

Hood & Strong

Advisory, Tax
and Assurance

Samuel Merritt University

December 31, 2024 and 2023

Independent Auditors' Report and
Financial Statements

Samuel Merritt University

Independent Auditors' Report and Financial Statements

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Independent Auditors' Report

THE BOARD OF REGENTS
SAMUEL MERRITT UNIVERSITY
Oakland, California

Opinion

We have audited the financial statements of **SAMUEL MERRITT UNIVERSITY (the University)** which comprise the statement of financial position as of December 31, 2024 and 2023, the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as of December 31, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for one year from the date of this report.

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Hood & Strong LLP

San Francisco, California
June 12, 2025

Samuel Merritt University

Statement of Financial Position

December 31,	2024	2023
Assets		
Cash and equivalents	\$ 32,733,146	\$ 21,501,211
Restricted cash:		
Government loan funds	1,506,437	1,239,866
Accounts receivable, net:		
Students (net of allowance of \$854,000 in 2024 and \$897,000 in 2023)	1,810,139	1,446,247
Grants	2,638,662	4,043,344
Contributions	1,155,928	1,444,270
Prepaid expenses and other assets	6,573,636	4,337,306
Investments	268,539,135	351,575,030
Notes receivable, (net of allowance of \$279,000 in 2024 and 2023)	6,365,839	6,155,376
Plant and equipment, net	179,441,987	73,342,681
Operating lease right-of-use assets	94,851,712	100,949,030
Total assets	\$ 595,616,621	\$ 566,034,361
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 28,919,361	\$ 17,160,769
Accrued bond interest payable	581,438	581,438
Deferred revenues and deposits	4,063,159	3,700,475
Refundable loan program advances	5,837,777	6,216,267
Bonds payable, net	137,146,387	137,516,014
Other liabilities	324,263	1,024,263
Operating lease liabilities	98,806,774	103,855,361
Total liabilities	275,679,159	270,054,587
Net Assets:		
Without donor restrictions:		
Board designated	906,226	867,316
Undesignated	217,921,864	200,940,516
Total without donor restrictions	218,828,090	201,807,832
Total with donor restrictions	101,109,372	94,171,942
Total net assets	319,937,462	295,979,774
Total liabilities and net assets	\$ 595,616,621	\$ 566,034,361

See accompanying notes to the financial statements.

Samuel Merritt University

Statement of Activities

Year ended December 31, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue and Support:			
Tuition and fees	\$ 101,046,254	\$ -	\$ 101,046,254
Less: revenue share arrangements	(1,419,180)	-	(1,419,180)
Less: scholarships and grants	(10,770,338)	-	(10,770,338)
Net tuition and fees	88,856,736	-	88,856,736
Endowment income distributed for operations	3,571,096	-	3,571,096
Private gifts, grants and bequests	90,527	3,052,231	3,142,758
Government grants	2,701,749	-	2,701,749
Kaiser Permanente grants	2,445,448	-	2,445,448
Other sources	1,594,323	-	1,594,323
Net assets released from restrictions	4,933,556	(4,933,556)	-
Total operating revenue and support	104,193,435	(1,881,325)	102,312,110
Operating Expenses:			
Education and general:			
Instruction	50,008,958	-	50,008,958
Academic support	12,935,686	-	12,935,686
Student services	9,215,326	-	9,215,326
Institutional support	20,590,444	-	20,590,444
Total operating expenses	92,750,414	-	92,750,414
Change in Net Assets from Operating Activities	11,443,021	(1,881,325)	9,561,696
Non-Operating Activities			
Net investment returns	9,188,548	8,816,705	18,005,253
Endowment income distributed for operations	(3,571,096)	-	(3,571,096)
Other non-operating (expenses) income	(40,215)	2,050	(38,165)
Total non-operating activities	5,577,237	8,818,755	14,395,992
Change in Net Assets	17,020,258	6,937,430	23,957,688
Net Assets - beginning of year	201,807,832	94,171,942	295,979,774
Net Assets - end of year	\$ 218,828,090	\$ 101,109,372	\$ 319,937,462

See accompanying notes to the financial statements.

Samuel Merritt University

Statement of Activities

Year ended December 31, 2023

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

See accompanying notes to the financial statements.

