Consolidated Financial Statements and Report of Independent Certified Public Accountants

WESTERN UNIVERSITY OF HEALTH SCIENCES

June 30, 2023 (with comparative summarized financial information for June 30, 2022)

Contents

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Western University of Health Sciences

Opinion

We have audited the consolidated financial statements of Western University of Health Sciences (a nonprofit organization) and subsidiaries (the "University"), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities and changes of net assets and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated 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 US 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 consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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.

GrantThornton

Report on 2022 summarized comparative information

We have previously audited the University's 2022 consolidated financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 31, 2022. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Grant Thornton LLP

Los Angeles, California
October 26, 2023

Western University of Health Sciences

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2023 and 2022

	2023	2022
ASSETS		
Cash and cash equivalents	$ 6,578,942	$ 8,788,566
Accounts receivable, net	5,287,196	7,594,724
Prepaid expenses	2,551,717	3,462,952
Contributions receivable, net	313,424	326,399
Inventories	711,697	848,802
Other assets	2,457,775	2,487,998
Notes receivable, net	44,990,378	41,490,644
Investments	285,605,769	267,529,091
Operating lease right-of-use assets, net	59,930,196	67,610,326
Finance lease right-of-use assets, net	2,518,184	3,055,729
Property, plant and equipment, net	135,309,298	135,649,403
TOTAL ASSETS	$ 546,254,576	$ 538,844,634
LIABILITIES AND NET ASSETS		
Accounts payable and accrued liabilities	$ 33,492,940	$ 34,952,337
Accrued bond interest payable	340,920	421,176
Deposits for agency funds	663,521	744,613
Deferred revenues	26,278,457	26,289,631
Interest rate swap agreement	7,605,884	12,309,886
Liability on split interest agreements	619,928	1,870,410
Government advances for student loans	46,809,543	46,838,330
Operating lease liabilities	66,146,514	73,303,959
Finance lease liabilities	1,961,095	2,708,076
Bonds and notes payable, net	83,126,589	87,435,901
Total liabilities	267,045,391	286,874,319
NET ASSETS		
Without donor restrictions	240,231,045	222,802,286
With donor restrictions	38,978,140	29,168,029
Total net assets	279,209,185	251,970,315
TOTAL LIABILITIES AND NET ASSETS	$ 546,254,576	$ 538,844,634

The accompanying notes are an integral part of this consolidated financial statement.

Western University of Health Sciences

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2023
(with comparative summarized financial information for the year ended June 30, 2022)

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
Revenues:				
Student tuition	$ 202,389,851	$ -	$ 202,389,851	$ 200,703,396
Less: scholarships and grants	(5,207,031)	-	(5,207,031)	(6,197,818)
Net tuition	197,182,820	-	197,182,820	194,505,578
Government contracts and grants	8,672,911	-	8,672,911	11,561,439
Private gifts, contracts and grants	1,458,283	13,222,029	14,680,312	7,067,985
Gifts in kind	97,485	-	97,485	383,968
Endowment returns made available for operations	2,017,669	802,296	2,819,965	2,723,033
Sales and services of auxiliary enterprises	2,149,738	-	2,149,738	1,956,131
Sales and services of educational activities				
Net patient revenue	7,846,102	-	7,846,102	8,446,067
Other sales and services	2,841,097	-	2,841,097	3,043,535
Other operating revenues	5,074,827	-	5,074,827	4,470,121
Net assets released from restrictions	4,999,586	(4,999,586)	-	-
Total revenues	232,340,518	9,024,739	241,365,257	234,157,857
Expenses:				
Educational and general expenditures:				
Research	20,784,845	-	20,784,845	21,566,660
Instruction	141,639,752	-	141,639,752	131,365,824
Academic support	22,776,372	-	22,776,372	23,705,683
Student services	10,456,603	-	10,456,603	8,843,004
Institutional support	30,767,170	-	30,767,170	26,373,779
Auxiliary enterprises	2,641,456	-	2,641,456	2,425,667
Development and fundraising	2,818,109	-	2,818,109	3,321,756
Total expenses	231,884,307	-	231,884,307	217,602,373
Change in net assets from operating activities	456,211	9,024,739	9,480,950	16,555,484
Other changes in net assets:				
Investment return, net of allocation to operations	11,709,843	36,078	11,745,921	(14,164,711)
Change in value of split-interest agreements	567,608	813,545	1,381,153	(742,028)
Differential in value of swap contract	4,704,002	-	4,704,002	11,811,128
Adjustment to contributions receivable	-	(73,156)	(73,156)	3,952,858
Redesignation of net assets	(8,905)	8,905	-	-
Change in net assets from non-operating activities	16,972,548	785,372	17,757,920	857,247
Increase in net assets	17,428,759	9,810,111	27,238,870	17,412,731
Net assets at beginning of year	222,802,286	29,168,029	251,970,315	234,557,584
Net assets at end of year	$ 240,231,045	$ 38,978,140	$ 279,209,185	$ 251,970,315

The accompanying notes are an integral part of this consolidated financial statement.

Western University of Health Sciences

CONSOLIDATED STATEMENT OF CASH FLOWS

Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Increase in net assets	$ 27,238,870	$ 17,412,731
Adjustments to reconcile increase in net assets		
to net cash provided by operating activities:		
Depreciation and amortization	8,443,758	7,875,141
Gain on disposal of property, plant and equipment	-	(1,059,715)
Change in fair value of interest rate swap agreement	(4,704,002)	(11,811,128)
Amortization of bond issuance costs	189,974	190,117
Provision for uncollectible accounts	(490,773)	(30,438)
Net realized/unrealized loss (gain) on investments	(4,136,960)	17,195,414
Contributions restricted for endowment	(634,236)	(1,394,022)
Non-cash lease expense adjustments	522,684	540,051
(Increase) decrease in assets:		
Accounts receivable	2,798,301	(4,061,640)
Contributions receivable	12,975	1,020,898
Inventories, prepaid expenses and other assets	1,048,340	(31,931)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	241,581	2,835,140
Accrued bond interest payable	(80,256)	(12,571)
Deposits for agency funds	(81,092)	44,943
Deferred revenues	(11,174)	(558,220)
Liability on split-interest agreements	(929,922)	477,085
Net cash provided by operating activities	$ 29,428,068	$ 28,631,855

The accompanying notes are an integral part of this consolidated financial statement.

