Hood & Strong

Advisory, Tax
and Assurance

Palo Alto University, Inc.

July 31, 2025 and 2024

Idependent Auditors' Report and
Financial Statements

Palo Alto University, Inc.

Independent Auditors' Report and
Financial Statements

Independent Auditors' Report

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

Opinion

We have audited the financial statements of **PALO ALTO UNIVERSITY, INC. (the University)** which comprise the statement of financial position as of July 31, 2025 and 2024, the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as of July 31, 2025 and 2024, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Hood & Strong LLP

San Francisco, California
November 14, 2025

Palo Alto University, Inc.

Statement of Financial Position

July 31,	2025	2024
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,840,703	$ 1,030,884
Student receivables, net of allowance of $ 1,049,468 for 2025 and $977,549 for 2024	11,677,399	9,836,330
Contributions receivable	99,301	185,342
Grants receivable	1,259,134	1,132,111
Prepaid expenses and other assets	1,089,979	1,305,420
Total current assets	15,966,516	13,490,087
Investments	15,260,328	15,593,180
Contributions Receivable, net of current portion	16,933	32,834
Operating lease right-of-use assets	5,377,692	6,065,060
Property and Equipment, net	9,923,043	10,561,666
Goodwill	573,000	573,000
Total assets	$ 47,117,512	$ 46,315,827
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	$ 2,780,288	$ 2,987,193
Deferred revenue	13,459,697	11,806,264
Operating lease liability, current portion	767,003	721,078
Total current liabilities	17,006,988	15,514,535
Operating lease liability, net of current portion	5,638,906	6,405,909
Total liabilities	22,645,894	21,920,444
Net Assets:		
Without donor restrictions	21,343,082	21,472,568
With donor restrictions	3,128,536	2,922,815
Total net assets	24,471,618	24,395,383
Total liabilities and net assets	$ 47,117,512	$ 46,315,827

See accompanying notes to the financial statements.

Palo Alto University, Inc.

Statement of Activities and Changes in Net Assets

For the Year Ended July 31,

	2025			2024		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:						
Gross tuition	$ 33,591,234		$ 33,591,234	$ 31,926,819		$ 31,926,819
Gross fees	4,463,195		4,463,195	4,200,130		4,200,130
	38,054,429		38,054,429	36,126,949		36,126,949
Less financial aid	(1,148,732)		(1,148,732)	(1,373,283)		(1,373,283)
Net tuition and fees	36,905,697		36,905,697	34,753,666		34,753,666
Contributions	29	$ 439,302	439,331	1,576	$ 446,968	448,544
Grants	1,357,775		1,357,775	1,570,500		1,570,500
Investment income (loss)	759,553	184,011	943,564	677,616	356,809	1,034,425
Program services income, net	1,637,582		1,637,582	1,788,599		1,788,599
Other	246,692		246,692	287,529		287,529
Net assets released from restrictions	417,592	(417,592)	-	210,428	(210,428)	-
Total revenues	41,324,920	205,721	41,530,641	39,289,914	593,349	39,883,263
Expenses:						
Program services:						
Instruction	26,161,452		26,161,452	25,222,537		25,222,537
Student services	4,670,979		4,670,979	4,875,324		4,875,324
Supporting services:						
Institutional support	10,296,282		10,296,282	9,174,150		9,174,150
Development	325,693		325,693	279,890		279,890
Total expenses	41,454,406	-	41,454,406	39,551,901	-	39,551,901
Change in Net Assets	(129,486)	205,721	76,235	(261,987)	593,349	331,362
Net Assets, beginning of period	21,472,568	2,922,815	24,395,383	21,734,555	2,329,466	24,064,021
Net Assets, end of period	$ 21,343,082	$ 3,128,536	$ 24,471,618	$ 21,472,568	$ 2,922,815	$ 24,395,383

See accompanying notes to the financial statements.

Palo Alto University, Inc.

