

SAMUEL MERRITT UNIVERSITY

DECEMBER 31, 2022 AND 2021

INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS

**HOOD &
STRONG** LLP
CERTIFIED PUBLIC ACCOUNTANTS

Samuel Merritt University

Independent Auditors' Report and Financial Statements

Independent Auditors' Report 1 - 2

Financial Statements

Statement of Financial Position 3

Statement of Activities 4 - 5

Statement of Functional Expenses 6 - 7

Statement of Cash Flows 8

Notes to the Financial Statements 9 - 33



A Century Strong

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, 2022 and 2021, the related statements of activities, functional expense 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, 2022 and 2021, and the results of its operations 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; 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
June 6, 2023

Samuel Merritt University

Statement of Financial Position

<i>December 31,</i>	2022	2021
Assets		
Cash and equivalents	\$ 11,361,617	\$ 28,091,285
Restricted cash:		
Government loan funds	1,198,467	1,226,084
Accounts receivable, net:		
Students (net of allowance of \$940,000 in 2022 and \$909,000 in 2021)	1,385,197	1,839,967
Grants	3,585,340	3,388,146
Contributions	442,387	623,493
Prepaid expenses and other assets	1,289,370	1,776,105
Investments	378,830,673	259,617,164
Notes receivable, net	6,552,921	6,982,241
Plant and equipment, net	23,152,119	13,744,539
Operating lease right-of-use assets	102,483,146	7,811,307
Total assets	\$ 530,281,237	\$ 325,100,331
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 8,205,136	\$ 18,906,989
Accrued bond interest payable	581,438	-
Deferred revenues and deposits	4,278,763	4,295,103
Refundable loan program advances	5,828,756	6,349,904
Bonds payable, net	137,910,070	-
Other liabilities	150,000	591,965
Operating lease liabilities	104,581,278	8,872,011
Total liabilities	261,535,441	39,015,972
Net Assets:		
Without donor restrictions:		
Board designated	799,018	832,478
Undesignated	184,475,764	210,096,041
Total without donor restrictions	185,274,782	210,928,519
Total with donor restrictions	83,471,014	75,155,840
Total net assets	268,745,796	286,084,359
Total liabilities and net assets	\$ 530,281,237	\$ 325,100,331

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
Operating Revenue and Support:			
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)
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)	-
Total operating revenue and support	93,653,216	7,094,848	100,748,064
Operating Expenses:			
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
Total operating expenses	89,624,910	-	89,624,910
Change in Net Assets from Operating Activities	4,028,306	7,094,848	11,123,154
Non-Operating Activities			
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)
Total non-operating activities	(29,682,043)	1,220,326	(28,461,717)
Change in Net Assets	(25,653,737)	8,315,174	(17,338,563)
Net Assets - beginning of year	210,928,519	75,155,840	286,084,359
Net Assets - end of year	\$ 185,274,782	\$ 83,471,014	\$ 268,745,796

See accompanying notes to the financial statements.