Western University of Health Sciences

CONSOLIDATED STATEMENT OF CASH FLOWS - CONTINUED

Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from investing activities:		
Proceeds from sale of investments	$ 4,422,232,314	$ 3,706,123,550
Purchases of investments	(4,436,172,032)	(3,719,600,801)
Loans issued	(5,857,315)	(8,680,346)
Collections from loans received	2,357,581	3,861,309
Proceeds from sale of property, plant and equipment	-	1,350,000
Purchase of property, plant and equipment	(9,236,862)	(11,268,289)
Net cash used in investing activities	(26,676,314)	(28,214,577)
Cash flows from financing activities:		
Principal payments on bonds and notes payable	(4,499,286)	(2,630,000)
Payments to beneficiaries of split-interest agreements	(320,560)	(551,137)
Contributions restricted for endowment	634,236	1,394,022
Increase (decrease) in government advances for student loans	(28,787)	4,802,432
Payments of principal on finance lease liabilities	(746,981)	(749,034)
Net cash provided by (used in) financing activities	(4,961,378)	2,266,283
Net increase (decrease) in cash and cash equivalents	(2,209,624)	2,683,561
Cash and cash equivalents at beginning of year	8,788,566	6,105,005
Cash and cash equivalents at end of year	$ 6,578,942	$ 8,788,566
Supplemental cash flow information:		
Cash paid for interest	$ 4,295,788	$ 4,258,014
Acquisitions of capital assets in accounts payable	$ 519,175	$ 2,220,153
Loans cancelled	$ 350,859	$ 315,992

The accompanying notes are an integral part of this consolidated financial statement.

NOTE 1 – ORGANIZATION

Western University of Health Sciences (the "University") is a private, nonprofit, accredited institution of higher learning and an academic health center, whose main campus occupies approximately 18 acres in Pomona, California, and includes other locations in California and Oregon. The University is committed to the education of primary care health professionals, with a distinctive philosophy centered in the osteopathic tradition, which embraces the concept that health involves the whole person and the person's relationship to others and the world.

The University was founded in 1977 as the College of Osteopathic Medicine of the Pacific ("COMP"), a four-year medical school educating osteopathic physicians. The institution expanded its mission by adding primary care-focused educational programs in the allied health professions, pharmacy and advanced nursing. In 1996, the institution officially became a university and changed its name to Western University of Health Sciences. In addition, the University added a college of veterinary medicine in 1998 and further expanded its educational programs during 2009 by adding four new colleges in dentistry, optometry, podiatry and biomedical sciences.

In 2011, the University expanded its operations to Lebanon, Oregon, with COMP enrolling the first students at the new location. The University also operates patient care centers located in Pomona, Rancho Mirage, Los Angeles California, and Portland Oregon, in addition to Pet Wellness centers located in Pomona and Van Nuys, California that serve as clinical teaching sites for students.

For the fall semester of 2023, approximately 3,700 students were enrolled in the University's nine colleges.

Income Taxes

The University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (Code), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the code. The University has been recognized by the California Franchise Tax Board as a University that is exempt from California franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code and is also exempt from Oregon income taxes under the related state provisions. The University has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The University has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

NOTE 1 – ORGANIZATION Continued

The University follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position without regard to the likelihood that the tax position may be challenged.

The University is subject to income taxes for unrelated business income realized in connection with its unrelated business activities. Park Hospital Inc., a majority-owned subsidiary; and COMP Enterprises Inc., a wholly owned subsidiary, are included into the University's consolidated financial statements and are taxed independently. In addition, the University has a controlling interest in WesternU Medical Group, a limited liability company.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). All material intercompany accounts and transactions have been eliminated in consolidation.

B. Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses, including allocations to various program costs, during the reporting period. Actual results could differ from those estimates. Significant estimates in the University's consolidated financial statements include allowance for uncollectible accounts for accounts and pledges receivable, discount rate for long-term pledges, unobservable investment inputs, non-public investment values, patient service revenue to include contractual discounts and allowances, asset impairments, inventory reserves, expense allocation, leases, student rotations expense, the present value of future benefits payable on split-interest agreements and the interest rate swap.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Net Assets

Net assets, revenue, and support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Board designated funds are also included within net assets without donor restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that such resources be maintained in perpetuity. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

D. Cash and Cash Equivalents

Cash and cash equivalents consist of cash available for immediate use. Money market accounts, certificates of deposit and other short-term investments with varying maturities are classified as investments.

E. Investments

In accordance with authoritative guidance, investments in equity securities with readily determinable fair market values and all debt securities are reported at fair value with gains and losses included in the consolidated statement of activities and changes in net assets. Non-marketable securities (alternative investments) for which quoted market prices are not available are valued at fair value by the investment managers based on factors deemed relevant by the investment managers including, but not limited to market transfer conditions, purchase price, estimated liquidation value, restriction on transfer and third-party transactions in the private market. The University's management reviews and evaluates the fair values and methodologies provided by the third-party investment managers and agree with the valuation methods and assumptions used in determining the fair value of the alternative investments. For these investments, the University used the net asset value ("NAV") provided by the investment managers to evaluate the fair value of the investments. The NAV may be adjusted based on factors or other information about the investments that management considers significant to the valuation of the investments.

Other investments, including real estate, are reported at fair value as determined by appraisals performed by independent third parties on a periodic basis (generally, every few years) unless market conditions would indicate more frequent appraisals are required.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

F. Fair Value of Financial Instruments

The University uses an established framework for measuring fair value that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lower priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the University has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The determination of what constitutes observable requires judgment by the University. The University considers observable data to be that market data that is readily available, regularly distributed or actively involved in the relevant market. The categorization of an investment within the fair value hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the University's perceived risk of that investment.

G. Notes and Accounts Receivables Due from Students

Included in accounts receivable is student tuition stated at the amounts billed to students less loan proceeds, grants and scholarships. Military scholarships are separately billed and collected by semester from the corresponding military agencies (e.g., Army, Navy, Air Force, etc.). Approximately 95% of all currently enrolled students rely on some form of financial aid.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

As a policy, students are required to settle their financial obligation and account balance before they are allowed to attend and be promoted to the next academic year. The student accounts receivable balance as of June 30, 2023, is settled by the subsequent receipt of the corresponding financial aid funds for the academic period or by payment received from the students.

Notes receivable consist of amounts due under the federal loan programs and University loan programs and are stated at their outstanding principal amount, net of an allowance for uncollectible accounts. A third-party organization administers the collection process. Loans are made to students based on demonstrated financial need and satisfaction of federal eligibility requirements for the federal loan programs. Principal and interest payments on loans generally do not commence until after the borrower graduates or otherwise ceases enrollment.

H. Revenue Recognition

The University receives grants and contributions from several sources including the federal government, private foundations and other donors. Grants and contracts are evaluated as to whether they qualify as exchange transactions or contributions as defined by U.S. GAAP. Grants that are treated as exchange transactions are reported as revenue without donor restrictions when expenses are incurred in accordance with the terms of the agreement.

