

Saybrook University

Financial Report
May 31, 2023

Contents

Independent auditor's report	1-2
<hr/>	
Financial statements	
Statements of financial position	3
Statements of activities	4-5
Statements of cash flows	6
Notes to financial statements	7-20



RSM US LLP

Independent Auditor's Report

Board of Trustees
Saybrook University

Opinion

We have audited the financial statements of Saybrook University (“the University”), which comprise the statements of financial position as of May 31, 2023 and 2022, 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, 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 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, effective June 1, 2022, the University adopted Financial Accounting Standards Board's Accounting Standards Codification Topic 842, Leases. Our opinion is not modified with respect to this matter.

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
November 10, 2023

Saybrook University

**Statements of Financial Position
May 31, 2023 and 2022**

	2023	2022
Assets		
Cash and cash equivalents	\$ 6,833,802	\$ 7,512,647
Student accounts receivable, net of allowances of \$262,280 and \$145,527, respectively	288,744	287,582
Prepaid expenses	84,752	94,230
Other accounts receivable	11,592	112,609
Loans receivable from officers	-	13,918
Investments	7,877,656	8,145,114
Other assets	145,268	123,188
Property and equipment, net	345,399	107,440
Intangible assets, net	612,710	642,690
Right-of-use assets	2,431,387	-
Total assets	\$ 18,631,310	\$ 17,039,418
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 36,645	\$ 8,411
Student refunds payable	307,030	491,243
Accrued compensation and related expenses	884,807	1,023,593
Due to affiliates, net	131,553	218,657
Other accrued expenses	79,200	31,528
Deferred revenue and tuition deposits	2,229,841	2,167,162
Deferred rent	-	17,773
Other payables	1,181	67,082
Other liabilities	133,268	111,188
Right-of-use liability	2,468,409	-
Total liabilities	6,271,934	4,136,637
Net assets:		
Without donor restrictions	11,397,442	11,894,190
With donor restrictions	961,934	1,008,591
Total net assets	12,359,376	12,902,781
Total liabilities and net assets	\$ 18,631,310	\$ 17,039,418

See notes to financial statements.

Saybrook University

Statement of Activities
Year Ended May 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues:			
Tuition revenue	\$ 18,137,719	\$ -	\$ 18,137,719
Less scholarships	(1,647,657)	-	(1,647,657)
Net tuition revenue	16,490,062	-	16,490,062
Fee revenue	3,875,966	-	3,875,966
Grant revenue	227,624	-	227,624
Other school revenue	4,638	1,027	5,665
Contributions	30,130	52,885	83,015
Net assets released from restrictions	86,990	(86,990)	-
Total operating revenues	20,715,410	(33,078)	20,682,332
Operating expenses:			
Program services:			
Educational services and facilities	9,859,969	-	9,859,969
Student services	3,446,174	-	3,446,174
Total program services	13,306,143	-	13,306,143
Management, general and administrative	7,763,173	-	7,763,173
Fundraising	302,236	-	302,236
Total operating expenses	21,371,552	-	21,371,552
Decrease in net assets from operating activities	(656,142)	(33,078)	(689,220)
Nonoperating activities:			
Interest and dividends, net	292,722	19,932	312,654
Net losses on investments	(133,777)	(33,511)	(167,288)
Other nonoperating income	449	-	449
Increase (decrease) in net assets from nonoperating activities	159,394	(13,579)	145,815
Change in net assets	(496,748)	(46,657)	(543,405)
Net assets, beginning of year	11,894,190	1,008,591	12,902,781
Net assets, end of year	\$ 11,397,442	\$ 961,934	\$ 12,359,376

See notes to financial statements.

