

Saybrook University

Financial Report
May 31, 2022

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RSM US LLP

Independent Auditor's Report

Board of Trustees
Saybrook University

Opinion

We have audited the financial statements of Saybrook University, Ltd. (the University), which comprise the statements of financial position as of May 31, 2022 and 2021, the related statements of activities 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 May 31, 2022 and 2021, 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

RSM US LLP

Chicago, Illinois
October 28, 2022

Saybrook University

Statements of Financial Position May 31, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	\$ 7,512,647	\$ 6,390,900
Student accounts receivable, net of allowances of \$145,527 and \$77,819, respectively	287,582	318,152
Prepaid expenses	94,230	103,818
Other accounts receivable	112,609	50,154
Loans receivable from officers	13,918	71,595
Investments	8,145,114	7,242,741
Other assets	123,188	109,589
Property and equipment, net	107,440	44,335
Intangible assets, net	642,690	672,669
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Total assets	\$ 17,039,418	\$ 15,003,953
Liabilities and Net Assets		
Accounts payable	\$ 8,411	\$ 13,659
Student refunds payable	491,243	121,073
Accrued compensation and related expenses	1,023,593	834,010
Due to affiliates, net	218,657	33,377
Other accrued expenses	31,528	155,818
Deferred revenue and tuition deposits	2,167,162	2,014,035
Deferred rent	17,773	17,615
Other payables	67,082	87,215
Other liabilities	111,188	97,589
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Total liabilities	4,136,637	3,374,391
Net assets:		
Without donor restrictions	11,894,190	10,469,866
With donor restrictions	1,008,591	1,159,696
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Total net assets	12,902,781	11,629,562
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Total liabilities and net assets	\$ 17,039,418	\$ 15,003,953

See notes to financial statements.

Saybrook University

**Statement of Activities
Year Ended May 31, 2022**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:			
Tuition revenue	\$ 17,269,466	\$ -	\$ 17,269,466
Less scholarships	(1,130,589)	-	(1,130,589)
Net tuition revenue	16,138,877	-	16,138,877
Fee revenue	3,462,655	-	3,462,655
Grant revenue	709,587	-	709,587
Other school revenue	17,301	-	17,301
Contributions	23,738	48,893	72,631
Net assets released from restrictions	74,973	(74,973)	-
Total revenue	20,427,131	(26,080)	20,401,051
Expenses:			
Program services:			
Educational services and facilities	8,346,706	-	8,346,706
Student services	2,893,801	-	2,893,801
Total program services	11,240,507	-	11,240,507
Management, general and administrative	6,960,214	-	6,960,214
Fundraising	385,143	-	385,143
Total expenses	18,585,864	-	18,585,864
Increase (decrease) in net assets before non-operating activities	1,841,267	(26,080)	1,815,187
Non-operating activities:			
Interest and dividends, net	88,271	22,314	110,585
Net losses on investments	(496,750)	(147,339)	(644,089)
Other non-operating income	(8,464)	-	(8,464)
Total non-operating activities	(416,943)	(125,025)	(541,968)
Change in net assets	1,424,324	(151,105)	1,273,219
Net assets, beginning of year	10,469,866	1,159,696	11,629,562
Net assets, end of year	\$ 11,894,190	\$ 1,008,591	\$ 12,902,781

See notes to financial statements.

Saybrook University

**Statement of Activities
Year Ended May 31, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:			
Tuition revenue	\$ 14,109,729	\$ -	\$ 14,109,729
Less scholarships	(785,790)	-	(785,790)
Net tuition revenue	13,323,939	-	13,323,939
Fee revenue	2,646,591	-	2,646,591
Grant revenue	236,405	-	236,405
Other school revenue	12,723	-	12,723
Contributions	16,358	41,055	57,413
Net assets released from restrictions	124,583	(124,583)	-
Total revenue	16,360,599	(83,528)	16,277,071
Expenses:			
Program services:			
Educational services and facilities	6,681,249	-	6,681,249
Student services	2,386,044	-	2,386,044
Total program services	9,067,293	-	9,067,293
Management, general and administrative	4,661,416	-	4,661,416
Fundraising	195,243	-	195,243
Total expenses	13,923,952	-	13,923,952
Increase (decrease) in net assets before non-operating activities	2,436,647	(83,528)	2,353,119
Non-operating activities:			
Interest and dividends, net	65,731	17,493	83,224
Net gains on investments	517,533	256,205	773,738
Other non-operating income	21,791	-	21,791
Total non-operating activities	605,055	273,698	878,753
Change in net assets	3,041,702	190,170	3,231,872
Net assets, beginning of year	7,428,164	969,526	8,397,690
Net assets, end of year	\$ 10,469,866	\$ 1,159,696	\$ 11,629,562

