

PALO ALTO UNIVERSITY, INC.

JULY 31, 2021 AND 2020

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Palo Alto University, Inc.

Independent Auditors' Report and Financial Statements

Independent Auditors' Report	1 - 2
-------------------------------------	-------

Financial Statements

Statement of Financial Position	3
Statement of Activities and Change in Net Assets	4
Statement of Functional Expenses	5 - 6
Statement of Cash Flows	7
Notes to Financial Statements	8 - 23



A Century Strong

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 statement of financial position as of July 31, 2021 and 2020, and the related statements of activities and change in net assets, functional expenses, 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 University'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.

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, 2021 and 2020 and the change 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.

Hood + Strong LLP

San Francisco, California
November 29, 2021

Palo Alto University, Inc.

Statement of Financial Position

<i>July 31,</i>	2021	2020
Assets		
Current Assets:		
Cash and cash equivalents	\$ 14,969,722	\$ 10,522,927
Student receivables, net of allowance of \$828,499 for 2021 and \$881,314 for 2020	7,430,723	9,429,772
Contributions receivable, net	224,739	291,243
Grants receivable	625,889	669,147
Prepaid expenses and other assets	1,279,570	877,435
Total current assets	24,530,643	21,790,524
Investments	4,213,963	3,417,153
Contributions Receivable , net of current portion	13,496	20,610
Property and Equipment , net	8,412,330	8,329,001
Goodwill	573,000	573,000
Total assets	\$ 37,743,432	\$ 34,130,288
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 3,481,269	\$ 2,901,450
Deferred revenue	10,111,350	10,357,617
Contingent consideration	236,000	413,000
Other liabilities	178,604	198,559
Total liabilities	14,007,223	13,870,626
Net Assets:		
Without donor restrictions	21,605,145	18,662,431
With donor restrictions	2,131,064	1,597,231
Total net assets	23,736,209	20,259,662
Total liabilities and net assets	\$ 37,743,432	\$ 34,130,288

See accompanying notes to financial statements.

Palo Alto University, Inc.

Statement of Activities and Change in Net Assets

For the Year Ended July 31,

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:						
Gross tuition	\$ 30,349,690		\$ 30,349,690	\$ 28,219,357		\$ 28,219,357
Gross fees	4,083,558		4,083,558	3,855,439		3,855,439
	34,433,248		34,433,248	32,074,796		32,074,796
Less financial aid	(1,460,087)		(1,460,087)	(1,411,600)		(1,411,600)
Net tuition and fees	32,973,161		32,973,161	30,663,196		30,663,196
Contributions	309	\$ 244,269	244,578	60,779	\$ 60,963	121,742
Grants	1,688,353		1,688,353	838,249		838,249
Investment income	138,783	628,483	767,266	267,439	175,969	443,408
Program services income	1,582,220		1,582,220	1,055,903		1,055,903
Other	240,855		240,855	230,202		230,202
Net assets released from restrictions	338,919	(338,919)	-	166,724	(166,724)	-
Total revenues	36,962,600	533,833	37,496,433	33,282,492	70,208	33,352,700
Expenses:						
Program services:						
Instruction	20,955,843		20,955,843	20,872,506		20,872,506
Student services	4,507,073		4,507,073	4,307,724		4,307,724
Supporting services:						
Institutional support	8,256,923		8,256,923	7,421,195		7,421,195
Development	300,047		300,047	213,777		213,777
Total expenses	34,019,886	-	34,019,886	32,815,202	-	32,815,202
Change in Net Assets	2,942,714	533,833	3,476,547	467,290	70,208	537,498
Net Assets, beginning of period	18,662,431	1,597,231	20,259,662	18,195,141	1,527,023	19,722,164
Net Assets, end of period	\$ 21,605,145	\$ 2,131,064	\$ 23,736,209	\$ 18,662,431	\$ 1,597,231	\$ 20,259,662

See accompanying notes to financial statements.

Palo Alto University, Inc.

