

PALO ALTO UNIVERSITY, INC.

JULY 31, 2023 AND 2022

**INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS**

Palo Alto University, Inc.

Independent Auditors' Report and Financial Statements

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A Century Strong

Independent Auditors' Report

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

Opinion

We have audited the financial statements of **PALO ALTO UNIVERSITY, INC. (the University)** which comprise the statement of financial position as of July 31, 2023 and 2022, the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as of July 31, 2023 and 2022, 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 presentation 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 presentation 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
December 19, 2023

Palo Alto University, Inc.

Statement of Financial Position

<i>July 31,</i>	2023	2022
Assets		
Current Assets:		
Cash and cash equivalents	\$ 12,095,828	\$ 13,791,640
Student receivables, net of allowance of \$942,917 for 2023 and \$917,640 for 2022	8,798,334	8,847,558
Contributions receivable, net current portion	226,592	209,075
Grants receivable	627,311	884,916
Prepaid expenses and other assets	1,411,935	1,358,349
Total current assets	23,160,000	25,091,538
Investments	4,358,795	4,069,100
Contributions Receivable , net of current portion	114,475	65,409
Operating lease right-of-use assets	6,734,303	
Property and Equipment , net	10,907,397	9,366,722
Goodwill	573,000	573,000
Total assets	\$ 45,847,970	\$ 39,165,769
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 2,970,949	3,600,035
Deferred revenue	11,008,920	10,595,248
Contingent consideration		118,000
Operating lease liability, current portion	677,094	
Other liabilities		417,644
Total current liabilities	14,656,963	14,730,927
Operating lease liability , net of current portion	7,126,986	
Total liabilities	21,783,949	14,730,927
Net Assets:		
Without donor restrictions	21,734,555	22,568,988
With donor restrictions	2,329,466	1,865,854
Total net assets	24,064,021	24,434,842
Total liabilities and net assets	\$ 45,847,970	\$ 39,165,769

See accompanying notes to the financial statements.

Palo Alto University, Inc.

Statement of Activities and Changes in Net Assets

For the Year Ended July 31,

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:						
Gross tuition	\$ 30,640,447		\$ 30,640,447	\$ 31,480,706		\$ 31,480,706
Gross fees	3,997,223		3,997,223	4,081,758		4,081,758
	34,637,670		34,637,670	35,562,464		35,562,464
Less financial aid	(1,273,194)		(1,273,194)	(1,347,795)		(1,347,795)
Net tuition and fees	33,364,476		33,364,476	34,214,669		34,214,669
Contributions	24,364	\$ 379,998	404,362	93,618	\$ 235,454	329,072
Grants	886,445		886,445	1,349,115		1,349,115
Investment income (loss)	454,233	110,118	564,351	46,225	(377,393)	(331,168)
Program services income, net	1,526,355		1,526,355	1,707,453		1,707,453
Other	634,569		634,569	647,788		647,788
Net assets released from restrictions	226,504	(226,504)	-	123,271	(123,271)	-
Total revenues	37,116,946	263,612	37,380,558	38,182,139	(265,210)	37,916,929
Expenses:						
Program services:						
Instruction	22,720,250		22,720,250	23,598,902		23,598,902
Student services	4,403,158		4,403,158	4,512,394		4,512,394
Supporting services:						
Institutional support	10,373,820		10,373,820	8,852,046		8,852,046
Development	254,151		254,151	254,954		254,954
Total expenses	37,751,379	-	37,751,379	37,218,296	-	37,218,296
Change in Net Assets from Operating Activities	(634,433)	263,612	(370,821)	963,843	(265,210)	698,633
Other Changes in Net Assets:						
Net asset transfer	(200,000)	200,000	-			-
Total Change in Net Assets	(834,433)	463,612	(370,821)	963,843	(265,210)	698,633
Net Assets, beginning of period	22,568,988	1,865,854	24,434,842	21,605,145	2,131,064	23,736,209
Net Assets, end of period	\$ 21,734,555	\$ 2,329,466	\$ 24,064,021	\$ 22,568,988	\$ 1,865,854	\$ 24,434,842

See accompanying notes to the financial statements.

