

SAMUEL MERRITT UNIVERSITY

DECEMBER 31, 2021 AND 2020

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

Opinion

We have audited the financial statements of **SAMUEL MERRITT UNIVERSITY (the University)** which comprise the statement of financial position as of December 31, 2021 and 2020, 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, 2021 and 2020, 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 Auditor's 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.

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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.

Supplementary Information

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
June 16, 2022

Samuel Merritt University

Statement of Financial Position

<i>December 31,</i>	2021	2020
Assets:		
Cash and equivalents	\$ 28,091,285	\$ 37,570,154
Restricted cash	1,226,084	1,313,318
Accounts receivable, net:		
Students (net of allowance of \$909,000 in 2021 and \$827,000 in 2020)	1,839,967	1,958,910
Grants	3,388,146	1,232,777
Contributions	623,493	548,295
Prepaid expenses and other assets	1,776,105	1,245,929
Investments	259,617,164	221,169,803
Notes receivable (net of allowance of \$187,000 in 2021 and \$1,346,643 in 2020)	6,982,241	5,497,739
Plant and equipment, net of depreciation	13,744,539	14,731,039
Operating lease right-of-use assets	7,811,307	10,195,204
Total assets	\$ 325,100,331	\$ 295,463,168
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 18,906,989	\$ 17,433,642
Deferred revenues and deposits	4,295,103	4,425,865
Refundable loan program advances	6,349,904	6,525,287
Other liabilities	591,965	561,003
Operating lease liabilities	8,872,011	11,260,644
Total liabilities	39,015,972	40,206,441
Net Assets:		
Without donor restrictions:		
Board designated	832,478	873,670
Undesignated	210,096,041	183,751,270
Total without donor restrictions	210,928,519	184,624,940
With donor restrictions	75,155,840	70,631,787
Total net assets	286,084,359	255,256,727
Total liabilities and net assets	\$ 325,100,331	\$ 295,463,168

See accompanying notes to financial statements.

Samuel Merritt University

Statement of Activities

Year ended December 31, 2021

	<u>Without Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and Support:			
Tuition and fees	\$ 91,146,197	-	\$ 91,146,197
Less University funded scholarships	(11,120,446)	-	(11,120,446)
<hr/>			
Net tuition and fees	80,025,751		80,025,751
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
<hr/>			
Total revenue and support	4,817,642	715,507	5,533,149
Net assets released from restrictions	4,095,364	(4,095,364)	-
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Net revenue and support	88,938,757	(3,379,857)	85,558,900
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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
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Total expenses	83,657,148	-	83,657,148
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Change in Net Assets from Operating Activities	5,281,609	(3,379,857)	1,901,752
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Non-Operating Changes in Net Assets			
Net investment returns, net	24,684,596	7,903,910	32,588,506
Disaffiliation expenses	(525,324)	-	(525,324)
Campus relocation expenses	(2,412,302)	-	(2,412,302)
Other non-operating expenses	(725,000)	-	(725,000)
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Changes in net assets from non-operating activities	21,021,970	7,903,910	28,925,880
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Change in Net Assets	26,303,579	4,524,053	30,827,632
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Net Assets, beginning of year	184,624,940	70,631,787	255,256,727
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Net Assets, end of year	\$ 210,928,519	\$ 75,155,840	\$ 286,084,359

See accompanying notes to financial statements.

Samuel Merritt University

Statement of Activities

Year ended December 31, 2020

	<u>Without Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and Support:			
Tuition and fees	\$ 87,540,773	-	\$ 87,540,773
Less University funded scholarships	(11,107,437)	-	(11,107,437)
<hr/>			
Net tuition and fees	76,433,336		76,433,336
Private gifts, grants and bequests	90,216	\$ 890,826	981,042
Government grants	1,309,977	-	1,309,977
Kaiser and Alameda grants	1,341,020	-	1,341,020
Other sources	101,352	-	101,352
<hr/>			
Total revenue and support	79,275,901	890,826	80,166,727
Net assets released from restrictions	6,615,092	(6,615,092)	-
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Net revenue and support	85,890,993	(5,724,266)	80,166,727
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Expenses:			
Education and general:			
Instruction	48,988,428	-	48,988,428
Academic support	10,182,537	-	10,182,537
Student services	6,457,278	-	6,457,278
Institutional support	19,502,573	-	19,502,573
<hr/>			
Total expenses	85,130,816	-	85,130,816
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Change in Net Assets from Operating Activities	760,177	(5,724,266)	(4,964,089)
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Non-Operating Changes in Net Assets			
Investment earnings:			
Realized and unrealized gains, net	17,752,948	6,260,925	24,013,873
Investment income	3,552,534	1,394,097	4,946,631
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Changes in net assets from non-operating activities	21,305,482	7,655,022	28,960,504
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Change in Net Assets	22,065,659	1,930,756	23,996,415
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Net Assets, beginning of year	162,559,281	68,701,031	231,260,312
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Net Assets, end of year	\$ 184,624,940	\$ 70,631,787	\$ 255,256,727

See accompanying notes to financial statements.

Samuel Merritt University

Statement of Functional Expenses

Year Ended December 31, 2021

	Institutional Support						Total
	Instruction	Academic Support	Student Services	General & Administrative	Advancement		
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	
Professional fees, legal expenses and consulting fees	\$ -	\$ -	\$ -	\$ 3,672,626	\$ -	\$ 3,672,626	
Total Non-Operating Expenses	\$ -	\$ -	\$ -	\$ 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 financial statements.