Statement of Functional Expenses

For the Year Ended July 31, 2021

	Student Services				Institutional Support			Development	Total
	Instruction	Library	Student Services	Total Student Services	General & Administrative	Sponsored Programs	Total Institutional Support		
Salaries and wages	\$ 12,683,148	\$ 395,598	\$ 2,114,983	\$ 2,510,581	\$ 2,885,730	\$ 742,975	\$ 3,628,705	\$ 185,859	\$ 19,008,293
Benefits	2,094,417	79,304	361,202	440,506	508,333	98,271	606,604	31,210	3,172,737
Total salaries and benefits	14,777,565	474,902	2,476,185	2,951,087	3,394,063	841,246	4,235,309	217,069	22,181,030
Consortium payments	3,356,167			-			-		3,356,167
Consultants	1,133,463	510	95,480	95,990	470,037	197,072	667,109	35,058	1,931,620
Rent	618,559			-	547,397	11,746	559,143		1,177,702
Professional dues and license	103,446	648	18,775	19,423	38,911	1,754	40,665		163,534
Building maintenance				-		193,770	193,770		193,770
Computer equipment			47	47		64,171	64,171		64,218
Digital material use fees	25,428	190,578		190,578		10,083	10,083		226,089
Audit services				-	135,250		135,250		135,250
Graduation	1,950		44,519	44,519	883		883		47,352
Recruiting and job fairs	2,203		9,668	9,668	76,293		76,293		88,164
Licensing fees				-	4,034		4,034		4,034
Travel and lodging	5,375		1,817	1,817	(158)	155	(3)		7,189
Meals and entertainment	8,331		2,923	2,923	300		300		11,554
Temporary agencies			2,545	2,545	29,636		29,636		32,181
Advertising and public relations	40,049		72,345	72,345	329,125		329,125		441,519
Bank and credit card charges	35,755			-	419,438		419,438		455,193
Bad debt				-	46,945		46,945		46,945
Community relations	28,861		40,371	40,371	36,481	538,412	574,893		644,125
Supplies	9,495	1,639	5,597	7,236	7,774	16,875	24,649	1,257	42,637
Utilities and telephone	107,900	3,998	18,672	22,670	26,982	55	27,037	989	158,596
Business insurance				-	276,479		276,479		276,479
Legal				-	86,683		86,683		86,683
Software site licenses	223,024	309,807	129,302	439,109	9,442	263,447	272,889	37,221	972,243
Depreciation and amortization	116,107	407,572	107,368	514,940	26,753	13,694	40,447	768	672,262
Other expenses	362,165	21,509	70,296	91,805	92,920	48,775	141,695	7,685	603,350
Total expenses	\$ 20,955,843	\$ 1,411,163	\$ 3,095,910	\$ 4,507,073	\$ 6,055,668	\$ 2,201,255	\$ 8,256,923	\$ 300,047	\$ 34,019,886

See accompanying notes to financial statements.

Palo Alto University, Inc.

Statement of Functional Expenses

For the Year Ended July 31, 2020

	Student Services				Institutional Support			Development	Total
	Instruction	Library	Student Services	Total Student Services	General & Administrative	Sponsored Programs	Total Institutional Support		
Salaries and wages	\$ 12,382,517	\$ 440,513	\$ 1,980,395	\$ 2,420,908	\$ 2,776,250	\$ 656,162	\$ 3,432,412	\$ 152,556	\$ 18,388,933
Benefits	2,009,397	83,854	338,666	422,520	505,103	79,691	584,794	24,246	3,040,957
Total salaries and benefits	14,391,914	524,367	2,319,061	2,843,428	3,281,353	735,853	4,017,206	176,802	21,429,350
Consortium payments	3,437,528			-			-		3,437,528
Consultants	674,596	5,158	60,088	65,246	636,854	88,762	725,616	7,510	1,472,968
Rent	642,879			-	532,411	24,641	557,052		1,199,931
Professional dues and license	78,065	289	19,749	20,038	41,215	490	41,705	1,565	141,373
Building maintenance	84,274			-		14,783	14,783		99,057
Computer equipment			1,310	1,310	18,453	10,645	29,098		30,408
Digital material use fees	23,702	250,023		250,023		11,509	11,509		285,234
Audit services				-	138,927		138,927		138,927
Graduation			26,247	26,247			-		26,247
Recruiting and job fairs	19,214		88,783	88,783	98,187		98,187		206,184
Licensing fees	3,640			-	33,250		33,250		36,890
Travel and lodging	150,107	2,754	48,569	51,323	43,036	3,163	46,199	2,629	250,258
Meals and entertainment	44,732	614	46,777	47,391	73,996	2,913	76,909	316	169,348
Temporary agencies	45,909	536	16,532	17,068	198,257		198,257		261,234
Advertising and public relations	119,277		44,051	44,051	89,278		89,278		252,606
Bank and credit card charges	21,114			-	384,837		384,837	19,190	425,141
Bad debt				-	194,928		194,928		194,928
Community relations	16,846	106	11,057	11,163	61,688	47,944	109,632		137,641
Supplies	22,595	3,466	17,430	20,896	26,551	3,838	30,389	756	74,636
Utilities and telephone	107,114	3,653	15,825	19,478	27,841		27,841	85	154,518
Business insurance				-	267,620		267,620		267,620
Legal				-	44,707		44,707		44,707
Software site licenses	187,021	251,007	172,530	423,537	20,869	45,522	66,391		676,949
Depreciation and amortization	423,886	219,692	47,848	267,540	10,269	12,033	22,302	664	714,392
Other expenses	378,093	28,002	82,200	110,202	161,714	32,858	194,572	4,260	687,127
Total expenses	\$ 20,872,506	\$ 1,289,667	\$ 3,018,057	\$ 4,307,724	\$ 6,386,241	\$ 1,034,954	\$ 7,421,195	\$ 213,777	\$ 32,815,202

See accompanying notes to financial statements.