Statement of Functional Expenses

For the Year Ended July 31, 2025

		Student Services			Institutional Support				
	Instruction	Library	Student Services	Total Student Services	General & Administrative	Sponsored Programs	Total Institutional Support	Development	Total
Salaries and wages	$ 15,618,075	$ 477,523	$ 2,365,515	$ 2,843,038	$ 4,163,477	$ 700,995	$ 4,864,472	$ 198,465	$ 23,524,050
Benefits	2,343,081	92,402	419,769	512,171	1,006,104	131,853	1,137,957	37,393	4,030,602
Total salaries and benefits	17,961,156	569,925	2,785,284	3,355,209	5,169,581	832,848	6,002,429	235,858	27,554,652
Consortium payments	3,786,170			-			-		3,786,170
Consultants	502,431		173,889	173,889	1,099,206	259,773	1,358,979	29,427	2,064,726
Rent	1,357,983		28,291	28,291	28,291		28,291		1,414,565
Professional dues and license	105,578	1,495	9,794	11,289	29,032	7,690	36,722	4,733	158,322
Building maintenance	100,499	8,238	8,238	16,476	23,065	23,065	46,130	1,648	164,753
Computer equipment	21,997	1,803	1,803	3,606	5,559	6,918	12,477	361	38,441
Digital material use fees	2,200	189,886		189,886			-		192,086
Audit services				-	128,900		128,900		128,900
Graduation	11,517		10,048	10,048			-		21,565
Recruiting and job fairs			1,050	1,050	6,047		6,047		7,097
Travel and lodging	418,472	2,987	9,721	12,708	76,867	2,239	79,106		510,286
Meals and entertainment	121,406	137	11,067	11,204	39,769	282	40,051	24,538	197,199
Temporary agencies			23,984	23,984	1,548		1,548		25,532
Advertising and public relations	83,189		4,256	4,256	354,320		354,320		441,765
Bank and credit card charges	45,096			-	359,818		359,818	737	405,651
Bad debt				-	97,630		97,630		97,630
Community relations	28,166		590	590	30,111	45,012	75,123	349	104,228
Supplies	14,099	4,426	5,450	9,876	9,410		9,410	4,680	38,065
Utilities and telephone	85,260	6,989	6,989	13,978	53,621	19,568	73,189	1,398	173,825
Business insurance				-	322,226		322,226		322,226
Legal	7,000			-	145,743		145,743		152,743
Software site licenses	579,852	370,849	159,717	530,566	547,219	56,511	603,730		1,714,148
Royalties	220,902			-			-		220,902
Depreciation and amortization	415,969	212,581	21,148	233,729	146,126	59,213	205,339	4,230	859,267
Other expenses	292,510	14,235	26,109	40,344	259,219	49,855	309,074	17,734	659,662
Total expenses	$ 26,161,452	$ 1,383,551	$ 3,287,428	$ 4,670,979	$ 8,933,308	$ 1,362,974	$ 10,296,282	$ 325,693	$ 41,454,406

See accompanying notes to the financial statements.

Palo Alto University, Inc.

Statement of Functional Expenses

For the Year Ended July 31, 2024

		Student Services			Institutional Support				
	Instruction	Library	Student Services	Total Student Services	General & Administrative	Sponsored Programs	Total Institutional Support	Development	Total
Salaries and wages	$ 15,338,699	$ 523,609	$ 2,543,605	$ 3,067,214	$ 3,614,678	$ 585,388	$ 4,200,066	$ 196,749	$ 22,802,728
Benefits	1,649,512	54,184	244,725	298,909	1,815,228	76,275	1,891,503	22,463	3,862,387
Total salaries and benefits	16,988,211	577,793	2,788,330	3,366,123	5,429,906	661,663	6,091,569	219,212	26,665,115
Consortium payments	3,656,007			-			-		3,656,007
Consultants	504,503		286,402	286,402	415,838	149,423	565,261	20,392	1,376,558
Rent	1,340,001		27,917	27,917	27,917		27,917		1,395,835
Professional dues and license	84,502	1,033	4,682	5,715	24,200	436	24,636	2,807	117,660
Building maintenance	143,994	11,803	11,803	23,606	33,048	33,048	66,096	2,361	236,057
Computer & network equipment	882	4,373	72	4,445	2,951	14,602	17,553	14	22,894
Digital material use fees		217,006		217,006			-		217,006
Audit services				-	129,500		129,500		129,500
Graduation	66,211		8,485	8,485			-		74,696
Recruiting and job fairs	681		7,430	7,430	16,714		16,714		24,825
Travel and lodging	295,710	4,546	21,044	25,590	59,047	1,058	60,105		381,405
Meals and entertainment	88,223	1,005	18,463	19,468	48,724	900	49,624	6,730	164,045
Temporary agencies				-	124,439		124,439		124,439
Advertising and public relations	41,666		3,745	3,745	249,767	6,081	255,848		301,259
Bank and credit card charges	37,522			-	433,908		433,908		471,430
Bad debt				-	81,901		81,901		81,901
Community relations	50,938		2,288	2,288	27,557	4,122	31,679	3,510	88,415
Supplies	8,042	6,372	9,053	15,425	4,199	318	4,517	2,635	30,619
Utilities and telephone	144,349	8,063	8,063	16,126	27,486	22,576	50,062	1,613	212,150
Business insurance	1,086			-	371,840		371,840		372,926
Legal	19			-	50,515		50,515		50,534
Software site licenses	788,529	318,372	211,606	529,978	70,368	9,719	80,087		1,398,594
Royalties	284,203			-			-		284,203
Depreciation and amortization	262,301	206,299	21,148	227,447	334,050	59,213	393,263	4,230	887,241
Other expenses	434,956	22,984	65,144	88,128	166,687	80,429	247,116	16,386	786,586
Total expenses	$ 25,222,536	$ 1,379,649	$ 3,495,675	$ 4,875,324	$ 8,130,562	$ 1,043,588	$ 9,174,150	$ 279,890	$ 39,551,900

See accompanying notes to the financial statements.

Palo Alto University, Inc.