The excess of amounts received in exchange transactions over the amount of expenditures incurred are classified as deferred revenue on the statement of financial position.

The University recognizes revenue when control of the promised goods or services are transferred to outside parties in an amount that reflects the consideration the University expects to be entitled to in exchange for those goods or services.

I. Patient Revenues and Patient Receivables

Net patient service revenue is reported at estimated net realizable amounts in the period in which services are provided. The majority of University Patient Care Center ("UPCC") services are rendered to patients under Medicare, Medical Assistance Programs, Aetna and Anthem Blue Cross Blue Shield. Reimbursement under these programs is based on a combination of prospectively determined rates and historical costs. Amounts received under Medicare and Medical Assistance programs are subject to review and final determination by program intermediaries or their agents. These adjustments are recorded when identified.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The percentage of patient service revenue, net of contractual allowances and discounts, derived from third-party payers and self-pay patients are as follows:

	June 30, 2023	June 30, 2022
Commercial insurance and other	46%	50%
Medicare	21%	22%
Self-pay	4%	5%
Medicaid	29%	23%

The University, in the ordinary course of business, enters into various incentive-sharing agreements with managed care payors and other providers. These agreements require retroactive settlement based on data that may not be available or finalized until all claims are processed. Settlement amounts have been estimated for such incentives based on available information.

However, it is reasonably possible that these estimates may change in the near term. Laws and regulations governing the Medicare and Medical Assistance programs are extremely complex and subject to interpretation. Compliance with such laws and regulations are subject to government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medical Assistance programs. As a result, there is at least a reasonable possibility that the recorded estimates may change by a material amount in the near term.

Presentation and disclosure for net patient service revenue requires patient service revenue to be presented net of the provision for uncollectible accounts. Net patient service revenue for the years ended June 30:

	2023	2022
Patient service revenue, gross	$ 13,403,396	$ 13,689,358
Contractual discounts and allowances	(5,083,118)	(5,075,780)
Provision for uncollectible accounts	(474,176)	(167,511)
Patient service revenue, net	$ 7,846,102	$ 8,446,067

The provision for uncollectible accounts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage and other collection indicators. The UPCC records a significant provision for uncollectible accounts in the period services are provided related to self-pay patients, including both uninsured patients and patients with deductible and copayment balances due for which third-party coverage exists for a portion of their balances. Periodically throughout the year, management assesses the adequacy of the provision for uncollectible accounts based upon historical write-off experience. The results of this review

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

are then used to make any modifications to the provision for uncollectible accounts to establish an appropriate provision for uncollectible accounts. Accounts receivables are written off after collection efforts have been followed in accordance with internal policies.

The following is reconciliation of allowance for uncollectible patient care center accounts receivable for the years ended June 30:

	2023	2022
Balance, beginning of the year	$ 504,893	$ 389,506
Write offs, net	460,175	282,898
Provision for uncollectible accounts	(474,176)	(167,511)
Balance, end of the year	$ 490,893	$ 504,893

J. Tuition Revenue

Tuition is generally due at the beginning of the term. Tuition revenue is recognized as it is earned, and amounts received in advance are deferred and recognized as instruction takes place.

K. Contributions Receivable

The University records unconditional promises to give (a pledge) as a contribution receivable and revenue in the year the pledge is made (see Note 7). The amount is discounted to present value at a risk-adjusted rate, less a reserve for bad debt.

L. Gift Annuities and Unitrust Agreements (Split-Interest Agreements)

The University has a variety of gift agreements, including charitable gift annuities and charitable remainder trusts for which the University is the trustee. Upon receipt, the present value of each gift annuity or unitrust is recorded as an asset, the present value of the University's obligation to beneficiaries is recorded as a liability, and the remaining amount is included in net assets.

Annually, an adjustment is made between the liability and the net assets to record the actuarial gain or loss due to re-computation of the liability based upon the revised life expectancy of the annuitants (also see Note 15). The fair value of these assets as of June 30, 2023 and 2022 amounted to $8,148,506 and $7,872,625, respectively, and are included in investments in the accompanying consolidated statement of financial position.

M. Inventories

Inventories consist of bookstore merchandise and resale medical merchandise at the Pet Health Center and Patient Care Centers and are valued at the lower of cost or market on a first-in, first-out basis.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

N. Property, Plant and Equipment

Property, plant and equipment are stated at cost or if a gift, at fair value at the date of the gift. Depreciation is calculated on a straight-line basis over the estimated useful lives by major category of assets as follows:

Buildings and improvements (considering the date originally constructed or purchased and remaining useful life)	25 - 45 years
Equipment, furniture and library books	5 - 7 years

The University, using its best estimates based on reasonable and supportable assumptions and projections, reviews long-lived assets to be held and considered for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets might not be recoverable.

When assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss arising from such disposition is recorded. Expenditures for repairs and maintenance are charged to expenses as incurred and included in the accompanying consolidated statement of activities and changes in net assets.

O. Contributed Non-Financial Assets

The contributed non-financial assets are valued at fair market value based on estimates of similar products. The nonfinancial assets were utilized by the instructional programs during the reporting period. The University's policy is to utilize any contributed non-financial assets rather than monetization. There were no donor-imposed restrictions placed on these contributions. The fair value of these assets as of June 30, 2023, and 2022 amounted to $97,485 and $383,968 respectively, and are included in accompanying consolidated statement of activities.

	2023	2022
Equipment	$ -	$ 259,200
Inventory	-	78,250
Supplies	97,485	33,795
Building Improvements	-	12,723
Total	$ 97,485	$ 383,968

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

P. Re-Designation of Net Assets

Certain amounts previously received from donors have been transferred among net asset categories due to changes in donor designations, required minimum balances have been obtained, or re-invested excess endowment earnings.

Q. Related Parties

Members of the University's Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the University. For senior management, the University requires annual disclosure of significant financial interests in, or employment or consulting relationships with, entities doing business with the University. These annual disclosures cover both senior management and their immediate family members. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interests of the University. The University has a written conflict of interest policy that requires, among other things, that no member of the Board of Trustees can participate in any decision in which he or she (or an immediate family member) has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and for the benefit of the University, and in accordance with applicable conflict of interest laws. No such associations are considered to be financially significant at June 30, 2023 and 2022. Contributions made by members of the University's Board of Trustees totaled approximately $8,300 and $8,300 for the years ending June 30, 2023 and 2022, respectively.