Palo Alto University, Inc.

Statement of Functional Expenses

For the Year Ended July 31, 2023

	Student Services			Institutional Support			Total
	Instruction	Library	Student Services	General & Administrative	Sponsored Programs	Total Institutional Support	
Salaries and wages	\$ 13,036,569	\$ 473,151	\$ 2,122,958	\$ 4,483,835	\$ 564,993	\$ 5,048,828	\$ 20,869,372
Benefits	1,503,744	46,987	204,790	1,505,126	59,573	1,564,699	3,340,624
Total salaries and benefits	14,540,313	520,138	2,327,748	5,988,961	624,566	6,613,527	24,209,996
Consortium payments	3,534,118						3,534,118
Consultants	612,776		51,466	953,723	172,830	1,126,553	1,813,634
Rent	1,315,187		27,400	27,400		27,400	1,369,987
Professional dues and license	145,918	336	5,800	39,048	200	39,248	192,844
Building maintenance	152,753	12,521	25,042	35,058	35,058	70,116	250,415
Computer & network equipment	3,041	1,201	255	6,711	5,585	12,296	16,798
Digital material use fees	320	228,593	228,593	106,200	6,494	6,494	235,407
Audit services						106,200	106,200
Graduation	99,832		5,866				105,698
Recruiting and job fairs	16,443		9,442	11,812		11,812	37,697
Travel and lodging	196,527	2,665	30,007	26,485	1,755	28,240	258,007
Meals and entertainment	87,838	458	12,760	56,098	3,301	59,399	160,504
Temporary agencies	83,208			214,519		214,519	297,727
Advertising and public relations	70,658		50,426	220,947		220,947	342,031
Bank and credit card charges	36,266			412,825		412,825	449,091
Bad debt				84,326		84,326	84,326
Community relations	29,545	413	1,726	26,702	325,953	352,655	384,339
Supplies	8,351	6,404	3,381	20,990	830	21,820	39,956
Utilities and telephone	142,456	12,771	34,664	61,386	21,370	82,756	276,383
Business insurance				304,689		304,689	304,689
Legal	6,024			61,324		61,324	67,348
Software site licenses	567,040	343,532	251,468	31,372	52,408	83,780	1,245,820
Royalties	261,623						261,623
Depreciation and amortization	355,376	309,617	22,178	177,665	46,610	224,275	914,775
Other expenses	454,637	46,406	70,995	185,746	22,873	208,619	791,966
Total expenses	\$ 22,720,250	\$ 1,485,055	\$ 2,918,103	\$ 9,053,987	\$ 1,319,833	\$ 10,373,820	\$ 37,751,379

See accompanying notes to the financial statements.

Palo Alto University, Inc.

Statement of Functional Expenses

For the Year Ended July 31, 2022

	Student Services			Institutional Support			Total
	Instruction	Library	Student Services	General & Administrative	Sponsored Programs	Total Institutional Support	
Salaries and wages	\$ 13,724,257	\$ 479,925	\$ 2,111,917	\$ 3,390,592	\$ 752,642	\$ 4,143,234	\$ 20,634,803
Benefits	2,323,560	86,642	375,133	624,267	114,677	738,944	3,556,320
Total salaries and benefits	16,047,817	566,567	2,487,050	4,014,859	867,319	4,882,178	24,191,123
Consortium payments	3,460,860						3,460,860
Consultants	738,336		91,702	636,299	143,203	779,502	1,626,262
Rent	1,544,041		32,168	32,168		32,168	1,608,377
Professional dues and license	117,939	646	4,514	50,055	3,291	53,346	177,045
Building maintenance	86,221	8,257	16,514	17,733	105,986	123,719	227,498
Computer equipment		138			9,038	9,038	9,176
Digital material use fees	2,261	168,667	168,667		1,085	1,085	172,013
Audit services				105,900		105,900	105,900
Graduation	114,738		3,029	10,401		10,401	128,168
Recruiting and job fairs	4,050		27,040	98,330		98,330	129,420
Travel and lodging	82,929	1,200	24,788	14,955		14,955	124,122
Meals and entertainment	20,241		26,466	24,885		24,885	76,489
Temporary agencies				231,850	18,194	250,044	250,044
Advertising and public relations	60,233		61,474	376,116		376,116	497,823
Bank and credit card charges	40,810			432,399		432,399	473,209
Bad debt				124,135		124,135	124,135
Community relations	211,793	381	16,895	45,291	296,381	341,672	570,741
Supplies	10,384	5,071	6,750	20,016	686	20,702	50,654
Utilities and telephone	113,131	4,452	26,093	24,096		24,096	164,428
Business insurance				333,618		333,618	333,618
Legal				115,203		115,203	115,203
Software site licenses	318,780	285,167	144,908	62,145	250,339	312,484	1,061,339
Royalties	240,855						240,855
Depreciation and amortization	184,637	307,049	80,326	150,654	14,491	165,145	738,010
Other expenses	198,846	17,390	110,401	147,040	73,885	220,925	561,784
Total expenses	\$ 23,598,902	\$ 1,364,985	\$ 3,147,409	\$ 7,068,148	\$ 1,783,898	\$ 8,852,046	\$ 37,218,296

