

PALO ALTO UNIVERSITY, INC.

JULY 31, 2015 AND 2014



INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

# **Palo Alto University, Inc.**

## **Independent Auditors' Report and Financial Statements**

---

<b>Independent Auditors' Report</b>	<b>1 - 2</b>
-------------------------------------	--------------

### **Financial Statements**

Statement of Financial Position	3
Statement of Activities and Change in Net Assets	4
Schedule of Functional Expenses - 2015	5
Schedule of Functional Expenses - 2014	6
Statement of Cash Flows	7
Notes to Financial Statements	8 - 20



## Independent Auditors' Report

THE BOARD OF TRUSTEES  
PALO ALTO UNIVERSITY, INC.  
Palo Alto, California

### Report on the Financial Statements

We have audited the accompanying financial statements of **PALO ALTO UNIVERSITY, INC. (the University)** which comprise the statements of financial position as of July 31, 2015 and 2014, and the related statements of activities and change in net assets and cash flows for the years then ended and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

*Consultants and*

*Business Advisors*

*100 First Street*

*14<sup>th</sup> Floor*

*San Francisco*

*CA 94105*

*415.781.0793*

*fax 415.421.2976*

*60 S. Market Street*

*Suite 200*

*San Jose*

*CA 95113*

*408.998.8400*

*fax 408.998.8485*



## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of July 31, 2015 and 2014 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.

## **Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedules of functional expense are presented for purposes of additional analysis and are 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  
November 23, 2015

# Palo Alto University, Inc.

## Statement of Financial Position

<i>July 31,</i>	2015	2014
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 3,662,531	\$ 3,055,406
Student receivables, net of allowance of \$426,103 for 2015 and \$395,222 for 2014	6,657,774	7,630,582
Contributions receivable, net	857,469	754,375
Grants and federal funds receivable	502,542	674,904
Prepaid expenses and other assets	389,620	585,936
Total current assets	12,069,936	12,701,203
<b>Long-Term Investments</b>	1,341,134	1,244,993
<b>Contributions Receivable, net</b>	612,953	636,334
<b>Property and Equipment, net</b>	8,379,510	8,480,190
Total assets	\$ 22,403,533	\$ 23,062,720
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 1,392,556	\$ 1,787,939
Student payables	14,616	13,388
Deferred tuition revenue	6,733,576	7,540,172
Other liabilities	43,367	46,612
Deferred compensation	653,333	493,333
Total liabilities	8,837,448	9,881,444
<b>Net Assets:</b>		
Unrestricted	11,886,104	11,476,517
Temporarily restricted	997,186	1,022,773
Permanently restricted	682,795	681,986
Total net assets	13,566,085	13,181,276
Total liabilities and net assets	\$ 22,403,533	\$ 23,062,720

See accompanying notes to financial statements.

**Palo Alto University, Inc.**

**Statement of Activities and Change in Net Assets**

*For the Years Ended July 31, 2015 and 2014*

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues:</b>								
Gross tuition	\$ 24,664,881			\$ 24,664,881	\$ 22,637,421			\$ 22,637,421
Gross fees	3,805,039			3,805,039	3,573,260			3,573,260
	28,469,920			28,469,920	26,210,681			26,210,681
Less financial aid	(1,280,868)			(1,280,868)	(1,231,758)			(1,231,758)
Net tuition and fees	27,189,052			27,189,052	24,978,923			24,978,923
Contributions and grants	628,356	\$ 412,696	\$ 809	1,041,861	875,289	\$ 423,192	\$ 164	1,298,645
Investment income	28,034	12,634		40,668	13,649	53		13,702
Sales and services of educational activities	183,687			183,687	168,711			168,711
Other	156,095			156,095	153,262			153,262
Net assets released from restrictions	450,917	(450,917)		-	331,501	(331,501)		-
Total revenues	28,636,141	(25,587)	809	28,611,363	26,521,335	91,744	164	26,613,243
<b>Expenses:</b>								
Program services:								
Instruction	18,667,120			18,667,120	17,691,542			17,691,542
Student services	3,640,985			3,640,985	3,125,816			3,125,816
Supporting services:								
Institutional support	5,655,322			5,655,322	5,444,090			5,444,090
Development	263,127			263,127	211,387			211,387
Total expenses	28,226,554	-	-	28,226,554	26,472,835	-	-	26,472,835
<b>Change in Net Assets</b>	409,587	(25,587)	809	384,809	48,500	91,744	164	140,408
<b>Net Assets - beginning of period</b>	11,476,517	1,022,773	681,986	13,181,276	11,428,017	931,029	681,822	13,040,868
<b>Net Assets - end of period</b>	\$ 11,886,104	\$ 997,186	\$ 682,795	\$ 13,566,085	\$ 11,476,517	\$ 1,022,773	\$ 681,986	\$ 13,181,276