Saybrook University

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

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues:			
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 operating revenue	20,427,131	(26,080)	20,401,051
Operating 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 operating expenses	18,585,864	-	18,585,864
Increase (decrease) in net assets from operating activities	1,841,267	(26,080)	1,815,187
Nonoperating activities:			
Interest and dividends, net	88,271	22,314	110,585
Net losses on investments	(496,750)	(147,339)	(644,089)
Other nonoperating expense	(8,464)	-	(8,464)
Decrease in net assets from nonoperating 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

Statements of Cash Flows
Years Ended May 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ (543,405)	\$ 1,273,219
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	94,609	56,491
Bad debt reserve	116,753	67,708
Forgiveness of loans receivable from officers	13,918	57,677
Net losses on investments	167,288	644,089
Other non-operating (income) expense	(449)	8,464
Right-of-use asset amortization	385,960	-
Interest on lease liability	(77,085)	-
Changes in assets and liabilities:		
Student accounts receivable	(117,915)	(37,138)
Other accounts receivable	101,017	(62,455)
Prepaid expenses	9,478	9,588
Other assets	(21,631)	(22,063)
Accounts payable	28,234	(5,248)
Student refunds payable	(184,213)	370,170
Accrued compensation and related expenses	(138,786)	189,583
Other accrued expenses	47,672	(124,290)
Other payables	(65,901)	(20,133)
Deferred revenue and tuition deposits	62,679	153,127
Due to affiliates, net	(87,104)	185,280
Other liabilities	22,080	13,599
Deferred rent	(17,773)	158
Right-of-use lease liability	(271,853)	-
Net cash (used in) provided by operating activities	(476,427)	2,757,826
Cash flows from investing activities:		
Purchases of property and equipment	(302,588)	(89,617)
Purchases of investments	(4,475,728)	(4,907,157)
Proceeds from sales of investments	4,575,898	3,360,695
Net cash used in investing activities	(202,418)	(1,636,079)
Net (decrease) increase in cash and cash equivalents	(678,845)	1,121,747
Cash and cash equivalents, beginning of the year	7,512,647	6,390,900
Cash and cash equivalents, end of the year	\$ 6,833,802	\$ 7,512,647
Supplemental cash flow information related to leases		
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows - payments on operating leases	\$ 366,711	\$ -

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 accounting principles generally accepted in the United States of America (U.S. GAAP) in these footnotes are to the FASB Accounting Standards Codification (ASC).

Management's use of estimates: The preparation of the financial statements in conformity with U.S. GAAP 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 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 are 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 receivables 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, 2023 and 2022, were \$325,760 and \$129,243, respectively. Bad debt expense for the years ended May 31, 2023 and 2022, were \$441,618 and \$198,418, respectively. The University evaluates each student's creditworthiness on a case-by-case basis.

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 \$13,918 and \$57,677 for the years ended May 31, 2023 and 2022, 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.

Property and equipment: Property and equipment, including acquisition fees and other acquisition costs incurred, is 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.

Saybrook University

Notes to Financial Statements

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

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, 2023 and 2022.

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.

Grant revenue represents conditional contributions received from governmental agencies. Revenue is recognized when the related conditions are satisfied, generally when qualifying expenditures are incurred.

Saybrook University

Notes to Financial Statements

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

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 \$3,772,293 and \$3,833,602 for the years ended May 31, 2023 and 2022, respectively.

Leases: Prior to June 1, 2022, the University followed the lease accounting guidance in FASB ASC Topic 840. Effective June 1, 2022, the University follows the lease accounting guidance in FASB ASC Topic 842. The University determines if an arrangement is a lease at inception of the contract. Under Topic 842, a lease is a contract, or part of a contract, that conveys the right to control the use of identified property or equipment (i.e., an identified asset) for a period of time in exchange for consideration. The University's contracts determined to be or contain a lease include explicitly or implicitly identified assets where the University has the right to obtain substantially all of the economic benefits of the assets and has the ability to direct how and for what purpose the assets are used during the lease term.

Leases are classified as either operating or financing. For operating leases, the University has recognized a lease liability equal to the present value of the remaining lease payments, and a right-of-use asset equal to the lease liability, subject to certain adjustments, such as for prepaid rent and lease incentives. The University has elected to use the risk free rate as the discount rate for all leases. The University did not identify or recognize any financing leases.