See accompanying notes to the financial statements.

Palo Alto University, Inc.

Statement of Cash Flows

<i>For the Year Ended July 31,</i>	2023	2022
Cash Flows from Operating Activities:		
Change in net assets	\$ (370,821)	\$ 698,633
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	914,775	738,012
Loss on disposal of property and equipment	49,671	
Provision for uncollectible student receivables	25,277	89,141
Change in discount and allowance on contributions receivable	4,935	752
Net loss on investments	397,651	263,843
Amortization of operating lease right-of-use assets	599,300	
Changes in operating assets and liabilities:		
Student receivables	23,947	(1,505,976)
Contributions receivable	(71,518)	(37,001)
Grants receivable	257,605	(259,027)
Prepaid expenses and other assets	515,414	(78,779)
Accounts payable and accrued expenses	(1,036,670)	(288,818)
Deferred revenue	413,672	483,898
Contingent consideration	(118,000)	(118,000)
Operating lease liability	(582,042)	
Other liabilities	65,875	239,040
Net cash provided by operating activities	1,089,071	225,718
Cash Flows from Investing Activities:		
Proceeds from the sale of investments	2,309,510	403,282
Purchase of investments	(2,996,856)	(522,262)
Purchase of property and equipment	(2,097,537)	(1,284,820)
Net cash used by investing activities	(2,784,883)	(1,403,800)
Net Change in Cash and Cash Equivalents	(1,695,812)	(1,178,082)
Cash and Cash Equivalents, beginning of the period	13,791,640	14,969,722
Cash and Cash Equivalents, end of the period	\$ 12,095,828	\$ 13,791,640
Non-cash Supplemental Information:		
Property and equipment included in accounts payable and accrued expenses		\$ 407,584
Operating lease liability to obtain right of use asset	\$ 8,386,122	

See accompanying notes to the 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 (the University), founded in 1975 as Pacific Graduate School of Psychology, is a private, not-for-profit educational institution dedicated to improving the human condition through excellence in teaching, research and scholarship in the fields of psychology and counseling. With an unwavering commitment to diversity and to the communities it serves, the University offers doctorate, master's and bachelor's programs, as well as hands-on clinical training. The University is accredited by the Western Association of Schools and Colleges (WASC).

The University has many collaborative partnerships with community organizations and institutions, including Stanford School of Medicine, the Department of Veterans Affairs, Palo Alto Medical Center, and other mental health care organizations. The University's Gronowski Center teaching clinic delivers low-cost mental health services while also providing valuable, supervised training to University graduate students. In addition, the University 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. The University also provides premium online professional training for mental health professionals.

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).

c. Basis of Presentation

The University's resources are classified according to the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the University and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions are not subject to donor-imposed restrictions and include Board-designated funds functioning as endowments which have been set aside for special programs, capital projects, and to act as endowment funds.