Samuel Merritt University

Statement of Functional Expenses

Year Ended December 31, 2024

	Instruction	Academic Support	Student Services	Institutional Support		Total
				General & Administrative	Advancement	
Salaries and wages	\$ 31,588,277	\$ 5,775,385	\$ 4,892,263	\$ 7,875,470	\$ 1,279,587	\$ 51,410,982
Benefits	6,573,400	1,632,644	1,378,766	2,115,123	244,172	11,944,105
Purchased services	1,469,497	1,219,061	1,143,791	1,306,687	421,801	5,560,837
Professional fees	87,860	368,440	33,377	235,559	-	725,236
Repairs and maintenance	175,762	4,228	1,500	4,787	-	186,277
Supplies	750,486	98,604	93,372	85,092	3,231	1,030,785
Depreciation	1,241,472	875,837	137,529	1,083,401	-	3,338,239
Rentals and leases	5,915,212	525,556	378,618	1,730,467	-	8,549,853
Insurance	-	-	-	1,497,799	-	1,497,799
Utilities and telephone	73,962	112,524	20	116,821	-	303,327
Travel/mileage/meals	281,417	186,494	261,088	157,647	36,651	923,297
Software	1,620,051	1,754,652	116,148	1,005,392	7,500	4,503,743
Recruiting and advertising	5,821	30,078	310,116	604,535	423,808	1,374,358
Other expenses	225,741	352,183	468,738	328,807	26,107	1,401,576
Total Operating Expenses	50,008,958	12,935,686	9,215,326	18,147,587	2,442,857	92,750,414
Non-Operating Expenses:						
Professional Fees and Purchased Services	-	-	-	38,165	-	38,165
Total Expenses	\$ 50,008,958	\$ 12,935,686	\$ 9,215,326	\$ 18,185,752	\$ 2,442,857	\$ 92,788,579

See accompanying notes to the financial statements.

Samuel Merritt University

Statement of Functional Expenses

Year Ended December 31, 2023

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

See accompanying notes to the financial statements.

Samuel Merritt University

Statement of Cash Flows

December 31,	2024	2023
Cash Flows from Operating and Non-Operating Activities:		
Change in net assets	\$ 23,957,688	\$ 27,233,978
Adjustments to reconcile net increase in net assets to net cash used in operating and non-operating activities:		
Amortization of bond premium	(441,121)	(465,554)
Amortization of debt issuance costs	71,494	71,498
Allowance for student notes receivable	-	(233,750)
Loss on disposal of property, plant and equipment	61,414	41,950
Contributions restricted for long-term use	(528,296)	(1,968,338)
Depreciation expense	3,338,239	3,738,909
Net realized and unrealized gains on investments	(11,270,287)	(21,411,831)
Investment income	(2,315,465)	(9,744,343)
Amortization of Operating lease right-of-use assets	6,097,318	1,534,116
Changes in assets and liabilities:		
Accounts receivable	1,329,132	(1,520,937)
Prepaid expenses and other assets	(2,236,330)	(3,047,936)
Accounts payable and accrued liabilities	6,064	1,205,799
Operating lease liabilities	(5,048,587)	(725,917)
Deferred revenues and deposits	362,685	(578,288)
Net cash used in operating and non-operating activities	13,383,948	(5,870,644)
Cash Flows from Investing Activities:		
Acquisitions of fixed assets	(98,446,432)	(45,347,323)
Student notes receivable activity, net	(210,463)	631,295
Purchases of investments	(224,299,281)	(175,415,990)
Proceeds from the sale of investments	320,920,928	233,827,802
Net cash provided by investing activities	(2,035,248)	13,695,784
Financing Activities:		
Contributions restricted for long-term use	528,296	1,968,338
Change in refundable loan program advances	(378,490)	387,511
Net cash provided by financing activities	149,806	2,355,849
Net Increase in Cash and Equivalents and Restricted Cash	11,498,506	10,180,989
Cash and Equivalents and Restricted Cash, beginning of year	22,741,074	12,560,084
Cash and Equivalents and Restricted Cash, end of year	\$ 34,239,583	\$ 22,741,073
Reconciliation of Cash and Equivalents and Restricted Cash to Amounts Shown on the Statement of Financial Position:		
Cash and cash equivalents	\$ 32,733,146	\$ 21,501,211
Cash restricted for federal loans	1,506,437	1,239,866
Total Cash and Equivalents and Restricted Cash Shown in the Statement of Cash Flows	\$ 34,239,583	\$ 22,741,077
Supplemental Cash Flow Information:		
Interest paid	\$ 6,985,048	\$ 5,922,914
Non-cash transactions:		
Construction in progress expenditures included in accounts payable	\$ 19,676,625	\$ 8,624,097

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. See Note 10 for related party transactions.