See accompanying notes to financial statements.

**Palo Alto University, Inc.**

**Supplementary Information - Schedule of Functional Expenses**

*For the Year Ended July 31, 2015*

	Instruction	Student Services			Institutional Support			Development	Total
		Library	Information Resources	Student Services	General & Administrative	Sponsored Programs	Operation & Maintenance		
Salaries and wages	\$ 10,701,791	\$ 332,361	\$ 194,127	\$ 1,159,755	\$ 2,082,910	\$ 250,370	\$ 163,062	\$ 129,693	\$ 15,014,069
Benefits	1,489,583	65,481	34,222	242,837	505,860	37,110	33,341	22,995	2,431,429
Consortium payments	2,988,064								2,988,064
Consultants	550,662		1,675	76,370	409,552	130,006		18,795	1,187,060
Rent expenses	266,736				118	5,722	511,630		784,206
Travel and lodging	224,832	1,651	2,581	93,746	119,846	10,088	5,307	764	458,815
Meals and entertainment	125,562	498	528	102,083	215,535	2,777		27,211	474,194
Temporary agencies	8,342			79,843	69,303				157,488
Advertising and public relations	33,799			624,163	620	1,171		12,502	672,255
Bank charges	1,274				256,867			14	258,155
Bad debt					59,548				59,548
Tutoring				25					25
Community relations	127,557			53,706	224,697	3,474		4,606	414,040
Supplies	55,967	3,863	1,404	27,819	33,758	1,140	3,891	911	128,753
Utilities and telephone	39,676	898	2,232	8,718	28,916		90,066		170,506
Business insurance					242,704				242,704
Legal					144,671				144,671
Software site licenses	114,524	16,403	66,904		41,678				239,509
Other expenses	259,875	85,481	98,969	277,515	692,280	5,921	302,857	23,067	1,745,965
	16,988,244	506,636	402,642	2,746,580	5,128,863	447,779	1,110,154	240,558	27,571,456
Depreciation and amortization	77,750	72,951		2,572	129,425		372,400		655,098
Allocations	1,601,126	54,367	(402,642)	257,879	(90,465)	39,720	(1,482,554)	22,569	-
<b>Total Expenses 2015</b>	<b>\$ 18,667,120</b>	<b>\$ 633,954</b>	<b>\$ -</b>	<b>\$ 3,007,031</b>	<b>\$ 5,167,823</b>	<b>\$ 487,499</b>	<b>\$ -</b>	<b>\$ 263,127</b>	<b>\$ 28,226,554</b>

Srr accompanying notes to financial statements.