Statement of Cash Flows

For the Year Ended July 31,	2025	2024
Cash Flows from Operating Activities:		
Change in net assets	$ 76,235	$ 331,362
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	859,267	887,241
Provision for uncollectible student receivables	71,919	34,632
Change in discount and allowance on contributions receivable	(7,058)	(2,359)
Net loss (gain) on investments	144,979	(2,373,620)
Amortization of operating lease right-of-use assets	687,368	669,243
Changes in operating assets and liabilities:		
Student receivables	(1,912,988)	(1,072,628)
Contributions receivable	109,000	125,250
Grants receivable	(127,023)	(504,800)
Prepaid expenses and other assets	215,441	106,515
Accounts payable and accrued expenses	(206,905)	(7,047)
Deferred revenue	1,653,433	797,344
Operating lease liability	(721,078)	(677,093)
Net cash provided (used) by operating activities	842,590	(1,685,960)
Cash Flows from Investing Activities:		
Proceeds from the sale of investments	25,506,256	5,144,531
Purchase of investments	(25,318,383)	(5,273,347)
Purchase of property and equipment	(220,644)	(518,219)
Net cash used by investing activities	(32,771)	(647,035)
Net Change in Cash and Cash Equivalents	809,819	(2,332,995)
Cash and Cash Equivalents, beginning of the period	1,030,884	3,363,879
Cash and Cash Equivalents, end of the period	$ 1,840,703	$ 1,030,884
Non-cash Supplemental Information:		
Property and equipment included in accounts payable and accrued expenses		$ 23,291

See accompanying notes to the financial statements.

Note 1 - The University and Summary of Significant Accounting Policies:

The University

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

The University has many collaborative partnerships with community organizations and institutions, including Stanford School of Medicine, the Department of Veterans Affairs, Palo Alto Medical Center, and other mental health care organizations. The Clinics @ PAU deliver low-cost mental health services to the local community while also providing valuable, supervised training to university graduate students. In addition, the University sponsors several academic centers devoted to child mental health, evidence-based care for Lesbian, Gay, Bisexual, Transgender, and Questioning clients, excellence in diversity and community care, and internet-based global healthcare. The University also provides premium online professional training for mental health professionals.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis of Presentation

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

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

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

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

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purpose of the statement of cash flows, cash and cash equivalents consist of cash and money market funds excluding those held for investment purposes.

Investments

Investments are recorded at fair value. Investments received through gifts are recorded at estimated fair value at the date of donation. All debt and equity securities with readily determinable market values are carried at estimated fair value based on closing market prices. Investments in privately held companies are held at fair value as determined by the management of those companies. Gains and losses that result from market fluctuations are recognized in the statement of activities and changes in net assets in the period such fluctuations occur. Dividend and interest income are accrued when earned.

Student and Grants Receivables

Student receivables include tuition and fees due from students and grants receivables include reimbursements due from sponsors of externally funded research and amounts due from federal agencies for student financial aid programs. These receivables are carried at the net realizable value and are expected to be collected within one year.

The University grants credit primarily to individuals for the purpose of paying for their tuition and fees. Student receivables are payable by a certain date each quarter and are stated at amounts due, net of an allowance for credit losses, if any. The University routinely reviews its receivables and makes provisions for the credit losses utilizing the Current Expected Credit Losses model (CECL). The CECL model utilizes a lifetime expected credit loss measurement objective for the recognition of credit losses for accounts receivables at the time the financial asset is originated or acquired utilizing historic and current data along with future projections. Receivables are charged against the allowance when management believes that collectability is unlikely.

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

Property and Equipment

Property and equipment are stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts in kind. The University capitalizes all expenses for property and equipment, with the exception of library books, in excess of $5,000; library books of any amount are capitalized. Depreciation is computed using the straight-line method based upon the estimated useful lives of the assets, generally 3 to 40 years.

Leases

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

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

Goodwill

Goodwill represents the excess of the cost of net assets acquired over the fair value of identifiable net assets at the date of acquisition. Goodwill acquired and determined to have an indefinite useful life is not amortized but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. Goodwill impairment tests consist of a comparison of the reporting unit's fair value with its carrying value. Impairment exists when the carrying amount of goodwill exceeds the implied fair value for the reporting unit. The evaluation of impairment requires the University to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and are subject to change as future events and circumstances change. Actual results may differ from assumed and estimated amounts. Management determined that no impairment write-downs were required as of July 31, 2025.

Revenue Recognition

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

Tuition amounts received for the 2025-2026 school year as of July 31, 2025 in the amount of $12,978,358 are recorded as deferred revenue. Deferred revenue as of July 31, 2024 of $11,067,583 was recognized as revenue during the year ended July 31, 2025.

Contributions and grants are recognized as revenues when they are received by, or unconditionally pledged to, the University. The University classifies gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When such donor restrictions expire, that is, when stipulated time restrictions end or purpose restrictions are accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions. When the restriction is met in the same period as the contribution is received, contributions are reported as increases in net assets without donor restrictions.