Net Assets With Donor Restrictions are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or by satisfying restrictions specified by the donor. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Palo Alto University, Inc.

Notes to the Financial Statements

Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Net assets with donor restrictions consist primarily of restricted grants, pledges, and contributions, together with income specifically restricted by donors.

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

For purpose of the statement of cash flows, 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 fair value as determined by the management of those companies. Gains and losses that result from market fluctuations are recognized in the statement of activities and changes in net assets in the period such fluctuations occur. Dividend and interest income are accrued when earned.

g. Student and Grants Receivables

Student receivables include tuition and fees due from students and grants receivables 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 the net realizable value and are expected to be collected within one 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.

Grants are expected to be fully collectible in the upcoming year.

Palo Alto University, Inc.

Notes to the Financial Statements

h. 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.

i. Leases

The University determines whether an arrangement is or includes a lease and categorizes leases as either operating or finance leases at their commencement. The University does not have any financing leases. Operating right-of-use lease assets represent the University's right to use an underlying asset during the lease term and operating lease liabilities represent the University's obligation to make payments arising from the lease. Operating leases are recorded in operating lease assets and operating lease liabilities on the Statement of Financial Position.

Operating right-of-use lease assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The discount rate used to derive the present value is based on the rate implicit in the lease or, in absence of a rate implicit in the lease, a risk-free rate which is aligned with the lease term at the lease commencement date. Renewal periods are included in calculating the right-of-use assets and liabilities when they are reasonably certain of exercise. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. The University made an accounting policy election not to recognize lease assets and liabilities for leases with a term of 12 months or less.

j. Goodwill

Goodwill represents the excess of the cost of net assets acquired over the fair value of identifiable net assets at the date of acquisition. Goodwill acquired and determined to have an indefinite useful life is not amortized but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. Goodwill impairment tests consist of a comparison of the reporting unit's fair value with its carrying value. Impairment exists when the carrying amount of goodwill exceeds the implied fair value for the reporting unit. The evaluation of impairment requires the University to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and are subject to change as future events and circumstances change. Actual results may differ from assumed and estimated amounts. Management determined that no impairment write-downs were required as of July 31, 2023.

Palo Alto University, Inc.

Notes to the Financial Statements

k. Revenue Recognition

Student receivables are recorded when students are billed. Tuition and fee revenues are recognized on a pro rata basis over the applicable teaching period in which educational services are provided (performance obligation). Collection or development of payment plans for tuition and fees is required prior to registration for the following term. Financial aid, in the form of fellowships and waivers, reduces the published price of tuition for students receiving such aid. As such, financial aid represents the difference between the stated charge for tuition (transaction price) and fees and the amount that is billed to the student and/or third parties making payments on behalf of the student.

Tuition amounts received for the 2023-2024 school year as of July 31, 2023 in the amount of \$10,769,879 are recorded as deferred revenue, a contract liability. Deferred revenue as of July 31, 2022 of \$10,522,038 was recognized as revenue during the year ended July 31, 2023.

Contributions and grants 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 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes 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 net assets without donor restrictions.

Contributions that are promised in one year but are expected to be received in future years (or over a number of years) are The discounts on contributions receivable are computed using the prime rate applicable to the month in which those promises were made. Amortization of the discounts is included in contribution and grants revenue. The discounts on contributions receivable are computed using the prime rate applicable to the month in which those promises were made. Amortization of the discounts is included in contribution revenue.

An allowance for uncollectible pledges has been established based on prior experience. The financial statements reflect these pledges net of the discount and allowance reserve. Conditional promises, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend are substantially met. The University had no conditional contributions as of July 31, 2023 and 2022.

Grant revenues are recognized as grant expenditures are incurred. Grant proceeds received in advance of grant expenditures as of July 31, 2023 in the amount of \$239,041 are recorded as deferred revenue, a contract liability. Deferred revenue related to grants as of July 31, 2022 of \$73,210 was recognized as revenue during the year ended July 31, 2023.

Palo Alto University, Inc.