Note 2 - Significant Accounting Policies:

Basis of Presentation

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

Net Assets

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

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

Samuel Merritt University

Notes to the Financial Statements

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

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

Operating and Non-Operating Classification

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

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

Cash and Cash Equivalents

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

Restricted Cash

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

Investments

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

Samuel Merritt University

Notes to the Financial Statements

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

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

Fair Value of Financial Instruments

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

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

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

Plant and Equipment

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

Samuel Merritt University

Notes to the Financial Statements

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

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

Refundable Loan Program Advances

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

Revenue Recognition

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

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

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

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

Samuel Merritt University

Notes to the Financial Statements

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

Charitable Remainder Trust Receivable

Charitable remainder trust receivable represents the percentage of trust assets the University is entitled to. The trust receivable is recorded at fair value, which approximates net present value. The fair value of these assets at December 31, 2024 and 2023 was \$405,122 and \$368,870 respectively, and is included in contributions receivable in the accompanying statement of financial position.

Functional Expense Allocations

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

Income Taxes

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

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

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

Samuel Merritt University

Notes to the Financial Statements

Use of Estimates

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

Endowment Funds

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

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

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

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

Samuel Merritt University

Notes to the Financial Statements

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, 2024 and 2023 there were no funds that were underwater.

Student Accounts and Notes Receivables

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

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

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

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

Subsequent Events

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure from December 31, 2024 through June 12, 2025, the date the financial statements were issued.

Samuel Merritt University

Notes to the Financial Statements

Note 3 - Liquidity Management:

The following reflects the University's financial assets at December 31, 2024 and 2023, 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>2024</u>	<u>2023</u>
Financial assets due within one year or generally available:		
Cash and cash equivalents	\$ 32,733,146	\$ 21,501,211
Investments	268,539,135	351,575,030
Accounts Receivable, net	5,604,729	6,933,861
Total available funds	306,877,010	380,010,102
Less:		
Amounts not available for general operating expenditures within one year:		
Endowment funds restricted by donor in perpetuity	(83,135,766)	(78,895,048)
Other donor-restricted gifts	(17,973,606)	(15,276,894)
Tax-exempt bond proceeds	(5,392,211)	(92,434,838)
Charitable remainder trust receivable	(405,122)	(368,870)
Total amounts unavailable due to donor restrictions	(106,906,705)	(186,975,650)
Total financial assets available to management for general expenditures before amounts subject to Board of Regents approval	199,970,305	193,034,452
Less:		
Board-designated funds:		
Funds functioning as endowment	(906,226)	(867,316)
Total Board-designated funds	(906,226)	(867,316)
Total financial assets available for general expenditure before endowment draw	199,064,079	192,167,136
Plus:		
Amount authorized for endowment appropriation within one year	3,700,000	3,530,229
Financial assets available for general expenditure within one year	\$ 202,764,079	\$ 195,697,365

Samuel Merritt University

Notes to the 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:

		Fair Value Measurements Using			
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV)
	<u>Totals</u>				
Investments:					
Cash equivalents	\$ 68,862,765	\$ 68,862,765	\$ -	\$ -	\$ -
Fixed income securities - U.S.	25,105,602	-	25,105,602	-	-
Fixed income securities - non-U.S.	4,032,748	-	4,032,748	-	-
Mutual funds - equity	80,698,410	80,698,410	-	-	-
Mutual funds - fixed income	69,375,708	69,375,708	-	-	-
Mutual funds - real assets	6,794,084	6,794,084	-	-	-
Hedge fund of funds	8,277,607	-	-	-	8,277,607
	263,146,924	225,730,967	29,138,350	-	8,277,607
Tax-Exempt Bond Proceeds:					
Cash equivalents	5,392,211	5,392,211	-	-	-
Total Tax-Exempt Bond Proceeds	5,392,211	5,392,211	-	-	-
Total Investments	\$ 268,539,135	\$ 231,123,178	\$ 29,138,350	\$ -	\$ 8,277,607

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Notes to the Financial Statements

December 31, 2023

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

Equity securities – U.S.