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

An allowance for uncollectible pledges has been established based on prior experience. The financial statements reflect these pledges net of the discount and allowance reserve. Conditional promises, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend are substantially met. The University had no conditional contributions as of July 31, 2025 and 2024.

Grant revenues are recognized as grant expenditures are incurred. Grant proceeds received in advance of grant expenditures as of July 31, 2025 in the amount of $481,341 are recorded as deferred revenue, a contract liability. Deferred revenue related to grants as of July 31, 2024 of $738,681 was recognized as revenue during the year ended July 31, 2025.

Program services income includes income from The Clinics @PAU and CONCEPT - Continuing and Professional Studies (see Note 13) online professional training revenues. Revenue is recognized as the services are provided (performance obligation), typically upon receipt of payment. Deferred revenue, if any, is recorded for services paid for but not provided as of year end. As of July 31, 2025 and 2024, no deferred revenue was recorded.

Advertising Expenses

The University's policy is to expense advertising costs as they are incurred. Advertising costs for the year ended July 31, 2025 and 2024 were $440,328 and $301,259, respectively.

Allocation of Functional Expense

The costs of providing various programs and activities have been summarized on a functional basis in the statement of activities and changes in net assets. Certain expenses, such as depreciation and amortization expense, building services, including information technology, and personnel, are allocated among program services and supporting services based primarily on direct payroll charges and other direct expenses.

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

Income Taxes

The University is recognized by the Internal Revenue Service as an organization exempt from income taxes on related activities under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code.

As of July 31, 2025 and 2024, management evaluated the University's tax positions and concluded that the University had maintained its tax-exempt status and had taken no uncertain tax positions that require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

Concentrations of Risk

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

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

The University grants credit to students in the normal course of operations and the credit risk with respect to these receivables is generally considered minimal due to the wide dispersion of receivables among individual students.

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

Fair Value Measurements

The University carries certain assets and liabilities at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The University classifies its financial assets and liabilities that the University has the ability to access at the measurement date based on a valuation method using three levels. Level 1 values are based on quoted prices (unadjusted) in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect the University's determination of assumptions that market participants might reasonably use in valuing the securities.

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

Reclassification

Certain accounts in the 2025 financial statements have been reclassified for comparative purposes to conform with the presentation in the 2024 financial statements. These reclasses have had no effect on net assets or change in net assets.

Subsequent Events

The University evaluated subsequent events from July 31, 2025 through November 14, 2025, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

Note 2 - Investments and Fair Value Measurements:

The table below presents the balances of assets measured at fair value at July 31, 2025 on a recurring basis:

	Total	Level 1	Level 2	Level 3
Cash and money market funds	$ 1,233,392	$ 1,233,392		
Bonds and fixed income funds	10,355,437	10,355,437		
Equity funds	3,057,534	3,057,534		
Alternative strategy funds	394,440	394,440		
Common stock - privately held companies	219,525	-		$ 219,525
Total	$ 15,260,328	$ 15,040,803	$ -	$ 219,525

The table below presents the balances of assets measured at fair value at July 31, 2024 on a recurring basis:

	Total	Level 1	Level 2	Level 3
Cash and money market funds	$ 5,525,703	$ 5,525,703		
Bonds and fixed income funds	6,883,588	6,883,588		
Equity funds	2,562,187	2,562,187		
Alternative strategy funds	402,177	402,177		
Common stock - privately held companies	219,525			$ 219,525
Total	$ 15,593,180	$ 15,373,655	$ -	$ 219,525

An investment's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. There has been no change in the methodology used for July 31, 2025 and 2024.

There were no changes in Level 3 assets and liabilities measured on a reoccurring basis for the year ended July 31, 2025. Level 3 assets and liabilities measured on a recurring basis increased by $150,000, due to additional investments received, for the year ended July 31, 2024.

Note 3 - Contributions Receivable:

Contributions receivable consisted of the following at July 31:

	2025	2024
Unconditional promises to be collected in the short-term:		
Less than one year (net of allowance for uncollectible contributions of $57,158 for 2025 and 2024)	$ 99,301	$ 185,342
Unconditional promises to be collected in the long term:		
Two to five years	20,000	42,960
Less discount to present value	(3,067)	(10,126)
Net long-term contributions receivable	$ 16,933	$ 32,834

Note 4 - Property and Equipment:

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

	2025	2024
Land	$ 2,950,000	$ 2,950,000
Building	9,279,453	9,154,210
Furniture and equipment	4,341,609	4,279,738
Library books	1,748,702	1,687,967
Software	2,179,101	2,069,773
Construction in progress	4,270	140,804
	20,503,135	20,282,492
Less accumulated depreciation and amortization	(10,580,092)	(9,720,826)
	$ 9,923,043	$ 10,561,666

Depreciation and amortization expense for the years ended July 30, 2025 and 2024 was $859,267 and $887,241, respectively.