Samuel Merritt University

Statement of Activities

Year ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue and Support:			
Tuition and fees	\$ 91,146,197	\$ -	\$ 91,146,197
Less: revenue share arrangements	(3,690,190)	-	(3,690,190)
Less: University funded scholarships	(7,430,256)	-	(7,430,256)
<hr/>			
Net tuition and fees	80,025,751	-	80,025,751
Endowment income distributed for operations	2,025,894	-	2,025,894
Private gifts, grants and bequests	50,755	715,507	766,262
Government grants	3,185,299	-	3,185,299
Kaiser and Alameda grants	1,379,170	-	1,379,170
Other sources	202,418	-	202,418
Net assets released from restrictions	4,095,364	(4,095,364)	-
<hr/>			
Total operating revenue and support	90,964,651	(3,379,857)	87,584,794
<hr/>			
Operating Expenses:			
Education and general:			
Instruction	49,019,608	-	49,019,608
Academic support	10,881,085	-	10,881,085
Student services	6,669,213	-	6,669,213
Institutional support	17,087,242	-	17,087,242
<hr/>			
Total operating expenses	83,657,148	-	83,657,148
<hr/>			
Change in Net Assets from Operating Activities	7,307,503	(3,379,857)	3,927,646
<hr/>			
Non-Operating Activities			
Net investment returns	24,684,596	7,903,910	32,588,506
Endowment income distributed for operations	(2,025,894)	-	(2,025,894)
Disaffiliation expenses	(525,324)	-	(525,324)
Campus relocation expenses	(2,412,302)	-	(2,412,302)
Other non-operating expenses	(725,000)	-	(725,000)
<hr/>			
Total non-operating activities	18,996,076	7,903,910	26,899,986
<hr/>			
Change in Net Assets	26,303,579	4,524,053	30,827,632
<hr/>			
Net Assets - beginning of year	210,928,519	70,631,787	255,256,727
<hr/>			
Net Assets - end of year	\$ 237,232,098	\$ 75,155,840	\$ 286,084,359

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
Bad debt	-	-	-	599,444	-	599,444
Other expenses	1,441,982	324,246	1,181,384	298,059	61,391	3,307,062
Total Operating Expenses	48,834,890	12,907,320	7,336,329	19,005,510	1,540,861	89,624,910
Non-Operating Expenses:						
Professional Fees and Purchased Services	-	-	-	176,307	-	176,307
Total Expenses	\$ 48,834,890	\$ 12,907,320	\$ 7,336,329	\$ 19,181,817	\$ 1,540,861	\$ 89,801,217

See accompanying notes to the financial statements.

Samuel Merritt University

Statement of Functional Expenses

Year Ended December 31, 2021

	Institutional Support					
	Instruction	Academic Support	Student Services	General & Administrative	Advancement	Total
Salaries and wages	\$ 27,273,898	\$ 5,760,434	\$ 3,332,448	\$ 5,302,110	\$ 624,965	\$ 42,293,855
Benefits	7,928,499	2,204,792	1,355,081	2,301,808	219,806	14,009,986
Purchased services	1,355,908	1,199,807	105,281	1,287,938	8,081	3,957,015
Professional fees	739,888	268,162	21,501	739,429	48,423	1,817,403
Repairs and maintenance	386,896	51,700	1,192	34,712	-	474,500
System allocation fee	-	-	-	2,735,912	-	2,735,912
Supplies	705,458	73,571	56,936	82,052	3,432	921,449
Depreciation	2,778,580	241,690	176,326	699,119	17,344	3,913,059
Rentals and leases	5,193,587	332,062	259,995	964,180	24,004	6,773,828
Insurance	-	-	-	1,002,509	-	1,002,509
Utilities and telephone	16,405	66,195	51	66,195	-	148,846
Travel/mileage/meals	168,242	52,707	23,024	20,128	-	264,101
Software	1,885	263,925	149,517	437,955	-	853,282
Recruiting and advertising	5,616	19,910	139,813	38,846	-	204,185
Other expenses	2,464,746	346,130	1,048,048	357,206	71,088	4,287,218
Total Operating Expenses	49,019,608	10,881,085	6,669,213	16,070,099	1,017,143	83,657,148
Non-Operating Expenses:						
Professional Fees, Legal Expenses and Consulting Fees	-	-	-	3,672,626	-	3,672,626
Total Expenses	\$ 49,019,608	\$ 10,881,085	\$ 6,669,213	\$ 19,742,725	\$ 1,017,143	\$ 87,329,774

See accompanying notes to the financial statements.