# Palo Alto University, Inc.

## Supplementary Information - Schedule of Functional Expenses

*For the Year Ended July 31, 2014*

		Student Services			Institutional Support				
	Instruction	Library	Information Resources	Student Services	General & Administrative	Sponsored Programs	Operation & Maintenance	Development	Total
Salaries and wages	\$ 9,723,848	\$ 311,635	\$ 184,997	\$ 1,040,750	\$ 2,007,957	\$ 235,340	\$ 126,529	\$ 115,351	\$ 13,746,407
Benefits	1,423,414	64,522	28,004	194,069	503,006	41,141	25,229	20,874	2,300,259
Consortium payments	2,887,415								2,887,415
Consultants	686,501		4,980	17,287	396,992	192,994	190	10,706	1,309,650
Rent expenses	209,129					7,460	421,077		637,666
Travel and lodging	257,761	1,588	2,529	28,434	133,489	3,265	5,786	2,743	435,595
Meals and entertainment	127,945	220	1,399	82,734	138,008	1,916		4,637	356,859
Temporary agencies	35,971	27,619		143,291	54,965		17,464		279,310
Advertising and public relations	7,295			552,586	71,096			3,660	634,637
Bank and credit card charges	420				244,173			4	244,597
Bad debt					26,981				26,981
Tutoring				22,863					22,863
Community relations	93,918	41		13,407	188,706	34,905		148	331,125
Supplies	71,036	2,981	1,414	14,538	47,674	902	8,072	684	147,301
Utilities and telephone	39,900	1,076	3,866	7,746	33,250		62,024	248	148,110
Business insurance					190,525				190,525
Legal					137,186				137,186
Software site licenses	118,118	13,098	50,060						181,276
Other expenses	465,827	75,220	100,729	247,331	638,139	9,028	304,002	34,735	1,875,011
	16,148,498	498,000	377,978	2,365,036	4,812,147	526,951	970,373	193,790	25,892,773
Depreciation and amortization	68,196			2,572	110,543		398,751		580,062
Allocations	1,474,848	45,220	(377,978)	214,988	(53,416)	47,865	(1,369,124)	17,597	-
<b>Total Expenses 2014</b>	<b>\$ 17,691,542</b>	<b>\$ 543,220</b>	<b>\$ -</b>	<b>\$ 2,582,596</b>	<b>\$ 4,869,274</b>	<b>\$ 574,816</b>	<b>\$ -</b>	<b>\$ 211,387</b>	<b>\$ 26,472,835</b>

See accompanying notes to financial statements.



# Palo Alto University, Inc.

## Statement of Cash Flows

<i>For the Year Ended July 31,</i>	2015	2014
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ 384,809	\$ 140,408
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	655,098	580,062
Change in discount and allowances for contributions receivable	(3,156)	7,060
Realized and unrealized (gains) losses on investments	(15,903)	6,914
Changes in operating assets and liabilities:		
Student receivables	972,808	(1,608,677)
Contributions receivable, net	(76,557)	(91,515)
Grants and federal funds receivable	172,361	633,858
Prepaid expenses and other assets	196,316	(90,893)
Accounts payable and accrued expenses	(398,627)	(435,958)
Student payables	1,228	(6,555)
Deferred tuition revenue	(806,596)	1,667,892
Deferred compensation	160,000	160,000
Net cash provided by operating activities	1,241,781	962,596
<b>Cash Flows from Investing Activities:</b>		
Purchase of long-term investments	(1,278,185)	(294,243)
Proceeds from the sale of long-term investments	1,197,947	106,753
Purchase of property and equipment	(554,418)	(606,227)
Net cash used by investing activities	(634,656)	(793,717)
<b>Net Change in Cash and Cash Equivalents</b>	607,125	168,879
<b>Cash and Cash Equivalents at beginning of the period</b>	3,055,406	2,886,527
<b>Cash and Cash Equivalents at end of the period</b>	\$ 3,662,531	\$ 3,055,406

See accompanying notes to financial statements.

# **Palo Alto University, Inc.**

## **Notes to the Financial Statements**

---

### **Note 1 - The University and Summary of Significant Accounting Policies:**

#### **a. The University**

Palo Alto University (PAU or the University) is a private, nonprofit educational institution. The University was founded in 1975 and was first accredited in 1986 by the regional accrediting body, the Western Association of Schools and Colleges and has been continuously accredited since then. PAU is dedicated to education with an emphasis in the behavioral and social sciences; to promoting future innovators and leaders for the benefit of society; to generating knowledge through research and scholarship of the highest level; and to providing services to the community informed by science and scholarship.

PAU maintains several international collaborations, supporting local, clinical practicum training in China and Latin America for students who participate in PAU's online Master of Arts in Counseling or Counseling Psychology programs. The University is also in collaborative partnerships with many community organizations, including Stanford School of Medicine, the Department of Veterans Affairs, Palo Alto Medical Center, and other mental health care organizations. The Gronowski Center delivers low-cost mental health services while also providing valuable, supervised training to PAU graduate students. In addition, PAU sponsors several academic centers devoted to child mental health, evidence-based care for Lesbian, Gay, Bisexual, Transgender, and Questioning clients, excellence in diversity and community care, and internet-based global healthcare.