The University defines a short-term lease as any arrangement with a lease term of 12 months or less that does not include an option to purchase the underlying asset. The University has made an accounting policy election not to recognize right-of-use assets and lease liabilities for short-term leases; as a result, short-term lease payments are recognized as expense over the lease term.

Adoption of Topic 842 resulted in the recording of additional right-of-use assets and lease liabilities related to the University's operating leases of \$2,740,262 and \$2,758,035, respectively, at June 1, 2022. The University did not identify or record any right-of-use assets and lease liabilities related to financing leases. The adoption of the new lease standard did not result in a cumulative adjustment to the opening balance of net assets.

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, 2023 and 2022. The University annually files Form 990 in the U.S. federal jurisdiction and in the state of California.

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

Newly adopted 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 University adopted ASU 2016-02 on June 1, 2022, using the optional transition method to the modified retrospective approach. ASC Topic 842 includes practical expedient and policy election choices. The University elected the package of practical expedients available in the standard and, as a result, did not reassess the lease classification of existing contracts or leases or the initial direct costs associated with existing leases. The University did not elect the hindsight practical expedient and so did not re-evaluate the lease term for existing leases. The University's adoption of this standard did not result in an adjustment to the opening balance of net assets. Refer to Note 7 for the University's lease disclosures.

In March 2023, the FASB issued ASU 2023-01, *Leases (Topic 842) Common Control Arrangements*. The guidance in this ASU provides amendments to Topic 842, *Leases*. Under the guidance, private companies and not-for-profit entities that are not conduit bond obligors can use a practical expedient to use the written terms and conditions of a common control arrangement to determine whether a lease exists and the classification of and accounting for that lease rather than the economic substance. In addition, the guidance requires that lease improvements associated with common control leases be amortized by the lessee over the useful life of the leasehold improvements to the common control group regardless of then lease term as long as the lessee controls the use of the underlying asset through a lease. If the lessee no longer controls the use of the underlying asset, the lease should be accounted as a transfer between entities under common control through an adjustment to net assets. The University early adopted the standard on June 1, 2022 and accounted for the lease using the practical expedient in determining the lease with Pacific Oaks Education Corporation existed and the classification and accounting for the lease. Refer to Note 7 for the University's lease disclosures.

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 University has adopted this standard for the year ended May 31, 2023. Implementation of the standard had no significant impact on the University's financial statements.

Recent accounting pronouncement: In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the current incurred loss impairment methodology for financial assets reported at amortized cost, such as receivables, with a methodology that reflects current expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this update are effective for fiscal years beginning after December 15, 2022. The University is currently evaluating the effect that this amendment will have on the financial statements.

Saybrook University

Notes to Financial Statements

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.

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 6,833,802	\$ 7,512,647
Student accounts receivable, net	288,744	287,582
Other accounts receivable	11,592	112,609
Investments	7,877,656	8,145,114
Other assets (457(b) plan assets)	133,268	111,188
Financial assets, May 31	<u>15,145,062</u>	<u>16,169,140</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	(961,934)	(1,008,591)
Retirement plan assets	(133,268)	(111,188)
Board designation—liquidity reserve	<u>(4,510,195)</u>	<u>(4,254,905)</u>
Financial assets available to meet cash needs, for general expenditures within one year	<u>\$ 9,539,665</u>	<u>\$ 10,794,456</u>

The University generally maintains available cash, cash equivalents and short-term investments to meet 90 days of normal operating expenses. 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 next fiscal year, 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 a co-borrowing agreement with the system and affiliated colleges (see Note 11). 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, 2023 and 2022:

	2023		2022	
	Cost	Fair Value	Cost	Fair Value
Equity mutual funds	\$ 3,291,134	\$ 3,570,861	\$ 3,324,098	\$ 3,562,154
Fixed-income mutual funds	1,858,321	1,632,589	1,876,963	1,707,881
Real estate investment trust mutual funds	270,860	258,319	245,840	285,678
Commercial paper	1,502,891	1,519,945	1,679,145	1,676,619
Corporate bonds	597,411	593,773	914,892	912,782
Government bonds	300,183	302,169	-	-
Total	<u>\$ 7,820,800</u>	<u>\$ 7,877,656</u>	<u>\$ 8,040,938</u>	<u>\$ 8,145,114</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 U.S. 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.