R. Allocation of Investment Earnings to Operations

The University's policy and practice is to allocate a portion of unrestricted net investment earnings quarterly to operations, balancing the competing objectives of providing a stable flow of income to the operating budget and protecting the real value of the investments over time. The policy manages the trade-off between these two objectives by using a targeted cap on the portion of unrestricted net investment returns allocated for spending on operations annually. This targeted cap is reviewed periodically by the Finance and Facilities Committee of the Board of Trustees and is adjusted from time to time as determined appropriate and prudent by the Committee.

S. Reclassification of Prior Year Financial Statements

Certain prior year amounts have been reclassified for consistency with the current year presentation. An allocation of investment earnings to operations policy has been adopted and our financial statements have been revised and updated for comparison purposes.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Total investment returns allocated to operations were $2,819,965 and $2,723,033 for the years ending June 30, 2023 and 2022, respectively.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The University regularly monitors the availability of resources required to meet 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 all expenditures related to its ongoing activities of educational programs, clinics, research, as well as the conduct of services to support those activities.

As of June 30, financial assets and liquidity resources available within one year for general expenditures were as follows:

	2023	2022
Financial assets due within one year or generally available:		
Cash and cash equivalents	$ 6,578,942	$ 8,788,566
Accounts receivables, net	5,287,196	7,594,724
Contributions receivable	313,424	243,588
Notes receivable	150,264	59,567
Investments	285,605,769	267,529,091
Total available funds	284,215,536	284,215,536
Less:		
Amounts unavailable for general expenditures within one year due to:		
Donor restricted gifts for educational programs	19,485,464	11,035,005
Donor restricted gifts for research programs	630,636	698,340
Donor restricted gifts for endowed professorships	636,026	508,863
Donor restricted gifts with time restrictions	2,935,087	2,302,804
Restricted by donor in perpetuity	15,290,927	14,623,017
Long-term illiquid investments	3,893,420	3,893,420
Total amounts unavailable due to donor restrictions, time or law	42,871,560	33,061,449
Total financial assets available to management for general expenditures before amounts subject to the Trustee's approval	241,343,976	251,154,087
Less:		
Board designated funds:		
Funds functioning as endowment	41,523,709	39,028,189
Unappropriated accumulated endowment gains	3,755,792	2,012,902
Total board designated funds	45,279,501	41,041,091
Total financial assets available for general expenditure before endowment draw	196,064,475	210,112,996
Plus:		
Amount authorized for appropriation within one year	2,824,822	2,008,054
Total financial assets available for general expenditure within one year	$ 198,889,297	$ 212,121,050

The University's Trustees have designated a portion of its net assets without donor restrictions for endowment and other purposes. These amounts are identified in the table above as board designated funds. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the Trustees.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES – Continued

In addition to financial assets available to meet general expenditures over the next 12 months, the University operates with a balanced budget and anticipates collecting sufficient revenue, including federal funds to convert general expenditures not covered by donor-restricted resources. The University typically generates positive cash flows from operations as evidenced by the consolidated statement of cash flows for the fiscal year.

NOTE 4 – INVESTMENTS

The following table summarizes the University's investments as of June 30:

	2023		2022	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	$ 4,328,422	$ 4,328,422	$ 5,066,439	$ 5,066,439
Certificates of deposits	1,634,050	1,634,050	1,381,611	1,381,611
Mutual funds	93,291,812	95,099,764	84,896,120	81,830,669
Corporate and government bonds	154,565,404	153,779,605	150,715,114	150,057,053
Equities	27,378,257	27,402,077	25,850,268	25,874,088
Cash surrender value of life insurance	358,677	358,677	343,998	316,271
Investments in real estate	1,387,789	3,002,960	1,387,789	3,002,960
Total	$ 282,944,411	$ 285,605,769	$ 269,641,340	$ 267,529,091

The following is a description of the instruments measured at fair value, and the methods and assumptions used by the University in determining the fair value of the instruments:

Short-term investments, money market accounts and certificates of deposit – These investments are liquid instruments held by external investment managers. The carrying value approximates fair value based on the short maturity of these instruments.

Mutual funds – These consist of a pool of funds held by external investment managers. The fair values are based on quoted market prices as determined by investment custodians utilizing prices quoted by securities dealers or brokers and are categorized as Level. 1.

Corporate and government bonds – These consist of domestic corporate and government bonds. The fair values are based on market prices as determined by the investment custodians utilizing prices quoted by securities dealers or brokers, investment bankers or statistical services. The University generally categorizes these as Level 2.

Equities – These consist primarily of publicly traded domestic securities held by external investment managers. The fair values are based on quoted market prices as determined by investment custodians utilizing prices quoted by securities dealers or brokers, investment bankers or statistical services and are categorized as Level 1. Other private equity securities are recorded at their appraised value or fair market value based on a net asset value and are categorized as Level 2 or Level 3.

NOTE 4 – INVESTMENTS – Continued

Investments in real estate – These consist of domestic real estate investments. These investments are recorded at their appraised value or fair market value at the date of gift and are categorized as Level 3.

NOTE 5 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following tables summarizes the University's fair value hierarchy for those assets measured at fair value as of June 30:

	Fair Value Measurements Using			
2023 Investments	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Short-term investments	$ 4,328,636	$ -	$ -	$ 4,328,636
Certificates of deposit	-	1,634,050	-	1,634,050
Mutual funds	95,099,764	-	-	95,099,764
Corporate and government bonds	-	153,779,605	-	153,779,605
Equities	27,363,477	-	38,600	27,402,077
Cash surrender value of life insurance	-	358,677	-	358,677
Investments in real estate	-	-	3,002,960	3,002,960
Total investments	$ 126,791,876	$ 155,772,333	$ 3,041,560	$ 285,605,769

	Fair Value Measurements Using			
2022 Investments	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Short-term investments	$ 5,066,439	$ -	$ -	$ 5,066,439
Certificates of deposit	-	1,381,611	-	1,381,611
Mutual funds	81,830,669	-	-	81,830,669
Corporate and government bonds	-	150,057,053	-	150,057,053
Equities	25,835,488	-	38,600	25,874,088
Cash surrender value of life insurance	-	316,271	-	316,271
Investments in real estate	-	-	3,002,960	3,002,960
Total investments	$ 112,732,596	$ 151,754,935	$ 3,041,560	$ 267,529,091

NOTE 5 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES – Continued

Other financial instruments recorded at fair value as of June 30, 2023:

	Level 1	Level 2	Level 3	Total
Interest rate swap agreement	$ -	$ 7,605,884	$ -	$ 7,605,884

Other financial instruments recorded at fair value as of June 30, 2022:

	Level 1	Level 2	Level 3	Total
Interest rate swap agreement	$ -	$ 12,309,886	$ -	$ 12,309,886