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

Equity securities – non-U.S.

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

Fixed income securities – U.S.

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

Samuel Merritt University

Notes to the Financial Statements

Fixed income securities – non-U.S.

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

Mutual funds

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

Treasury notes – U.S.

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

Hedge fund of funds

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

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

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Notes to the Financial Statements

The following table lists the University's alternative investments by major investment category as of December 31, 2024:

<u>Category of Investment</u>	<u>Investment Strategy</u>	<u>Fair Value Determined Using NAV</u>	<u>Number of Funds</u>	<u>Unfunded Commitments</u>	<u>Remaining Life</u>	<u>Redemption Restrictions and Terms</u>
Hedge Fund Fund of Funds	Employing directional, defensive, and other strategies through a combination of U.S. and foreign assets	\$ 8,277,607	1	\$ -	Not Applicable	Semi-annual redemption on investment anniversary with 95-day notice.
Total		\$ 8,277,607				

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

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

Samuel Merritt University

Notes to the Financial Statements

Note 5 - Student Accounts and Notes Receivable:

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

	<u>2024</u>	<u>2023</u>
Gross Student Accounts Receivable, end of year	\$ 2,664,108	\$ 2,343,219
Less allowance for credit losses:		
Beginning of year	(896,972)	(940,077)
Provision for credit losses	(12,307)	(365,600)
Amounts written-off	55,310	408,705
End of year	(853,969)	(896,972)
Student Accounts Receivable, net	\$ 1,810,139	\$ 1,446,247

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

<u>2024</u>	<u>HPSL Loans</u>	<u>NSL Loans</u>	<u>Institutional Loans</u>	<u>Total</u>
Notes Receivable	\$ 1,630,726	\$ 3,711,632	\$ 1,302,345	\$ 6,644,703
Less allowance for credit losses:				
Beginning of year	-	-	(278,864)	(278,864)
End of year	-	-	(278,864)	(278,864)
Notes Receivable, net	\$ 1,630,726	\$ 3,711,632	\$ 1,023,481	\$ 6,365,839

Samuel Merritt University

Notes to the Financial Statements

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

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 \$5,837,777 and \$6,216,267 at December 31, 2024 and 2023, respectively. These funds are ultimately refundable to the government and are classified as liabilities in the statement of financial position. Outstanding loans canceled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

Federal Perkins Loans – Perkins loans were made to students who demonstrated financial need. Historically, participating schools received a certain amount of funds each year from the federal government for distribution under this program, which supplement funds in a school's revolving fund, from which new disbursements were made. Once the full amount of the school's funds had been awarded to students, no more loans could be made under this program for the year. This program officially expired on September 30, 2017. Amounts due under the Perkins loan program are guaranteed by the government and therefore, no allowance for credit losses are placed on any past-due balances under the program. As of December 31, 2024, the balance for Perkins loans is \$0 as the University has returned all outstanding Perkins loans to the Department of Education as part of the portfolio liquidation process.

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

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

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.

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Notes to the Financial Statements

Past due amounts under the University's Institutional Loan programs were \$883,277 and \$872,299 as of December 31, 2024 and 2023, respectively.

Note 6 - Contributions Receivable:

Unconditional contributions receivable consisted of the following at December 31:

	<u>2024</u>	<u>2023</u>
Pledges receivable, net of \$0 allowance in 2024 and 2023	\$ 750,806	\$ 1,075,400
Charitable remainder trusts receivable	405,122	368,870
	<u>\$ 1,155,928</u>	<u>\$ 1,444,270</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>2024</u>	<u>2023</u>
Building and leasehold improvements	\$ 14,085,073	\$ 16,204,304
Furniture and equipment	25,919,300	28,286,394
Construction in progress	171,692,957	63,283,041
Library resources	50,761	50,761
	<u>211,748,091</u>	<u>107,824,500</u>
Less: accumulated depreciation and amortization	<u>(32,306,104)</u>	<u>(34,481,819)</u>
	<u>\$ 179,441,987</u>	<u>\$ 73,342,681</u>

Depreciation expense amounted to \$3,338,239 and \$3,738,909 during the years ended December 31, 2024 and 2023, respectively.