See notes to financial statements.

Saybrook University

Statements of Cash Flows
Years Ended May 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 1,273,219	\$ 3,231,872
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	56,491	37,119
Bad debt reserve	67,708	(269,407)
Forgiveness of loans receivable from officers	57,677	37,139
Net losses (gains) on investments	644,089	(773,738)
Other non-operating income	8,464	(21,791)
Changes in assets and liabilities:		
Student accounts receivable	(37,138)	137,221
Other accounts receivable	(62,455)	(34,971)
Prepaid expenses	9,588	22,579
Due from affiliates, net	-	49,686
Other assets	(22,063)	(21,665)
Accounts payable	(5,248)	(12,552)
Student refunds payable	370,170	39,591
Accrued compensation and related expenses	189,583	314,648
Other accrued expenses	(124,290)	140,634
Other payables	(20,133)	6,785
Deferred revenue and tuition deposits	153,127	990,055
Due to affiliates, net	185,280	33,377
Other liabilities	13,599	43,456
Deferred rent	158	5,985
Net cash provided by operating activities	2,757,826	3,956,023
Cash flows from investing activities:		
Purchases of property and equipment	(89,617)	(51,474)
Purchases of investments	(4,907,157)	(3,817,997)
Proceeds from sales of investments	3,360,695	1,666,919
Net cash used in investing activities	(1,636,079)	(2,202,552)
Net increase in cash and cash equivalents	1,121,747	1,753,471
Cash and cash equivalents, beginning of the year	6,390,900	4,637,429
Cash and cash equivalents, end of the year	\$ 7,512,647	\$ 6,390,900

See notes to financial statements.

Saybrook University

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: Saybrook University (the University), a California nonprofit public benefit corporation located in Pasadena, California, is a post-graduate university accredited by the Accrediting Commission for Senior Colleges and Universities of the Western Association of Schools and Colleges.

The University comprises two schools: the College of Social Sciences, which offers degrees in Humanistic and Clinical Psychology, Counseling (M.A.), Leadership and Management (M.A. and Ph.D. in Organizational Systems and M.A. in Management) and Transformative Social Change (M.A. and Ph.D.); and the College of Integrative Medicine and Health Sciences, which offers degrees in Mind-Body Medicine (M.A. and Ph.D.) and Integrative and Functional Nutrition (M.S.). The University also offers certificates, continuing education and professional studies in several of these areas. The learning model includes online-hybrid and residential formats. The University's mission is to provide rigorous graduate education that inspires transformational change in individuals, organizations and communities, toward a just, humane and sustainable world.

On March 4, 2014, the University entered into an affiliation with TCS Education System, a 501(c)(3) organization recognized by the Internal Revenue Service as a Type II supporting organization (the System). Under the terms of the Affiliation Agreement, the System became the sole and exclusive member of the University effective March 4, 2014.

Accounting policies: The University follows accounting standards established by the Financial Accounting Standards Board (FASB) to ensure consistent reporting of financial condition. References to Generally Accepted Accounting Principles (GAAP) in these footnotes are to the FASB Accounting Standards Codification™, sometimes referred to as the Codification or ASC.

Management's use of estimates: The preparation of the financial statements in conformity with GAAP in the United States of America requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

Financial statement presentation: To ensure observance of limitations and restrictions placed on the use of resources available to the University, resources are classified for accounting and financial reporting purposes into categories established according to their nature and purposes. The assets, liabilities and net assets of the University are reported in two categories as follows:

Without donor restrictions: Net assets that are not subject to donor-imposed restrictions. Without donor restriction net assets include the revenues and expenses of the primary operations of the University.