Note 5 - Leases:

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

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

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

Year Ending July 31,	
2026	$ 924,538
2027	951,972
2028	976,877
2029	999,278
2030	1,029,256
Thereafter	2,152,073
Total lease payments	7,033,994
Less discount to present value	(628,085)
Present value of operating lease liability	$ 6,405,909

Total rent expense under the above operating leases was approximately $864,000 for the year ended July 31, 2025 and 2024, respectively. As of July 31, 2025 and 2024, the weighted-average remaining lease term was 6.98 years and 7.98 years, respectively, and the weighted-average discount rate was 2.6% and 2.6%, respectively.

Note 6 - Credit Agreements:

The University has a $1,500,000 line of credit with Comerica Bank. The line of credit bears annual interest at a variable rate of the greater of the daily adjusting LIBOR rate or the prime-based rate. As of July 31, 2025 and 2024, the line of credit bore interest at a rate of 8.5% and 8.5%, respectively. The line can expire on demand. As of July 31, 2025 and 2024, there was no outstanding balance on the line of credit. The agreement requires, among other things, compliance with covenants including a certain positive change in net assets and timely submission of internal and external financial statements. The agreement is secured by investments and real and personal property, expires on demand and is reviewed on an annual basis by management. As of July 31, 2025 and 2024, the University was not in compliance with the financial covenants and received a covenant waiver from the bank.

Note 7 - Net Assets Without Donor Restrictions:

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

	2025	2024
Board-designated	$ 13,376,843	$ 14,030,008
Undesignated	7,966,239	7,442,560
	$ 21,343,082	$ 21,472,568

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

	2025	2024
Board-designated endowment	$ 3,917,027	$ 3,555,447
Liquidity reserve	9,459,816	10,474,561
	$ 13,376,843	$ 14,030,008

Note 8 - Net Assets With Donor Restrictions:

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

	2025	2024
Endowments restricted in perpetuity by donors	$ 1,430,650	$ 1,147,970
Accumulated earnings on endowment	676,787	565,964
Total endowment	2,107,437	1,713,934
Project and program purpose restriction:		
Student Fellowships	44,750	42,378
Postdoctoral Position	66,500	156,500
Student Success Center	14,602	97,709
Student Emergency Funds	26,064	18,595
Innovart Research Grants	9,000	8,000
PAU's 50th Anniversary	15,500	
Other programs	844,683	885,699
	1,021,099	1,208,881
	$ 3,128,536	$ 2,922,815

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

	2025	2024
Expiration of time restrictions	$ 195,071	$ 150,637
Purpose restriction met:		
Student Success Center	83,107	52,291
Postdoctoral Position	90,000	7,500
Student Fellowships	42,378	
Student Emergency Funds	4,036	
Innovart Research Grants	3,000	
	$ 417,592	$ 210,428

Note 9 - Endowment:

The University's endowments consist of eleven individual funds, all established to generate support for the University's general operations, tuition assistance and programs. Its endowment includes donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Consistent with the California enacted version of the State Prudent Management of Institutional Funds Act (SPMIFA) and Board policy, the University classifies as net assets with donor restrictions the original value of gifts of donor-restricted endowment funds and, if applicable, accumulations of donor-restricted endowment funds as required by the donor. Accumulated earnings of donor-restricted endowment funds are classified as net assets with donor restrictions until distributed in accordance with SPMIFA and Board policy.

In accordance with SPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) The duration and preservation of the fund, (2) the purposes of the University and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the University, (7) the investment policies of the University.

The University has adopted investment and spending policies for endowment assets that will ultimately provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under the current policy, the annual draw from the endowment shall not exceed 4% of the average market value of the endowment portfolio based on a 60-month rolling average as of July 31 of the prior fiscal year.

To achieve a long-term investment rate-of-return, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University is reinvesting all unspent interest and gain associated with its endowments.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the amount to be maintained in perpetuity. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. At July 31, 2025 and 2024, there were no such amounts.

Endowment net asset composition as of July 31, 2025 was:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted	$ -	$ 2,117,437	$ 2,117,437
Board-designated	3,917,027		3,917,027
Total funds	$ 3,917,027	$ 2,117,437	$ 6,034,464

Changes in endowment net assets for the year ended July 31, 2025 were as follows:

	Without Donor	With Donor Restrictions		
	Restrictions	Time or Purpose	Perpetuity	Total
Endowment Net Assets, beginning of year	$ 3,555,447	$ 565,964	$ 1,147,970	$ 5,269,381
Investment income	107,352	73,188		180,540
Net gain (realized and realized)	254,228	110,823		365,051
Contributions			282,680	282,680
Appropriated for expenditure		(73,188)		(73,188)
Change in endowment net assets	361,580	110,823	282,680	755,083
Endowment Net Assets, end of year	$ 3,917,027	$ 676,787	$ 1,430,650	$ 6,024,464

Endowment net asset composition as of July 31, 2024 was:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted	$ -	$ 1,713,934	$ 1,713,934
Board-designated	3,555,447		3,555,447
Total funds	$ 3,555,447	$ 1,713,934	$ 5,269,381

Changes in endowment net assets for the year ended July 31, 2024 were as follows:

	Without Donor	With Donor Restrictions		
	Restrictions	Time or Purpose	Perpetuity	Total
Endowment Net Assets, beginning of year	$ 3,168,370	$ 454,898	$ 950,389	$ 4,573,657
Investment income	97,225	85,223		182,448
Net gain (realized and realized)	289,852	111,066		400,918
Contributions			197,581	197,581
Appropriated for expenditure		(85,223)		(85,223)
Change in endowment net assets	387,077	111,066	197,581	695,724
Endowment Net Assets, end of year	$ 3,555,447	$ 565,964	$ 1,147,970	$ 5,269,381

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

	2025	2024
Growowski Clinic Endowment Fund	$ 418,076	$ 418,076
The Library Endowment Fund	126,302	126,302
Florence Furst Memorial Student short-Term Loan Fund	10,000	10,000
Scholarships	5,439	5,439
The Dr. Christine Blasey Endowed Scholarship Fund	75,953	69,453
The Ying Li Kostenbauder Endowed Scholarship Fund	107,500	77,500
The Robin Welles Kostenbauder Endowed Scholarship Fund	98,500	71,000
The Otieno Family Endowed Undergraduate Scholarship Fund	54,900	54,900
The Berton Keith Endowed Scholarship Fund	50,100	50,100
The Duif, Bufo, and Scot Calvin Endowed Undergraduate Scholarship Fund	50,000	50,000
The Alena Malaika Asuma Otieno Memorial Endowed Scholarship Fund	60,000	55,000
The Anika Mehta Endowed Scholarship Fund	50,000	50,000
The Kathryn Pryor Memorial Endowed Scholarship Fund	223,875	110,200
The Dennis R. Murphy Endowed Memorial Scholarship	45,000	
The Maureen O'Connor Center for Educational Excellence	55,005	
Total net assets with perpetuity restrictions	$ 1,430,650	$ 1,147,970

Net assets with perpetual donor restrictions included in pledges receivable totaled $60,000 at July 31, 2025 and 2024, respectively.

Note 10 - Retirement Plan:

Retirement benefits are provided through a defined contribution plan under the Internal Revenue Code, Section 403(b) for University employees. For the year ended July 31, 2025, employees hired before August 1, 2024, remain immediately 100% vested, while those hired on or after that date become 100% vested after six months of service. Under the terms of the plan, the University has the option to make discretionary contributions to the plan. Eligible participants may contribute amounts not to exceed IRS limits. The University’s contributions were $947,890 and $882,523 for the years ended July 31, 2025 and 2024, respectively.

The University also has 457(b) and 457(f) deferred compensation plans which provide eligible employees with the opportunity to defer a portion of their compensation and the University to make contributions for certain employees. For the 457(b) plan, deferrals are made at the discretion of the participants, subject to certain limitations. For the 457(f) plan, the contributions are made by the University on behalf of key employees. Total participant deferrals and employer contributions are $33,000 as of July 31, 2025 and 2024, respectively. The assets related to participant deferrals and employer contributions are available to the general creditors of the University and are included in cash and cash equivalents and accounts payable and accrued expenses in the accompanying statement of financial position.

Note 11 - Other Commitments and Contingencies:

On August 30, 2016, the University renewed its agreement with Leland Stanford Junior University (Stanford) whereby Stanford faculty will provide certain instruction to students enrolled in the University's PsyD Program, which began in the fall of 2002. The agreement commenced on September 1, 2016. By consent of both parties, this is an "evergreen contract" with no specific end date. According to the agreement, fees to Stanford are paid four times per academic year based on the number of students enrolled in the program and the University-Stanford faculty sharing of the teaching load.

The University receives funds from and administers various federal government funded programs which are subject to audit by the cognizant governmental agencies. The University's management believes that the outcome of any such audits will not have a significant effect on the financial position or results of activities of the University.

Note 12 - Availability of Financial Assets and Liquidity:

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

	2025	2024
Financial assets at year end:		
Cash and cash equivalents	$ 1,840,703	$ 1,030,884
Student receivables, net of allowance	11,677,399	9,836,330
Contributions receivable, net	116,237	218,176
Grants receivable	1,259,134	1,132,111
Investments	15,260,328	15,593,180
Total financial assets	30,153,801	27,810,681
Less amounts not available to be used within one year:		
Net assets with donor restrictions	(3,128,536)	(2,922,815)
Net assets designated by the Board	(13,376,843)	(14,030,008)
Long-term contributions receivable	(16,933)	(32,834)
	(16,522,312)	(16,985,657)
Financial assets available to meet general expenditures within one year	$ 13,631,489	$ 10,825,024

The University's goal is generally to maintain financial assets to meet three months (90 days) of operating expenses (approximately $8,500,000). As part of its liquidity plan, excess cash is invested in the short-term reserve fund. The University has a $1,500,000 line of credit available for use and the Board can un-designate the Board-designated net assets and make them available for general operations.

