



You are the
LIGHT
of the World

—Matthew 5:14

PEPPERDINE
— UNIVERSITY —

Audited Financial Statements 2022-2023



Pepperdine University

Consolidated Financial Statements

July 31, 2023 and 2022

Pepperdine University
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July 31, 2023 and 2022

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Report of Independent Auditors

To the Board of Regents of Pepperdine University

Opinion

We have audited the accompanying consolidated financial statements of Pepperdine University and its subsidiaries (the "University"), which comprise the consolidated statements of financial position as of July 31, 2023 and 2022, and the related consolidated statements of activities and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the University as of July 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 Auditors' Responsibilities for the Audit of the Consolidated 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 audit. 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 Consolidated 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 consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated 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 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 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 consolidated 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.

PricewaterhouseCoopers LLP

Los Angeles, California

November 28, 2023

Pepperdine University
Consolidated Statements of Financial Position
July 31, 2023 and 2022

(In thousands)

	2023	2022
Assets		
Cash and cash equivalents	\$ 128,406	\$ 161,105
Student receivables, less allowance for doubtful accounts of \$2,736 and \$2,411, respectively	4,736	4,285
Other accounts receivable	7,513	7,990
Prepaid expenses, inventories, and other assets	11,434	4,883
Student loans, less allowance for loan losses of \$377 and \$895, respectively	12,602	13,301
Beneficial interests and contributions receivable, net	47,298	50,855
Investments	1,545,076	1,532,667
Assets held as trustee or agent	210,620	191,907
Property, facilities, and equipment, net	541,533	507,897
Right of use assets	40,850	49,631
Total assets	<u>\$ 2,550,068</u>	<u>\$ 2,524,521</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 37,374	\$ 39,253
Accrued salaries and wages	6,875	6,161
Student deposits, advance payments, and deferred revenue	29,531	29,141
Asset retirement obligations	7,515	7,448
U.S. government-funded student loans	3,438	5,393
Trust and agency obligations	98,637	102,613
Other long-term obligations	6,153	7,120
Long-term bonds payable, net	600,184	606,301
Lease liabilities, net	48,598	58,094
Total liabilities	<u>838,305</u>	<u>861,524</u>
Net assets		
Without donor restrictions	1,007,620	991,587
With donor restrictions	704,143	671,410
Total net assets	<u>1,711,763</u>	<u>1,662,997</u>
Total liabilities and net assets	<u>\$ 2,550,068</u>	<u>\$ 2,524,521</u>

The accompanying notes are an integral part of these consolidated financial statements.

Pepperdine University
Consolidated Statement of Activities
Year Ended July 31, 2023

(In thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support			
Student tuition and fees, net of student aid of \$154,695	\$ 349,117	\$ -	\$ 349,117
Room and board	50,923	-	50,923
Endowment support	53,864	-	53,864
Private gifts and grants, cash and other financial assets	16,535	-	16,535
Private gifts and grants, nonfinancial assets	1,147	-	1,147
Government grants	4,564	-	4,564
Sales and services	8,988	-	8,988
Operating investment income	3,547	-	3,547
Other revenue	8,683	-	8,683
Net assets released from restriction	9,961	(9,961)	-
Total revenues and other support	507,329	(9,961)	497,368
Expenses			
Personnel	237,413	-	237,413
Professional services	103,329	-	103,329
Operating expenses	72,861	-	72,861
Maintenance, equipment, repairs, and utilities	34,902	-	34,902
Depreciation	27,454	-	27,454
Interest	18,385	-	18,385
Total expenses	494,344	-	494,344
Change in net assets from operations before non-operating revenues and expenses	12,985	(9,961)	3,024
Non-operating revenues and expenses			
Return on investment, net	31,784	21,392	53,176
Allocation of endowment support to operations	(29,997)	(23,867)	(53,864)
Private gifts and grants	-	41,657	41,657
Actuarial adjustment of trust and agency obligations	-	4,426	4,426
Other	1,261	(914)	347
Total non-operating revenues and expenses	3,048	42,694	45,742
Change in net assets	16,033	32,733	48,766
Net assets at beginning of year	991,587	671,410	1,662,997
Net assets at end of year	\$ 1,007,620	\$ 704,143	\$ 1,711,763

The accompanying notes are an integral part of these consolidated financial statements.

Pepperdine University
Consolidated Statement of Activities
Year Ended July 31, 2022

(In thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support			
Student tuition and fees, net of student aid of \$154,401	\$ 345,457	\$ -	\$ 345,457
Room and board	46,943	-	46,943
Endowment support	49,396	-	49,396
Private gifts and grants, cash and other financial assets	19,120	-	19,120
Private gifts and grants, nonfinancial assets	390	-	390
Government grants	14,116	-	14,116
Sales and services	6,527	-	6,527
Operating investment income	-	-	-
Other revenue	6,981	-	6,981
Net assets released from restriction	9,251	(9,251)	-
Total revenues and other support	498,181	(9,251)	488,930
Expenses			
Personnel	228,030	-	228,030
Professional services	103,995	-	103,995
Operating expenses	68,379	-	68,379
Maintenance, equipment, repairs, and utilities	27,664	-	27,664
Depreciation	28,878	-	28,878
Interest	18,970	-	18,970
Total expenses	475,916	-	475,916
Change in net assets from operations before gain on sale of property, facilities, and equipment	22,265	(9,251)	13,014
Gain on sale or disposal of property, facilities, and equipment	19,368	-	19,368
Change in net assets from operations before non-operating revenues and expenses	41,633	(9,251)	32,382
Non-operating revenues and expenses			
Return on investment, net	(6,640)	(751)	(7,391)
Allocation of endowment support to operations	(26,843)	(22,553)	(49,396)
Private gifts and grants	-	31,034	31,034
Actuarial adjustment of trust and agency obligations	-	(2,026)	(2,026)
Other	(3,936)	(4,074)	(8,010)
Total non-operating revenues and expenses	(37,419)	1,630	(35,789)
Change in net assets	4,214	(7,621)	(3,407)
Net assets at beginning of year	987,373	679,031	1,666,404
Net assets at end of year	\$ 991,587	\$ 671,410	\$ 1,662,997

The accompanying notes are an integral part of these consolidated financial statements.