With donor restrictions: Net assets subject to donor-imposed stipulations that require they be maintained permanently or that may or will be met either by actions of the University and/or the passage of time.

Revenues are considered to be available without donor restrictions unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as donor-restricted support that increases that net asset class. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Contributions restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions are met in the fiscal year in which the contributions are received. Expirations of net assets with donor restrictions are reported as reclassifications between the applicable classes of net assets.

Saybrook University

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Cash and cash equivalents: The University considers short-term, highly liquid investments that are readily convertible to known amounts of cash, and so near their maturity that they present an insignificant risk of change in value from changes in interest rates, and that have an original maturity of three months or less when purchased, to be cash equivalents. The University maintains funds in accounts in excess of Federal Deposit Insurance Corporation insurance limits, but minimizes this risk by maintaining deposits in high-quality financial institutions. The University has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Student accounts receivable: Student accounts receivable consist primarily of amounts due to the University from its students. The University maintains an allowance for doubtful accounts to reflect the expected amount of student accounts receivable that will not be realized based on past collection history and risks identified among uncollectible accounts. Student accounts receivable are charged to the allowance for doubtful accounts when the University determines the receivable is not collectible. Write-offs for the years ended May 31, 2022 and 2021, were \$129,243 and \$155,075, respectively. Bad debt expense for the years ended May 31, 2022 and 2021, were \$198,418 and (\$114,432), respectively. The University evaluates each student's creditworthiness on a case-by-case basis. The University identified Higher Education Emergency Relief Fund (HEERF) Fund for the Improvement of Postsecondary Education (FIPSE) Formula Grant funds to forgive student accounts receivable. The University re-evaluated the allowance for the students that were identified for forgiveness and realized a credit for (\$147,494) for a net bad debt expense of (\$114,432) as of May 31, 2021.

Loans receivable from officers: Loans receivable from officers represents loan balances outstanding from two officers. The loans are due in three equal annual installments, beginning June 1, 2020, but are forgivable, contingent upon certain ongoing employment requirements. The University forgave \$57,677 and \$37,139 for the years ended May 31, 2022 and 2021, respectively.

Investments: The University accounts for its investments at fair value, except for certificates of deposit which are valued at amortized cost. Realized gains and losses on sales of securities represent the difference between net proceeds received and the cost of the investments. Realized and unrealized gains and losses are included in the statements of activities and gains and/or losses are allocated to net asset classes, dependent upon donor specifications. If the underlying restriction is met in the same period, realized gains and/or losses are reported under unrestricted net asset classes.

Investment expenses are reported as a reduction of dividend and interest income on investments. The University's investments include various types of investment securities and investment vehicles. Investment securities are exposed to several risks, such as interest rates, currency, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the University's financial statements.

Other assets: Other assets consists primarily of assets held for 457(b) deferred compensation plan for the University president.

Saybrook University

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Property and equipment: Property and equipment, including acquisition fees and other acquisition costs incurred, are stated at cost or, in the case of contributions, at fair value at date of receipt. The University capitalizes property and equipment with a value of \$2,500 or more and an estimated useful life of one year or more. Significant renovations and improvements, which improve or extend the useful life of the asset, are capitalized.

Depreciation and amortization of property and equipment are accounted for using the straight-line method over the estimated useful lives of the assets as follows:

Furniture and fixtures	5-7 years
Computer equipment and software	3-5 years
Leasehold improvements	Shorter of lease term or useful life

Definite life intangible assets: Accreditation and trade name were recorded at their estimated fair value at the date of acquisition by the System and are being amortized over their estimated useful lives using the straight-line method.

Definite life intangible assets, along with long-lived assets used by the University, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. When such factors indicate that assets should be evaluated for possible impairment, the University performs an analysis, comparing the carrying value of the assets to future undiscounted cash flows of the assets. The carrying value of the assets is adjusted to fair value if the sum of the expected undiscounted future cash flows is less than book value. There was no impairment recorded during the years ended May 31, 2022 and 2021.