#### **b. Basis of Accounting**

The accompanying 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) and accordingly reflect all significant receivables, payables, and other liabilities and include the activities of the Gronowski Center.

#### **c. Basis of Presentation**

The University's resources are classified according to the existence or absence of donor-imposed restrictions. The net assets are classified as permanently restricted, temporarily restricted, or unrestricted.

*Permanently Restricted Net Assets* – Net assets whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by action of the University. Income on such funds is available to support activities of the University as designated by such donors.

# Palo Alto University, Inc.

## Notes to the Financial Statements

---

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of the University and/or the passage of time and the portion of donor-restricted funds that are not classified as permanently restricted net assets. Also included in temporarily restricted net assets are earnings on endowment funds that have not been appropriated for expenditure.

Unrestricted Net Assets – Net assets not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by the Board of Trustees of the University (see Note 8).

d. Use of Estimates

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

e. Cash and Cash Equivalents

Cash and cash equivalents consist of cash and money market funds excluding those held for investment purposes.

f. Investments

Investments are recorded at fair value. Investments received through gifts are recorded at estimated fair value at the date of donation. All debt and equity securities with readily determinable market values are carried at estimated fair value based on closing market prices. Investments in privately held companies are held at values as determined by the management of those companies. Gains and losses that result from market fluctuations are recognized in the statement of activities and change in net assets in the period such fluctuations occur. Dividend and interest income are accrued when earned.

g. Student and Grant Receivables

Student receivables include tuition and fees due from students, and grants receivable include reimbursements due from sponsors of externally funded research, and amounts due from federal agencies for student financial aid programs. These receivables are carried at cost, which represent fair value.

Grants are expected to be fully collectible in the upcoming year. The University grants credit primarily to individuals for the purpose of paying for their tuition and fees. Student receivables are payable by a certain date each quarter and are stated at amounts due, net of an allowance for doubtful accounts, if any. The allowance is established as losses are estimated to have occurred, through a charge to expense. Receivables are charged against the allowance when management believes that collectability is unlikely. Should a student not pay their tuition amounts by the due date for the quarter, his/her classes are dropped and he/she is charged a reinstatement fee before being allowed to attend classes.

# **Palo Alto University, Inc.**

## **Notes to the Financial Statements**

---

### **h. Revenue Recognition**

Student receivable accounts are recorded when students are billed. Tuition and fees revenues are recorded as earned, on a pro rata basis over the applicable teaching period. Tuition and fees for future periods are reported as deferred revenue. Collection or development of payment plans for tuition and fees is required prior to registration for the following term.

All contributions and grants, whether or not restricted, are recognized as revenues when they are received by, or unconditionally pledged to, the University. The University classifies gifts of cash and other assets as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When such donor restrictions expire, that is, when stipulated time restrictions end or purpose restrictions are accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and change in net assets as net assets released from restrictions. When the restriction is met in the same period as the contribution is received, contributions are reported as increases in unrestricted net assets.

Contributions that are promised in one year but are expected to be received after the end of that year (or over a number of years) are discounted at an appropriate discount rate. An allowance for uncollectible pledges has been established utilizing a 2.5% and 3.6% factor for 2015 and 2014, respectively, based on prior experience. The financial statements reflect these pledges net of the discount and allowance reserve.

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 restricted support. In the absence of 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.

Contributions of services, if any, are recorded as revenue and recognized when received if the services create or enhance non-financial assets, or if they require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not donated. Corresponding amounts are also recorded as expenses.

### **i. Property and Equipment**

Property and equipment are stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts in kind. The University capitalizes all expenses for property and equipment, with the exception of library books, in excess of \$1,000; library books of any amount are capitalized. Depreciation is computed using the straight-line method based upon the estimated useful lives of the assets, generally 3 to 40 years.