Samuel Merritt University

Statement of Cash Flows

December 31,	2022	2021
Cash Flows from Operating and Non-operating Activities:		
(Decrease) increase in net assets	\$ (17,338,563)	\$ 30,827,632
Adjustments to reconcile net increase in net assets to net cash provided by operating and non-operating activities:		
Amortization of bond premium	(39,494)	-
Amortization of debt issuance costs	5,958	-
Allowance for student notes receivable	217,681	(1,346,643)
(Gain) loss on disposal of property, plant and equipment	34,248	-
Contributions restricted for long-term use	(10,285,427)	(540,622)
Depreciation expense	3,832,784	3,913,059
Net realized and unrealized (gains) losses on investments	31,387,220	(28,838,972)
Investment income	(5,426,718)	(3,860,989)
Changes in assets and liabilities:		
Accounts receivable	438,682	(2,111,625)
Prepaid expenses and other assets	486,735	(530,176)
Accounts payable and accrued liabilities	(11,143,819)	2,017,220
Accrued bond interest payable	581,438	-
Operating lease right-of-use assets	7,227,091	2,383,897
Operating lease liabilities	(6,189,662)	(2,388,633)
Deferred tuition/revenue	(16,340)	(130,762)
Net cash (used in) provided by operating and non-operating activities	(6,228,186)	(606,614)
Cash Flows from Investing Activities:		
Acquisitions of fixed assets	(13,274,612)	(3,439,468)
Student loans activity, net	211,639	(137,859)
Transfer of investment cash to operating cash	-	(15,649,476)
Proceeds from divesting pooled investments	-	135,232,998
Transfer of pooled investments to money market account	-	(135,232,998)
Purchases of investments	(388,009,590)	(2,232,486)
Proceeds from the sale of investments	242,835,579	12,134,561
Net cash used in investing activities	(158,236,984)	(9,324,728)
Financing Activities:		
Contributions restricted	10,285,427	540,622
Change in refundable government student loan funds	(521,148)	(175,383)
Series 2022 Tax-exempt bonds, net of issuance costs	137,943,606	-
Net cash provided by financing activities	147,707,885	365,239
Net (Decrease) in Cash and Equivalents and Restricted Cash	(16,757,285)	(9,566,103)
Cash and Equivalents and Restricted Cash, beginning of year	29,317,369	38,883,472
Cash and Equivalents and Restricted Cash, end of year	\$ 12,560,084	\$ 29,317,369
Reconciliation of Cash and Equivalents and Restricted Cash to Amounts Shown on the Statement of Financial Position:		
Cash and cash equivalents	\$ 11,361,617	\$ 28,091,285
Cash restricted for Federal loans	1,198,467	1,226,084
Total Cash and Equivalents and Restricted Cash Shown in the Statement of Cash Flows	\$ 12,560,084	\$ 29,317,369

See accompanying notes to the financial statements.

Samuel Merritt University

Notes to the Financial Statements

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. Certain services and administrative systems will continue to be provided by Sutter in 2022 under the disaffiliation agreement. See Note 10 for related party transactions.

Note 2 - Significant Accounting Policies:

a. Basis of Presentation

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

b. 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:

Samuel Merritt University

Notes to the Financial Statements

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.

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.

c. 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, and other non-recurring items.

d. 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.

e. Restricted Cash

Government loan funds represent 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.

Samuel Merritt University

Notes to the Financial Statements

f. 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.

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 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 15).

g. 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.

Samuel Merritt University

Notes to the Financial Statements

h. Notes Receivable

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.

i. 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, 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.

j. 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.

k. 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.

Samuel Merritt University

Notes to the Financial Statements

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

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

l. 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, 2022 and 2021 was \$326,272 and \$573,201 respectively, and is included in contributions receivable in the accompanying statement of financial position.

m. 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.

n. 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.

Samuel Merritt University

Notes to the Financial Statements

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.

o. 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.

p. 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.

Samuel Merritt University

Notes to the Financial Statements

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 investments policies of the University

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, 2022 and 2021 there were no funds that were underwater.

q. 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.