Student refunds payable: Student refunds payable represent the excess of loan proceeds over total tuition due that was subsequently paid to the students.

Revenue recognition and deferred revenue: The University receives revenues from various sources. Revenues are recognized as follows:

Tuition revenues are recognized ratably over the length of a course when instructional services are provided. As part of the requirements for completion of courses, students are required to pay other fees associated with courses in addition to tuition, which include a University Resources Fee, Student Activities Fee, Internship/Practicum Fee and Dissertation Fees. These fees are recognized as service revenue over time corresponding to the instructional period, similar to tuition. The University also charges certain fees such as Application Fees, Late Fees, Payment Plan Fee, Returned Check Fee, Transcript Fee, Degree Conferral Fee and administrative fees that are recognized at the time of assessment.

Tuition and fees may be refunded to students upon withdrawal of attendance prior to the Add/Drop period. After one week and up to until 60% of the course is completed, withdrawal will result in a refund of tuition and fees in proportion to the percentage not attended. No refund is given if a student withdraws after 60% of the course is completed. These refunds reduce tuition and fee revenue at the point in time they occur. All refunds related to withdrawals are fully recognized by each semester end.

The University utilizes the portfolio approach to apply the revenue recognition standard to tuition and fee revenue. Tuition and fees received in advance of services rendered are recorded as deferred revenue. Scholarships and discounts are recorded net of revenues.

Saybrook University

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Grant revenue represents conditional contributions received from governmental agencies in connection with COVID-19 relief. Revenue is recognized when the related conditions are satisfied, generally when qualifying expenditures are incurred.

Contributions: In accordance with ASC 958-605, Not-for-Profit Entities, contributions in the form of an unconditional promise to give are recognized as revenue by the University in the period in which the promise is received. Conditional promises to give are recognized as revenue when the conditions are met. Amounts expected to be collected in future years are recorded at the present value of estimated cash flows. The discounts on those contributions are computed using a rate, commensurate with the risks involved. Amortization of the discount is included in contribution revenue.

Advertising: Advertising and marketing costs are expensed as incurred. Advertising and marketing expenses amounted to \$3,833,602 and \$2,001,146 for the years ended May 31, 2022 and 2021, respectively.

Leases: Operating leases are recognized on a straight-line basis over the term of the lease. Deferred rent is a result of rent escalation clauses in building leases, representing the differences between the straight-line rent expense recorded and the expected cash payment made on a monthly basis.

Income taxes: The University has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of the State of California law.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the University may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the University and various positions related to the potential sources of unrelated business taxable income. There were no unrecognized tax benefits identified or recorded as liabilities for the years ended May 31, 2022 and 2021. The University annually files Form 990 in the U.S. federal jurisdiction and in the State of California.

Recent accounting pronouncements: In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for the University in the fiscal year ending May 31, 2023. The University is currently evaluating the impact of the adoption of the standard on its financial statements.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, requiring an entity to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The guidance in this ASU also requires an entity to disclose the contributed nonfinancial assets by category that identifies the type of nonfinancial asset and disclosure of certain required information. The new standard is effective for the University in the fiscal year ending May 31, 2023. The University is currently evaluating the impact of the adoption of the standard in its financial statements.

Saybrook University

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Risks and uncertainties: On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a “Public Health Emergency of International Concern” and on March 11, 2020, declared COVID-19 a pandemic. COVID-19 has had minimal impact on the operations, financials, and academic program offerings of the University since its operations and programs are almost exclusively online. The University continues to experience strong enrollment growth despite the restrictions put in place by local governments to mitigate the spread of COVID-19. The University will continue to monitor the impacts of COVID-19 on future financial performance.

Note 2. Financial Assets Availability and Liquidity

The University regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the University considers general expenditures to be all expenditures related to its ongoing mission-related activities, as well as the conduct of services undertaken to support those activities.