# **Palo Alto University, Inc.**

## **Notes to the Financial Statements**

---

j. Deferred Revenue

Deferred revenue consists primarily of tuition and fees of students registered in advance of the forthcoming quarter and grant proceeds received in advance of grant expenditures. Tuition and fee revenue is recognized as earned, on a pro rata basis over the applicable teaching period. Grant revenues are recognized as grant expenditures are incurred.

k. Advertising Expenses

The University's policy is to expense advertising costs as they are incurred. Advertising costs for the year ended July 31, 2015 and 2014 were \$672,255 and \$634,637, respectively.

l. Functional Expense Allocations

Certain expenses, such as depreciation and amortization expense, building services including information technology, and personnel, are allocated among program services and supporting services based primarily on direct payroll charges and other direct expenses.

m. Income Taxes

The University is recognized by the Internal Revenue Service as an organization exempt from income taxes on related activities under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code.

As of July 31, 2015 and 2014, management evaluated the University's tax positions and concluded that the University had maintained its tax-exempt status and had taken no uncertain tax positions that require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

n. Concentrations of Risk

Financial instruments which potentially subject the University to concentrations of credit risk consist principally of cash and student receivables.

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.

During the year, the University regularly maintains cash balances in excess of federally insured limits.

# Palo Alto University, Inc.

## Notes to the Financial Statements

---

o. Fair Value Measurements

The University carries certain assets and liabilities at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The University classifies its financial assets and liabilities that the University has the ability to access at the measurement date based on a valuation method using three levels. Level 1 values are based on quoted prices (unadjusted) in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect the University's determination of assumptions that market participants might reasonably use in valuing the securities.

p. Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or net assets.

q. Recent Accounting Pronouncements

In May 2014, Financial Accounting Standards Board issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* which affects any entity (public, private and not-for-profit) that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. This ASU will supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance, and creates Topic 606 as indicated above. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve the core principle, an entity follows a five step process. The guidance is effective for annual reporting periods beginning after December 15, 2018. Early adoption is not permitted. The University does not believe the effect of adoption of this standard will have a material impact on its financial statements.

r. Subsequent Events

The management of the University evaluated subsequent events with respect to the financial statements for the year ended July 31, 2015 through November 23, 2015, the date these financial statements were available to be issued. Except as discussed in Note 5, there were no material subsequent events that required recognition or additional disclosure in these financial statements.

# Palo Alto University, Inc.

## Notes to the Financial Statements

### Note 2 - Investments and Fair Value Measurements:

The table below presents the balances of assets measured at fair value at July 31, 2015 on a recurring basis:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and money market funds	\$ 76,529	\$ 76,529		
Bonds and fixed income funds	312,733	312,733		
Equity funds	616,723	616,723		
Alternative strategy funds	140,149	140,149		
Common stock – privately held companies	195,000			\$ 195,000
Total	\$ 1,341,134	\$ 1,146,134		\$ 195,000

The table below presents the balances of assets measured at fair value at July 31, 2014 on a recurring basis:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and money market funds	\$ 91,511	\$ 91,511		
Bonds and fixed income funds	848,859	848,859		
Equity funds	78,828	78,828		
Alternative strategy funds	30,795	30,795		
Common stock – privately held companies	195,000			\$ 195,000
Total	\$ 1,244,993	\$ 1,049,993		\$ 195,000

An investment's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. There has been no change in the methodology used for July 31, 2015 and 2014.

There were no changes in Level 3 assets and liabilities measured on a recurring basis for the year ended July 31, 2015 and 2014.

# Palo Alto University, Inc.

## Notes to the Financial Statements

### Note 3 - Contributions Receivable, net:

Contributions receivable as of July 31, consisted of the following:

	2015	2014
Unconditional promises to be collected in the short-term:		
Less than one year (net of allowance for uncollectible contributions of \$34,015 and \$35,262, respectively)	\$ 857,469	\$ 754,375
Unconditional promises to be collected in the long-term:		
Two to five years	\$ 590,523	\$ 644,250
More than five years	88,586	60,000
	679,109	704,250
Less discount to present value	(66,156)	(67,916)
Net long-term contributions receivable	\$ 612,953	\$ 636,334

### Note 4 - Property and Equipment:

Property and equipment as of July 31 consisted of the following:

	2015	2014
Land	\$ 2,950,000	\$ 2,950,000
Building	4,612,928	4,557,104
Furniture and equipment	2,254,836	2,052,119
Library books	1,013,988	860,085
Software	807,941	665,968
	11,639,693	11,085,276
Less accumulated depreciation and amortization	3,260,183	2,605,086
	\$ 8,379,510	\$ 8,480,190



# **Palo Alto University, Inc.**

## **Notes to the Financial Statements**

---

### **Note 5 - Leases:**

The University leases classroom and clinical space under non-cancelable operating leases with monthly payments ranging from \$3,315 to \$44,837 expiring July 31, 2017. One lease provides the University with an option to extend the lease for five years.

The University entered into an academic and facility agreement with Foothill-De Anza Community College on August 1, 2015. The agreement grants the University a non-exclusive permit for the use and occupancy of certain classroom space and administrative offices. Monthly payments over the lease term, which ends July 31, 2018, range from \$13,141 to \$13,942.

The future minimum lease payments under the above leases are as follows:

2016	\$ 850,800
2017	833,600
2018	167,300
<hr/>	
Total minimum lease payments	\$ 1,851,700

Total rent expense was \$784,206 and \$637,666 for the years ended July 31, 2015 and 2014, respectively.

### **Note 6 - Credit Agreements:**

As of July 31, 2015 and 2014, there was no outstanding balance on the \$1,500,000 line of credit with Comerica Bank. The agreement requires, among other things, compliance with covenants including a certain positive change in net assets, and timely submission of internal and external financial statements. The agreement is secured by investments and real and personal property, can expire on demand and is to be reviewed on an annual basis. At July 31, 2015 and 2014, the University was not in compliance with all of the covenants and has received a waiver from the bank.

The University has no outstanding debt at July 31, 2015 and therefore its maximum annual debt service would be zero for the year ending in 2016.

### **Note 7 - Related Party Transactions:**

Contributions receivable, prior to discounts or allowances, from employees of the University and members of its Board of Trustees totaled \$1,247,996 and \$1,237,219 at July 31, 2015 and 2014, respectively. The contributions received from employees of the University and members of its Board of Trustees totaled \$256,292 and \$171,585 at July 31, 2015 and 2014, respectively.

# **Palo Alto University, Inc.**

## **Notes to the Financial Statements**

---

### **Note 8 - Unrestricted Net Assets:**

Unrestricted net assets as of July 31 are comprised of the following:

	2015	2014
Board designated - endowment	\$ 719,819	\$ 639,509
Undesignated	11,166,285	10,837,008
	<hr/>	<hr/>
	\$ 11,886,104	\$ 11,476,517

### **Note 9 - Temporarily Restricted Net Assets:**

Temporarily restricted net assets are available for the following purposes as of July 31:

	2015	2014
Project and program purpose restriction:		
Student fellowships	\$ 480,576	\$ 565,547
Faculty chair	149,125	133,762
Other programs	31,298	50,604
Time restricted	336,187	272,860
	<hr/>	<hr/>
	\$ 997,186	\$ 1,022,773

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors for the fiscal year ended July 31 as follows:

	2015	2014
Expiration of time restrictions	\$ 100,588	\$ 142,020
Purpose restriction met:		
Student fellowship	266,731	72,094
Faculty chair	48,275	
Other programs	35,323	117,387
	<hr/>	<hr/>
	\$ 450,917	\$ 331,501

# **Palo Alto University, Inc.**

## **Notes to the Financial Statements**

---

### **Note 10 - Endowment:**

The University's endowments consist of eight individual funds, all established to generate support for the University's general operations, tuition assistance and programs. Its endowment includes donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments.

Consistent with the State Prudent Management of Institutional Funds Act (SPMIFA) and Board policy, the University classifies as permanently restricted net assets the original value of gifts of donor-restricted endowment and, if applicable, accumulations of donor-restricted endowment as required by the donor. Accumulated earnings of donor-restricted endowment are classified as temporarily restricted net assets until distributed in accordance with UPMIFA and Board policy.

In accordance with SPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) The duration and preservation of the fund, (2) the purposes of the University and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the University, (7) the investment policies of the University.