Samuel Merritt University

Notes to the Financial Statements

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 U.S. Department of Education. Recoveries of student loans receivable previously written off are recorded when received. After a student is no longer enrolled in the University 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 U.S. Department of Education and the University. Under an arrangement with the Federal Government, portions of the principal and interest due on student loans 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.

r. New Accounting Pronouncements:

Recently Adopted Accounting Standards

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 principal 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 which 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.

Samuel Merritt University

Notes to the Financial Statements

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.

s. Subsequent Events

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure from December 31, 2022 through June 6, 2023, the date the financial statements were issued.

Note 3 - Liquidity Management:

The following reflects the University's financial assets at December 31, 2022 and 2021, 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

	2022	2021
Financial assets due within one year or generally available:		
Cash and cash equivalents	\$ 11,361,617	\$ 28,091,285
Investments	378,830,673	259,617,164
Receivables, net	5,412,924	5,851,606
Total available funds	395,605,214	293,560,055
Less:		
Amounts not available for general expenditures within one year:		
Endowment funds restricted by donor in perpetuity	70,545,783	60,467,732
Other donor restricted gifts	12,925,231	14,114,907
Tax-exempt bond proceeds	137,755,222	-
Charitable remainder trust receivable	328,272	573,201
Total amounts unavailable due to donor restrictions	221,554,508	75,155,840
Total financial assets available to management for general expenditures before amounts subject to Board of Regents approval	174,050,706	218,404,215
Less:		
Board-designated funds:		
Funds functioning as endowment	799,018	832,478
Total Board-designated funds	799,018	832,478
Total financial assets available for general expenditure before endowment draw	173,251,688	217,571,737
Plus:		
Amount authorized for appropriation within one year	3,269,068	2,025,894
Financial assets available to for general expenditure within one year	\$ 176,520,756	\$ 219,597,631

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, 2022				
		<u>Fair Value Measurements Using</u>				
<u>Investments:</u>	<u>Totals</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Net Asset Value (NAV)</u>	
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	119,658,386	119,658,386	-	-	-	
Hedge fund of funds	10,136,605	-	-	-	-	10,136,605
Investments	241,075,451	218,669,220	12,269,626	-	-	10,136,605
<hr/>						
<u>Tax-Exempt Bond Proceeds:</u>						
Cash equivalents	48,596,024	48,596,024	-	-	-	
Treasury notes – U.S.	89,159,198	-	89,159,198	-	-	
Total Tax-Exempt Bond Proceeds	137,755,222	48,596,024	89,159,198	-	-	
Total Investments	\$ 378,830,673	\$ 267,265,244	\$ 101,428,824	\$ -	\$ -	\$ 10,136,605

		December 31, 2021				
		<u>Fair Value Measurements Using</u>				
<u>Investments:</u>	<u>Totals</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Net Asset Value (NAV)</u>	
Cash equivalents	\$ 99,560,684	\$ 99,560,684	\$ -	\$ -	\$ -	
Equity securities – U.S.	115,590,395	115,590,395	-	-	-	
Fixed income securities – U.S.	44,366,085	44,366,085	-	-	-	
Total Investments	\$ 259,517,164	\$ 259,517,164	\$ -	\$ -	\$ -	

Samuel Merritt University

Notes to the Financial Statements

Equity securities – U.S

These investments are comprised primarily 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 investments are comprised primarily 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 investments 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.

Mutual funds

These investments 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 investments 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 as of December 31, 2022. If so, they are disclosed under the “NAV” category.