Notes to the Financial Statements

Program services income includes the Gronowski Center teaching clinic and CONCEPT (see Note 14) online professional training revenues. Revenue is recognized as the services are provided (performance obligation), typically upon receipt of payment. Deferred revenue, if any, is recorded for services paid for but not provided as of year end. As of July 31, 2023 and 2022, no deferred revenue was recorded.

l. Advertising Expenses

The University's policy is to expense advertising costs as they are incurred. Advertising costs for the year ended July 31, 2023 and 2022 were \$342,031 and \$497,824, respectively.

m. Allocation of Functional Expense

The costs of providing various programs and activities have been summarized on a functional basis in the statement of activities and changes in net assets. 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.

Allocations for other information technology and operations and maintenance are based on a percentage of the total expenses. The remaining expenses are allocated based on a direct identification methodology.

n. 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, 2023 and 2022, 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.

o. Concentrations of Risk

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

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

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.

Palo Alto University, Inc.

Notes to the Financial Statements

The University places investments with high credit quality financial institutions. Investments in general are exposed to various risks, such as interest rate, credit and overall market volatility. To address the market risk of investments, the University maintains a formal investment policy that sets out performance criteria and investment guidelines, and requires review of performance.

p. 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.

The valuation levels are not necessarily an indication of the risk or liquidity associated with the assets and liabilities measured at fair value.

q. Reclassification

Certain accounts in the 2022 financial statements have been reclassified for comparative purposes to conform with the presentation in the 2023 financial statements. These reclasses have had no effect on net assets or change in net assets.

r. Recent Accounting Pronouncements

Adopted

As of August 1, 2022, the University adopted FASB Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842) which requires lessees to recognize leases on the Statements of Financial Position and disclose key information about leasing arrangements. The University elected not to restate the comparative period (2022). It also elected at adoption not to reassess (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases.

As a result of implementing ASU No. 2016-02, the University recognized on August 1, 2022 (a) an operating lease liability of \$8,386,122, which represents the present value of the remaining lease payments, discounted using risk-free rate, and (b) an operating lease right-of-use asset of \$7,333,603, which represents the lease liability. Deferred rent and a lease incentive totaling \$1,052,519 required adjustment to the operating lease right-of-use asset.

Palo Alto University, Inc.

Notes to the Financial Statements

s. Subsequent Events

The University evaluated subsequent events from July 31, 2023 through December 19, 2023, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

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

The table below presents the balances of assets measured at fair value at July 31, 2023 on a recurring basis:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and money market funds	\$ 558,413	\$ 558,413		
Bonds and fixed income funds	1,245,991	1,245,991		
Equity funds	2,222,536	2,222,536		
Alternative strategy funds	262,330	262,330		
Common stock – privately held companies	69,525			\$ 69,525
Total	\$ 4,358,795	\$4,289,270	\$ -	\$ 69,525

The table below presents the balances of assets measured at fair value at July 31, 2022 on a recurring basis:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and money market funds	\$ 462,145	\$ 462,145		
Bonds and fixed income funds	1,028,539	1,028,539		
Equity funds	2,063,203	2,063,203		
Alternative strategy funds	445,688	445,688		
Common stock – privately held companies	69,525			\$ 69,525
Total	\$ 4,069,100	\$ 3,999,575	\$ -	\$ 69,525

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, 2023 and 2022.

Palo Alto University, Inc.

Notes to the Financial Statements

There were no changes in Level 3 assets and liabilities measured on a recurring basis for the years ended July 31, 2023 and 2022.

Note 3 - Contributions Receivable:

Contributions receivable consisted of the following at July 31:

	2023	2022
Unconditional promises to be collected in the short-term:		
Less than one year (net of allowance for uncollectible contributions of \$57,158 for 2023 and 2022)	\$ 226,592	\$ 209,075
Unconditional promises to be collected in the long-term:		
Two to five years	126,960	72,959
Less discount to present value	(12,485)	(7,550)
Net long-term contributions receivable	\$ 114,475	\$ 65,409

Note 4 - Property and Equipment:

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

	2023	2022
Land	\$ 2,950,000	\$ 2,950,000
Building	9,007,500	5,855,884
Furniture and equipment	4,142,768	4,078,797
Library books	1,620,873	1,549,346
Software	2,015,573	2,057,530
Construction in progress	4,269	884,298
	19,740,983	17,375,855
Less accumulated depreciation and amortization	(8,833,586)	(8,009,133)
	\$ 10,907,397	\$ 9,366,722

Depreciation and amortization expense for the years ended July 30, 2023 and 2022 was \$914,775 and \$738,012, respectively.