The following is a roll forward of Level 3 investments for the years ended June 30:

2023	Beginning Balance	Total gain/(loss) included in changes in net assets	Purchases	Sales	Transfers	Ending Balance
Equities	$ 38,600	$ -	$ -	$ -	$ -	$ 38,600
Investments in real estate	3,002,960	-	-	-	-	3,002,960
Total	$ 3,041,560	$ -	$ -	$ -	$ -	$ 3,041,560

2022	Beginning Balance	Total gain/(loss) included in changes in net assets	Purchases	Sales	Transfers	Ending Balance
Equities	$ 38,600	$ -	$ -	$ -	$ -	$ 38,600
Investments in real estate	3,002,960	-	-	-	-	3,002,960
Total	$ 3,041,560	$ -	$ -	$ -	$ -	$ 3,041,560

The following table shows quantitative information about unobservable inputs related to the Level 3 fair value measurements as of June 30:

Type	Fair value	Valuation technique	Significant unobservable inputs	Availability
Real estate	$ 3,002,960	Third party appraisal	Reliance on appraisers valuations	No restrictions
Equities	$ 38,600	Market fair value	Original cost	N/A
Mutual funds	$ -	Discounted cash flow	Market	No restrictions

NOTE 5 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES – Continued

Interest rate swap – The carrying value of the University's interest rate swap agreement is recorded at fair value based on the spread between the effective interest rate on the bonds payable on June 30, 2023, and the fixed rate per the interest rate swap agreement. The University categorizes this swap as Level 2.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such transfers, the transfer is reported at the beginning of the reporting period. For the year ended June 30, 2023, there were no significant transfers between levels or changes in the methodologies.

NOTE 6 – ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, consisted of the following as of June 30:

	2023	2022
Student accounts receivable	$ 523,432	$ 548,271
Patient care center accounts receivable	1,518,587	1,830,135
Grants and contracts receivable	3,177,740	3,592,532
Covid related receivables	-	1,128,404
Other receivables	610,623	1,165,451
Less: allowance for uncollectible accounts	(543,186)	(670,069)
Total accounts receivable, net	$ 5,287,196	$ 7,594,724

NOTE 7 – CONTRIBUTIONS RECEIVABLE, NET

The following unconditional promises to give are included in the consolidated financial statements as contributions receivable, net, as of June 30:

	2023	2022
Contributions receivable	$ 434,952	$ 440,410
Less: Unamortized discount	-	(8,026)
Less: Allowance for doubtful accounts	(121,528)	(105,985)
Total contributions receivable, net	$ 313,424	$ 326,399

NOTE 7 – CONTRIBUTIONS RECEIVABLE, NET- Continued

The University used rates between 1.0% and 4.0% to discount gross unconditional promises to give in consideration of the present value of the future cash flows.

Unconditional promises to give are expected to be collected in the following periods ending June 30:

	2023	2022
In one year or less	$ 260,130	$ 243,488
Between one year and five years	174,822	149,964
More than five years	-	46,958
Total gross pledges	$ 434,952	$ 440,410

Pledges and contributions receivable – Granting date fair values are estimated as the present value of the promises to give, using a risk adjustment and discount rates applicable to the donor and federal interest rates.

NOTE 8 – NOTES RECEIVABLE AND STUDENT LOAN RECEIVABLES, NET

Student loans receivable are primarily federally sponsored student loans with United States government-mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition. The University makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources.

As of June 30, student loan receivables, which are included in notes receivable, net, in the accompanying consolidated statement of financial position, consisted of the following:

	2023	2022
Federal Government programs	$ 44,840,114	$ 41,507,962
Institutional programs	213,706	59,567
	45,053,820	41,567,529
Less: allowance for doubtful accounts	(63,442)	(76,885)
Notes receivable, net	$ 44,990,378	$ 41,490,644

The University participates in federal revolving loan programs. The availability of funds for loans under this program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government in the amount of $46,809,543 and $46,838,330 as of June 30, 2023 and 2022, respectively, are ultimately refundable to the government and are classified as Government advances for student loans in the accompanying consolidated statement of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

NOTE 8 – NOTES RECEIVABLE AND STUDENT LOAN RECEIVABLES, NET

Federal Perkins Loans - Perkins loans were made to students who demonstrated financial need. Historically, participating schools received a certain amount of funds each year from the federal government for distribution under this program, which supplement funds in a school's revolving fund, from which new disbursements were made. Once the full amount of the school's funds had been awarded to students, no more loans could be made under this program for the year. This loan program officially expired on September 30, 2017.

Allowances for uncollectible accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Institutional loan balances are written off only when they are deemed to be permanently uncollectible. Amounts due under the Perkins loan program are guaranteed by the government and therefore, no reserves are placed on any past-due balances under the program.

Past due amounts under the Perkins loan programs were $193,933 and $260,376 for the years ending June 30, 2023 and 2022, respectively.

NOTE 9 – PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consisted of the following as of June 30:

	2023	2022
Buildings	$ 126,397,754	$ 126,397,754
Building improvements	58,912,375	54,205,422
Equipment and furniture	64,055,667	60,059,882
Library books	2,051,409	2,045,072
	251,417,205	242,708,130
Less: accumulated depreciation	(123,632,943)	(115,830,624)
	127,784,262	126,877,506
Construction-in-Progress	610,888	1,857,749
Land	6,914,148	6,914,148
Total property, plant and equipment, net	$ 135,309,298	$ 135,649,403

Depreciation expenses amounted to $7,875,990 and $7,372,205 during the years ended June 30, 2023 and 2022, respectively.

NOTE 10 – OTHER ASSETS

Other assets consisted of the following as of June 30:

	2023	2022
Computer network and installation	$ 86,500	$ 86,500
Less: accumulated amortization	(56,637)	(44,280)
Goodwill Medical Practice	178,661	178,661
Less: accumulated amortization	(56,576)	(38,710)
Cash surrender value of life insurance contract	2,063,301	2,063,301
Miscellaneous holdings	20,028	20,028
Deposits	222,499	222,499
Total	$ 2,457,775	$ 2,487,998

NOTE 11 – TERM LOAN AGREEMENT

On April 30, 2021, The University entered into a term loan agreement with Wells Fargo Bank, National Association (Wells Fargo). The University used all loan proceeds to finance the acquisition, construction, improvement and equipping of the College of Health Sciences campus location in Lebanon, Oregon. The principal amount of the loan was $12,000,000, and the loan carries a per annum fixed rate of interest equal to 2.82%. Interest payments are due monthly on the first calendar day of each month, commencing May 1, 2021, and continuing for the remaining term of the loan which ends May 1, 2029. During the first two years of the loan's term, all payments are interest-only, with principal repayments commencing on April 15, 2023. The principal repayments are due and payable according to the following term loan principal repayment schedule, with the final principal repayment due April 15, 2029. The Loan Agreement requires the University to comply with various covenants, conditions, and restrictions. The University was in compliance with all covenants as of June 30, 2023.