Samuel Merritt University

Statement of Functional Expenses

Year Ended December 31, 2020

	Institutional Support					
	Instruction	Academic Support	Student Services	General & Administrative	Advancement	Total
Salaries and wages	\$ 26,389,457	\$ 5,284,468	\$ 3,150,690	\$ 5,642,501	\$ 636,885	\$ 41,104,001
Benefits	9,143,708	2,187,475	1,409,578	2,890,472	213,272	15,844,505
Purchased services	1,169,697	1,018,712	87,822	1,118,830	19,450	3,414,511
Professional fees	936,998	440,595	82,682	1,065,791	62,797	2,588,863
Repairs and maintenance	358,829	19,030	-	17,027	-	394,886
System allocation fee	-	-	-	2,781,682	-	2,781,682
Supplies	713,907	49,887	132,635	110,402	2,309	1,009,140
Depreciation	2,865,433	240,639	162,482	646,864	15,329	3,930,747
Rentals and leases	5,352,060	312,140	214,729	844,379	20,009	6,743,317
Insurance	-	-	-	832,734	-	832,734
Utilities and telephone	6,642	60,544	-	60,205	-	127,391
Travel/mileage/meals	148,098	44,994	21,204	45,854	12,372	272,522
Software	-	194,701	52,825	2,550	-	250,076
Recruiting and advertising	6,183	71,842	396,695	94,278	-	568,998
Bad debt	-	-	-	869,442	-	869,442
Other expenses	1,897,416	257,510	745,936	1,461,573	35,566	4,398,001
Total Expenses	\$ 48,988,428	\$ 10,182,537	\$ 6,457,278	\$ 18,484,584	\$ 1,017,989	\$ 85,130,816

See accompanying notes to financial statements.

Samuel Merritt University

Statement of Cash Flows

December 31,	2021	2020
Operating Activities:		
Change in net assets	\$ 30,827,632	\$ 23,996,415
Adjustments to reconcile net increase in net assets to net cash provided by operating activities:		
Contributions restricted for long-term use	(540,622)	(272,405)
Allowance for student notes receivable	(1,346,643)	642,347
Depreciation	3,913,059	3,930,747
Realized and unrealized gains, net	(28,838,972)	(24,013,873)
Changes in operating assets and liabilities:		
Accounts receivable	(2,111,625)	485,136
Prepaid and other assets	(530,176)	(179,790)
Accounts payable, accrued and other liabilities	2,017,220	6,835,450
Operating lease right-of-use assets	2,383,897	(602,566)
Operating lease liabilities	(2,388,633)	636,414
Deferred revenues and deposits	(130,762)	505,119
Net cash provided by operating activities	3,254,375	11,962,994
Investing Activities:		
Acquisitions of fixed assets	(3,439,468)	(1,928,599)
Student loans activity	(137,859)	(280,543)
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	(2,232,486)	(5,835,634)
Dividend activity from investments	3,860,989	(4,883,867)
Proceeds from the sale of investments	4,412,583	9,827,987
Net cash used by investing activities	(13,185,717)	(3,100,656)
Financing Activities:		
Contributions restricted for long-term use	540,622	272,405
Payments of government loan funds	(325,697)	(1,758,001)
Advances received of government loan funds	150,314	922,787
Net cash (used) provided by financing activities	365,239	(562,809)
Net (Decrease) Increase in Cash and Equivalents and Restricted Cash	(9,566,103)	8,299,529
Cash and Equivalents and Restricted Cash, beginning of year	38,883,472	30,583,943
Cash and Equivalents and Restricted Cash, end of year	\$ 29,317,369	\$ 38,883,472
Supplementary Information:		
Capital expenditures included in accounts payable	\$ 512,910	\$ 969,193
Reconciliation of Cash and Equivalents and Restricted Cash to Amounts Shown on the Statement of Financial Position:		
Cash and equivalents	\$ 28,091,285	\$ 37,570,154
Cash restricted for Federal loans	1,226,084	1,313,318
Total cash and equivalents and restricted cash shown in the statement of cash flows	\$ 29,317,369	\$ 38,883,472

See accompanying notes to financial statements.

Samuel Merritt University

Notes to Financial Statements

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. In 2018, the University started development on another location in Fresno, California, to broaden the number of potential students able 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).

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. 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.

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 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

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.

Samuel Merritt University

Notes to Financial Statements

f. Investments

In accordance with authoritative guidance, investments in equity securities with readily determinable fair market values and all debt securities are reported at fair value with gains and losses included in the statement of activities. Non-marketable securities (alternative investments) for which quoted market prices are not readily available are valued at fair value by the investment managers based on factors deemed relevant by the investment managers including, but not limited to market transfer conditions, purchase price, estimated liquidation value, restriction on transfer and third-party transactions in the private market. The University's management reviews the fair values and methodologies provided by the third-party investment managers and evaluates the valuation methods and assumptions used in determining the fair value of the alternative investments. For these investments, the University used the net asset value (NAV) provided by the investment managers to evaluate the fair value of the investments. The NAV may be adjusted based on factors or other information about the investments that management considers significant to the valuation of the investments.

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

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 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 Financial Statements

h. Notes Receivables

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 nine 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 conducts a physical inventory of plant and equipment every five years. The most recent inventory count was conducted in 2018.

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, reflected net of reductions for 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.