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.

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 2023 and 2022, 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. For government bonds, the University utilizes recent market transactions for identical or similar bonds to corroborate pricing service fair value measurements.

Saybrook University

Notes to Financial Statements

Note 4. Fair Value Measurements (Continued)

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.

The following tables present the University's fair value hierarchy for those assets measured at fair value on a recurring basis as of May 31, 2023 and 2022:

Description	2023			Total
	Fair Value Measurements Using			
	(Level 1)	(Level 2)	(Level 3)	
Investments:				
Mutual funds:				
Equity securities	\$ 3,570,861	\$ -	\$ -	\$ 3,570,861
Fixed income	1,632,589	-	-	1,632,589
Real estate investment trusts	258,319	-	-	258,319
Total mutual funds	5,461,769	-	-	5,461,769
Commercial paper	-	1,519,945	-	1,519,945
Corporate bonds	-	593,773	-	593,773
Government bonds	-	302,169	-	302,169
Total equity and fixed income	\$ 5,461,769	\$ 2,415,887	\$ -	7,877,656
Total investments				\$ 7,877,656
Other assets:				
Total equity securities held for deferred compensation	\$ 133,268	\$ -	\$ -	\$ 133,268
2022				
Description	Fair Value Measurements Using			Total
	(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
Total investments				\$ 8,145,114
Other assets:				
Total equity securities held for deferred compensation	\$ 111,188	\$ -	\$ -	\$ 111,188

Saybrook University

Notes to Financial Statements

Note 5. Property and Equipment

Property and equipment at May 31, 2023 and 2022, consists of the following:

	2023	2022
Computer equipment	\$ 399,209	\$ 399,209
Computer software	39,439	39,439
Furniture and fixtures	62,941	9,844
Leasehold improvements	249,491	-
	<u>751,080</u>	<u>448,492</u>
Less accumulated depreciation	(405,681)	(341,052)
Total	<u>\$ 345,399</u>	<u>\$ 107,440</u>

Depreciation expense recognized on depreciable assets was \$64,629 and \$26,512 for the years ended May 31, 2023 and 2022, respectively.

Note 6. Intangible Assets

Intangible assets at May 31, 2023 and 2022, consist of the following:

		2023	2022
	Amortization Period	Carrying Amount	Carrying Amount
Accreditation	40 years	\$ 580,000	\$ 580,000
Trade name	20 years	310,000	310,000
		<u>890,000</u>	<u>890,000</u>
Less accumulated amortization		(277,290)	(247,310)
Total		<u>\$ 612,710</u>	<u>\$ 642,690</u>

Amortization expense recognized on all amortizable intangible assets was \$29,980 for the years ended May 31, 2023 and 2022. The aggregate future amortization expense is as follows:

2024	\$ 30,062
2025	29,979
2026	29,979
2027	29,979
2028	30,062
Thereafter	462,649
Total	<u>\$ 612,710</u>

Saybrook University

Notes to Financial Statements

Note 7. Leases

The University adopted ASC Topic 842, Leases, as of June 1, 2022. Upon adoption, the University recognized right-of-use (ROU) lease assets and liabilities in their statement of financial position. The rental commitments for operating leases consist of a lease obligation for the office facility.

Operating leases: The University has an operating lease for the administrative facility in Pasadena. In January 2019, the University signed a five-year lease with Pacific Oaks Education Corporation, an affiliate of the University, beginning in June 2019. This lease was amended and, commencing in June 2022, the term was extended through May 2030.

The remaining lease term is seven years at May 31, 2023. The University used a risk-free discount rate of 2.97%.