	2022	2021
Cash and cash equivalents	\$ 7,512,647	\$ 6,390,900
Student accounts receivable, net	287,582	318,152
Other accounts receivable	112,609	50,154
Investments	8,145,114	7,242,741
Other assets (457(b) Plan Assets)	111,188	97,589
Financial assets, May 31, 2022	<u>16,169,140</u>	<u>14,099,536</u>
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restrictions by donor with time or purpose restrictions	(1,008,591)	(1,159,696)
Retirement plan assets	(111,188)	(97,589)
Board designation—liquidity reserve	<u>(4,254,905)</u>	<u>(3,497,324)</u>
Financial assets available to meet cash needs, for general expenditures within one year	<u>\$ 10,794,456</u>	<u>\$ 9,344,927</u>

The University generally maintains available cash, cash equivalents and short-term investments to meet 90 days of normal operating expenses, which are, on average, approximately \$5,000,000. Excess operating cash balances are invested in a money market deposit account, which offers daily liquidity. Although the University does not intend to spend from its liquidity reserve in the fiscal year ending May 31, 2022, these amounts could be made available if approved by the Board of Trustees. In addition, the University has access to a line of credit of \$17,500,000 through the affiliation with TCS Education System. The University also operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

Saybrook University

Notes to Financial Statements

Note 3. Investments

The University's investment strategy incorporates a diversified asset allocation approach. This strategy provides the University with a long-term and short-term asset mix that is most likely to meet the University's return goals with the appropriate level of risk. The University's management and the finance, investment and audit committee of the System's Board of Trustees review reports provided by the fund managers and attend meetings of the fund managers in order to evaluate the risk associated with these investments. In addition, the System's finance, investment and audit committee monitors its portfolio mix to ensure that it is in accordance with Board of Trustees' policy.

State law permits the Board of Trustees to appropriate as much of the net appreciation of the investments as is prudent considering the University's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. The University has certain policies and procedures with respect to the maintenance and application of its funds.

The composition of investment assets held by the University is summarized as follows at May 31, 2022 and 2021:

	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Equity mutual funds	\$ 3,324,098	\$ 3,562,154	\$ 2,216,383	\$ 3,003,493
Fixed income mutual funds	1,876,963	1,707,881	1,341,246	1,358,213
Real estate investment trust mutual funds	245,840	285,678	188,855	231,991
Commercial paper	1,679,145	1,676,619	2,095,658	2,099,088
Corporate bonds	914,892	912,782	309,663	304,349
Certificates of deposit	-	-	245,000	245,607
Total	<u>\$ 8,040,938</u>	<u>\$ 8,145,114</u>	<u>\$ 6,396,805</u>	<u>\$ 7,242,741</u>

Note 4. Fair Value Measurements

The University follows ASC Topic 820, Fair Value Measurements and Disclosures, which provides the framework for measuring fair value under GAAP. This Topic applies to all financial instruments that are being measured and reported on a fair value basis. As defined in the Topic, 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. In determining fair value, the University uses various methods including market, income and cost approaches. Based on these approaches, the University often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable inputs. The University utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used on the valuation techniques, the University is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

Saybrook University

Notes to Financial Statements

Note 4. Fair Value Measurements (Continued)

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1:** Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 assets primarily include listed equities, money market funds, government securities and mutual funds. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2:** Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities. Level 2 assets primarily include equities traded in over-the-counter markets.
- Level 3:** Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The University's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

For the fiscal years 2022 and 2021, the application of valuation techniques applied to similar assets and liabilities has been consistent with techniques used in previous years. The valuation methodologies used for instruments at fair value are described below:

The University holds mutual fund investments in equities, fixed income securities and real estate investment trusts. Investments in securities traded on a national securities exchange, or reported on the NASDAQ national market, are stated at the last reported sales price on the day of valuation; other securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price. The fair value of corporate bonds is estimated using market price quotes corroborated by recently executed transactions observable in the market.

In certain cases, the inputs the University assesses the levels of financial instruments at each measurement date. The fair value of commercial paper is estimated using market pricing and other observable market inputs for the same or similar securities obtained from a number of industry standard data providers. Certificates of deposit are held at amortized cost.