Samuel Merritt University

Notes to Financial Statements

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

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

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

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 estimated net present value of the University's remainder interest in various irrevocable trusts held by third-party trustees. It is estimated that such receivables will be collected in periods beginning after 2021. The net present values of these receivables were actuarially determined using IRS life annuities and mortality tables and an annual investment return of 1.90 percent. The fair value of these assets at December 31, 2021 and 2020 was \$573,201 and \$483,258 respectively, and are 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.

Samuel Merritt University

Notes to Financial Statements

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.

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.

Samuel Merritt University

Notes to Financial Statements

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

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

- 1) The duration and preservation of the fund
- 2) The purposes of the University and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the University
- 7) The 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, 2021 and 2020 there were no funds that were underwater.

Samuel Merritt University

Notes to Financial Statements

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.

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:

Pronouncements Effective in the Future

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 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 ASU is effective for years beginning after June 15, 2021 with early application permitted. The adoption of ASU 2020-07 is not expected to have a significant impact on the University's financial statements.

Samuel Merritt University

Notes to Financial Statements

s. Reclassification

Certain 2020 amounts were reclassified to conform to the 2021 presentation. There was no effect on the Statement of Financial Position or the Statement of Activities as a result of these reclassifications.

t. Subsequent Events

The University evaluated subsequent events from December 31, 2021 through June 16, 2022, the date these financial statements were available to be issued, and has determined that there were no material subsequent events that required recognition or additional disclosure in these financial statements other than those noted at Note 14, 15 and Note 16.

Samuel Merritt University

Notes to Financial Statements

Note 3 - Liquidity Management:

The following reflects the University's financial assets at December 31, 2021 and 2020, 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.

	<u>2021</u>	<u>2020</u>
Financial assets due within one year or generally available:		
Cash and cash equivalents	\$ 28,091,285	\$ 37,570,154
Investments	259,617,164	221,169,803
Receivables, net	5,851,606	3,739,982
<hr/>		
Total available funds	293,560,055	262,479,939
<hr/>		
Less:		
Amounts not available for general expenditures within one year:		
Endowment funds restricted by donor in perpetuity	60,467,732	55,680,821
Other donor restricted gifts	14,114,907	14,950,966
Charitable remainder trust receivable	573,201	483,258
Private equity – illiquid investments	-	6,755,888
<hr/>		
Total amounts unavailable due to donor restrictions	75,155,840	77,870,933
<hr/>		
Total financial assets available to management for general expenditures before amounts subject to Board of Regents approval	218,404,215	184,609,006
<hr/>		
Less:		
Board designated funds:		
Funds functioning as endowment	832,478	873,670
<hr/>		
Total board designated funds	832,478	873,670
<hr/>		
Total financial assets available for general expenditure before endowment draw	217,571,737	183,735,336
<hr/>		
Plus:		
Amount authorized for appropriation within one year	2,025,894	3,911,233
<hr/>		
Financial assets available to for general expenditure within one year	\$ 219,597,631	\$ 187,646,569
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Samuel Merritt University

Notes to Financial Statements

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.

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:

	2021		
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Inputs (Level 2)	Total
Investments:			
Cash equivalents	\$ 99,560,684	-	\$ 99,560,684
U.S. equity securities	115,690,395	-	115,690,395
U.S. corporate securities	44,366,085	-	44,366,085
Total	\$ 259,617,164	\$ -	\$ 259,617,164

During fiscal year 2021, the University sold its pooled investments, including those measured at NAV, resulting in a realized gain of \$19,461,000 and an increase in cash equivalents of \$135,233,000, as a result of the sale. The University then began a formal search and evaluation of investment advisors and is in the process of engaging an advisor and establishing new investment policies for endowment, restricted and operating funds.

Samuel Merritt University

Notes to Financial Statements

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	2020 Significant Other Inputs (Level 2)	2020 Total
Non-pooled investments:			
Cash equivalents	\$ 35,243	-	\$ 35,243
U.S. equity securities	92,009,965	-	92,009,965
U.S. corporate securities	44,774,345	-	44,774,345
Total	136,819,553	-	136,819,553
Pooled investments:			
Cash equivalents	1,795,751	-	1,795,751
Equity securities:			
U.S. equity securities	14,203,182	-	14,203,182
Foreign equity securities	9,601,171	-	9,601,171
Fixed income securities:			
U.S. government securities	3,074,853	-	3,074,853
U.S. government agencies securities	-	\$ 27,525	27,525
U.S. state and local government securities	-	234,575	234,575
U.S. federal agency mortgage backed securities	-	2,599,931	2,599,931
Foreign government securities	-	792,971	792,971
U.S. corporate securities	-	4,147,944	4,147,944
Foreign corporate securities	-	1,287,997	1,287,997
Total	\$ 28,674,957	\$ 9,090,943	\$ 37,765,900
Other pooled investments measured at net asset value (NAV)	-	-	46,584,350
Grand total – non-pooled and pooled investments	\$ -	\$ -	\$ 221,169,803

At December 31, 2020 pooled investments above were held by Sutter and invested in the above type of securities. The University did not own individual investments in the pool. The University owned a certain percentage of the total pooled investments held by Sutter. The fair values recorded for each investment category were based on proportional percentage owned by the University to each investment category in the pooled investments fund held by Sutter. There were no redemption 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 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:

	Fair Value		Redemption Frequency	Redemption Notice Frequency
	2021	2020		
Comingled funds				
- U.S. equity securities	-	\$ 5,607,262	Daily	1 day
Comingled funds	-	-		
- foreign equity securities		12,019,430	Monthly	5-30 days
Comingled funds	-	-	Daily,	
- debt securities	-	927,760	Monthly	3-15 days
Commodity - linked funds	-	1,808,552	Daily	None
Multi-strategy hedge funds	-	19,465,458	Monthly, Quarterly	10-120 days
Private equity funds	-	1,429,967	None	None
Private equity real estate funds	-	5,325,921	None	None
	<u>\$ -</u>	<u>\$ 46,584,350</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, 2020, approximately 32% of this class is redeemable daily with a 1-day notice period. The remaining 68% of this class is redeemable monthly with a notice period of 5 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. These funds are redeemable daily with a notice period of 3 to 15 days

Commodity-linked funds: This class includes commodity-linked funds that pursue long-only fully collateralized commodity futures strategies to provide diversification and inflation protection. These funds are redeemable daily with no notice period.