Samuel Merritt University

Notes to the Financial Statements

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. 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 with 95 day notice. 1-year soft lock-up and 5% early withdrawal fee.
Total		<u>\$ 10,136,605</u>				

Note 5 - Notes Receivable:

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

2022	<u>Perkins Loans</u>	<u>HPSL Loans</u>	<u>NSL Loans</u>	<u>Institutional Loans</u>	<u>Total</u>
Notes Receivable	\$ 297,927	\$ 1,807,930	\$ 3,177,873	\$ 1,781,805	\$ 7,065,535
Less allowance for doubtful accounts:					
Beginning of year				(187,002)	(187,002)
Decrease (Increase)	-	-	-	(325,612)	(325,612)
End of year	-	-	-	(512,614)	(512,614)
Notes Receivable, net	\$ 297,927	\$ 1,807,930	\$ 3,177,873	\$ 1,269,191	\$ 6,552,921

Samuel Merritt University

Notes to the Financial Statements

2021	Perkins <u>Loans</u>	HPSL <u>Loans</u>	NSL <u>Loans</u>	Institutional <u>Loans</u>	<u>Total</u>
Notes Receivable	\$ 792,319	\$ 1,793,261	\$ 2,844,058	\$ 1,739,605	\$ 7,169,243
Less allowance for doubtful accounts:					
Beginning of year	(644,108)	(469,647)	(223,305)	(9,374)	(1,346,434)
Decrease (Increase)	644,108	469,647	223,305	(177,628)	1,159,432
End of year	-	-	-	(187,002)	(187,002)
Notes Receivable, net	\$ 792,319	\$ 1,793,261	\$ 2,844,058	\$ 1,552,603	\$ 6,982,241

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 \$6,214,595 and \$6,349,904 at December 31, 2022 and 2021, 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.

Allowances for uncollectible accounts are established based on prior collection experience and current economic factors which, in management’s judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Institutional loan balances are written off only when they are deemed to be permanently uncollectible. Amounts due under the Perkins loan program are guaranteed by the government and therefore, no reserves 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.

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

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 \$863,645 and \$546,294 as of December 31, 2022 and 2021, respectively.

Note 6 - Contributions Receivable:

Unconditional contributions receivable consisted of the following at December 31:

	<u>2022</u>	<u>2021</u>
Charitable remainder trusts receivable	\$ 328,272	\$ 573,201
Pledges receivable, net of \$0 allowance in 2022 and 2021	114,115	50,292
	<u>\$ 442,387</u>	<u>\$ 623,493</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>2022</u>	<u>2021</u>
Building and leasehold improvements	\$ 16,176,768	\$ 16,259,836
Furniture and equipment	28,967,279	25,487,914
Construction in progress	10,341,827	775,160
Library resources	263,110	263,110
	55,748,984	42,786,020
Less accumulated depreciation and amortization	<u>(32,596,865)</u>	<u>(29,041,481)</u>
	<u>\$ 23,152,119</u>	<u>\$ 13,744,539</u>

Land related to the building is owned by Sutter. Depreciation expense amounted to \$3,832,784 and \$3,913,059 during the years ended December 31, 2022 and 2021, respectively.

Samuel Merritt University

Notes to the Financial Statements

The University is in the development stage of constructing a new Oakland campus, with groundbreaking to occur 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, coinciding with the cessation of Oakland leases with Sutter. 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, 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)
<u>Total net appreciation</u>	<u>(33,460)</u>	<u>992,580</u>	<u>959,120</u>
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

Endowment net asset composition by type of fund as of December 31, 2021:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 60,467,732	\$ 60,467,732
Board designated funds	832,478	-	832,478
<u>Total Endowment Funds</u>	<u>\$ 832,478</u>	<u>\$ 60,467,732</u>	<u>\$ 61,300,210</u>

Samuel Merritt University

Notes to the Financial Statements

Changes in endowment net assets for the year ended December 31, 2021:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
<u>Net assets, beginning of year</u>	\$ 873,670	\$ 55,680,821	\$ 56,554,491
Investment return:			
Investment income, net	9,506	700,977	710,483
Realized gain	30,031	14,925,808	14,955,839
Unrealized gain	41,420	(9,354,602)	(9,313,182)
<u> Total net appreciation</u>	<u>80,957</u>	<u>6,272,183</u>	<u>6,353,140</u>
<u>Contributions</u>	<u>-</u>	<u>540,622</u>	<u>540,622</u>
<u>Appropriation of endowment assets for expenditure</u>	<u>(122,149)</u>	<u>(2,025,894)</u>	<u>(2,148,043)</u>
<u>Net assets, end of year</u>	<u>\$ 832,478</u>	<u>\$ 60,467,732</u>	<u>\$ 61,300,210</u>