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Notes to the Financial Statements

The University is constructing a new Oakland campus, breaking ground in May 2023. The project is currently budgeted at \$240M supported by \$140M of tax-exempt bond proceeds and the remainder from the University's unrestricted investments. Occupancy of the new campus is expected by January 2026. 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, 2024:

	Without Donor <u>Restriction</u>	With Donor <u>Restriction</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 83,135,766	\$ 83,135,766
Board-designated funds	906,226	-	906,226
Total Endowment Funds	\$ 906,226	\$ 83,135,766	\$ 84,041,992

Samuel Merritt University

Notes to the Financial Statements

Changes in endowment net assets for the year ended December 31, 2024:

	Without Donor <u>Restriction</u>	With Donor <u>Restriction</u>	<u>Total</u>
Net assets, beginning of year	\$ 867,316	\$ 78,895,048	\$ 79,762,364
Investment return:			
Investment income, net	19,002	1,728,030	1,747,032
Realized gain	26,964	2,450,241	2,477,205
Unrealized gain	36,169	3,276,695	3,312,864
Investment fees/bank fees	(2,359)	(214,314)	(216,673)
Total net appreciation	79,776	7,240,652	7,320,428
Contributions	-	528,296	528,296
Internal transfers	-	2,000	2,000
	-	530,296	530,296
Appropriation of endowment asset for expenditure	(40,866)	(3,530,230)	(3,571,096)
Net assets, end of year	\$ 906,226	\$ 83,135,766	\$ 84,041,992

Appropriations spent during the year totaled \$2,929,102.

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

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

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Notes to the Financial Statements

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

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

Note 9 - Donor Restricted - Net Assets:

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

	<u>2024</u>	<u>2023</u>
Scholarship	\$ 23,451,935	\$ 22,924,264
Operating	20,797,228	20,796,603
Total corpus of donor endowments	\$ 44,249,163	\$ 43,720,867

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Notes to the Financial Statements

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

	<u>2024</u>	<u>2023</u>
Scholarship	\$ 18,036,275	\$ 12,577,996
Operating	32,520,544	34,105,091
Programs	2,946,845	2,671,596
The New Oakland Campus Building Fund	3,356,545	1,096,392
Total purpose-restricted net assets	\$ 56,860,209	\$ 50,451,075

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

	<u>2024</u>	<u>2023</u>
Utilized for scholarship	\$ 3,757,876	\$ 3,235,510
Utilized for general operating and program purposes	1,175,680	1,432,016
Total releases	\$ 4,933,556	\$ 4,667,526

Note 10 - Related Party Transactions:

The University follows the Financial Accounting Standards Board (FASB) ASC 850 definition of related parties which includes affiliates; trusts for the benefit of employees; principal owners and immediate family members; management and immediate family members; any party which may or can influence significantly the management or operational policies. The University has defined management having significant influence over the University's operations and decision making as Board of Regents and University cabinet members.

Throughout the year, the Board of Regents, officers and the University's legal counsel monitors compliance by referencing the conflict of interest policy and communicates the required steps to be taken in the event of a potential conflict of interest that may arise at any time.

For potential transactions, agreements and affiliations that may involve any University officer or regent, a thorough review is conducted by the University's legal counsel and other members of executive management. In the event of any potential conflict of interest exposure, required information is requested and reviewed on an independent basis. The interested person is excused from participating in any discussion or decision that involve the outcome of any related transactions.

Samuel Merritt University

Notes to the Financial Statements

Sutter Health

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

Contributions

For the year ended December 31, 2024, the University received \$291,000 in contributions from the University's Board of Regents and cabinet members. As of December 31, 2024 there was approximately \$132,000 in contributions receivable from the University's Board of Regents and cabinet members. For the year ended December 31, 2023, the University received \$86,000 in contributions from the University's Board of Regents and cabinet members. As of December 31, 2023 there was approximately \$25,000 in contributions receivable from the University's Board of Regents and cabinet members.