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 that 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, 2020:

% of Hedge Funds	Redemption criteria	Notice period
67%	Redeemable monthly	10-90 days
8%	Redeemable quarterly	45-150 days
1%	Redeemable within one year, with quarterly gates from 25% to 100%	65 days
8%	Limited to a 25% gate, redeemable quarterly	60-90 days
1%	One-year lock-ups expiring through July 2021	75-90 days
12%	Two-year rolling lock-up expiring in December 2021 and quarterly gate limited to 10% annually	60-120 Days
3%	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, averaged buyout, mezzanine debt, distressed debt, and other strategies, which may include land, water processing, and alternative energy. There is no provision for redemptions during the life of these funds.

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.

Samuel Merritt University

Notes to Financial Statements

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:

2021	<u>Perkins Loans</u>	<u>HPSL Loans</u>	<u>NSL Loans</u>	<u>Institutional 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

2020	<u>Perkins Loans</u>	<u>HPSL Loans</u>	<u>NSL Loans</u>	<u>Institutional Loans</u>	<u>Total</u>
Notes Receivable	\$ 919,418	\$ 1,772,248	\$ 2,437,418	\$ 1,715,089	\$ 6,844,173
Less allowance for doubtful accounts:					
Beginning of year	(367,649)	(175,403)	(148,169)	(13,075)	(704,296)
Decrease (Increase)	(276,459)	(294,244)	(75,136)	3,701	(642,138)
End of year	(644,108)	(469,647)	(223,305)	(9,374)	(1,346,434)
Notes Receivable, net	\$ 275,310	\$ 1,302,601	\$ 2,214,113	\$ 1,705,715	\$ 5,497,739

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 \$6,349,904 and \$6,525,287 at December 31, 2021 and 2020, 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.

Samuel Merritt University

Notes to Financial Statements

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.

Past due amounts under the Perkins loan programs were \$519,142 and \$480,301 for the years ending December 31, 2021 and 2020, respectively.

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 overtime. 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>2021</u>		<u>2020</u>
Charitable remainder trusts receivable	\$ 573,201	\$	483,258
Pledges receivable, net of \$0 allowance in 2021 and 2020	50,292		65,037
	<hr/>		<hr/>
	\$ 623,493	\$	548,295

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

Samuel Merritt University

Notes to Financial Statements

Note 7 - Plant and Equipment:

Plant and equipment at December 31 consisted of the following:

	<u>2021</u>	<u>2020</u>
Building and leasehold improvements	\$ 16,259,836	\$ 16,010,918
Furniture and equipment	25,487,914	23,415,188
Construction in progress	775,160	170,247
Library resources	263,110	263,110
	42,786,020	39,859,463
Less accumulated depreciation and amortization	(29,041,481)	(25,128,424)
	<u>\$ 13,744,539</u>	<u>\$ 14,731,039</u>

Land related to the building is owned by Sutter. See Note 14 regarding leases signed subsequent to year end including reimbursement of operating expenses to Sutter related to this land and building. Depreciation expense amounted to \$3,913,059 and \$3,930,747 during the years ended December 31, 2021 and 2020, respectively.

The University is in the development stage of expanding its campus. Costs associated with the development, construction and improvement of property are capitalized. Costs that do not meet the criteria for capitalization are expensed as incurred. For fiscal year ended December 31, 2021, costs associated with the campus expansion that did not qualify for capitalization amounted to approximately \$2,412,000, and are disclosed as non-operating expenses in the statement of activities.

Note 8 - Endowment Funds:

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
	Total Endowment Funds	\$ 832,478	\$ 60,467,732
		<u>\$ 832,478</u>	<u>\$ 61,300,210</u>

Samuel Merritt University

Notes to 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>
Net assets, beginning of year	\$ 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)
Total net appreciation	80,957	6,272,183	6,353,140
Contributions	-	540,622	540,622
Appropriation of endowment assets for expenditure	(122,149)	(2,025,894)	(2,148,043)
Net assets, end of year	\$ 832,478	\$ 60,467,732	\$ 61,300,210

Endowment net asset composition by type of fund as of December 31, 2020:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor-restricted endowment funds	-	\$ 55,680,821	\$ 55,680,821
Board designated funds	\$ 873,670	-	873,670
Total Endowment Funds	\$ 873,670	\$ 55,680,821	\$ 56,554,491

Samuel Merritt University

Notes to Financial Statements

Changes in endowment net assets for the year ended December 31, 2020:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
<u>Net assets, beginning of year</u>	\$ 1,031,885	\$ 53,229,291	\$ 54,261,176
Investment return:			
Investment income, net	19,169	1,102,977	1,122,146
Realized gain	34,949	2,959,646	2,994,595
Unrealized gain	26,536	2,027,735	2,054,271
<u> Total net appreciation</u>	<u>80,654</u>	<u>6,090,358</u>	<u>6,171,012</u>
Contributions	57,596	272,405	330,001
Appropriation of endowment assets for expenditure	(296,465)	(3,911,233)	(4,207,698)
<u>Net assets, end of year</u>	<u>\$ 873,670</u>	<u>\$ 55,680,821</u>	<u>\$ 56,554,491</u>