Palo Alto University, Inc.

Notes to the Financial Statements

Note 5 - Leases:

In August 2021, the University executed a 10 1/3 year lease at 1172 Castro Street in Mountain View, California with monthly payments ranging from \$69,049 - \$92,797 starting October 2021 and two options to extend the term for 60 months. The lease includes a tenant improvement allowance which is estimated to be \$569,480 and will be amortized over the term of the lease. In September 2022, the University submitted and received reimbursement of a substantial portion of the tenant improvement allowance.

In April 2023, the University executed a five-year lease with Caltronics Business Systems for four copier machines with monthly payments of \$838.

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

Year Ending July 31,	
2024	\$ 872,043
2025	897,903
2026	924,538
2027	951,972
2028	976,877
Thereafter	4,180,606
<hr/>	
Total lease payments	8,803,939
Less discount to present value	(999,859)
<hr/>	
Present value of operating lease liability	\$ 7,804,080

Total rent expense under the above operating leases was approximately \$857,000 for the year ended July 31, 2023. As of July 31, 2023, the weighted-average remaining lease term was 8.98 years and the weighted-average discount rate was 2.6%.

The future minimum lease payments as determined under ASC 840 as of July 31, 2022 required under these agreements were as follows:

Year Ending July 31,	
2023	\$ 849,300
2024	874,800
2025	901,000
2026	928,100
2027	955,900
Thereafter	4,670,500
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Total minimum lease payments	\$ 9,179,600

Palo Alto University, Inc.

Notes to the Financial Statements

Total rent expense under FASB ASC 840 (pre-adoption of ASU 2016-02) was \$1,500,800 for the year ended July 31, 2022.

The University terminated a classroom and clinical space lease in September 2021 and was due \$947,702 in termination funds. Of this amount, \$425,000 was received on October 1, 2021 with the balance of \$522,702 contingent on surrendering the possession of the premises by March 16, 2022. Per the revised termination agreement, the termination date was extended to August 31, 2022 and the balance of \$522,702 was received in September 2022.

Note 6 - Credit Agreements:

The University has a \$1,500,000 line of credit with Comerica Bank. The line of credit bears annual interest at a variable rate of the greater of the daily adjusting LIBOR rate or the prime-based rate. As of July 31, 2023 and 2022, the line of credit bore interest at a rate of 8.5% and 5.5%, respectively. The line can expire on demand. As of July 31, 2023 and 2022, there was no outstanding balance on the line of credit. 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, expires on demand and is reviewed on an annual basis by management. The University was not in compliance with the financial covenants as of July 31, 2023 and received a covenant waiver from the bank. The University was in compliance with the financial covenants as of July 31, 2022.

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 \$122,500 and \$179,983 at July 31, 2023 and 2022, respectively. The contributions received from employees of the University and members of its Board of Trustees totaled \$95,519 and \$54,300 at July 31, 2023 and 2022, respectively.

Note 8 - Net Assets Without Donor Restrictions:

Net assets without donor restrictions are comprised of the following as of July 31:

	2023	2022
Board-designated	\$ 11,900,319	\$ 12,583,762
Undesignated	9,834,236	9,985,226
	<hr/>	<hr/>
	\$ 21,734,555	\$ 22,568,988

Palo Alto University, Inc.