The minimum annual future operating lease payments at May 31, 2023 are as follows:

2024	\$ 366,711
2025	366,711
2026	377,712
2027	389,043
2028	400,714
Thereafter	<u>837,853</u>
Total lease payments	2,738,744
Less imputed interest	<u>(270,335)</u>
	<u>\$ 2,468,409</u>

The minimum annual future operating lease payments at May 31, 2022, under ASC 840 are as follows:

2023	\$ 366,711
2024	366,711
2025	366,711
2026	377,711
2027	389,043
Thereafter	<u>1,238,508</u>
Total	<u>\$ 3,105,395</u>

Total operating lease cost for the year ended May 31, 2023 was \$385,960. The University also leased certain office equipment under operating leases with varying lease terms. Rent expense for the year ended May 31, 2022 was \$204,139.

Saybrook University

Notes to Financial Statements

Note 8. Net Assets

Net assets with donor restrictions consist of the following as of May 31, 2023 and 2022:

	2023	2022
Student financial assistance	\$ 86,105	\$ 61,634
Research and scholarship activities by students and faculty	875,829	946,957
Total	<u>\$ 961,934</u>	<u>\$ 1,008,591</u>

The University's Board of Trustees has designated \$4,510,195 and \$4,254,905 in net assets without donor restrictions (liquidity reserve) as of May 31, 2023 and 2022, respectively.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows for the years ended May 31, 2023 and 2022:

	2023	2022
Student financial assistance	\$ 23,929	\$ 36,906
Research and scholarship activities by students and faculty	63,061	38,067
Total	<u>\$ 86,990</u>	<u>\$ 74,973</u>

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, 2023 and 2022, was \$482,538 and \$419,603, 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 years ended May 31, 2023 and 2022. As of May 31, 2023 and 2022, \$133,268 and \$111,188, 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.

Saybrook University

Notes to Financial Statements

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, 2023 and 2022. An individual expense is allocated to the underlying function to which it was incurred. The statements of activities include 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:

	2023				
	Program Services		Management, General and Administrative	Fundraising	Total
	Educational Services and Facilities	Student Services			
Compensation and employee	\$ 8,768,565	\$ 2,057,973	\$ 755,478	\$ 265,480	\$ 11,847,496
Facility and office	108,542	188,183	286,378	21,454	604,557
Professional services and other	930,139	1,173,756	6,705,693	15,302	8,824,890
Depreciation and amortization	52,723	26,262	15,624	-	94,609
Total	<u>\$ 9,859,969</u>	<u>\$ 3,446,174</u>	<u>\$ 7,763,173</u>	<u>\$ 302,236</u>	<u>\$ 21,371,552</u>
	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	<u>\$ 8,346,706</u>	<u>\$ 2,893,801</u>	<u>\$ 6,960,214</u>	<u>\$ 385,143</u>	<u>\$ 18,585,864</u>

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, 2023 and 2022, were \$6,984,771 and \$6,281,081, respectively. The total due to the System as of May 31, 2023 and 2022, were \$131,553 and \$218,657, respectively.

As discussed in Note 7, in January 2019, the University signed a five-year lease with Pacific Oaks Education Corporation, an affiliate of the University, beginning in June 2019. This lease was amended and, commencing in June 2022, the term was extended through May 2030.

The University has a \$17,500,000 line of credit as a co-borrower with the System and the affiliated colleges. The University and the co-borrowers have the option for the interest rate on the line of credit to be (a) the one-month SOFR rate plus 1.57% or (b) the greater of (i) the Prime rate minus 1.25%, and (ii) 2.25%. The average rate for the years ended May 31, 2023 and 2022, was 5.02% and 1.69%, respectively. If not renewed, the line of credit will mature on May 31, 2024. As of May 31, 2023, and 2022, there were no outstanding borrowings on the line of credit.

Note 12. Subsequent Events

Management has evaluated all events or transactions that occurred after May 31, 2023, through November 10, 2023, the date the financial statements are available for issuance, for potential recognition or disclosure in the financial statements.