Pepperdine University
Consolidated Statements of Cash Flows
Years Ended July 31, 2023 and 2022

<i>(In thousands)</i>	2023	2022
Cash flows from operating activities		
Change in net assets	\$ 48,766	\$ (3,407)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	27,491	27,279
Amortization of right of use assets	9,555	10,477
Provision for doubtful accounts and loan losses	450	600
Loss on early extinguishment of debt	-	2,934
Non-cash gifts	(15,073)	(777)
Actuarial adjustment of trust and agency obligations	(4,426)	2,026
Contributions restricted for long-term investment	(13,757)	(4,300)
Income restricted for long-term investment	(196)	(117)
Change in unamortized bond premium and bond issue costs	-	(21,862)
Gain on disposal of property, facilities, and equipment	-	(19,368)
Net realized and unrealized (gains) / losses on investments	(22,717)	29,289
Change in assets and liabilities:		
Student receivables	(1,351)	(2,038)
Other accounts receivable	477	(1,867)
Prepaid expenses, inventories, and other assets	(6,551)	950
Beneficial interests and contributions receivable, net	(3,191)	(8,865)
Accounts payable and accrued liabilities	(2,646)	5,605
Accrued salaries and wages	714	541
Student deposits, advance payments, and deferred revenue	390	6,859
Asset retirement obligations	(14)	(20)
Other long-term obligations	(967)	(611)
Lease liabilities, net	(10,271)	(11,007)
Other	4,993	5,994
Net cash and cash equivalents provided by operating activities	11,676	18,315
Cash flows from investing activities		
Proceeds from sales of investments and assets held as trustee or agent	252,754	371,330
Purchases of investments and assets held as trustee or agent	(241,301)	(416,701)
Purchases of property, facilities, and equipment	(59,863)	(48,243)
Proceeds from sale of property, facilities, and equipment	-	26,947
Student loans repaid	2,966	3,193
Student loans issued	(1,817)	(1,727)
Net cash and cash equivalents used in investing activities	(47,261)	(65,201)
Cash flows from financing activities		
Proceeds from contributions restricted for long-term investment	13,353	4,425
Income restricted for long-term investment	196	117
Principal received on issuance of long-term obligations	-	220,460
Principal payments and retirement of long-term obligations	(5,530)	(152,470)
Decrease in U.S. government-funded student loans	(1,955)	(2,267)
New trusts and restricted income on matured trusts	8,674	559
Payment of trust and agency obligations	(7,684)	(8,588)
Net cash and cash equivalents provided by financing activities	7,054	62,236
Net change in cash and cash equivalents	(28,531)	15,350
Cash and cash equivalents at beginning of year	169,750	154,400
Cash and cash equivalents at end of year	\$ 141,219	\$ 169,750
Supplemental Cash Flow Information		
Cash included in investments	\$ 663	\$ 4,555
Cash included in assets held as trustee	\$ 12,150	\$ 4,090
Accrued amounts for capitalized asset additions	\$ 14,746	\$ 13,979
Cash paid for interest	\$ 19,753	\$ 20,770

The accompanying notes are an integral part of these consolidated financial statements.

Pepperdine University

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

1. Nature of Operations

Pepperdine University (the “University”) is an independent private Christian university committed to the highest standards of academic excellence and Christian values, where students are strengthened for lives of purpose, service, and leadership. The University enrolls approximately 10,000 students in its five colleges and schools. Seaver College, the University’s undergraduate liberal arts college, the Caruso School of Law, and the School of Public Policy are headquartered on 830 acres in the Santa Monica Mountains overlooking the Pacific Ocean in Malibu, California. The Graduate School of Education and Psychology and the Pepperdine Graziadio Business School are headquartered at the University’s West Los Angeles, California graduate campus.

Mr. George Pepperdine, the founder of Western Auto Supply Company, established George Pepperdine College in 1937. He envisioned a college with the highest academic standards guided by the spiritual and ethical ideals of Christian faith. University status was achieved in 1970 with the addition of the graduate and professional schools. Through the generosity of Mrs. Frank Roger Seaver, the University’s Malibu campus of Seaver College opened in 1972. Since then, the Malibu campus expanded to include the School of Law in 1978 (named the Caruso School of Law in 2019), and the Drescher Graduate Campus in 2003.

The University operates several consolidated affiliated companies. Affiliated domestic companies that support Pepperdine University include Wave Services Inc., Wave Enterprises Inc., Wave Ventures, LLC, and Wave Justice, LLC. Affiliated international organizations that support Pepperdine University include: Pepperdine University (USA) in London, England, Pepperdine University Succursale de Lausanne in Lausanne, Switzerland, Cinderella Immobiliare S.R.L in Florence, Italy, Fundacion Pepperdine University Para America Latina in Buenos Aires, Argentina, and Pepperdine University Rwanda CBC in Kigali, Rwanda. All material transactions and balances between the University and its affiliates have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Consolidated Financial Statements of the University are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”) applicable to not-for-profit organizations. In preparing the Consolidated Financial Statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities and revenues and expenses for the periods presented. Significant items which could be materially affected by such estimates include: the allowance for doubtful accounts, the allowance for loan losses, beneficial interests and contributions receivable, investments, assets held as trustee or agent, accounts payable and accrued liabilities, and trust and agency obligations. The University’s actual results could differ significantly from management’s estimates. Management also utilizes certain estimates based on square footage to allocate depreciation, interest expense, and central operating expense to the functional expense categories.

Net Assets

Under generally accepted accounting principles applicable to not-for-profit organizations, net assets, revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein have been classified and are reported as follows:

Pepperdine University
Notes to Consolidated Financial Statements
July 31, 2023 and 2022

Net Assets Without Donor Restrictions

Net assets without donor restrictions include those net assets not subject to donor-imposed stipulations; donor-restricted contributions whose restrictions are met in the same reporting period as the contribution is received; and quasi-endowment net assets designated by the Board of Regents or management for specific purposes (known as quasi-endowment net assets).

Net Assets with Donor Restrictions

Net assets with donor restrictions are those net assets subject to donor-imposed stipulations that will be met either by actions of the University pursuant to those stipulations and/or by the passage of time. In addition, there are also net assets subject to donor-imposed stipulations that require the University maintain them 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.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash in checking and savings accounts, money-market funds, cash held by external trustees, and short-term investments with an original maturity of three months or less. Other cash equivalents held by external investment managers are classified as investments.

Student Receivables

Student receivables are carried at cost, less an allowance for doubtful accounts. Management uses available information to recognize losses on student receivables. Future additions to the allowance may be necessary based on changes in economic conditions and other factors.

Student Loans

Student loans are recorded at the contractual amounts owed by students adjusted for unamortized discounts, premiums, unearned income, undisbursed funds, deferred loan fees and the allowance for loan losses. Interest income is recorded on the accrual basis of accounting in accordance with the terms of the receivables, except interest accruals which are discontinued when the payment of principal or interest is 90 or more days past due, or when repayment of principal and interest in full is doubtful. Payments received on delinquent loans are applied to the principal outstanding until the loan is restored to current status.

A student loan is impaired when it is probable that the University will be unable to collect all amounts due according to the contractual terms of the loan agreement. The measurement of impairment may be based on (i) the present value of the expected future cash flows of the impaired loan discounted at the loan's original effective interest rate or (ii) the observable market price of the impaired loan. If the recorded investment of the loan exceeds the measure of impairment, an allowance is recorded in the amount of the excess. The University measures impairment by utilizing a discounted cash flow analysis. The University's income recognition policies for impaired loans are consistent with those for delinquent loans. All loans designated as impaired are either placed on delinquent status or are designated as restructured. Payments received on impaired loans are applied to the principal outstanding until the loan is returned to current status.