Notes to the Financial Statements

The University's governing Board has designated net assets without donor restrictions for the following purposes as of July 31:

	2023	2022
Board-designated endowment	\$ 3,168,370	\$ 3,191,764
Liquidity reserve	8,731,949	9,391,998
	<hr/>	<hr/>
	\$ 11,900,319	\$ 12,583,762

Note 9 - Net Assets With Donor Restrictions:

Net assets with donor restrictions are available for the following purposes as of July 31:

	2023	2022
Endowments restricted in perpetuity by donors subject to spending policy and appropriation	\$ 950,389	\$ 672,389
	<hr/>	<hr/>
Project and program purpose restriction:		
Student fellowships	216,960	83,127
Other programs	1,162,117	1,110,338
	<hr/>	<hr/>
	1,379,077	1,193,465
	<hr/>	<hr/>
	\$ 2,329,466	\$ 1,865,854

Net assets were released from donor restrictions by incurring expenses satisfying the purpose of the restriction, by the passage of time, or by the occurrence of other specific events by donors as follows for the fiscal years ended July 31:

	2023	2022
Expiration of time restrictions	\$ 226,504	\$ 48,271
Purpose restriction met:		
Student fellowship		75,000
	<hr/>	<hr/>
	\$ 226,504	\$ 123,271

Palo Alto University, Inc.

Notes to the Financial Statements

Note 10 - Endowment:

The University's endowments consist of eleven 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 California enacted version of the State Prudent Management of Institutional Funds Act (SPMIFA) and Board policy, the University classifies as net assets with donor restrictions the original value of gifts of donor-restricted endowment funds and, if applicable, accumulations of donor-restricted endowment funds as required by the donor. Accumulated earnings of donor-restricted endowment funds are classified as net assets with donor restrictions until distributed in accordance with SPMIFA 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 amount to be maintained in perpetuity. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. At July 31, 2023 and 2022, there were no such amounts.

Endowment net asset composition as of July 31, 2023 was:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted		\$ 950,389	\$ 950,389
Board-designated	\$ 3,168,370		3,168,370
Total funds	\$ 3,168,370	\$ 950,389	\$ 4,118,759

Palo Alto University, Inc.

Notes to the Financial Statements

Changes in endowment net assets for the year ended July 31, 2023 were as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u> <u>Time or Purpose</u>	<u>Perpetuity</u>	<u>Total</u>
Endowment Net Assets, beginning of year	\$ 3,191,764		\$ 672,389	\$ 3,864,153
Investment income	82,308	\$ 33,515		115,823
Net gain (realized and unrealized)	87,798			87,798
Contributions			78,000	78,000
Transfers	6,500			6,500
Net assets transfers	(200,000)		200,000	-
Appropriated for Expenditure		(33,515)		(33,515)
Change in endowment net assets	(23,394)		278,000	254,606
Endowment Net Assets, end of year	\$ 3,168,370	\$ -	\$ 950,389	\$ 4,118,759

Endowment net asset composition as of July 31, 2022 was:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted		\$ 672,389	\$ 672,389
Board-designated	\$ 3,191,764		3,191,764
Total funds	\$ 3,191,764	\$ 672,389	\$ 3,864,153

Palo Alto University, Inc.

Notes to the Financial Statements

Changes in endowment net assets for the year ended July 31, 2022 were as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		<u>Total</u>
		<u>Time or Purpose</u>	<u>Perpetuity</u>	
Endowment Net Assets, beginning of year	\$ 3,312,860		\$ 623,889	\$ 3,936,749
Investment income	81,383	\$ (48,017)		33,366
Net gain (realized and unrealized)	(202,479)			(202,479)
Contributions			48,500	48,500
Appropriated for Expenditure		48,017		48,017
Change in endowment net assets	(121,096)		48,500	(72,596)
Endowment Net Assets, end of year	\$ 3,191,764	\$ -	\$ 672,389	\$ 3,864,153

Net assets with perpetual restrictions for which earnings are to be used for the following purposes were as follows as of July 31:

	2023	2022
Gronowski Clinic	\$ 418,076	\$ 418,076
Library	124,021	124,021
Florence Furst Memorial Student Short-Term Loan Fund	10,000	10,000
Scholarships	5,439	5,439
Christine Blasey Endowed Scholarship	66,953	63,953
Ying Li Endowed Scholarship Fund	65,000	
Robin Welles Kostenbauder Scholarship Fund	56,000	6,000
Otieno Family Undergraduate Scholarship Fund	54,900	4,900
Berton Keith Scholarship Fund	50,000	
Duif, Bufo, Scot Calvin Scholarship Fund	50,000	
Alena Malaika Asuma Otieno Memorial Fund	50,000	40,000
Total net assets with perpetuity restrictions	\$ 950,389	\$ 672,389

Net assets with perpetual donor restrictions included in pledges receivable totaled \$25,000 and \$33,250 at July 31, 2023 and 2022.