Palo Alto University, Inc.

Statement of Cash Flows

<i>For the Year Ended July 31,</i>	2021	2020
Cash Flows from Operating Activities:		
Change in net assets	\$ 3,476,547	\$ 537,498
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	672,262	714,392
Loss on disposal of property and equipment	86,229	
Change in discount and allowance on contributions receivable	(885)	(7,191)
Net gain on investments	(628,073)	(433,904)
Changes in operating assets and liabilities:		
Student receivables	1,999,049	(1,121,329)
Contributions receivable	74,503	175,916
Grants receivable	43,258	(152,745)
Prepaid expenses and other assets	(402,135)	(46,251)
Accounts payable and accrued expenses	206,439	(483,410)
Deferred revenue	(246,267)	810,492
Contingent consideration	(177,000)	
Other liabilities	(19,955)	10,462
Net cash provided by operating activities	5,083,972	3,930
Cash Flows from Investing Activities:		
Purchase of investments	(1,874,682)	(2,597,106)
Proceeds from the sale of investments	1,705,945	2,573,001
Purchase of property and equipment	(468,440)	(396,725)
Net cash used by investing activities	(637,177)	(420,830)
Net Change in Cash and Cash Equivalents	4,446,795	(416,900)
Cash and Cash Equivalents, beginning of the period	10,522,927	10,939,827
Cash and Cash Equivalents, end of the period	\$ 14,969,722	\$ 10,522,927
Non-cash Investing and Financing Activities		
Property and equipment included in accounts payable and accrued expenses	\$ 373,380	

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 (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) and, accordingly, reflect all significant receivables, payables, and other liabilities.

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 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 Grants Receivable

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 represents fair 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. 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, 2021.

j. Revenue Recognition

Student receivables are recorded when students are billed. Tuition and fee revenues are recorded as earned 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 2021-2022 school year as of July 31, 2021 in the amount of \$10,058,337 are recorded as deferred revenue, a contract liability. Deferred revenue as of July 31, 2020 of \$10,260,327 was recognized as revenue during the year ended July 31, 2021.

Palo Alto University, Inc.

Notes to the Financial Statements

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 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 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 discounted at an appropriate discount rate. 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, 2021 and 2020.

Grant revenues are recognized as grant expenditures are incurred. Grant proceeds received in advance of grant expenditures as of July 31, 2021 in the amount of \$53,012 are recorded as deferred revenue, a contract liability. Deferred revenue related to grants as of July 31, 2020 of \$97,290 was recognized as revenue during the year ended July 31, 2021.

Program services income includes the Gronowski Center teaching clinic and CONCEPT (see Note 15) 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, 2021 and 2020, there was no deferred revenue recorded as these amounts were not material.

k. Advertising Expenses

The University's policy is to expense advertising costs as they are incurred. Advertising costs for the year ended July 31, 2021 and 2020 were \$441,519 and \$252,606, respectively.

l. Functional Expense Allocations

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

Palo Alto University, Inc.

Notes to the Financial Statements

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, 2021 and 2020, 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 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.

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.

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.

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

Palo Alto University, Inc.

Notes to the Financial Statements

p. Recent Accounting Pronouncements

Pronouncements effective in the future

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-02, *Leases (Topic 842)*. The amendments in this update will supersede much of the existing authoritative guidance for leases. This guidance requires lessees, among other things, to recognize right-of-use assets and liabilities on their balance sheet for all leases with lease terms longer than twelve months. The standard will be effective for the University for its fiscal year beginning after December 15, 2021 with early application permitted. Entities are required to use the modified retrospective application for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements with the option to elect certain transition reliefs. The University is currently evaluating the impact of this pronouncement on its financial statements.

q. Subsequent Events

The University evaluated subsequent events from July 31, 2021 through November 29, 2021, 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, except as noted in Notes 4, 5, and 15.