Note 9 - Donor Restricted - Net Assets:

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

	<u>2021</u>	<u>2020</u>
Scholarship	\$ 10,672,811	\$ 10,133,948
Programs and general operations	20,790,651	20,792,531
<u>Total corpus of donor endowments</u>	<u>\$ 31,463,462</u>	<u>\$ 30,926,479</u>

Samuel Merritt University

Notes to Financial Statements

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

	<u>2021</u>	<u>2020</u>
Scholarship	\$ 12,803,681	\$ 11,546,584
Program	30,888,697	28,158,724
<hr/>		
Total purpose restricted net assets	\$ 43,692,378	\$ 39,705,308

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>2021</u>	<u>2020</u>
Utilized for scholarship	\$ 2,670,687	\$ 3,666,782
Utilized for general operating purposes	1,424,677	2,948,310
<hr/>		
Total releases	\$ 4,095,364	\$ 6,615,092

Note 10 - Related Party Transactions:

Sutter and certain 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 were \$3,999,996 in 2021 and 2020. Charges for various services include:

- Allocation of shared systems operations of \$2,641,032 in 2021 and \$2,781,682 in 2020
- 403(b) employee and employer contributions of \$4,516,484 in 2021 and \$1,468,007 in 2020
- Temporary staffing of \$473,424 in 2021 and \$626,657 in 2020
- Flexible spending of \$258,030 in 2021 and \$379,850 in 2020
- Insurance and healthcare premiums of \$3,274,609 in 2021 and \$1,397,973 in 2020
- Human Resources Service Chargeback of \$221,980 in 2021 and \$197,963 in 2020
- Other miscellaneous services of \$208,060 in 2021 and \$117,286 in 2020

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.

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Notes to Financial Statements

As of December 31, 2021 and 2020, net payable due to Sutter and its applicable affiliates related to transactions above was \$6,891,843 and \$5,205,761, respectively.

See Note 14 for information about benefit plans in which the University participates with Sutter. The 403(b) plan administration was changed in August 2020 such that Sutter collects and transmits the contributions.

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% of eligible compensation. The University contributed \$2,499,120 and \$2,297,403 to the plan during the years ended December 31, 2021 and 2020, respectively.

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 expense for the years ended December 31, 2021 and 2020 were \$77,911 and \$276,116, respectively. Fundraising expense for the years ended December 31, 2021 and 2020 were \$1,022,126 and \$1,017,989, respectively.

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.

Samuel Merritt University

Notes to Financial Statements

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 right-of-use asset 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 incremental borrowing rate is estimated to discount the lease payments based on information available at lease commencement. Upon adoption of the new lease standard (Accounting Standards Codification 842), 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 leasing 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

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

	Year ended <u>December 31, 2021</u>	Year ended <u>December 31, 2020</u>
Operating cash outflows for amounts included in the measurement of operating lease liabilities:	\$ 2,761,672	\$ 2,691,746
Right-of-use assets obtained in exchange for operating lease obligations:	\$ 38,437	\$ 2,973,925

Future lease payments as of December 31, 2021 for operating leases are:

2022	\$ 2,888,526
2023	2,754,876
2024	1,631,738
2025	1,271,897
2026	732,684
Thereafter	165,011
	9,444,732
Less imputed interest	<u>(572,721)</u>
Total	<u>\$ 8,872,011</u>

On January 1, 2015, Sutter began charging for space it owns in Oakland that the University occupies. The annual charge was \$3,999,996 in 2021 and 2020, respectively, 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 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 (See Note 16) the University signed lease agreements with Sutter amounting to \$333,333 per month through December 31, 2025 for certain buildings and actual operating expenses related to another building. These new leases will be accounted as right of use assets and lease liabilities in 2022.

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Notes to Financial Statements

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 \$1,500,000 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. 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 these financial statements, no further claims have been submitted to the University.

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 \$171,290 and \$169,713 in post-retirement medical insurance expenses to the University in 2021 and 2020, respectively. This expense is reflected in the statement of activities as allocated benefits across the educational and general expense categories. As part of the disaffiliation agreement described in Note 16, 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. After a favorable life-to-date adjustment to the plan of \$305,635 was recorded in 2021, the outstanding amount owed to Sutter as of December 31, 2021, is \$1,844,843, and is recorded as part of accounts payable and accrued liabilities on the statement of financial position.

Note 15 - COVID-19 Pandemic and CARES Act Funding:

The COVID-19 pandemic has had an effect on many industries but 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 financial statements ended December 31, 2021 accurately reflect the financial impact of the pandemic. 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.

Samuel Merritt University

Notes to Financial Statements

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 fiscal years 2020 and 2021, respectively; the Coronavirus Response and Relief Supplemental Appropriations Act (HEERF II), and the American Rescue Plan Act (HEERF III).

During fiscal year 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 fiscal year 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. The balance of the 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.