Palo Alto University, Inc.

Notes to the Financial Statements

Note 11 - Retirement Plan:

Retirement benefits are provided through a defined contribution plan under the Internal Revenue Code, Section 403(b) for University employees after completing consecutive three months of eligible service. Under the terms of the plan, the University has the option to make discretionary contributions to the plan. Eligible participants may contribute amounts not to exceed IRS limits. The University's contributions were \$727,384 and \$859,308 for the years ended July 31, 2023 and 2022, respectively.

The University also has 457(b) and 457(f) deferred compensation plans which provide eligible employees with the opportunity to defer a portion of their compensation and the University to make contributions for certain employees. For the 457(b) plan, deferrals are made at the discretion of the participants, subject to certain limitations. For the 457(f) plan, the contributions are made by the University on behalf of key employees. Total participant deferrals and employer contributions are \$33,000 as of July 31, 2023 and 2022. The assets related to participant deferrals and employer contributions are available to the general creditors of the University and are included in cash and cash equivalents and accounts payable and accrued expenses in the accompanying statement of financial position.

Note 12 - Other Commitments and Contingencies:

On August 30, 2016, 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 agreement commenced on September 1, 2016. By consent of both parties, this is an "evergreen contract" with no specific end date. According to the agreement, fees to Stanford are paid four times per academic year based on the number of students enrolled in the program and the University-Stanford faculty sharing of the 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's 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.

Palo Alto University, Inc.

Notes to the Financial Statements

Note 13 - Availability of Financial Assets and Liquidity:

The University's financial assets available within one year for general expenditures are as follows at July 31:

	2023	2022
Financial assets at year end:		
Cash and cash equivalents	\$ 12,095,828	\$ 13,791,640
Student receivables, net of allowance	8,798,334	8,847,558
Contributions receivable, net	341,067	278,485
Grants receivable	627,311	884,916
Investments	4,358,795	4,069,100
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Total financial assets	26,221,335	27,871,699
<hr/>		
Less amounts not available to be used within one year:		
Net assets with donor restrictions	(2,329,466)	(1,865,854)
Net assets designated by the Board	(11,900,319)	(12,583,762)
Long-term contributions receivable	(114,475)	(65,409)
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	(14,344,260)	(14,515,025)
<hr/>		
Financial assets available to meet general expenditures within one year	\$ 11,877,075	\$ 13,356,674
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The University's goal is generally to maintain financial assets to meet three months (90 days) of operating expenses (approximately \$8,500,000). As part of its liquidity plan, excess cash is invested in the short-term reserve fund. The University has a \$1,500,000 line of credit available for use and the Board can un-designate the Board-designated net assets and make them available for general operations.

Palo Alto University, Inc.

Notes to the Financial Statements

Note 14 - CONCEPT - Continuing & Professional Studies:

The University has contingent consideration and goodwill related to the acquisition of CONCEPT, LLC. The contingent consideration at the date of the acquisition of December 1, 2018 was \$413,000, net of a \$53,000 discount and is based on the University achieving certain revenue goals measured in the trailing fiscal years ending July 31, 2021, 2022, 2023 and 2024, successively. Based on the goals achieved through the first and second year, contingent consideration and goodwill were as follows at July 31:

	2023	2022
Goodwill	\$ 573,000	\$ 573,000
Contingent consideration		\$ 118,000

Note 15 - Net Asset Transfer:

The University analyzed donor intent for certain contributions and determined that it was necessary to reclass \$200,000 of contributions from net assets without donor restrictions to net assets with donor restrictions.