Term Loan Principal Repayment Schedule

Payment Date	Principal Amount
April 15, 2024	1,714,286
April 15, 2025	1,714,286
April 15, 2026	1,714,286
April 15, 2027	1,714,286
April 15, 2028	1,714,286
April 15, 2029	1,714,284
	$ 10,285,714

NOTE 12 – BONDS PAYABLE

In October 2007, the University entered into a Loan Agreement with California Statewide Communities Development Authority pursuant to which the Revenue Bonds, Series 2007 (the "Bonds") were issued. The University used the proceeds to finance the acquisition, construction, improvement, expansion and equipping of various educational facilities, defeasance of certain outstanding tax-exempt bonds and paying costs in connection with the issuance of the Bonds. The Loan Agreement requires the University to comply with various covenants, conditions and restrictions. The University was in compliance with these covenants as of June 30, 2023.

On September 14, 2022, the University refinanced the outstanding Bonds by converting to an Initial SOFR Index Rate Period under which Wells Fargo Municipal Capital Strategies, LLC, directly purchased the bonds, eliminating the direct pay letter of credit and remarketing arrangement. The SOFR Index Rate is computed on a daily basis. Interest expense includes costs and discounts related to the issuance of bonds and are being amortized over the life of the bonds utilizing the straight-line method, which approximates the effective interest method. The Reimbursement Agreement requires Bonds to be redeemed annually each June 1 on the following redemption schedule:

Redemption of Bonds	
Year	Total Bonds to be Redeemed
2024	2,950,000
2025	3,125,000
2026	3,310,000
2027	3,505,000
2028	3,715,000
2029	3,935,000
2030	4,165,000
2031	4,415,000
2032	4,675,000
2033	4,960,000
2034	5,285,000
2035	5,600,000
2036	5,930,000
2037	6,280,000
2038	6,655,000
2039	7,055,000
Subtotal	75,560,000
Less unamortized bond issuance costs	(2,719,125)
Total bonds payable, net	$ 72,840,875

NOTE 12 – BONDS PAYABLE – Continued

Interest Rate Swap Agreement

In connection with the original issuance of the Bonds, the University entered into an Interest Rate Swap Agreement (the "Swap Agreement"), which currently is with Wells Fargo Bank, N.A. The Swap Agreement reduces the risk of interest rate changes with respect to the Bonds during the term of the agreement. The scheduled termination of the Swap Agreement is the same date as the final maturity of the Bonds, June 1, 2039.

Under the Interest Rate Swap Agreement, the University pays Wells Fargo Bank, N.A., a fixed interest rate of 4.004% per annum, and Wells Fargo Bank, N.A. pays the University a variable interest rate equal to 70% of one-month LIBOR. The notional amount will be adjusted as the principal is reduced to equal the outstanding principal amount of the Bonds. The University does not enter into derivative instruments for any purpose other than cash flow hedging purposes and does not speculate for investment purposes using derivative instruments. Changes in the fair value of the swap agreement are reported as unrealized gains (assets) or losses (liabilities) on the interest rate swap related to bonds in the accompanying consolidated statement of activities and changes in net assets. As of June 30, 2023, $7,605,884 was recorded as a liability related to the swap on the accompanying consolidated statement of financial position. The change in the fair value of the Swap Agreement from July 1, 2022 through June 30, 2023, was $4,704,002 and is included as the differential in fair value of swap agreement in the accompanying consolidated statement of activities and changes in net assets.

Subsequent to June 30, 2023, the LIBOR index ceased to be published on a representative basis, and the variable rate for our SWAP Agreement transitioned from 70% of 1-Month LIBOR to the current variable rate of 70% of 1-Month Compounded SOFR plus 70% of a 0.11448% Spread Adjustment.

NOTE 13 – ENDOWMENTS

The University's endowments consist of several individual donor- restricted funds established to support scholarship and loan funds for students as well as funds designated by the Board of Trustees to function as endowments. Net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The University has interpreted the California Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations t the contrary. As a result of this interpretation, the University classifies as endowment funds within net assets with donor restrictions: (a) the original value of the gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable

NOTE 13 – ENDOWMENTS – Continued

donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds are held until those amounts are appropriated for expenditure by the University in a manner consistent with the standard prudence prescribed by UPMIFA.

In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the organization
(7) The investment policies of the organization

Unless otherwise acknowledged by the donor, the spending policy for the consolidated investment endowment pool follows the objective of the investment policy and establishes the amount made available for spending from the endowment pool. The current Board of Trustees' approved spending policy is 5% of the market value of the endowment pool on the weighted average over the trailing three years. In the event the current market value of the endowment is less than the historical gift value, spending will continue at 5% for the remaining of the University's fiscal year.

Income derived from the investment of the endowment funds has been accounted for by utilizing the market value unit method for maintaining pooled endowment funds. The following schedule summarizes data pertaining to this method of accounting for the year ended June 30:

	2023	2022
Unit market value	$ 9.95	$ 9.52
Units outstanding	5,718,714	5,718,714

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or law requires the University to maintain as a fund of perpetual duration. In such circumstances, the University maintains the donor-required fund level with donor restrictions and includes any deficiency within net assets with donor restrictions. The University had 29 and 40 endowment funds underwater as of June 30, 2023 and June 30, 2022, respectively.