On an ongoing basis, management monitors the student loan portfolio and evaluates the adequacy of the allowance for loan losses. In determining the adequacy of the allowance for loan losses, management considers such factors as historical loss experience, known problem loans, assessment of economic conditions, and other appropriate data to identify the risks in the student loan portfolio. The amount of the allowance for loan losses is based on estimates and the University's actual losses may vary from management's estimates. Loans deemed by management to be uncollectible are charged to the allowance for loan losses. Recoveries on

Pepperdine University
Notes to Consolidated Financial Statements
July 31, 2023 and 2022

loans previously charged off are credited to the allowance for loan losses. Provisions for loan losses are charged to expense and credited to the allowance for loan losses in amounts that are deemed appropriate by management based upon its evaluation of the known and inherent risks in the student loan portfolio. Future additions to the allowance may be necessary based on changes in economic conditions and other factors.

Beneficial Interests and Contributions Receivable

Beneficial interests and contributions receivable are recognized as revenue in the period received and are reported as increases in net assets with donor restrictions. Beneficial interests and contributions receivable where donor restrictions are met in the same fiscal year as the beneficial interest and contribution is received are reported in net assets without donor restrictions. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Beneficial interests and contributions receivable are recorded at their estimated fair value and discounted for amounts to be received in future periods.

Investments

Investments are stated at fair value and all related transactions are recorded on the trade date. The fair value of investments is based on quoted market prices from national security exchanges, except for alternative investments for which quoted market prices are not available. The fair value of certain alternative investments, which include limited partnerships in venture capital, real estate and other private debt and equity funds, is typically Net Asset Value ("NAV") provided by the external investment managers or general partners, adjusted for receipts and disbursements of cash and distributions of securities if the date of valuation is prior to the University's fiscal year end. Such valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of investments, and other pertinent information. For those investments that are not traded on a ready market, the estimates of their fair value may differ from the value that would have been used had a ready market for those investments existed. The University also has directly held real estate investments, which are valued using third party appraisals. The appraisals are based on a number of different approaches, including the cost approach, income approach, and sales comparison approach.

Investment income, as well as realized and unrealized gains and losses, are accounted for within net assets without donor restrictions, or as changes in net assets with donor restrictions if so stipulated by the donor of such assets. Investment income includes rental income, interest income, royalties, dividend, and other investment income, and is reported net of investment management fees and net of direct internal investment fees.

Investment return up to the University's approved spending rate is presented as endowment support within operating revenue and other support. Endowment support is calculated based upon the Total Rate of Return methodology noted below in Pooled Assets. The difference between endowment support and the actual total return (which may be positive or negative) is presented in non-operating revenues and expenses.

Pooled Assets

The University manages two separate investment pools designated as Pool A and Pool D. Pooled investments and allocation of pooled investment income are accounted for using the unit market value method. The Total Rate of Return methodology is utilized for Pool A which consists primarily of quasi and true-endowment funds. The annual total payout is calculated based on an approved spending rate that is applied to a five-year monthly average market value of Pool A funds. For fiscal years 2023 and 2022, the approved spending rate

Pepperdine University
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was 5.0%. Pool D is the charitable gift annuity reserve pool and is invested in accordance with California State Insurance Commission requirements.

Endowment

The University's endowment consists of 638 individual donor-restricted endowment funds and 98 University-designated quasi-endowment funds for a variety of purposes. The net assets associated with endowment funds, including funds designated by the University to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes, and duration for which the endowment funding is established, subject to the intent of the donor as expressed in the gift instrument. As a result of this interpretation, the University classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift. The remaining portion is classified as donor restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate 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 an endowment payout policy to preserve and enhance the purchasing power of the endowment and to provide a relatively stable and constant return sufficient to meet a portion of the spending needs of the University.

The endowment payout policy is based upon the average market value of the previous 60 months multiplied by a specified percentage. The payout percentage for the pooled endowment for the fiscal years ended July 31, 2023 and 2022 was 5.0%. Accumulated investment gains are used to fund the difference between payout and current earnings.

The endowment payout policy is intended to produce increasing yet smooth and predictable endowment distributions year over year. From time to time, the fair value of endowment funds may fall below the original gift amount. Deficiencies of this nature are referred to as underwater endowments. In the event that an endowment falls underwater, current management policy is to allow spending on the endowment.

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Derivatives

From time to time, the University enters into derivative transactions either as part of its overall investment asset allocation or as a specific hedge or risk management tool. Derivatives used as part of the asset allocation strategy are recorded at fair value with realized and unrealized gains and losses reflected in the Consolidated Statements of Activities. These derivatives are included in the investment portfolio categorized as "Other."

Derivatives used to economically hedge specific operations, such as foreign currency contracts, are discussed under the heading, "Foreign Currency Management."

Assets Held As Trustee or Agent and Trust and Agent Obligations

The University uses the actuarial method of recording charitable gift annuities and charitable remainder trusts. When a gift is received, the fair value of the gift received is recorded as an asset, the present value of the related amounts due is recorded as a liability based on the Individual Annuity Reserve 2012 tables, and the remainder is recorded as private gift and grant revenue in the appropriate net asset category on the Consolidated Statements of Activities. Investment income is credited, and annuity payments, direct costs of funds management, and investment losses are charged to the related liability. In situations where trust assets are not readily convertible to cash, annuitant payments have been made by the University. For life contingent gifts, the liability is adjusted annually based on the changes in the expected life, and is reflected as an actuarial adjustment of trust and agency obligations on the Consolidated Statements of Activities. At July 31, 2023 and 2022, the discount rate used to calculate future payments to be made by the University ranged from 0.4% per annum to 10.0% per annum.

Remainder interests in real estate are recorded at their estimated fair value at the date of gift. Investment income and gains are credited, and direct costs of asset management and investment losses are charged to the related net asset category.

The University and its consolidated subsidiaries have legal title, either in their name or as trustee, to the charitable gift annuities, charitable remainder trusts, and life estates subject to life interests of the beneficiaries. No significant financial benefit can be realized until the contractual obligations are released.

Deferred Compensation Plans

Contributions to the University's deferred compensation plans under Section 457(b) and 457(f) of the United States Internal Revenue Code are carried at fair value as a component of assets held as trustee or agent, with an equal and offsetting obligation to pay the employees as a component of trust and agency obligations on the Consolidated Statements of Financial Position.

Property, Facilities, and Equipment

Property, facilities, and equipment, including collections of works of art and literary works, are stated at cost or, if received by gift, at fair value at the date of the gift. Depreciation on buildings, improvements, furniture, fixtures, and equipment is provided on a straight-line basis over the estimated useful lives as described in the table below:

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Asset Class	Useful Life
Furniture and other equipment	10 - 15 years
Computer hardware and software	2 - 10 years
Motor vehicles	5 years
Buildings	20 - 70 years
Land improvements	20 years

Amounts spent for repairs and maintenance are charged to expense as incurred. When assets are sold or retired, the associated cost and accumulated depreciation are removed.

Leases

The University determines if an arrangement is or contains a lease, and classifies the lease as either operating or financing depending upon the terms and conditions of the contract. The University uses a risk-free rate for a period comparable to the lease term to determine the present value of lease payments when the implicit rate is not readily available.

Operating lease expense is recognized within the operating expenses on the Consolidated Statements of Activities on a straight-line basis over the lease term. On the Consolidated Statements of Position, right of use assets represent the University's right to use the underlying assets for the lease term and lease liabilities, net represents the University's obligation to make the lease payment arising from the leases. Financing lease assets are amortized on a straight-line basis over the lease term.