Saybrook University

Notes to Financial Statements

Note 4. Fair Value Measurements (Continued)

The following table presents the University's fair value hierarchy for those assets measured at fair value on a recurring basis as of May 31, 2022 and 2021:

Description	2022			Total
	Fair Value Measurements Using			
	(Level 1)	(Level 2)	(Level 3)	
Investments				
Mutual funds:				
Equity securities	\$ 3,562,154	\$ -	\$ -	\$ 3,562,154
Fixed income	1,707,881	-	-	1,707,881
Real estate investment trusts	285,678	-	-	285,678
Total mutual funds	5,555,713	-	-	5,555,713
Commercial paper	-	1,676,619	-	1,676,619
Corporate bonds	-	912,782	-	912,782
Total equity and fixed income	\$ 5,555,713	\$ 2,589,401	\$ -	8,145,114
Certificates of deposit				-
Total investments				\$ 8,145,114
Other assets:				
Total equity securities held for deferred compensation	\$ 111,188	\$ -	\$ -	\$ 111,188
Description	2021			Total
	Fair Value Measurements Using			
	(Level 1)	(Level 2)	(Level 3)	
Investments				
Mutual funds:				
Equity securities	\$ 3,003,493	\$ -	\$ -	\$ 3,003,493
Fixed income	1,358,213	-	-	1,358,213
Real estate investment trusts	231,991	-	-	231,991
Total mutual funds	4,593,697	-	-	4,593,697
Commercial paper	-	2,099,088	-	2,099,088
Corporate bonds	-	304,349	-	304,349
Total equity and fixed income	\$ 4,593,697	\$ 2,403,437	\$ -	6,997,134
Certificates of deposit				245,607
Total investments				\$ 7,242,741
Other assets:				
Total equity securities held for deferred compensation	\$ 97,589	\$ -	\$ -	\$ 97,589

Saybrook University

Notes to Financial Statements

Note 5. Property and Equipment

Property and equipment at May 31, 2022 and 2021, consist of the following:

	2022	2021
Computer equipment	\$ 399,209	\$ 319,436
Computer software	39,439	39,439
Furniture and fixtures	9,844	-
	<u>448,492</u>	<u>358,875</u>
Less accumulated depreciation	<u>(341,052)</u>	<u>(314,540)</u>
Total	<u>\$ 107,440</u>	<u>\$ 44,335</u>

Depreciation expense recognized on depreciable assets was \$26,512 and \$7,139 for the years ended May 31, 2022 and 2021, respectively.

Note 6. Intangible Assets

Intangible assets at May 31, 2022 and 2021, consist of the following:

	Amortization Period	2022 Carrying Amount	2021 Carrying Amount
Accreditation	40 years	\$ 580,000	\$ 580,000
Trade name	20 years	<u>310,000</u>	<u>310,000</u>
		890,000	890,000
Less accumulated amortization		<u>(247,310)</u>	<u>(217,331)</u>
Total		<u>\$ 642,690</u>	<u>\$ 672,669</u>

Amortization expense recognized on all amortizable intangible assets was \$29,979 for the years ended May 31, 2022 and 2021. The aggregate future amortization expense is as follows:

2023	\$ 29,979
2024	30,062
2025	29,979
2026	29,979
2027	29,979
Thereafter	<u>492,712</u>
Total	<u>\$ 642,690</u>

Saybrook University

Notes to Financial Statements

Note 7. Commitments and Contingencies

Operating Leases

The University has an operating lease for administrative facilities in Pasadena. In January 2019, the University signed a five-year lease with Pacific Oaks College, an affiliate of TCS Education System, beginning in June 2019. This lease was amended and, commencing in June 2022, the term is extended through May 2030. The minimum annual future operating lease payments are as follows:

2023	\$	366,711
2024		366,711
2025		366,711
2026		377,711
2027		389,043
Thereafter		<u>1,238,568</u>
Total	\$	<u>3,105,455</u>

The University also leases certain office equipment under operating leases with varying lease terms. Rent expense for the years ended May 31, 2022 and 2021, was \$204,139 and \$203,806, respectively.