NOTE 13 – ENDOWMENTS – Continued

The following table presents endowment net asset composition by type of fund as of June 30:

2023	Without Donor Restrictions	With Donor Restrictions: Original Gift	With Donor Restrictions: Accumlated Gains (Losses)	With Donor Restrictions: Available for Distribution	With Donor Restrictions: Total	Total Endowment Funds
Donor-restricted:						
Underwater	$ -	$ 5,420,264	$ (599,666)	$ -	$ 4,820,598	$ 4,820,598
Other	-	11,300,440	1,531,220	3,360,604	16,192,264	16,192,264
Board-designated	41,523,709	-	-	-	-	41,523,709
Total endowment funds	$ 41,523,709	$ 16,720,704	$ 931,554	$ 3,360,604	$ 21,012,862	$ 62,536,571

2022	Without Donor Restrictions	With Donor Restrictions: Original Gift	With Donor Restrictions: Accumlated Gains (Losses)	With Donor Restrictions: Available for Distribution	With Donor Restrictions: Total	Total Endowment Funds
Donor-restricted:						
Underwater	$ -	$ 7,380,869	$ (844,453)	$ -	$ 6,536,416	$ 6,536,416
Other	-	8,616,870	1,033,265	3,916,967	13,567,102	13,567,102
Board-designated	39,028,189	-	-	-	-	39,028,189
Total endowment funds	$ 39,028,189	$ 15,997,739	$ 188,812	$ 3,916,967	$ 20,103,518	$ 59,131,707

The investment objectives for the management of endowment assets are to manage contributions in a manner that will maximize the benefit intended by the donor, to produce current income to support the programs of the University and donor objectives and to achieve growth of both principal value and income over time sufficient to preserve or increase the purchasing power of the assets, thus protecting the assets against inflation. The University's distributable spending policy is calculated at 5% of the three-year trailing average endowment pool market value. Under the current spending policy, if the ordinary income of pooled investments is insufficient to provide the full amount of the spending rate, the balance to be expended may be appropriated from the accumulated realized and unrealized gains of the pooled endowment or if accumulations are not sufficient, appropriation will be from operating investment revenues.

NOTE 13 – ENDOWMENTS - Continued

The following represents a description of the changes in the net endowment assets for the years ended June 30:

2023	Without Donor Restrictions	With Donor Restrictions	Total
Net endowment assets, beginning of year	$ 39,028,189	$ 20,103,518	$ 59,131,707
Net Investment return	2,824,822	849,800	3,674,621
New gifts	-	927,870	927,870
Appropriation for expenditures	(332,300)	(764,196)	(1,096,496)
Other changes, including redesignations	2,998	(104,130)	(101,132)
Net endowment assets, end of year	$ 41,523,709	$ 21,012,862	$ 62,536,571

2022	Without Donor Restrictions	With Donor Restrictions	Total
Net endowment assets, beginning of year	$ 47,562,211	$ 16,475,034	$ 64,037,245
Net Investment return	(10,282,042)	836,706	(9,445,336)
New gifts	8,850	1,431,732	1,440,582
Appropriation for expenditures	(313,967)	(686,968)	(1,000,935)
Other changes, including redesignations	2,053,137	2,047,014	4,100,151
Net endowment assets, end of year	$ 39,028,189	$ 20,103,518	$ 59,131,707

Included in the amounts above are pledges receivable of $175,812 and $189,941 for the years ending June 30, 2023 and 2022, respectively.

NOTE 14 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of June 30, are available for the following purposes or time periods as follows:

Net assets with donor restrictions at June 30 are available for the following purposes or periods as follows:

	2023	2022
Net assets subject to expenditure for specified purposes or time periods:		
Educational support	$ 13,781,637	$ 6,170,696
Research programs	630,636	698,340
Endowed professorships	636,026	508,863
Student scholarships	5,703,827	4,864,309
Time restricted	2,935,087	2,302,804
Total subject to expenditure for specified purposes or time periods	23,687,213	14,545,012
Endowments to be maintained in perpetuity:		
Educational loan programs	1,344,828	904,787
Endowed professorships	2,707,036	2,707,036
Student scholarships	11,239,063	11,011,194
Total donor contributions to be maintained in perpetuity	15,290,927	14,623,017
Total net assets with donor restrictions	$ 38,978,140	$ 29,168,029

NOTE 15 – DEFERRED GIFT AGREEMENTS

The University has arrangements with donors classified as charitable remainder trusts and charitable gift annuities. In general, under these arrangements the University receives a gift from a donor and agrees to pay the donor stipulated amounts over the remaining life of the donor or income beneficiary or for a specific term of years. The arrangements may cover one or more lives. The University is obligated under the California Department of Insurance to comply with regulations for annuities under code sections 11520 through 11524 that determine the type of investments and amount to be held in reserves based on mortality life expectancy tables. Under unitrusts, when the agreement reaches the end of its term, remaining assets are retained by the University, or in some instances, distributed to third-party beneficiaries.

When a deferred gift is received, it is split into the amount representing the actuarial present value of the future distributions to the donor and the remaining gift value to be retained for the benefit of the University or third-party beneficiaries. The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered and age of the income beneficiaries. The University uses a 5.6% interest rate assumption for annuities prior to December 31, 1999, in making the calculation.

NOTE 16 – FUNCTIONAL EXPENSES

The following tables represents functional expenses by natural category for the year ended June 30:

2023	Compensation and Benefits	Supplies and Services	Operation and Maintenance of Plant	Depreciation	Interest Expense	Total
Research	$ 13,875,116	$ 4,854,119	$ 977,229	$ 704,118	$ 374,263	$ 20,784,845
Instruction	101,580,789	26,003,977	6,681,686	4,814,322	2,558,978	141,639,752
Academic Support	14,982,856	5,540,946	1,070,863	771,584	410,123	22,776,372
Student Services	7,200,065	2,222,386	491,632	354,233	188,287	10,456,603
Institutional Support	9,561,715	18,154,259	1,450,527	1,045,141	555,528	30,767,170
Auxiliary Enterprises	391,879	2,031,984	126,469	91,124	-	2,641,456
Development and Fundraising	2,203,589	335,811	132,497	95,468	50,744	2,818,109
Operation and Maintenance of Plant	2,146,624	8,784,279	(10,930,903)	-	-	-
Total Expenses	$ 151,942,633	$ 67,927,761	$ -	$ 7,875,990	$ 4,137,923	$ 231,884,307

2022	Compensation and Benefits	Supplies and Services	Operation and Maintenance of Plant	Depreciation	Interest Expense	Total
Research	$ 14,018,142	$ 5,482,575	$ 905,462	$ 729,421	$ 431,060	$ 21,566,660
Instruction	97,256,112	21,509,693	5,522,339	4,448,681	2,628,999	131,365,824
Academic Support	16,238,539	5,196,298	995,267	801,766	473,813	23,705,683
Student Services	6,539,347	1,456,556	371,268	299,085	176,748	8,843,004
Institutional Support	4,926,726	18,905,932	1,113,723	897,192	530,206	26,373,779
Auxiliary Enterprises	365,738	1,872,299	103,917	83,713	-	2,425,667
Development and Fundraising	2,549,816	453,738	139,462	112,347	66,393	3,321,756
Operation and Maintenance of Plant	2,265,110	6,886,328	(9,151,438)	-	-	-
Total Expenses	$ 144,159,530	$ 61,763,419	$ -	$ 7,372,205	$ 4,307,219	$ 217,602,373

Expenses not directly attributable to one program such as depreciation, interest and plant operations are allocated to specific programs and support services using proportional direct costs incurred by each department.