Note 16 - Disaffiliation from Sutter:

On November 4, 2021, and with Board approval, Samuel Merritt University and 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. During fiscal year ended December 31, 2021, funds spent as part of the disaffiliation process for legal, financial and other professional services amounted to approximately \$525,000, and are classified as non-operating expenses in the University's statement of activities

Samuel Merritt University

Supplemental Schedule of Changes in Endowments

December 31, 2021

	December 31, 2020	Contributions of		Total	December 31,	Board	Accumulated	December 31,
	Corpus	Assets	Reclassifications	Changes	Corpus	Designated Funds	Unspent Earnings	2021 Fair Value
Ella Sweep Award/Loan Fund	\$ 15,739	\$ -	\$ -	\$ -	\$ 15,739	\$ -	\$ 91,097	\$ 106,836
Dr. Howard & Patricia Milliken Scholarship-EF	141,127	80,000	-	80,000	221,127	-	44,923	266,050
Dr. H. M. "Mac" Reynolds Endowed Scholarship	117,419	-	-	-	117,419	-	42,473	159,892
Charlotte and Dan Clinkenbeard Scholarship Fund	70,000	-	-	-	70,000	-	112,226	182,226
Donald E. Kessler Scholarship	153,164	-	-	-	153,164	-	564,277	717,441
Cynthia Attwood-Gwen Tudor Memorial Scholarship Fund	6,369	-	-	-	6,369	-	12,303	18,672
Kathryn M. Livingston Scholarship Fund	5,190	-	-	-	5,190	-	21,142	26,332
Chaffee E. Hall & Emmy L. Hall Nursing Scholarship	25,579	-	-	-	25,579	-	51,102	76,681
Silvio P. Marraccini Scholarship Fund	-	-	-	-	-	-	-	-
Mr. and Mrs. Richard L. Highsmith Scholarship Fund	279,240	13,000	-	13,000	292,240	-	534,824	827,064
Ava Pischel Elliott Scholarship Fund	66,468	(25)	-	(25)	66,443	-	63,118	129,561
Henry & Bernice Bigge Scholarship Fund	20,931	2,500	-	2,500	23,431	-	45,609	69,040
Mabel Eugenia Hale Scholarship Fund	60,000	-	-	-	60,000	-	146,502	206,502
Betty Reed Moffitt Scholarship Fund	62,685	200	-	200	62,885	-	48,265	111,150
Juanita Hanan Wilson Scholarship Fund	14,033	-	-	-	14,033	-	14,495	28,528
Stella Seaton Memorial Scholarship Fund	7,774	-	-	-	7,774	-	16,013	23,787
Peter D. and Jennie Lim Shiu Memorial Scholarship Fund	30,792	-	-	-	30,792	-	34,404	65,196
Velora Buscher Memorial Scholarship Fund	19,840	-	-	-	19,840	-	26,471	46,311
William Randolph Hearst Endowed Scholarship Fund	200,000	-	-	-	200,000	-	176,768	376,768
Ed and Marilyn Chovanes Scholarship Fund	6,875	-	-	-	6,875	-	19,769	26,644
William Breslin Physical Therapy Scholarship Fund	5,922	-	-	-	5,922	-	11,066	16,988
President's Office	1,200,000	-	-	-	1,200,000	-	3,630,949	4,830,949
Ecker Family Endowed Scholarship Fund	669,875	166,510	-	166,510	836,385	-	61,245	897,630
David M. and Oolah B. Evans Physical Therapy Scholarship Fund	38,064	100	-	100	38,164	-	21,979	60,143
Bernice E. Fornoff Nursing Scholarship Fund	11,200	-	-	-	11,200	-	9,671	20,871
Hitchcock Heydman Endowed Scholarship Fund	87,951	-	-	-	87,951	-	78,201	166,152
Ken and Jean Hofmann Nursing Scholarship Fund	178,340	-	-	-	178,340	-	240,555	418,895
Gordon "Skip" Huber Endowed Geriatric Nursing Scholarship Fund	108,578	-	-	-	108,578	-	171,165	279,743
Page Subtotal	\$ 3,603,155	\$ 262,285	-	\$ 262,285	\$ 3,865,440	\$ -	\$ 6,290,612	\$ 10,156,052