The University has adopted investment and spending policies for endowment assets that will ultimately provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

To achieve a long-term investment rate-of-return, 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 is reinvesting all unspent interest and gain associated with its endowments.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level classified as permanently restricted net assets. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. At July 31, 2015 and 2014, there were no such amounts.

# Palo Alto University, Inc.

## Notes to the Financial Statements

Endowment net asset composition as of July 31, 2015 was:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted		\$ 682,795	\$ 682,795
Board designated:			
Earnings available for general use	\$ 719,819		719,819
<b>Total Funds</b>	<b>\$ 719,819</b>	<b>\$ 682,795</b>	<b>\$ 1,402,614</b>

Changes in endowment net assets for the year ended July 31, 2015 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, beginning of year	\$ 639,509		\$ 681,986	\$ 1,321,495
Investment income	23,075	\$ 7,952	31,027	
Net loss (realized and unrealized)	(1,377)			(1,377)
Contributions	58,612		809	59,421
Appropriated for expenditure		(7,952)		(7,952)
<b>Change in endowment net assets</b>	<b>80,310</b>		<b>809</b>	<b>81,119</b>
<b>Endowment Net Assets, end of year</b>	<b>\$ 719,819</b>	<b>\$ -</b>	<b>\$ 682,795</b>	<b>\$ 1,402,614</b>

Endowment net asset composition as of July 31, 2014 was:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted		\$ 681,986	\$ 681,986
Board designated:			
Earnings available for general use	\$ 639,509		639,509
<b>Total Funds</b>	<b>\$ 639,509</b>	<b>\$ 681,986</b>	<b>\$ 1,321,495</b>

# Palo Alto University, Inc.

## Notes to the Financial Statements

Changes in endowment net assets for the year ended July 31, 2014 were as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, beginning of year	\$ 479,190	\$ 681,822	\$ 1,161,012
Investment income	5,888		5,888
Net gain (realized and unrealized)	4,778		4,778
Contributions	149,653	164	149,817
Change in endowment net assets	157,319	164	157,483
Endowment Net Assets, end of year	\$ 639,509	\$ 681,986	\$ 1,321,495

Earnings on permanently restricted net asset are expendable to support the following:

	2015	2014
Gronowski Clinic	\$ 394,790	\$ 394,304
Library	272,566	272,243
Florence Furst Memorial Student Short-Term Loan Fund	10,000	10,000
Scholarships	5,439	5,439
Total permanently restricted	\$ 682,795	\$ 681,986

At July 31, 2015 and 2014, \$59,500, and \$79,500, respectively, of permanently restricted net assets was represented by pledges receivable, net of present value discounts.

### Note 11 - Retirement Plan:

Retirement benefits are provided through a defined contribution plan under the Internal Revenue Code, Section 403(b) for the University employees after completing consecutive three months of eligible service. Under the terms of the plan, the University has the option to make contributions to the plan but may choose not to make those contributions in certain years. Eligible participants may contribute amounts not to exceed \$18,000 and \$17,500 for calendar years 2015 and 2014, respectively. The University's contributions were \$548,329 and \$520,019 for the periods ended July 31, 2015 and 2014, respectively.

# **Palo Alto University, Inc.**

## **Notes to the Financial Statements**

---

The University has a 457(f) deferred compensation plan that covers one employee. The plan's assets are held by a trustee under the terms of the agreement but remain under legal ownership of the University and are reflected in cash on the financial statements. Contributions totaling \$160,000 were made to the plan during 2015 and 2014.

### **Note 12 - Other Commitments and Contingencies:**

On May 2, 2011, the University renewed its agreement with Leland Stanford Junior University (Stanford) whereby Stanford faculty will provide certain instruction to students enrolled in the University's PsyD Program, which began in the fall of 2002. The term of the agreement is for five academic years starting September 1, 2011 through August 31, 2016. According to the agreement, fees to Stanford are paid three times per academic year based on the number of students enrolled in the program and the University-Stanford faculty sharing of teaching load.

The University receives funds from and administers various federal government funded programs which are subject to audit by the cognizant governmental agencies. The University management believes that the outcome of any such audits will not have a significant effect on the financial position or results of activities of the University.