Note 8. Net Assets

Net assets with donor restrictions consist of the following as of May 31, 2022 and 2021:

	2022	2021
Student financial assistance	\$ 61,634	\$ 84,976
Research and scholarship activities by students and faculty	946,957	1,074,720
Total	<u>\$ 1,008,591</u>	<u>\$ 1,159,696</u>

The University's Board of Trustees has designated \$4,254,905 and \$3,497,324 in net assets without donor restrictions (liquidity reserve) as of May 31, 2022 and 2021, respectively.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows for the fiscal years ended May 31, 2022 and 2021:

	2022	2021
Student financial assistance	\$ 36,906	\$ 9,084
Research and scholarship activities by students and faculty	38,067	115,499
Total	<u>\$ 74,973</u>	<u>\$ 124,583</u>

Saybrook University

Notes to Financial Statements

Note 9. Retirement Plan

The University offers its employees a basic contributory 403(b) retirement program. Employees' contributions to the plan are tax deferred. The University contributes a discretionary amount of an employee's salary. Expense related to the 403(b) plan for the years ended May 31, 2022 and 2021, was \$419,603 and \$364,654, respectively.

The University has a nonqualified 457(b) deferred compensation plan for its president. Contributions to the plan are invested in equity securities. The University made no contributions to the plan during the fiscal years ended May 31, 2022 and 2021. As of May 31, 2022 and 2021, \$111,188 and \$97,589, respectively, was accrued as a liability and set aside in a separate account for this benefit. The assets held in this account are the property of the University and are subject to the claims of the general creditors. The University accounts for the assets held by this plan as investments held for deferred compensation recorded in other assets with the related liability recorded in other liabilities on the statements of financial position.

Note 10. Classification of Expenses

The following reflects the classification of the University's expenses, by both the underlying nature of the expense and the function, for the years ended May 31, 2022 and 2021. An individual expense is allocated to the underlying function to which it was incurred. The statements of activities includes certain expenses which must be allocated on a reasonable basis. Facilities and depreciation expenses have been allocated based on faculty and staff headcount. Certain senior leadership expenses are allocated based on time spent by function.

Expenses are classified as follows:

	2022				
	Program services		Management, general and administrative	Fundraising	Total
	Educational services and facilities	Student services			
Compensation and employee	\$ 7,481,811	\$ 1,905,448	\$ 868,033	\$ 305,875	\$ 10,561,167
Facility and office	64,637	97,418	184,298	45,770	392,123
Professional services and other	763,250	875,220	5,905,412	32,201	7,576,083
Depreciation and amortization	37,008	15,715	2,471	1,297	56,491
Total	\$ 8,346,706	\$ 2,893,801	\$ 6,960,214	\$ 385,143	\$ 18,585,864

	2021				
	Program services		Management, general and administrative	Fundraising	Total
	Educational services and facilities	Student services			
Compensation and employee	\$ 6,157,694	\$ 1,399,872	\$ 744,827	\$ 160,432	\$ 8,462,825
Facility and office	73,017	131,623	105,886	22,706	333,232
Professional services and other	425,870	844,682	3,808,589	11,635	5,090,776
Depreciation and amortization	24,668	9,867	2,114	470	37,119
Total	\$ 6,681,249	\$ 2,386,044	\$ 4,661,416	\$ 195,243	\$ 13,923,952

Saybrook University

Notes to Financial Statements

Note 11. Related-Party Transactions

The University is a part of the System, a nonprofit system of colleges advancing student success and community impact. The System provides management services and conducts other support activities for the exclusive benefit of the supported organizations. The provision of those services and the allocation of costs related thereto could result in operating results or a financial position of the University that is significantly different from those that would have been obtained if the University operated independently. Furthermore, alternative methods of accounting for those cost allocations may produce significantly different operating results for the University.

In addition to the management services and support activities, the System has billed the University for certain costs incurred on its behalf. Total management and support expenses for the years ended May 31, 2022 and 2021, were \$6,281,081 and \$4,413,886, respectively. The total due to the System as of May 31, 2022 and 2021, were \$218,657 and \$33,377, respectively.

As discussed in Note 7, in January 2019, the University signed a five-year lease with Pacific Oaks College, an affiliate of TCS Education System, beginning in June 2019.

Note 12. Subsequent Events

Management has evaluated all events or transactions that occurred after May 31, 2022, through October 28, 2022, the date the financial statements are available for issuance, for potential recognition or disclosure in the financial statements.