Samuel Merritt University

Supplemental Schedule of Changes in Endowments

December 31, 2021

Subtotal from Previous Page	\$	3,603,155	\$	262,285	\$	-	\$	262,285	\$	3,865,440	\$	-	\$	6,290,612	\$	10,156,052
Helen M. Hussey Scholarship Fund		40,000		-		-		-		40,000		-		54,927		94,927
Elaine Jeffers Jennings '47 Scholarship Fund		24,690		-		-		-		24,690		-		20,879		45,569
Louise F. Graziano Endowment Fund		173,891		-		-		-		173,891		-		535,650		709,541
Robert N. Nelson M.D. Scholarship Fund		22,283		-		-		-		22,283		-		17,489		39,772
Yuri Nishimura Scholarship Fund		26,210		1,500		-		1,500		27,710		-		49,472		77,182
Northbr\$AC Woman's Club Nursing Scholarship Fund		15,306		-		-		-		15,306		-		28,094		43,400
James W. Porter Endowed Nursing Scholarship Fund		-		-		-		-		-		-		-		-
Providence College of Nursing Alumni Scholarship Fund		66,454		150		-		150		66,604		-		40,152		106,756
Shirley P. Fisher '50 Endowed Nursing Scholarship Fund		107,205		11,507		-		11,507		118,712		-		35,477		154,189
Paul C. Samson Professorial Chair		173,840		-		-		-		173,840		-		1,046,232		1,220,072
Nursing Education Endowment Fund		9,529,805		-		-		-		9,529,805		-		9,240,335		18,770,139
Operating Educational Endowment Fund		57,112		-		-		-		57,112		-		181,868		238,980
Marshall Steel Jr. Scholarship Fund		984,953		-		-		-		984,953		-		983,164		1,968,117
Strommen/Dillashaw Award Fund		11,370		-		-		-		11,370		-		12,480		23,850
Student Body Association Endowed Fund		21,133		-		-		-		21,133		-		18,466		39,599
Mark A. Swift Jr. Memorial Scholarship Fund		52,566		500		-		500		53,066		-		53,888		106,954
Sutter Health, Sacramento Sierra Regional Endowed Scholarship Fund		380,025		-		-		-		380,025		-		386,219		766,244
Tavi M. Van Ogle '88 Endowed Nursing Scholarship Fund		61,016		-		-		-		61,016		-		50,129		111,145
Physical Therapy Alumni Scholarship Fund		-		-		-		-		-		-		-		-
Sarah B. Keating Nursing Scholarship Fund		23,931		433		-		433		24,364		-		16,623		40,987
Chuck Rovinski Memorial Scholarship Fund		15,719		900		-		900		16,619		-		18,126		34,745
Leland S. Scott, Jr. Family Scholarship Fund		9,310		-		-		-		9,310		-		12,014		21,324
Dolores V. Barbera Endowed Nursing Scholarship Fund		288,116		-		-		-		288,116		-		311,150		599,266
Margaret Camp Fisher '36 Endowed Nursing Scholarship Fund		25,160		-		-		-		25,160		-		21,160		46,320
Anita M. Heeney Endowed Nursing Scholarship Fund		50,000		-		-		-		50,000		-		49,736		99,736
Sharon Clark Diaz Endowed Scholarship Fund		797,461		20,687		-		20,687		818,148		-		551,495		1,369,643
Sharon Clark Diaz Endowed - Board Designated Funds												675,000		73,378		748,378
Cumulative Subtotal	\$	16,560,711	\$	297,962	\$	-	\$	297,962	\$	16,858,673	\$	675,000	\$	20,099,215	\$	37,632,887

Samuel Merritt University

Supplemental Schedule of Changes in Endowments

December 31, 2021

Cumulative Subtotal from Previous Page	\$	16,560,711	\$	297,962	\$	-	\$	297,962	\$	16,858,673	\$	675,000	\$	20,099,215	\$	37,632,887
Eleanore William Holland P'44 Endowed Nursing Scholarship Fund		36,350		-		-		-		36,350		-		27,766		64,116
Carole O'Shea Endowed Nursing Scholarship Fund		112,000		-		-		-		112,000		-		71,863		183,863
Dr. William and Phyllis Lowe Endowed Scholarship Fund		107,551		1,030		-		1,030		108,581		-		66,333		174,914
Dr. William and Doreen Wong Podiatric Medicine Endowed Scholarship Fund		60,175		-		-		-		60,175		-		43,614		103,789
Charles H. Johnson '38 Podiatric Medicine Scholarship Fund		7,300		-		-		-		7,300		-		7,671		14,971
Tom C. and Rose Lim Luey '51 Endowed Nursing Scholarship Fund		34,883		850		-		850		35,733		-		15,884		51,617
CSPM Alumni and Associates Endowed Scholarship Fund		234,007		1,035		-		1,035		235,042		-		115,237		350,279
The Thelma C. and Robert W. Scott Endowed Nursing Scholarship Fund		600,234		-		-		-		600,234		-		301,490		901,724
Cockcroft Family Endowed Scholarship Fund		124,822		10,000		-		10,000		134,822		-		57,912		192,734
The Scott Beamer Endowed Memorial Fund		184,432		-		-		-		184,432		-		212,875		397,307
Eugene A. & Virginia Falaschi Memorial Scholarship Fund		29,550		200		-		200		29,750		-		17,952		47,702
The Pradip and Rekha Choksi Endowed Occupational Therapy Scholarship Fund		232,619		-		-		-		232,619		-		186,122		418,741
The Alameda-Contra Costa Medical Association Auxiliary, District 1 Endowed Nursing Scholarship Fund		129,000		-		-		-		129,000		-		61,653		190,653
The Bernard Osher Foundation Endowed Scholarship Fund		1,000,000		-		-		-		1,000,000		-		555,175		1,555,175
Jane Steel Nursing Endowment Fund		4,949,913		-		-		-		4,949,913		-		2,797,478		7,747,391
The Lucille Engel '44 Endowed Nursing Scholarship Fund		50,000		-		-		-		50,000		-		20,912		70,912
Pegge Shuman Houser Endowed Scholarship Fund		45,272		-		-		-		45,272		-		36,138		81,410
Mary E. Robinson Endowed Scholarship Fund		51,094		1,565		-		1,565		52,659		-		23,810		76,469
R. Shapiro Family Foundation Physical Therapy Endowed Scholarship Fund		80,250		5,000		-		5,000		85,250		-		28,014		113,264
Geraldine "Gerri" Adams Endowed Scholarship Fund		49,160		1,516		-		1,516		50,676		-		18,001		68,677
Theodore L. Deffinger, DPM Endowed Scholarship Fund		61,290		-		-		-		61,290		-		38,337		99,627
Regents Diversity Scholarship Fund		203,620		-		-		-		203,620		-		84,728		288,348
Cumulative Subtotal	\$	24,944,233	\$	319,158	\$	-	\$	319,158	\$	25,263,391	\$	675,000	\$	24,888,180	\$	50,826,570