Note 2 - Investments and Fair Value Measurements:

The table below presents the balances of assets measured at fair value at July 31, 2021 on a recurring basis:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and money market funds	\$ 353,990	\$ 353,990		
Bonds and fixed income funds	1,045,001	1,045,001		
Equity funds	2,192,005	2,192,005		
Alternative strategy funds	553,442	553,442		
Common stock – privately held companies	69,525			\$ 69,525
Total	\$ 4,213,963	\$ 4,144,438	\$ -	\$ 69,525

Palo Alto University, Inc.

Notes to the Financial Statements

The table below presents the balances of assets measured at fair value at July 31, 2020 on a recurring basis:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and money market funds	\$ 264,981	\$ 264,981		
Bonds and fixed income funds	1,034,986	1,034,986		
Equity funds	1,748,478	1,748,478		
Alternative strategy funds	299,183	299,183		
Common stock – privately held companies	69,525			\$ 69,525
Total	\$ 3,417,153	\$ 3,347,628	\$ -	\$ 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, 2021 and 2020.

There were no changes in Level 3 assets and liabilities measured on a recurring basis for the years ended July 31, 2021 and 2020.

Note 3 - Contributions Receivable:

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

	<u>2021</u>	<u>2020</u>
Unconditional promises to be collected in the short-term:		
Less than one year (net of allowance for uncollectible contributions of \$57,158 for 2021 and 2020)	\$ 224,739	\$ 291,243
Unconditional promises to be collected in the long-term:		
Two to five years	20,294	15,334
More than five years		12,960
Less discount to present value	20,294 (6,798)	28,294 (7,683)
Net long-term contributions receivable	\$ 13,496	\$ 20,610

Palo Alto University, Inc.

Notes to the Financial Statements

Note 4 - Property and Equipment:

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

	2021	2020
Land	\$ 2,950,000	\$ 2,950,000
Building	4,961,022	4,927,110
Furniture and equipment	3,891,747	3,840,863
Library books	1,481,452	1,409,320
Software	1,841,055	1,623,503
Construction in progress	558,175	177,064
	<hr/>	<hr/>
	15,683,451	14,927,860
Less accumulated depreciation and amortization	(7,271,121)	(6,598,859)
	<hr/>	<hr/>
	\$ 8,412,330	\$ 8,329,001

Included in construction in progress are costs of \$450,655 incurred for the Retaining Wall project. Due to permit delays and COVID-19, the project was not completed until September 2021. The scope of work increased resulting in a total cost of \$892,000 due to a crack in the existing parking lot exacerbated by rain.

Depreciation and amortization expense for the years ended July 30, 2021 and 2020 was \$672,262 and \$714,392, respectively

Note 5 - Leases:

The University leases classroom and clinical space under noncancelable operating leases with monthly payments ranging from \$85,412 to \$97,703 and expiring at various times through October 2024. One classroom space lease provides the University with an option to extend the lease for three years.

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

Year ending July 31,	
2022	\$ 1,072,900
2023	1,105,100
2024	1,138,300
2025	293,100
	<hr/>
Total minimum lease payments	\$ 3,609,400

Palo Alto University, Inc.

Notes to the Financial Statements

Total rent expense under the above operating leases was approximately \$1,024,300 for the years ended July 31, 2021 and 2020, respectively.

The University terminated its classroom and clinical space leases 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.

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.

Note 6 - Credit Agreements:

The University has a \$1,500,000 line of credit with Comerica Bank. As of July 31, 2021 and 2020, 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. At July 31, 2021 and 2020, the University was in compliance with all of the covenants.

The University has no outstanding debt at July 31, 2021 and therefore its maximum annual debt service would be zero for the year ending in 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 \$167,981 and \$263,485 at July 31, 2021 and 2020, respectively. The contributions received from employees of the University and members of its Board of Trustees totaled \$70,454 and \$61,025 at July 31, 2021 and 2020, respectively.

Note 8 - Net Assets Without Donor Restrictions:

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

	2021	2020
Board designated	\$ 12,781,814	\$ 11,077,112
Undesignated	8,823,331	7,585,319
	<hr/>	<hr/>
	\$ 21,605,145	\$ 18,662,431

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:

	2021	2020
Quasi-endowment	\$ 3,312,860	\$ 2,651,617
Liquidity reserve	9,468,954	8,425,495
	<hr/>	<hr/>
	\$ 12,781,814	\$ 11,077,112

Note 9 - Net Assets With Donor Restrictions:

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

	2021	2020
Endowments restricted in perpetuity by donors subject to spending policy and appropriation	\$ 623,889	\$ 601,239
	<hr/>	<hr/>
Project and program purpose restriction:		
Student fellowships	24,127	87,427
Faculty chair	79,167	6,167
Other programs	1,403,881	902,398
	<hr/>	<hr/>
	1,507,175	995,992
	<hr/>	<hr/>
	\$ 2,131,064	\$ 1,597,231

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 year ended July 31:

	2021	2020
Expiration of time restrictions	\$ 263,919	\$ 162,265
Purpose restriction met:		
Student fellowship	75,000	4,459
	<hr/>	<hr/>
	\$ 338,919	\$ 166,724

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, 2021 and 2020, there were no such amounts.