Foreign Currency Management

The University uses derivative financial instruments to reduce its net exposure to currency fluctuations. As such, from time to time the University enters into forward contracts and purchases currency futures (principally the Euro, the British pound, and Swiss francs) to economically hedge forecasted cash flows denominated in foreign currencies. The purpose of the University's foreign currency hedging activities is to reduce the risk of eventual United States dollar net cash outflows resulting from costs outside the U.S. that will be adversely affected by changes in exchange rates.

Asset Retirement Obligations

The University recognizes liabilities for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation is conditional on a future event. The fair value of a liability for a conditional asset retirement obligation is recognized in the period in which it occurs if a reasonable estimate of fair value can be made.

U.S. Government-Funded Student Loans

Funds provided by the United States government under the Federal Perkins Loan Program were loaned to qualified students. These funds are ultimately refundable to the U.S. government and as such are included as liabilities in the Consolidated Statements of Financial Position.

Concentrations of Financial Aid

A significant number of students attending the University receive financial assistance from U.S. government student financial aid programs. These programs require the University to comply with record keeping, eligibility, and other requirements. Failure to comply with such U.S. government requirements could result in the loss of U.S. government financial assistance to the University's students and adversely impact the operations of the University.

Pepperdine University

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July 31, 2023 and 2022

Debt Issuance Costs

Capitalized debt issue costs included in long-term obligations are amortized over the life of the related debt using the effective interest method.

Income Taxes

As a not-for-profit educational institution, the University is exempt from Federal and California income taxes under Section 501(c)(3) of the Internal Revenue Code, and Section 23701(d) of the California Revenue and Taxation Code (except for taxes on unrelated business income). Since the University's unrelated business income for the years ended July 31, 2023 and 2022 was immaterial, no provision for income taxes has been made in the accompanying Consolidated Financial Statements.

Revenue Recognition

The University's revenue recognition policies are as follows:

Student Tuition and Fees (net of Scholarship) and Room and Board

The University's operating revenue is primarily derived from academic programs provided to students including undergraduate and graduate programs, and residential services. Tuition and fees and room and board revenues are recognized in an amount that reflects the consideration the University is entitled to in exchange for providing educational, housing, and dining services. The University's transaction price is determined based on the gross price, net of any scholarships and refunds.

Tuition and fees and room and board are recognized as revenue in the period in which the University satisfies its performance obligation to its students. A performance obligation is a promise in a contract to transfer a distinct good or service to customer. The University's performance obligations are to provide education to the student, and in certain instances, other items such as room and board.

Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. The University's payment terms generally require payment in advance of the academic term. Substantially all of the deferred revenue balance at the beginning of each year was recognized into revenue during the years ended July 31, 2023 and 2022.

Endowment Support

Endowment support, limited to the payout calculated under the Total Rate of Return methodology, is comprised of ordinary income and accumulated gains on endowment and quasi-endowment assets.

Private Gifts and Grants

Private gifts including unconditional promises to give, are recognized as revenue in the period received and are reported as increases in the appropriate category of net assets. Conditional or contingent grant awards and gifts are not recorded as revenue until the conditions on which they depend have been substantially met. The University has elected a policy to report contributions where the condition and restriction are met in the same reporting period within net assets without donor restrictions. The University receives various forms of in-kind contributions. In-kind contributions are reported as revenue at their estimated fair market value on the date of receipt and either capitalized, or reported as an expense when utilized, depending on the nature of the contribution.

Pepperdine University

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

Government Grants

Government grants received from departments or agencies of the government are considered non-exchange transactions and are reported as increases in net assets without donor restrictions as the associated barriers are overcome, which generally is as allowable expenditures under such agreements are incurred. The University has elected a policy to report awards where the condition and restriction are met in the same reporting period within net assets without donor restrictions.

At July 31, 2023 and 2022, the University had grants or contracts for which it had not yet met all obligations to recognize revenue, or to the right to recognize revenue is dependent on future events. These open commitments total \$4.8 million and \$2.0 million, respectively. It is expected the revenue related to these grants or contracts will be recognized as the University fulfills its obligations in future periods.

In response to the effects of the COVID-19 outbreak, the University received federal funding from the Higher Education Emergency Relief Fund ("HEERF"). This fund was established for emergency aid grants to students for expenses related to the disruption of campus operations due to COVID-19 and direct aid to higher educational institutions to cover certain costs associated with the significant changes to the delivery of instruction due to COVID-19. Pepperdine received funding from HEERF I (Coronavirus Aid, Relief, and Economic Security Act), HEERF II (Coronavirus Response and Relief Supplemental Appropriations Act), and HEERF III (American Rescue Plan Act).

During fiscal year 2022, Pepperdine recognized approximately \$9.6 million in total HEERF III federal funding. Consistent with the terms of the certification, the University used \$4.8 million of the funds received to provide emergency financial aid grants directly to students. The University used the remaining \$4.8 million to partially cover additional costs related to the disruption of campus operations due to COVID-19. The University did not recognize any HEERF funding during fiscal year 2023.

Sales and Services

Sales and services revenue, which includes income from supporting services such as conferences and events, dining facilities, and bookstores, is recorded at a point in time when the customer obtains control of the promised product or service. Amounts received in advance of delivery of products or services are recorded as deferred revenue.

Other Revenue

Other revenue includes income primarily generated from athletic activities, maturity of trusts, and other fees. Amounts received are recorded at the time of transaction. Amounts not received by year end but earned are accrued and are included in other accounts receivable.

Pepperdine University

Notes to Consolidated Financial Statements

July 31, 2023 and 2022

Reclassifications

The University has reclassified certain amounts at or for the year ended July 31, 2022 to conform with the current year presentation. These reclassifications have not changed the results of operations or ending net assets for the prior period. The following is a list of the reclassifications and changes to the accompanying notes for the year ended July 31, 2022:

- Private gifts and grants on the Consolidated Statement of Activities was reclassified into private gifts and grants, cash and other financial assets, and private gifts and grants, nonfinancial assets. Further, the University has provided a description of the types of contributed nonfinancial assets, including the status and valuation method, in Note 16.
- Within the operating section on the Consolidated Statement of Cash Flows, the University reclassified amortization of right of use assets and lease liabilities out of depreciation and amortization and reflected them as separate line items.
- Conditional promises to give by category have been disclosed in Note 6.
- The amount reported as operating expenditures related to short-term leases (those 12 months or less in duration) has been disclosed in Note 13.
- Beneficial interests have been disclosed in Note 22.

Recently Adopted Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software: Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. The new FASB guidance covers a customer’s accounting for implementation, set-up, and other upfront costs incurred in a cloud computing arrangement hosted by the vendor that is a service contract. Under the new guidance, a customer will apply the same criteria for capitalizing implementation costs of a cloud computing arrangement as it would for an on premises software license. The guidance is effective for the annual reporting periods beginning after December 15, 2020. The University adopted ASU 2018-15 for the fiscal year ended July 31, 2022 with no material impact on the consolidated financial statements.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The guidance increases transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. The guidance is effective for annual reporting periods beginning after June 15, 2021. The University adopted ASU 2020-07 for the fiscal year ended July 31, 2022 with no material impact on the consolidated financial statements.

