body Association Endowed Fund	21,133	0	0	0	21,133		13,735	34,868
Mark A. Swift Jr. Memorial Scholarship Fund	51,566	0	0	0	51,566		40,462	92,028
Sutter Health, Sacramento Sierra Regional Endowed Scholarship Fund	380,025	0	0	0	380,025		284,732	664,757
Tavi M. Van Ogle '88 Endowed Nursing Scholarship Fund	61,016	0	0	0	61,016		34,854	95,870
Physical Therapy Alumni Scholarship Fund	0	0	0	0	0		0	0
Sarah B. Keating Nursing Scholarship Fund	22,776	748	0	748	23,524		12,289	35,813
Chuck Rovinski Memorial Scholarship Fund	13,919	1,300	0	1,300	15,219		12,398	27,617
Leland S. Scott, Jr. Family Scholarship Fund	9,310	0	0	0	9,310		9,303	18,613
Dolores V. Barbera Endowed Nursing Scholarship Fund	288,116	0	0	0	288,116		232,418	520,534
Margaret Camp Fisher '36 Endowed Nursing Scholarship Fund	25,160	0	0	0	25,160		15,288	40,448
Anita M.Heeney Endowed Nursing Scholarship Fund	50,000	0	0	0	50,000		37,094	87,094
Sharon Clark Diaz Endowed Scholarship Fund	796,571	140	0	140	796,711		338,353	1,135,064
Sharon Clark Diaz Endowed - Board Designated Funds						675,000	331,476	1,006,476
Cumulative Subtotal	\$ 16,269,495	\$ 164,131	\$ 0	\$ 164,131	\$ 16,433,626	\$ 675,000	\$ 16,335,452	\$ 33,444,078

# Samuel Merritt University

## Supplemental Schedule of Changes in Endowments

December 31, 2019

	December 31, 2018 Corpus	Contributions of Assets	Reclassifications	Total Changes	December 31, 2019 Corpus	Board Designated Funds	Accumulated Unspent Earnings	December 31, 2019 Fair Market Value
<b>Endowment Funds:</b>								
Cumulative Subtotal from Previous Page	\$ 16,269,495	\$ 164,131	\$ 0	\$ 164,131	\$ 16,433,626	\$ 675,000	\$ 16,335,452	\$ 33,444,078
Eleanore William Holland P44 Endowed Nursing Scholarship Fund	36,350	0	0	0	36,350		19,639	55,989
Carole O'Shea Endowed Nursing Scholarship Fund	107,000	2,500	0	2,500	109,500		48,692	158,192
Dr. William and Phyllis Lowe Endowed Scholarship Fund	104,469	2,030	0	2,030	106,499		36,831	143,330
Dr. William and Doreen Wong Podiatric Medicine Endowed Scholarship Fund	60,175	0	0	0	60,175		25,548	85,723
Charles H. Johnson '38 Podiatric Medicine Scholarship Fund	7,300	0	0	0	7,300		5,773	13,073
Tom C. and Rose Lim Luey '51 Endowed Nursing Scholarship Fund	32,433	1,450	0	1,450	33,883		9,352	43,235
CSPM Alumni and Associates Endowed Scholarship Fund	176,827	3,490	0	3,490	180,317		67,661	247,978
The Thelma C. and Robert W. Scott Endowed Nursing Scholarship Fund	600,234	0	0	0	600,234		186,929	787,163
Cockcroft Family Endowed Scholarship Fund	114,822	0	0	0	114,822		31,805	146,627
The Scott Beamer Endowed Memorial Fund	184,432	0	0	0	184,432		157,283	341,715
Eugene A. & Virginia Falaschi Memorial Scholarship Fund	29,150	200	0	200	29,350		11,944	41,294
The Pradip and Rekha Choksi Endowed Occupational Therapy Scholarship Fund	232,619	0	0	0	232,619		132,711	365,330
The Alameda-Contra Costa Medical Association Auxiliary, District 1 Endowed Nursing Scholarship Fund	129,000	0	0	0	129,000		37,421	166,421
The Bernard Osher Foundation Endowed Scholarship Fund	1,000,000	0	0	0	1,000,000		365,314	1,365,314
Jane Steel Nursing Endowment Fund	4,949,913	0	0	0	4,949,913		1,771,934	6,721,847
The Lucille Engel '44 Endowed Nursing Scholarship Fund	50,000	0	0	0	50,000		11,895	61,895
Pegge Shuman Houser Endowed Scholarship Fund	45,272	0	0	0	45,272		22,792	68,064
Mary E. Robinson Endowed Scholarship Fund	48,197	1,692	0	1,692	49,889		11,642	61,531
R. Shapiro Family Foundation Physical Therapy Endowed Scholarship Fund	70,250	5,000	0	5,000	75,250		13,776	89,026
Geraldine "Gerri" Adams Endowed Scholarship Fund	46,893	1,383	0	1,383	48,276		8,910	57,186
Theodore L. Deffinger, DPM Endowed Scholarship Fund	61,290	0	0	0	61,290		25,705	86,995
Regents Diversity Scholarship Fund	203,110	510	0	510	203,620		43,936	247,556
Cumulative Subtotal	\$ 24,559,231	\$ 182,386	\$ 0	\$ 182,386	\$ 24,741,617	\$ 675,000	\$ 19,382,945	\$ 44,799,562