Endowment net asset composition as of July 31, 2021 was:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted		\$ 623,889	\$ 623,889
Board designated	\$ 3,312,860		3,312,860
<u>Total funds</u>	<u>\$ 3,312,860</u>	<u>\$ 623,889</u>	<u>\$ 3,936,749</u>

Palo Alto University, Inc.

Notes to the Financial Statements

Changes in endowment net assets for the year ended July 31, 2021 were as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions Time or Purpose</u>	<u>Perpetuity</u>	<u>Total</u>
Endowment Net Assets, beginning of year	\$ 2,651,617		\$ 601,239	\$ 3,252,856
Investment income	66,813	\$ 117,500		184,313
Net gain (realized and unrealized)	594,430			594,430
Contributions			22,650	22,650
Appropriated for Expenditure		(117,500)		(117,500)
 Change in endowment net assets	 661,243	 -	 22,650	 683,893
 Endowment Net Assets, end of year	 \$ 3,312,860	 \$ -	 \$ 623,889	 \$ 3,936,749

Endowment net asset composition as of July 31, 2020 was:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted		\$ 601,239	\$ 601,239
Board designated	\$ 2,651,617		2,651,617
 Total funds	 \$ 2,651,617	 \$ 601,239	 \$ 3,252,856

Palo Alto University, Inc.

Notes to the Financial Statements

Changes in endowment net assets for the year ended July 31, 2020 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	\$ 2,240,602		\$ 594,739	\$ 2,835,341
Investment income	40,707	\$ 39,969		80,676
Net gain (realized and unrealized)	170,308			170,308
Transfers	200,000			200,000
Contributions			6,500	6,500
Appropriated for Expenditure		(39,969)		(39,969)
 Change in endowment net assets	 411,015	 -	 6,500	 417,515
 Endowment Net Assets, end of year	 \$ 2,651,617	 \$ -	 \$ 601,239	 \$ 3,252,856

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

	2021	2020
Gronowski Clinic	\$ 415,076	\$ 403,976
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	61,453	57,803
Robin Welles Kostenbauder Scholarship Fund	3,000	
Otieno Family Undergraduate Scholarship Fund	4,900	
 Total net assets with perpetuity restrictions	 \$ 623,889	 \$ 601,239

Net assets with donor restrictions included in pledges receivable totaled \$3,250 and \$38,750 at July 31, 2021 and 2020.

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 \$709,046 and \$679,834 for the years ended July 31, 2021 and 2020, 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, 2021 and 2020. 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 of July 31, 2021 for general expenditures are as follows:

	2021	2020
Financial assets at year-end:		
Cash and cash equivalents	\$ 14,969,722	\$ 10,522,927
Student receivables, net of allowance	7,430,723	9,429,772
Contributions receivable, gross	238,235	311,853
Grants receivable	625,889	669,147
Investments	4,213,963	3,417,153
<hr/>		
Total financial assets	27,478,532	24,350,852
<hr/>		
Less amounts not available to be used within one year:		
Net assets with donor restrictions	(2,131,064)	(1,597,231)
Net assets designated by the board	(12,784,314)	(11,077,112)
Long term contributions receivable	(13,496)	(20,610)
Add net assets with time and purpose restrictions to be met within one year	252,822	134,928
<hr/>		
	(14,676,052)	(12,560,025)
<hr/>		
Financial assets available to meet general expenditures within one year	\$ 12,802,480	\$ 11,790,827
<hr/>		

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 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, 2020, 2021, 2022 and 2023, successively. Based on the goals achieved through the first and second year, contingent consideration and goodwill were as follows at July 31:

	2021	2020
Goodwill	\$ 573,000	\$ 573,000
Contingent consideration	\$ 236,000	\$ 413,000

Note 15 - Impact of the COVID-19 Pandemic on Operations:

The COVID-19 global pandemic and the University guidelines for in-person learning have continued to impact the University's operations in many ways, including cancellation of many public facing and fundraising events. Other financial impacts could occur though such potential impact is unknown at this time.

For the 2021 - 2022 school year, the University has enrolled approximately 1,142 students and opened for hybrid and virtual learning to all students.