Authoritative Pronouncements not yet Adopted by the University

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* (Topic 326), which replaces the current GAAP incurred loss impairment methodology with one that reflects expected credit losses, and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The guidance is effective for annual reporting periods beginning after December 15, 2022. The University is currently evaluating the impact this will have on the consolidated financial statements.

Pepperdine University
Notes to Consolidated Financial Statements
July 31, 2023 and 2022

3. Financial Assets and Liquidity Resources

As of July 31, 2023 and 2022, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, were as follows:

<i>(in thousands)</i>	2023	2022
Financial assets available for current use:		
Cash and cash equivalents	\$ 128,406	\$ 161,105
Student and other receivables, net	8,536	10,911
Short term investments	224,415	225,942
Board and University designated endowment funds	398,008	386,092
Reserve funds	12,541	12,343
Financial assets available at year end for current use	771,906	796,393
Liquidity resources:		
Bank line of credit	10,000	10,000
Total financial assets and liquidity resources available for current use	<u>\$ 781,906</u>	<u>\$ 806,393</u>

As described in Note 2, the income from the University's endowment is subject to a spending rate of 5% for the years ended July 31, 2023 and 2022. The University's endowment funds consist of donor-restricted endowments and University and board-designated, quasi-endowments. Donor-restricted endowments are restricted for specific purposes, and therefore, are not available for general expenditure. For the years ended July 31, 2023 and 2022, \$398.0 million and \$386.1 million, respectively, represent amounts from quasi-endowments that are available within one year. Although the University does not intend to spend from its quasi-endowments, other than amounts appropriated based on the annual spending rate and subject to the annual budget approval and appropriation process, these amounts could be made available if necessary.

The University invests cash in short-term investments and money market funds. Additionally, the University has reserve funds of \$12.5 million and \$12.3 million at July 31, 2023 and 2022, respectively, which represent amounts available within one year. These funds are to be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside of normal operations.

The University's cash flows have seasonal variations during the year attributable to tuition billing, and a concentration of contributions received at calendar and fiscal year end. The University structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs and as detailed in Note 11, the University maintains a line of credit for general corporate purposes. No amounts were drawn as of July 31, 2023 and 2022.

Pepperdine University
Notes to Consolidated Financial Statements
July 31, 2023 and 2022

4. Student Receivables

Student receivables consist of the following at July 31, 2023 and 2022:

<i>(in thousands)</i>	2023	2022
Graduate School of Education and Psychology	\$ 4,774	\$ 3,834
Pepperdine Graziadio Business School	1,227	1,199
Seaver College	834	955
Other	637	708
Gross student receivables	7,472	6,696
Allowance for doubtful accounts	(2,736)	(2,411)
	<u>\$ 4,736</u>	<u>\$ 4,285</u>

5. Student Loans

Student loans consist of the following at July 31, 2023 and 2022:

<i>(in thousands)</i>	2023	2022
Weingart	\$ 8,009	\$ 7,538
Perkins	3,991	5,690
Other	979	968
Gross student loans	12,979	14,196
Allowance for loan losses	(377)	(895)
	<u>\$ 12,602</u>	<u>\$ 13,301</u>

Pepperdine University
Notes to Consolidated Financial Statements
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6. Beneficial Interests and Contributions Receivable

Unconditional promises to give with payments due in future periods are reported as donor restricted beneficial interests and contributions receivable. Unconditional promises to give are recorded at their discounted present value. At July 31, 2023, the discount rate applied to beneficial interests and contributions receivable ranged from 3.9% per annum to 5.4% per annum and at July 31, 2022, it ranged from 0.2% per annum to 3.0% per annum.

The following table provides a summary of beneficial interests and contributions receivable by expected collection date at July 31, 2023:

<i>(in thousands)</i>	Beneficial Interests	Contributions Receivable	Total
In one year or less	\$ 593	\$ 5,944	\$ 6,537
Between one and five years	-	20,560	20,560
More than five years	12,381	12,672	25,053
	12,974	39,176	52,150
Less: Discount	720	(5,572)	(4,852)
	<u>\$ 13,694</u>	<u>\$ 33,604</u>	<u>\$ 47,298</u>

The following table provides a summary of beneficial interests and contributions receivable by expected collection date at July 31, 2022:

<i>(in thousands)</i>	Beneficial Interests	Contributions Receivable	Total
In one year or less	\$ 5,000	\$ 3,700	\$ 8,700
Between one and five years	-	24,466	24,466
More than five years	14,102	8,898	23,000
	19,102	37,064	56,166
Less: Discount	(1,600)	(3,711)	(5,311)
	<u>\$ 17,502</u>	<u>\$ 33,353</u>	<u>\$ 50,855</u>

Beneficial interests include assets held by external trustees and totaled \$13.7 million at July 31, 2023 and \$17.5 million at July 31, 2022. During the year ended July 31, 2022 \$1.1 million of beneficial interests were reclassified to assets held as trustee or agent when the University became trustee.

In the event beneficial interests and contributions receivable are deemed uncollectable, they are charged to expense as a component of other non-operating revenues and expenses. \$595,000 and \$222,000 of beneficial interests and contributions receivable were written off during the years ended July 31, 2023 and 2022, respectively.

Pepperdine University
Notes to Consolidated Financial Statements
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As of the years ended July 31, 2023 and 2022, conditional promises to give in the net amounts of \$31.3 million and \$33.4 million, respectively, were received but not recognized for the promotion of academic excellence, academic programs, and research. Conditional pledges are categorized as follows: academic benchmarks, matching contributions, and grants. The University's conditional pledge amounts by category as of July 31, 2023 and 2022 are as follows:

<i>(in thousands)</i>	2023	2022
Academic benchmarks	\$ 30,067	\$ 32,523
Matching contributions	292	842
Private grants	972	13
	<u>\$ 31,331</u>	<u>\$ 33,378</u>

7. Investments

The University's investments consist of the following at July 31, 2023 and 2022:

<i>(in thousands)</i>	2023	2022
Cash and cash equivalents	\$ 189,325	\$ 120,039
Absolute return	212,575	190,200
Assets held by trustee	164,493	165,936
Mutual funds	65,267	97,816
Fixed income	298,046	309,359
Real estate	159,734	169,154
Private equity	190,025	196,463
Natural resources	99,229	122,848
Public equity	156,399	151,735
Other	9,983	9,117
	<u>\$ 1,545,076</u>	<u>\$ 1,532,667</u>

Assets held by trustee consists primarily of the balance of the Blanche E. Seaver Endowed Trust, of which the University is the sole irrevocable income and principal beneficiary. Assets in this trust are diversified to produce consistent and distributable investment income. Income received from this trust is recorded as a component of endowment support on the Consolidated Statements of Activities.