Note 13 - CONCEPT - Continuing & Professional Studies:

The University has goodwill related to the acquisition of CONCEPT, LLC. Goodwill are as follows at July 31:

	2025	2024
Goodwill	$ 573,000	$ 573,000

Note 14 - Related Party Transactions:

Contributions receivable, prior to discounts or allowances, from employees of the University and members of its Board of Trustees totaled $113,500 and $113,500 at July 31, 2025 and 2024, respectively. The contributions received from employees of the University and members of its Board of Trustees totaled $241,970 and $93,573 at July 31, 2025 and 2024, respectively.

Note 15 - Related Party Disclosure Required by the U.S. Department of Education:

The following list of related party transactions is provided solely to comply with the Financial Responsibility, Administrative Capability, Certification Procedures, Ability To Benefit regulation promulgated by the U.S. Department of Education. The University has identified related parties for this purpose to include management which consists of staff, faculty, close family members of staff, and members of the Board of Trustees.

				Amount of Transaction		
Name of Related Party	Location	Relationship	Nature of Transaction	New Contribution During Fiscal 2025	Pledge Payments During Fiscal 2025	Pledge Balance at July 31, 2025
Amanda Fannif	Student Emergency Fund	Faculty	Contribution	$ 100		
Anne Farrah	Student Emergency Fund	Employee	Contribution	5		
Anne Farrah	The Maureen O'Connor Center for Educational Excellence (CEE)	Employee	Contribution	5		
Anne Farrah	Palo Alto University Fund	Employee	Contribution	5		
Carol Bobby	The Maureen O'Connor Center for Educational Excellence (CEE)	Trustee	Contribution	1,000		
Carol Bobby	Scholarships	Trustee	Contribution	2,500		
Carol Bobby	Maureen O'Connor Retirement Fund	Trustee	Contribution	150		
Daniel Kostenbauder	The Maureen O'Connor Center for Educational Excellence (CEE)	Trustee	Contribution	10,000		
Daniel Kostenbauder	Maureen O'Connor Retirement Fund	Trustee	Contribution	150		
Daniel Kostenbauder	The Robin Welles Kostenbauder Endowed Scholarship Fund	Trustee	Contribution	27,500		
Daniel Kostenbauder	The Ying Li Kostenbauder Endowed Scholarship Fund	Trustee	Contribution	30,000		
Daniele Levy	The Maureen O'Connor Center for Educational Excellence (CEE)	Trustee	Contribution	5,000		
Daniele Levy	Palo Alto University Fund	Trustee	Contribution	10,000		
	(includes a company match of $2,500 from Chris Maxcy, spouse)					
Daniele Levy	Maureen O'Connor Retirement Fund	Trustee	Contribution	3,000		
Derek Minno	The Maureen O'Connor Center for Educational Excellence (CEE)	Trustee	Contribution	500		
Derek Minno	Palo Alto University Fund	Trustee	Contribution	2,500		
Derek Minno	Maureen O'Connor Retirement Fund	Trustee	Contribution	150		
Diana Hernandez	Student Emergency Fund	Employee	Contribution	100		
Genevieve Arnaut	Maureen O'Connor Retirement Fund	Employee	Contribution	150		
Helen Wilmot	Palo Alto University Fund	Trustee	Contribution	5,000		
Helen Wilmot	Maureen O'Connor Retirement Fund	Trustee	Contribution	150		
James Beall	The Kathryn Pryor Memorial Endowed Scholarship Fund	Trustee	Contribution	2,500		
James Beall	The Maureen O'Connor Center for Educational Excellence (CEE)	Trustee	Contribution	250		
James Ioannidis	Palo Alto University Fund	Trustee	Contribution	3,000		
	(includes a company match of $1,500 from Mary Ioannidis, spouse)					
James Otieno	The Alena Malaika Asuma Otieno Memorial Endowed Scholarship Fund	Trustee	Contribution	5,000		$ 20,000
	(includes a company match of $2,500 from Maren Otieno, spouse)					
James Otieno	Maureen O'Connor Retirement Fund	Trustee	Contribution	150		
James Otieno	Other Pledges	Trustee	Contribution			93,500
Jeanine Hawk	Palo Alto University Fund	Employee	Contribution	200		
Jeff Gee	Palo Alto University Fund	Trustee	Contribution	2,500		
Jeff Gee	Maureen O'Connor Retirement Fund	Trustee	Contribution	150		
Jessica DiVento Dzuban	Palo Alto University Fund	Trustee	Contribution	3,000		
	(includes a company match of $1,500)					
Jessica DiVento Dzuban	Maureen O'Connor Retirement Fund	Trustee	Contribution	300		
Jorge Wong	The Dr. Christine Blasey Endowed Scholarship Fund	Trustee	Contribution	1,000		
Jorge Wong	Student Emergency Fund	Trustee	Contribution	2,000		
Jorge Wong	Maureen O'Connor Retirement Fund	Trustee	Contribution	3,000		
Julia Aggreh	Palo Alto University Fund	Employee	Contribution	100		
Julia Aggreh	The Maureen O'Connor Center for Educational Excellence (CEE)	Employee	Contribution	100		
Karen Scussel	Student Emergency Fund	Trustee	Contribution	5,000		
Karen Scussel	Maureen O'Connor Retirement Fund	Trustee	Contribution	5,000		
Karen Scussel	The Maureen O'Connor Center for Educational Excellence (CEE)	Trustee	Contribution	5,000		
Karen Scussel	Maureen O'Connor Retirement Fund	Trustee	Contribution	300		
Ky Le	The Maureen O'Connor Center for Educational Excellence (CEE)	Trustee	Contribution	500		
Ky Le	Palo Alto University Fund	Trustee	Contribution	2,300		
Ky Le	Maureen O'Connor Retirement Fund	Trustee	Contribution	300		
Lori Thomas	Scholarships	Employee	Contribution	50		
Louis Chicoine	Palo Alto University Fund	Trustee	Contribution	1,000		
Maria Cammarata	Maureen O'Connor Retirement Fund	Employee	Contribution	150		
Marilyn Manning	Maureen O'Connor Retirement Fund	Trustee	Contribution	150		
Martin Dodd	Palo Alto University Fund	Trustee	Contribution	2,500		
Martin Dodd	Maureen O'Connor Retirement Fund	Trustee	Contribution	3,000		
Martin Dodd	The Maureen O'Connor Center for Educational Excellence (CEE)	Trustee	Contribution	10,000		
Mary Ann Dewan	Palo Alto University Fund	Trustee	Contribution	1,000		
Mary Ann Dewan	Scholarships	Trustee	Contribution	1,000		
Mary Ann Dewan	Student Emergency Fund	Trustee	Contribution	500		
Mary Ann Dewan	Maureen O'Connor Retirement Fund	Trustee	Contribution	150		
Mary Yang	The Dr. Christine Blasey Endowed Scholarship Fund	Trustee	Contribution	2,500		
Matt Levine	The Dr. Christine Blasey Endowed Scholarship Fund	Trustee	Contribution	3,000		
Matt Levine	Maureen O'Connor Retirement Fund	Trustee	Contribution	300		
Maureen O'Connor	Palo Alto University Fund	Employee	Contribution	25		
Maureen O'Connor	Scholarships	Employee	Contribution	10,000		
Maureen O'Connor	Student Emergency Fund	Employee	Contribution	250		
Maureen O'Connor	The Dennis R. Murphy Endowed Memorial Scholarship	Employee	Contribution	45,000		
Melanie Morrison	Scholarships	Employee	Contribution	100		
Melanie Morrison	Maureen O'Connor Retirement Fund	Employee	Contribution	150		
Michael Kerner	PAU's 50th Anniversary	Trustee	Contribution	10,000		
Michael Kerner	Maureen O'Connor Retirement Fund	Trustee	Contribution	150		
Nicholas Cochran	Maureen O'Connor Retirement Fund	Chair of the Audit Committee	Contribution	150		
Patricia Zapf	Palo Alto University Fund	Employee	Contribution	1,000		