# Samuel Merritt University

## Supplemental Schedule of Changes in Endowments

December 31, 2019

	December 31, 2018 Corpus	Contributions of Assets	Reclassifications	Total Changes	December 31, 2019 Corpus	Board Designated Funds	Accumulated Unspent Earnings	December 31, 2019 Fair Market Value
<b>Endowment Funds:</b>								
Cumulative Subtotal from Previous Page	\$ 24,559,231	\$ 182,386	\$ 0	\$ 182,386	\$ 24,741,617	\$ 675,000	\$ 19,382,945	\$ 44,799,562
Mark K. Reynolds Fund for Technology and Academic Instruction	53,192	2,260	0	2,260	55,452		22,405	77,857
CPMA Endowed Scholarship Fund	16,260	0	0	0	16,260		3,355	19,615
Virginia Oneto Volponi '39 Endowed Scholarship	92,687	3,500	0	3,500	96,187		17,016	113,203
David Daniel Beaton '09 Memorial Scholarship	30,655	0	0	0	30,655		9,420	40,075
Niesjie (Rye) Huber PhD, RN Endowed Nursing Scholarship	26,243	0	0	0	26,243		4,196	30,439
The Karen Lynn Garrison Memorial Nursing Scholarship Fund	100,782	0	0	0	100,782		25,692	126,474
Dr. Stephen J.F. Zuber '69 Endowed Podiatric Medicine Scholarship Fund	48,220	488	0	488	48,708		9,942	58,650
Tracey Teruya Memorial Fund	14,400	0	0	0	14,400		16,071	30,471
Alameda Contra Costa Podiatric Medical Society Scholarship Fund #2	2,000	0	0	0	2,000		253	2,253
Dr. Wesley J. Endo '69 Endowed Podiatric Medicine Scholarship Fund	25,487	0	0	0	25,487		2,619	28,106
Irma P. Walker-Adame' Podiatric Medicine Endowed Scholarship Fund	0	3,046	0	3,046	3,046		0	3,046
Baldini Frisone Endowed Scholarship Fund	0	5,700	0	5,700	5,700		0	5,700
President Ching-Hua Wang Endowed Scholarship Fund	0	25,010	0	25,010	25,010		659	25,669
CAFFE Alameda Contra Costa Pod Med Society Schol	28,992	0	0	0	28,992		5,038	34,030
CAFFE Dr RM Barnes Pod Med Schol	26,426	0	0	0	26,426		5,912	32,338
CAFFE Heather Barton Memorial Pod Med Schol	25,984	0	0	0	25,984		7,208	33,192
CAFFE Dr Mel Barton Pod Med Schol	13,155	0	0	0	13,155		3,602	16,757
CAFFE Blaine Labs, Inc Pod Med Schol	13,748	0	0	0	13,748		3,764	17,512
CAFFE Dr RL Brennan Memorial Pod Med Schol	25,316	0	0	0	25,316		5,665	30,981
CAFFE Dr TH Clarke Pod Med Schol	28,522	0	0	0	28,522		6,808	35,330
CAFFE CCPM Class of 1963 Schol	37,143	20,000	0	20,000	57,143		9,051	66,194
CAFFE CCPM Class of 1972 Schol	31,391	1,150	0	1,150	32,541		6,977	39,518
CAFFE Codingline Pod Med Scholarship	21,110	0	0	0	21,110		4,777	25,887
CAFFE Dr JE Green Pod Med Schol	72,129	4,500	0	4,500	76,629		15,680	92,309
CAFFE Drs J Hultman'70 & F Kase'76 Pod Med Schol	25,505	0	0	0	25,505		6,984	32,489
CAFFE Dr EG Kaplan Memorial Pod Med Schol	25,639	0	0	0	25,639		6,025	31,664
CAFFE Dr BS Kelly Pod Med Scholarship	47,944	0	0	0	47,944		11,123	59,067
CAFFE Shirley Lanham Pod Med Scholarship	16,123	0	0	0	16,123		3,612	19,735
CAFFE Lawrence Family Pod Med Scholarship	19,422	0	0	0	19,422		3,729	23,151
CAFFE LA County Pod Med Society Schol	13,367	0	0	0	13,367		3,660	17,027
Cumulative Subtotal	\$ 25,441,073	\$ 248,040	\$ 0	\$ 248,040	\$ 25,689,113	\$ 675,000	\$ 19,604,188	\$ 45,968,301