Investment return consists of the following for the years ended July 31, 2023 and 2022:

<i>(in thousands)</i>	2023	2022
Investment income	\$ 36,450	\$ 28,603
Realized gains	44,796	40,424
Unrealized losses	(22,079)	(69,713)
Management fees	(5,991)	(6,705)
	<u>\$ 53,176</u>	<u>\$ (7,391)</u>

Pepperdine University
Notes to Consolidated Financial Statements
July 31, 2023 and 2022

8. Endowment Activities

Changes in endowment net assets for the year ended July 31, 2023 are as follows:

<i>(in thousands)</i>	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 676,168	\$ 524,700	\$ 1,200,868
Investment return			
Investment income	13,582	15,591	29,173
Net realized and unrealized appreciation	17,367	7,676	25,043
Investment management fees	(3,770)	(2,028)	(5,798)
Total investment return	27,179	21,239	48,418
Endowment support	(29,997)	(23,867)	(53,864)
Investment return, net of payout	(2,818)	(2,628)	(5,446)
Other changes in endowment investments			
Private gifts and grants	-	6,392	6,392
Maturities	-	5,718	5,718
Reinvestments, transfers, and other	9,339	2,000	11,339
Total other changes in endowment investments	9,339	14,110	23,449
Total endowment net assets, end of year	\$ 682,689	\$ 536,182	\$ 1,218,871

Unspent appropriations of endowment without donor restrictions was \$28.4 million at July 31, 2023.

Designations of endowment funds for the year ended July 31, 2023 are as follows:

<i>(in thousands)</i>	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted funds:			
Original value	\$ -	\$ 420,288	\$ 420,288
Appreciation	-	115,894	115,894
Board and University designated funds	682,689	-	682,689
	\$ 682,689	\$ 536,182	\$ 1,218,871

Pepperdine University
Notes to Consolidated Financial Statements
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Changes in endowment net assets for the year ended July 31, 2022 are as follows:

<i>(in thousands)</i>	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 607,964	\$ 537,328	\$ 1,145,292
Investment return			
Investment income	9,817	13,756	23,573
Net realized and unrealized appreciation / (depreciation)	16,734	(12,311)	4,423
Investment management fees	(4,192)	(2,288)	(6,480)
Total investment return	22,359	(843)	21,516
Endowment support	(26,843)	(22,553)	(49,396)
Investment return, net of payout	(4,484)	(23,396)	(27,880)
Other changes in endowment investments			
Private gifts and grants	-	4,249	4,249
Maturities	-	5,589	5,589
Reinvestments, transfers, and other	72,688	930	73,618
Total other changes in endowment investments	72,688	10,768	83,456
Total endowment net assets, end of year	\$ 676,168	\$ 524,700	\$ 1,200,868

Unspent appropriations of endowment without donor restrictions was \$23.8 million at July 31, 2022.

Designations of endowment funds for the year ended July 31, 2022 are as follows:

<i>(in thousands)</i>	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted funds:			
Original value	\$ -	\$ 407,606	\$ 407,606
Appreciation	-	117,094	117,094
Board and University designated funds	676,168	-	676,168
	\$ 676,168	\$ 524,700	\$ 1,200,868

The University has recorded deficiencies resulting from the decline in fair value of endowment funds to amounts below the original gift amount as a reduction of donor restricted net assets. As of July 31, 2023, deficits of this nature had an original value of \$2.8 million and a current fair value of \$2.8 million with a deficiency of \$25,000. As of July 31, 2022, deficits of this nature had an original value of \$3.4 million and a current fair value of \$3.3 million with a deficiency of \$24,000. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments, and authorized appropriation that was deemed prudent.

Pepperdine University
Notes to Consolidated Financial Statements
July 31, 2023 and 2022

9. Assets Held as Trustee or Agent

The University's assets held as trustee or agent consist of the following at July 31, 2023 and 2022:

<i>(in thousands)</i>	2023	2022
Cash and cash equivalents	\$ 22,984	\$ 4,651
Mutual funds	88,814	91,315
Fixed income	2,353	176
Real estate	92,883	93,792
Equities	659	560
Other	2,927	1,413
	<u>\$ 210,620</u>	<u>\$ 191,907</u>

During the year ended July 31, 2022, the University became trustee of \$2.7 million of trust assets with corresponding trust and agency obligations of \$1.8 million. These trust assets were formerly held by external trustees and were reclassified from beneficial interests and contributions receivable, net.

10. Property, Facilities, and Equipment

Property, facilities, and equipment consist of the following at July 31, 2023 and 2022:

<i>(in thousands)</i>	2023	2022
Land	\$ 24,720	\$ 24,720
Buildings and improvements	674,269	602,944
Furniture, fixtures, and equipment	67,779	55,378
Construction in progress	76,270	102,001
Total cost	843,038	785,043
Less: Accumulated depreciation	<u>(301,505)</u>	<u>(277,146)</u>
	<u>\$ 541,533</u>	<u>\$ 507,897</u>

The University had no sales of property, facilities, and equipment during the year ended July 31, 2023 and disposals of fully depreciated assets did not generate a gain or loss. During the year ended July 31, 2022, the University sold its property in Lausanne, Switzerland for \$26.9 million, realizing a gain of \$19.5 million. Disposals of fully depreciated assets resulted in a loss of \$137,000 for the year ended July 31, 2022.

11. Line of Credit

At July 31, 2023 the University had a \$10.0 million committed line of credit available for general corporate purposes at the daily simple Secured Overnight Financing Rate (SOFR) plus 0.65% per annum. The line of credit matures on August 1, 2024 and no amount has been drawn on this line of credit.

During the year ended July 31, 2022, the University had a \$50.0 million committed line of credit available for general corporate purposes at the LIBOR daily floating rate plus 0.55% per annum. The line expired on July 1, 2022 and no amount was drawn on this line of credit.

Pepperdine University
Notes to Consolidated Financial Statements
July 31, 2023 and 2022

12. Long-Term Obligations

Long-term obligations consist of the following at July 31, 2023 and 2022:

<i>(in thousands, except original issue amount)</i>	2023	2022
CEFA Revenue Bonds (Pepperdine University) Series 2015, 2.00% - 5.00% due 2016 - 2045 (Original issue amount \$76,455,000)	\$ 6,970	\$ 8,505
CEFA Revenue Bonds (Pepperdine University) Series 2016, 3.00% - 5.00% due 2019 - 2049 (Original issue amount \$100,000,000)	6,810	8,000
Pepperdine University Taxable Bonds Series 2017A, 3.948% due 2050 - 2057 (Original issue amount \$125,000,000)	125,000	125,000
CEFA Refunding Revenue Bonds (Pepperdine University) Series 2017B, 3.00% - 5.00% due 2021 - 2033 (Original issue amount \$20,870,000)	18,425	19,675
Pepperdine University Taxable Bond, Series 2020A, 3.301% due 2059 (Original issue amount \$223,505,000)	223,505	223,505
Pepperdine University Taxable Bond, Series 2021A, 0.592% - 2.840%, due 2022-2051 (Original issue amount \$220,460,000)	218,905	220,460
	<u>599,615</u>	<u>605,145</u>
Net premium on long-term obligations	2,863	3,785
Bond issuance costs	<u>(2,294)</u>	<u>(2,629)</u>
	<u>\$ 600,184</u>	<u>\$ 606,301</u>

The agreements contain covenants relating to the maintenance of University assets, insurance, and other general items. The University was in compliance with all covenants as of July 31, 2023 and July 31, 2022.