NOTE 17 – LIFE INSURANCE POLICIES

The University maintains a program whereby donors can make a contribution to the University, which is used to purchase whole life and term insurance policies with the University as owner and beneficiary. The cash surrender value is included in investments. The face amount of these policies was $1,251,319 of June 30, 2023 and 2022, which is not recorded in the University's consolidated financial statements.

NOTE 18 – LEASES

The University is the lessee of equipment and space under operating and finance leases. The University determines whether a contract is a lease at inception. Identified leases are subsequently measured, classified, and recognized at lease commencement. The University categorizes leases with contractual terms longer than twelve months as either operating or

NOTE 18 – LEASES – Continued

finance. The University's leases generally have terms that range from one to five years for equipment and one to thirty years for property, with certain leases inclusive of renewal options if they are considered to be reasonably assured at lease commencement. Right of use assets and lease liabilities for operating leases are included in "Operating lease right-of-use assets, net" and "Operating lease liabilities", respectively, in the consolidated statement of financial position. Finance lease right of use assets and lease liabilities are included in "Finance lease right-of-use assets, net" and "Finance lease liabilities", respectively, in the consolidated statement of financial position. Leased assets represent the University's right to use an underlying asset for the lease term and lease liabilities represent the University's obligation to make lease payments arising from the lease.

Operating and finance lease right of use assets and associated lease liabilities are recognized based on the present value of future minimum lease payments to be made over the expected lease term, using the risk-free discount rate at the commencement date in determining the present value of future payments. Rent expense related to operating leases, including short-term leases and variable lease payments, was $4,614,467 and $9,378,922 in fiscal years ending June 30, 2023 and 2022, respectively.

Maturity analysis of the annual undiscounted cash flows reconciled to the carrying value of the operating and finance lease liabilities:

Years Ending June 30,	Operating	Finance
2024	7,087,234	764,128
2025	6,706,108	764,128
2026	6,690,412	452,511
2027	5,500,330	-
2028	5,461,323	-
Thereafter	58,381,497	-
Total Lease Payments	89,826,904	1,980,767
Less: Imputed Interest	23,680,390	19,672
Present Value of Lease Liabilities	$ 66,146,514	$ 1,961,095

Weighted-average remaining lease term and discount rate for operating and finance leases as of June 30, 2023 was:

Weighted Average Remaining Lease Term	
Operating leases	14.6 years
Finance Leases	3.7 years
Weighted Average Discount Rate	
Operating leases	3.98%
Finance Leases	0.77%

NOTE 18 – LEASES – Continued

The University leases properties to customers under agreements that are classified as operating leases. The University's lessor arrangements are all operating leases and do not include any sales-type or direct finance leases. Property leased to others are included in property, plant and equipment, net in the consolidated statement of financial position.

NOTE 19 – CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash, short-term investments, marketable securities and other investments and accounts and notes receivable. The University places substantially all of its cash and liquid investments with established commercial financial institutions and limits the amount of credit exposure to any one financial institution; however, cash balances periodically exceed federally insured limits. Cash balances in excess of federally insured and Securities Investor Protection Corporation limits at June 30, 2023 and 2022, amounted to $10,907,430 and $13,105,005, respectively. Marketable securities, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk.

NOTE 20 – EMPLOYEE RETIREMENT PLANS

The University has a contributory retirement plan (a "403(b) plan") covering non-student employees who work at least 20 hours per week. Participation in the plan is mandatory for an employee who becomes eligible on the first day of the month subsequent to their hire date. The minimum employee contribution is 1% with optional additional voluntary amounts in 0.5% increments.

The University contributes 1-1/2 times the employee contribution to the 403(b) plan up to a maximum of 5% of employee contributions for each participating employee. The University had 1,423 and 1,205 active participants in the plan as of December 31, 2022 and 2021, respectively. The University's contribution to the plan was $7,603,007 and $7,572,962 for the years ended June 30, 2023 and 2022, respectively.

The University provides a non-funded, post-retirement medical benefit to an employee and has recorded an estimated liability of $1,291,758 and $359,126 as of June 30, 2023 and 2022, respectively.

NOTE 21 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from time or purpose restrictions are from the following categories for the year ended June 30:

	2023	2022
Research	$ 473,596	$ 209,546
Instruction	2,096,534	1,725,339
Academic Services	237,205	-
Student Services	9,850	5,214
Institutional support	57,660	337,905
Facilities	1,070,907	-
Scholarships and fellowships	1,053,834	976,735
Total	$ 4,999,586	$ 3,254,739

NOTE 22 – FEDERAL AND STATE GRANTS

Certain federal and state grants, including financial aid which the University administers and for which it receives reimbursements, are subject to audit and final acceptance by federal and state granting agencies. Current and prior-year expenditures of those grants are subject to adjustment upon audit. The amount of expenditures that may be disallowed by the grantor, if any, cannot be determined at this time although the University expects that those amounts, if any, would not have a significant impact on the University's financial position. Currently, there are no audits being conducted related to federal and state grants performed by granting agencies.

NOTE 23 – AFFILIATION WITH SAN BERNARDINO COUNTY

The University has an affiliation with San Bernardino County, specifically, Arrowhead Regional Medical Center ("ARMC") in Colton, California. The Osteopathic Post Graduate Training Institute OPTI-West Education Consortium ("Consortium"), a separate tax-exempt IRC Section 501(c)(3) corporation, is comprised of the University, ARMC, and five other health care organizations. This membership Consortium serves to promote clinical teaching and training of health profession students, maintain advanced education and certification in primary and specialty medicine and access to health care services. The University does not have a controlling interest nor ownership in the activities of the Consortium, and they are not included in these consolidated financial statements.

NOTE 24 – CONTINGENCIES

The University is subject to claims and lawsuits that arise in the ordinary course of business. The University purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. U.S. GAAP requires a health care provider to accrue the expense of its

NOTE 24 – CONTINGENCIES – Continued

share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the University's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

On April 21, 2022, the University reached a settlement agreement, in principle, for an employee class action lawsuit for alleged wage and hour violations ("settlement") in the gross amount of $4,500,000. The settlement is subject to judicial approval and a hearing for final court approval had not yet been scheduled as of June 30, 2022. At June 30, 2022, the University has recorded a liability for the class action settlement of $4,500,000. As of June 30, 2023, there have been no payments made in connection with the class action settlement.

NOTE 25 – SUBSEQUENT EVENTS

In preparing these consolidated financial statements, the University has evaluated events and transactions for potential recognition or disclosure through October 26, 2023, the date the consolidated financial statements were available to be issued.