Note 11 - Retirement Plan and Deferred Compensation Plan:

Substantially all regular non-student employees are eligible to participate in the University's deferred compensation 403(b) plan. The University contributes of 5% of employee compensation as well as a matching contribution of up to 2% of eligible compensation, for employees with one year and 1,000 hours of service. The University contributed \$2,608,644 and \$2,523,850 to the plan during the years ended December 31, 2024 and 2023, respectively.

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

The University also offers a Supplemental Executive Retirement Plan (SERP) for two of its officers. The plan is designated as a non-qualified deferred compensation plan and is exempt from filing and audit requirements under Title I of ERISA. The University contributed \$44,700 and \$42,200 to the plan during the years ended December 31, 2024 and 2023, respectively.

Note 12 - Concentrations of Risk:

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

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

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Notes to the Financial Statements

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

Note 13 - Advertising Expenses:

Advertising costs are expensed in the year incurred. Advertising expenses for the years ended December 31, 2024 and 2023 were \$571,358 and \$289,918, 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.

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

Note 15 - Leases:

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

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Notes to the Financial Statements

Operating lease right-of-use (ROU) assets and lease liabilities are recognized at the lease commencement date based on the present value of the lease payments over the lease term. Many of the University's leases include rental escalation clauses, renewal options and/or termination options that are factored into the determination of lease payments. Variable lease payments are non-lease services related to the lease and are excluded from the ROU assets and lease liabilities and recognized in the period in which the obligation of those payments is incurred. The University does not include renewal options in the lease terms for calculating the lease liability as the University maintains operational flexibility and is not reasonably certain the renewal options will be exercised. Most of the University's leases do not provide a readily determinable implicit rate in the contract, therefore, the risk-free rate is used to discount the lease payments based on information available at lease commencement for building leases and the incremental borrowing rate is used for ground leases. As of December 31, 2024, the weighted-average leases remaining term was 86.74 years and the weighted average lease discount rate is 4.95%. As of December 31, 2023, the weighted-average leases remaining term was 83.35 years and the weighted average lease discount rate is 4.79%.

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.

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

	Year Ended <u>December 31, 2024</u>	Year Ended <u>December 31, 2023</u>
Operating cash outflows for amounts included in the measurement of operating lease liabilities	\$ 5,825,218	\$ 5,976,807
Right-of-use assets obtained in exchange for operating lease obligations	\$ -	\$ 946,671

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Notes to the Financial Statements

Future lease payments as of December 31, 2024 for operating leases are:

2025	\$ 5,858,237
2026	1,659,277
2027	1,176,984
2028	1,121,631
2029	1,221,693
Thereafter	120,989,652
	132,027,474
Less: imputed interest	(33,220,700)
Present value of operating lease liabilities	\$ 98,806,774

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

Note 16 - Bonds Payable:

Bonds payable included the following at December 31, 2024:

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount Outstanding</u>
CMFA Nontaxable Series 2023	6/1/2053	Fixed 5.25%	\$ 132,900,000
Add (less):			
Unamortized bond premium			6,242,392
Unamortized debt issuance costs			(1,996,005)
Total bonds payable, net			\$ 137,146,387

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, 2024.

The Bonds bear interest at 5.25% per annum with interest payable to the Trustee semiannually on June 1 and December 1 of each year. The Bonds mature and principal is payable on June 1, 2053. The interest cost incurred on the Bonds from inception of the borrowing through the date that the new campus is ready for use is eligible for capitalization. For the year ended December 31, 2023 and December 31, 2024, interest expense on the bonds was \$7,442,805 and \$7,418,371 respectively, all of which was 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. In addition, for the year ended December 31, 2023 and December 31, 2024, realized gains on the maturity of debt proceed investments resulted and interest income earned on the cash held from the issuance of bonds was \$6,075,721 and \$4,862,085 respectively. Both were capitalized to construction-in-progress.

Note 17 - CARES Act Funding:

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

During the years ended December 31, 2020 through December 31, 2023, the University received and spent a total of \$4,419,055 across all three HEERF programs to support student emergency aid, institutional expenses incurred to support remote learning, and lost revenue.

During fiscal year 2024, the University expended \$0 of HEERF III to support student emergency aid.

As of December 31, 2024, the balance of all HEERF funds was \$0.