During the year ended July 31, 2022, the University issued \$220.5 million in taxable corporate bonds. The proceeds, net of escrow costs, were used to defease \$148.7 million of higher-rate bonds and used for general corporate purposes, primarily to provide funding for various capital projects.

At July 31, 2023, principal payments on the preceding obligations are due in the following fiscal years:

<i>(in thousands)</i>	
2024	\$ 5,730
2025	5,935
2026	6,175
2027	6,430
2028	6,665
Thereafter	<u>568,680</u>
	<u>\$ 599,615</u>

Pepperdine University
Notes to Consolidated Financial Statements
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13. Leases

The University leases facilities and equipment for educational and research purposes under operating leases expiring through 2029. The facilities leases are primarily for use in its graduate educational programs, namely for the West Los Angeles, Calabasas, and Irvine campuses. These leases typically have an initial term of five to ten years, and may include one or more options to renew. Leases on facilities contain renewal options and rent escalation clauses based on the Consumer Price Index. The exercise of lease renewal options is at the University's sole discretion. When determining the lease term, the University includes options to extend or terminate the lease when the option to exercise is certain.

Future minimum lease payments expiring through fiscal 2029 under these non-cancelable operating leases at July 31, 2023 are as follows:

(in thousands)

2024	\$	11,043
2025		10,080
2026		8,675
2027		7,431
2028		7,521
Thereafter		6,477
		<u>51,227</u>
Discount to present value		<u>(2,629)</u>
	\$	<u>48,598</u>

The operating lease costs for the years ended July 31, 2023 and 2022 were \$9.8 million and \$11.8 million, respectively. Cash payments recorded for the years ended July 31, 2023 and 2022 were \$10.7 million and \$12.3 million, respectively, and are reflected within cash flows from operating activities on the Consolidated Statements of Cash Flows. The weighted average remaining years on operating leases is 5.2 and 6.0 for the years ended July 31, 2023 and 2022, respectively. The weighted average discount rate of 2.1% and 2.0% for the years ended July 31, 2023 and 2022, respectively, is based on a risk-free rate.

The University records short-term leases (those 12 months or less in duration) as operating expenditures in the period in which the lease obligations are incurred. The University recorded expenses of \$711,000 and \$343,000 related to short-term leases for the years ended July 31, 2023 and 2022, respectively.

Pepperdine University
Notes to Consolidated Financial Statements
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14. Asset Retirement Obligations

The following table illustrates the change in conditional asset retirement obligations during the year ended July 31, 2023:

(in thousands)

Abatement Timeframe	Average Abatement Date	Balance at July 31, 2022	Accretion	Costs Incurred	Balance at July 31, 2023
10 - 30 years	2036	\$ 5,809	\$ 1	\$ (8)	\$ 5,802
31 - 40 years	2044	1,449	70	(6)	1,513
41 - 50 years	2048	179	9	-	188
51+ years	2061	11	1	-	12
		<u>\$ 7,448</u>	<u>\$ 81</u>	<u>\$ (14)</u>	<u>\$ 7,515</u>

Pepperdine University
Notes to Consolidated Financial Statements
July 31, 2023 and 2022

15. Net Assets

At July 31, 2023 and 2022, net assets without donor restrictions and with donor restrictions were available for the following purposes:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
<i>(in thousands)</i>			
Educational program support	\$ 194,408	\$ 369,519	\$ 563,927
Student scholarships and loans	160,333	202,086	362,419
Facilities and debt service	245,941	5,784	251,725
Public service	4,916	11,518	16,434
Student services and athletics	8,086	11,393	19,479
Annuities and remainder trusts	-	87,978	87,978
University designated support and reserves	379,051	-	379,051
Other	14,885	15,865	30,750
	<u>\$ 1,007,620</u>	<u>\$ 704,143</u>	<u>\$ 1,711,763</u>
	2022		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
<i>(in thousands)</i>			
Educational program support	\$ 185,689	\$ 366,762	\$ 552,451
Student scholarships and loans	163,259	196,207	359,466
Facilities and debt service	230,467	5,252	235,719
Public service	5,217	11,299	16,516
Student services and athletics	7,292	11,384	18,676
Annuities and remainder trusts	-	64,606	64,606
University designated support and reserves	386,869	-	386,869
Other	12,794	15,900	28,694
	<u>\$ 991,587</u>	<u>\$ 671,410</u>	<u>\$ 1,662,997</u>

Pepperdine University
Notes to Consolidated Financial Statements
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16. Contributed Nonfinancial Assets

Contributed nonfinancial assets for the years ended July 31, 2023 and July 31, 2022 recognized within the Consolidated Statements of Activities included the following:

	2023	2022	Status	Valuation
<i>(in thousands)</i>				
Artwork	\$ 1,002	\$ -	Capitalized	Fair value: third-party appraisal
Flights and ground transportation	66	269	Utilized in program services	Fair value: retail price
Furniture and home décor	-	14	Monetized	Fair value: third-party appraisal
Other	79	107	Utilized in program services and fundraising	Fair value: retail price
	<u>\$ 1,147</u>	<u>\$ 390</u>		

For the years ended July 31, 2023 and July 31, 2022, contributed nonfinancial assets did not have donor restrictions.

17. Employee Retirement and Deferred Compensation Plans

The University participates in a defined contribution plan that provides retirement benefits for eligible employees. Benefits for the plan are funded by contributions from the University and its employees. University contributions are nonrefundable and fully vested. There are no prior service costs. The University contributed \$12.1 million and \$11.9 million to this plan for the years ended July 31, 2023 and 2022, respectively.

In July 2002 the University established deferred compensation programs for senior administrators, tenured Full Professors, highly paid, and certain other employees under Sections 457(b) and 457(f) of the Internal Revenue Code. Under these plans, eligible employees may defer a limited amount of their compensation to future years. Although deferred by employees for tax purposes, amounts contributed to these plans by the University are treated as an expense in the year earned. Balances held by the University in the plans are recorded as a component of assets held as trustee or agent and trust and agency obligations. There were no University contributions to these deferred compensation plans for the years ended July 31, 2023 and 2022, and the Section 457(f) plan ended effective August 2022. At July 31, 2023 and 2022, balances in these plans were \$14.0 million and \$13.5 million, respectively.

18. Faculty and Staff Housing

The University sells condominium units to certain faculty and staff. The sales terms include restrictions on the buyers' eligibility and include a resale price based on a defined index that is not controlled by the University. The University has a right of first refusal to purchase the units when offered for sale by the owner. The University has historically exercised this right and then subsequently sold the units within a short period of time. For the years ended July 31, 2023 and 2022, the University sold ten and three units with associated sales values of \$6.5 million and \$2.7 million, respectively. Should all 121 of the units be available for purchase at July 31, 2023 and 2022, and the University elected to exercise its right of first refusal on all of the units, the total value associated with these transactions would be \$89.1 million and \$84.9 million, respectively.