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	December 31, 2018 Corpus	Contributions of Assets	Reclassifications	Total Changes	December 31, 2019 Corpus	Board Designated Funds	Accumulated Unspent Earnings	December 31, 2019 Fair Market Value
<b>Endowment Funds:</b>								
Cumulative Subtotal from Previous Page	\$ 25,441,073	\$ 248,040	\$ 0	\$ 248,040	\$ 25,689,113	\$ 675,000	\$ 19,604,188	\$ 45,968,301
CAFFE Dr B Mullens Memorial Pod Med Schol	17,417	0	0	0	17,417		3,902	21,319
CAFFE Joseph Oloff Memorial Pod Med Schol	14,975	0	0	0	14,975		4,105	19,080
CAFFE Orange Cnty/Santa Clara Velley Med Soc Schol	12,964	0	0	0	12,964		3,550	16,514
CAFFE Drs JD'31 & JW'66 Pagliano Memorial Pod Med Schol	19,589	0	0	0	19,589		4,264	23,853
CAFFE Dr GH Riess'44 Memorial Pod Med Schol	60,965	0	0	0	60,965		13,532	74,497
CAFFE Dr M Root'52 Memorial Pod Med Schol	51,567	0	0	0	51,567		11,525	63,092
CAFFE Dr RL Rutherford'40 Memorial Pod Med Schol	25,351	0	0	0	25,351		5,946	31,297
CAFFE San Diego County Pod Med Society Schol	18,754	2,520	0	2,520	21,274		3,937	25,211
CAFFE Dr JH Weed'63 Memorial Pod Med Schol	25,485	0	0	0	25,485		5,975	31,460
CAFFE Dr RA Wood'27 Memorial Pod Med Schol	25,182	0	0	0	25,182		5,892	31,074
CAFFE Dr B Zier Pod Med Scholarship	51,019	0	0	0	51,019		11,964	62,983
CAFFE SC Diaz, PhD Pod Med Schol Fund	0	0	0	0	0		0	0
CAFFE RD Mollberg, DPM Memorial Pod Med Sch	1	0	0	0	1		1,232	1,233
EF PMEAC Holding	0	0	0	0	0		0	0
Michelle Le Memorial - Quasi Endowment Fund	0	0	0	0	0	25,000	407	25,407
Endowment Allocation for Capital Expenditures	0	0	0	0	0		755,972	755,972
<b>CSPM Endowments:</b>								
* The Endowment for the Advancement of Podiatric Medical Education	4,625,172	0	0	0	4,625,172		2,444,651	7,069,823
Dr. Milton Wolfson Endowment Fund	14,000	0	0	0	14,000		26,060	40,060
<b>Grand Total</b>	<b>\$ 30,403,514</b>	<b>\$ 250,560</b>	<b>\$ 0</b>	<b>\$ 250,560</b>	<b>\$ 30,654,074</b>	<b>\$ 700,000</b>	<b>\$ 22,907,102</b>	<b>\$ 54,261,176</b>

	Total Endowment Net Assets	\$ 54,261,176
	Unrestricted - Undesignated	161,527,396
With donor restriction - non-endowed - Education and General purposes		15,471,740
	Total net assets	\$ 231,260,312