Samuel Merritt University

Supplemental Schedule of Changes in Endowments

December 31, 2021

Cumulative Subtotal from Previous Page	\$	24,944,233	\$	319,158	\$	-	\$	319,158	\$	25,263,391	\$	675,000	\$	24,888,180	\$	50,826,570
Mark K. Reynolds Fund for Technology and Academic Instruction		57,419		1,760		-		1,760		59,179		-		38,074		97,253
CPMA Endowed Scholarship Fund		16,260		-		-		-		16,260		-		6,480		22,740
Virginia Oneto Volponi '39 Endowed Scholarship		98,637		2,650		-		2,650		101,287		-		33,753		135,040
David Daniel Beaton '09 Memorial Scholarship		32,355		1,200		-		1,200		33,555		-		19,766		53,321
Niesjie (Rye) Huber PhD, RN Endowed Nursing Scholarship		26,193		-		-		-		26,193		-		10,328		36,521
The Karen Lynn Garrison Memorial Nursing Scholarship Fund		100,782		-		-		-		100,782		-		44,114		144,896
Dr. Stephen J.F. Zuber '69 Endowed Podiatric Medicine Scholarship Fund		48,658		50,500		-		50,500		99,158		-		20,214		119,372
Tracey Teruya Memorial Fund		14,400		-		-		-		14,400		-		22,268		36,668
Alameda Contra Costa Podiatric Medical Society Scholarship Fund #2		3,000		-		-		-		3,000		-		781		3,781
Dr. Wesley J. Endo '69 Endowed Podiatric Medicine Scholarship Fund		25,687		100		-		100		25,787		-		8,348		34,135
Irma P. Walker-Adame' Podiatric Medicine Endowed Scholarship Fund		23,617		1,435		-		1,435		25,052		-		5,639		30,691
Baldini Frisone Endowed Scholarship Fund		11,700		7,362		-		7,362		19,062		-		1,872		20,934
President Ching-Hua Wang Endowed Scholarship Fund		56,562		30,095		-		30,095		86,657		-		10,888		97,545
Dr. Aara Amidi-Nouri Memorial Endowed Nursing Scholarship Fund		-		28,710		-		28,710		28,710		-		2,855		31,565
Morris Hass, DPM Memorial Podiatric Medicine Endowed Scholarship Fund		-		15,000		-		15,000		15,000		-		-		15,000
Margrette Peterson Endowed Scholarship Fund		-		26,350		-		26,350		26,350		-		-		26,350
Dr. Shahan R. Vartivarian '09 Podiatric Medicine Endowed Sch		-		15,556		-		15,556		15,556		-		-		15,556
Undocumented Student Endowed Scholarship Fund		-		30,635		-		30,635		30,635		-		-		30,635
CAFFE Alameda Contra Costa Pod Med Society Schol		28,992		100		-		100		29,092		-		10,133		39,225
CAFFE Dr RM Barnes Pod Med Schol		26,426		-		-		-		26,426		-		10,609		37,035
CAFFE Heather Barton Memorial Pod Med Schol		25,984		-		-		-		25,984		-		13,657		39,641
CAFFE Dr Mel Barton Pod Med Schol		13,305		-		-		-		13,305		-		6,024		19,329
CAFFE Blaine Labs, Inc Pod Med Schol		13,748		-		-		-		13,748		-		6,307		20,055
CAFFE Dr RL Brennan Memorial Pod Med Schol		25,316		-		-		-		25,316		-		10,165		35,481
CAFFE Dr TH Clarke Pod Med Schol		28,522		-		-		-		28,522		-		11,956		40,478
CAFFE CCPM Class of 1963 Schol		57,143		-		-		-		57,143		-		18,763		75,906
CAFFE CCPM Class of 1972 Schol		32,841		100		-		100		32,941		-		12,807		45,748
CAFFE Codingline Pod Med Scholarship		21,110		-		-		-		21,110		-		8,550		29,660
CAFFE Dr JE Green Pod Med Schol		79,629		2,000		-		2,000		81,629		-		29,964		111,593
CAFFE Drs J Hultman'70 & F Kase'76 Pod Med Schol		25,505		-		-		-		25,505		-		11,737		37,242
CAFFE Dr EG Kaplan Memorial Pod Med Schol		25,639		-		-		-		25,639		-		10,638		36,277
CAFFE Dr BS Kelly Pod Med Scholarship		47,944		-		-		-		47,944		-		19,833		67,777
CAFFE Shirley Lanham Pod Med Scholarship		16,123		-		-		-		16,123		-		6,488		22,611
CAFFE Lawrence Family Pod Med Scholarship		19,422		1,000		-		1,000		20,422		-		7,102		27,524
CAFFE LA County Pod Med Society Schol		13,367		-		-		-		13,367		-		6,210		19,577
CAFFE Dr B Mullens Memorial Pod Med Schol		17,417		5,912		-		5,912		23,329		-		7,094		30,423
CAFFE Joseph Oloff Memorial Pod Med Schol		14,975		-		-		-		14,975		-		6,886		21,861
CAFFE Orange Cnty/Santa Clara Velley Med Soc Schol		12,964		-		-		-		12,964		-		6,023		18,987
CAFFE Drs JD'31 & JW'66 Pagliano Memorial Pod Med Schol		19,589		-		-		-		19,589		-		7,901		27,490
CAFFE Dr GH Riess'44 Memorial Pod Med Schol		60,965		-		-		-		60,965		-		24,462		85,427
Cumulative Subtotal	\$	26,086,429	\$	539,623	\$	-	\$	539,623	\$	26,626,052	\$	675,000	\$	25,366,869	\$	52,667,920