Note 9 - Donor Restricted - Net Assets:

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

	<u>2022</u>	<u>2021</u>
Scholarship	\$ 20,956,376	\$ 10,672,811
<u>Programs and general operations</u>	<u>20,796,153</u>	<u>20,790,651</u>
<u>Total corpus of donor endowments</u>	<u>\$ 41,752,529</u>	<u>\$ 31,463,462</u>

Samuel Merritt University

Notes to the Financial Statements

Net assets with donor purpose restrictions, including cumulative income from donor restricted endowments, are as follows as of December 31:

	<u>2022</u>	<u>2021</u>
Scholarship Program	\$ 15,102,332	\$ 12,803,681
	26,616,153	30,888,697
<hr/>		
Total purpose restricted net assets	\$ 41,718,485	\$ 43,692,378

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>2022</u>	<u>2021</u>
Utilized for scholarship	\$ 2,632,515	\$ 2,670,687
Utilized for general operating purposes	1,072,102	1,424,677
<hr/>		
Total releases	\$ 3,704,617	\$ 4,095,364

Note 10 - Related Party Transactions:

Through the date of disaffiliation, Sutter and certain of its affiliates provided the University with offices and classrooms in Oakland and various other services. In exchange, the University paid an allocation of shared systems costs and a fee for space to Sutter. There were no allocations of shared system costs for fiscal year 2022.

Throughout fiscal year 2022, Sutter also continued to provide vendor payments on tail accounts payable balances to many of the University's external vendors, which was then reimbursed by the University. As of December 31, 2022 and 2021, net payable due to Sutter and its applicable affiliates related to tail accounts payable was \$384,756 and \$6,891,843, respectively.

For the year ended December 31, 2022, there was approximately \$87,000 in contributions from the University's staff along with members of the Board. As of December 31, 2022 there was approximately \$107,000 in contributions receivable from the University's staff along with members of the Board.

Samuel Merritt University

Notes to the Financial Statements

Note 11 - Retirement Plan and 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% of eligible compensation. The University contributed \$2,430,082 and \$2,499,120 to the plan during the years ended December 31, 2022 and 2021, respectively.

The University also 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.

Effective January 1, 2022, the University established a Supplemental Executive Retirement Plan (SERP) for one of its officers. The SERP is a spin-off and continuation of the Sutter Health SERP established January 1, 2018. 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 \$45,965 to the plan during the year ended December 31, 2022.

Note 12 - Concentrations of Risk:

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash, short-term investments, marketable securities, and other 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 and Fundraising Expenses:

Advertising expenses for the years ended December 31, 2022 and 2021 were \$109,404 and \$77,911, respectively. Fundraising expenses for the years ended December 31, 2022 and 2021 were \$1,540,859 and \$1,017,143, respectively.

Samuel Merritt University

Notes to the Financial Statements

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.

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 assets (ROU) 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 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, 2022, the weighted-average leases remaining term is 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, 2022</u>	Year ended <u>December 31, 2021</u>
Operating cash outflows for amounts included in the measurement of operating lease liabilities	\$ 6,957,467	\$ 2,761,672
Right-of-use assets obtained in exchange for operating lease obligations	\$ 101,898,930	\$ 38,437

Future lease payments as of December 31, 2022 for operating leases are:

2023	\$ 6,328,430
2024	5,050,809
2025	4,695,631
2026	864,877
2027	292,584
Thereafter	121,097,026
	<u>138,329,357</u>
Less: imputed interest	<u>(33,748,079)</u>
Present value of operating lease liabilities	<u>\$ 104,581,278</u>

On January 1, 2015, Sutter began charging rent to the University for its Oakland campus. The annual charge was \$3,999,996 in 2021, as disclosed in Note 10.