Palo Alto University, Inc.

Notes to the Financial Statements

Name of Related Party	Location	Relationship	Nature of Transaction	Amount of Transaction: New Contribution During Fiscal 2025	Pledge Payments During Fiscal 2025	Pledge Balance at July 31, 2025
Patricia Zapf	Maureen O'Connor Retirement Fund	Employee	Contribution	150		
Richard Lonergan	Palo Alto University Fund	Trustee	Contribution	1,500		
Richard Lonergan	Maureen O'Connor Retirement Fund	Trustee	Contribution	150		
Rowena Gomez	Student Emergency Fund	Faculty	Contribution	150		
Rowena Gomez	The Maureen O'Connor Center for Educational Excellence (CEE)	Faculty	Contribution	150		
Sara Eisner Richter	Palo Alto University Fund	Trustee	Contribution	1,000		
Shari Miles-Cohen	The Maureen O'Connor Center for Educational Excellence (CEE)	Trustee	Contribution	500		
Shari Miles-Cohen	Palo Alto University Fund	Trustee	Contribution	2,500		
Shari Miles-Cohen	Maureen O'Connor Retirement Fund	Trustee	Contribution	150		
Sharon Washington	Scholarships	Employee	Contribution	250		
Sharon Washington	Maureen O'Connor Retirement Fund	Employee	Contribution	150		
Shelli Ching	The Maureen O'Connor Center for Educational Excellence (CEE)	Trustee	Contribution	50		
Shelli Ching	Maureen O'Connor Retirement Fund	Trustee	Contribution	150		
Tasha Prinkey	Palo Alto University Fund	Employee	Contribution	50		
Tom Yeh	Palo Alto University Fund	Trustee	Contribution	80		
Tom Yeh	Maureen O'Connor Retirement Fund	Trustee	Contribution	150		
Tomer Weingarten	Maureen O'Connor Retirement Fund	Trustee	Contribution	3,000		
Torey Portrie-Bethke	Student Emergency Fund	Employee	Contribution	100		
				$ 241,970	$ -	$ 113,500