In 2021, as the University was a affiliate of Sutter and this arrangement did not meet the definition of a lease under the new standard. Therefore, the agreement was not included in the right-of-use assets and 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.

As part of the disaffiliation agreement, the University signed amended lease agreements with Sutter which were effective January 1, 2022 and continue through December 31, 2025 for space within three buildings and actual operating expenses related to the University owned building. The amended agreements as of January 1, 2022, met the definition of a lease and were accounted for as such on the statement of financial position.

On November 30, 2022, the University and the City of Oakland entered into a 99-year Ground Lease, the site of which the new Oakland campus will reside. As a result, an increase to 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

Self-Insured Health Insurance

The University participated in a self-insured health insurance plan which was controlled and administered by Sutter Bay Hospitals. The limit of self-insurance was \$1,500,000 per claim. The provisions for estimated health insurance claims included 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. As part of the disaffiliation, the University ended the self-insurance program with Sutter Bay Hospitals. The University will be responsible for any claims above the estimates through July 1, 2022. As of the date of this financial statement, no further claims have been submitted to the University.

Post-Retirement Health Benefit Plan

The University participated in Sutter's noncontributory post-retirement health benefit plan called Sutter Health Retiree Health Care Account Plan. As part of the disaffiliation agreement described in Note 1, Sutter agreed to continue managing the plan on behalf of the University's participants, in exchange for settlement of the outstanding liability balance as of December 31, 2021 of \$1,844,482. The liability was settled in full during 2022.

As of January 1, 2022, the University does not have a post-retirement health benefit plan.

Note 15 - Bonds Payable:

Bonds payable include the following at December 31, 2022:

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount Outstanding</u>
US Bank Trust Co. ("CMFA") SMU Nontaxable Series 2022	6/1/2053	Fixed 5.2%	\$ 132,900,000
Add(less):			
Unamortized bond premium			7,149,066
Unamortized debt issuance costs			(2,138,996)
Total bonds payable, net			\$ 137,910,070

Samuel Merritt University

Notes to the Financial Statements

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, 2022.

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. A portion of 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, 2022, \$581,438 of interest costs incurred have been capitalized to construction-in-progress and presented as part of plant and equipment on the statement of financial position.

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.

Note 16 - COVID-19 Pandemic and CARES Act Funding:

The COVID-19 pandemic has had an effect on many industries but has been especially difficult for the educational industry. The University campuses were closed in March 2020 with student moving immediately to virtual instruction where possible. In person events and programs were canceled or rescheduled to a future date. The University began a gradual re-opening where allowed based on State, County, and City guidelines. The duration and impact of the COVID-19 pandemic, along with market volatility remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of students for future periods. At this time, management believes the University has adequate reserves to operate for the foreseeable future.

In addition, the University participated in government funded opportunities that have provided a critical funding cushion in this uncertain time. 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).

Samuel Merritt University

Notes to the Financial Statements

During the fiscal year ending December 31, 2020, the University received and spent \$841,525 from HEERF I funding for student emergency aid and institutional expenses incurred when moving to 100% distance learning and remote work as ordered by California government. During the fiscal year ending December 31, 2021, the University was awarded a combined total of \$3,577,530 from HEERF II and HEERF III funding and spent \$2,272,609 of these funds, to support student emergency aid and institutional expenses incurred to support remote learning. In the fiscal year ended December 31, 2021 the balance of the institutional portion of HEERF funds, \$1,304,921, was claimed as lost revenue as prescribed under the award agreements and accounted for as an increase to grants receivable and government grants revenue on the statement of financial position and statement of activities, respectively.

As of December 31, 2022, the balance of HEERF III funds as it pertains to student emergency aid was \$200.