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At July 31, 2023 and 2022, the University held legal title to 19 and 25 units with a value of \$14.0 million and \$17.1 million, respectively.

The land associated with the condominium units has been leased to the homeowner's associations for 99 years from the date of completion of the construction. Monthly dues are paid to the homeowner's associations, which is managed by the University, for utilities, landscaping, roofing and maintenance.

At July 31, 2023 and 2022, the University guaranteed the performance of \$20.7 million and \$15.6 million, respectively, in mortgage loans obtained by its faculty and staff. These mortgage loans were issued by independent third-party lenders and all of the proceeds of these loans were used to facilitate the purchase of on-campus housing.

At July 31, 2023 and 2022, University-owned notes receivable from on-campus housing sales amounted to \$3.6 million and \$3.0 million, respectively. These amounts are included as a component of investments on the Consolidated Statements of Financial Position. The notes bear interest at various rates ranging between 0.2% per annum and 4.2% per annum and are collateralized by deeds of trust. No allowance for loan losses has been recorded against these loans based on their collateralization and prior collection history. At July 31, 2023 and July 31, 2022, there were no past due amounts related to these notes receivable.

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19. Natural and Functional Expenses

Expenses are presented by functional classification in accordance with the overall service mission of the University. Each functional classification displays all expenses related to the underlying operations by natural classification. Management utilizes certain estimates based on square footage to allocate depreciation, interest expense, and central operating expense.

For the year ended July 31, 2023, natural and functional expenses consist of the following:

<i>(in thousands)</i>	Program Services	Management and General	Fundraising	Year Ended July 31, 2023 Total
Personnel	\$ 175,662	\$ 56,639	\$ 5,112	\$ 237,413
Professional services	79,554	23,165	610	103,329
Operating expenses	60,688	10,536	1,637	72,861
Maintenance, equipment, repairs, and utilities	9,010	25,868	24	34,902
Depreciation	22,205	5,140	109	27,454
Interest	15,619	2,690	76	18,385
	<u>\$ 362,738</u>	<u>\$ 124,038</u>	<u>\$ 7,568</u>	<u>\$ 494,344</u>

For the year ended July 31, 2022, natural and functional expenses consist of the following:

<i>(in thousands)</i>	Program Services	Management and General	Fundraising	Year Ended July 31, 2022 Total
Personnel	\$ 170,589	\$ 52,221	\$ 5,220	\$ 228,030
Professional services	79,084	24,549	362	103,995
Operating expenses	53,580	13,939	860	68,379
Maintenance, equipment, repairs, and utilities	8,257	19,393	14	27,664
Depreciation	22,969	5,797	112	28,878
Interest	15,473	3,421	76	18,970
	<u>\$ 349,952</u>	<u>\$ 119,320</u>	<u>\$ 6,644</u>	<u>\$ 475,916</u>

20. Related Parties

Members of the Board of Regents and senior management may, from time to time, be associated with companies doing business with the University. The University has a written conflict of interest policy that requires, among other things, that no member of the Board of Regents can participate in any decision in which he or she or an immediate family has a material financial interest. Each Regent is required to certify compliance with the conflict of interest policy on an annual basis and indicate whether the University does business with an entity in which a Regent has a material financial interest. When such relationships exist, measures are taken to manage and mitigate any actual or perceived conflict, including requiring the recusal of the conflicted Regent, and that such transactions be conducted at arm's length based on terms that are reasonable to the University and are in accordance with the conflict of interest policy.

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21. Commitments and Contingencies

In the normal course of operations, the University is named as a defendant in lawsuits and is subject to periodic examinations by regulatory agencies. It is the opinion of management, after consultation with legal counsel, that liabilities, if any, arising from such litigation and examinations would not have a material effect on the University's consolidated financial position or change in net assets.

The University receives and expends monies under U.S. government grant programs and is subject to audits by related U.S. governmental agencies. Management believes that any liabilities resulting from such audits will not have a material impact on the University.

At July 31, 2023, the University had open commitments to invest approximately \$167.6 million with investment managers and/or limited partnerships over approximately seven years.

At July 31, 2023, the University's maximum exposure under guarantees of Guaranteed Access To Education ("GATE") student loans totaled approximately \$220,000.

At July 31, 2023, the University had outstanding commitments for capital expenditures in connection with the various construction projects of approximately \$70.2 million. The University expects to fund these costs principally through net assets available without donor restrictions. Accordingly, no liability has been recorded in the accompanying Consolidated Statements of Financial Position.

As discussed in Note 18, the University guarantees the performance of certain mortgages for on-campus condominiums.

22. Fair Value of Financial Instruments

Financial instruments include cash and cash equivalents, student receivables, other accounts receivable, student loans, beneficial interests and contributions receivable, investments, assets held as trustee or agent, U.S. government-funded student loans, and trust and agency obligations. The University uses the following methods and assumptions in estimating the fair value disclosures for its financial instruments:

Financial Assets

The carrying values of cash and cash equivalents, student receivables, other accounts receivable, student loans, beneficial interests and contributions receivable, investments, and assets held as trustee or agent are considered to approximate fair value. When possible, the fair value of investments and assets held as trustee or agent are determined by reference to quoted market prices. When quoted market prices are not available, fair value is estimated by reference to market values for similar securities or by discounting cash flows at an appropriate rate taking into consideration the varying degrees of risk specific to each financial asset. Determination of the fair value of student loans receivable, which are primarily federally sponsored student loans, could not be made without incurring excessive costs.

Derivative Financial Instruments

The fair value of interest rate caps, floors and swaps, forward treasury contracts and interest rate futures, to the extent used by the University, are based on quoted market prices. The fair values of foreign currency derivatives are based on pricing models using currency market rates. These amounts are reflected as a component of prepaid expenses, inventories, and other assets on the University's Consolidated Statements of Financial Position.

Fair Value

In accordance with ASC 820, fair value is defined as the price the University would receive to sell an asset or pay a liability in an orderly transaction between the market participants at the reporting date. ASC 820 also establishes a three-level hierarchy for presenting valuations, based on the transparency of inputs used to value investments and other relevant assets. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Valuation inputs may be observable or unobservable, and refer to the assumptions that a market participant would consider significant to value an asset or liability. The determination of "observable" requires judgment by the University. In general, the University considers observable inputs to be data that are readily available, regularly updated, reliable, and verifiable. Unobservable inputs may be used when observable inputs are not readily available or current. In this situation, one or more valuation techniques may be used including the market approach (inputs based on recent market transactions or comparables) or the income approach (discounted cash flow).

The three levels of the fair value hierarchy under ASC 820 are as follows:

- | | |
|---------|---|
| Level 1 | Quoted prices available in active markets for identical investments. |
| Level 2 | Quoted prices in active markets for similar investments; quoted prices for identical investments in markets that are inactive; and prices based on observable inputs other than an unadjusted quoted price. |
| Level 3 | Prices based on significant unobservable inputs. |

The fair value of certain alternative investments, which include limited partnerships in venture capital, real estate and other private debt and equity funds, is based on valuations provided by the external investment managers or general partners, generally using NAV as a practical expedient, adjusted for receipts and disbursements of cash and distributions of securities if the date of valuation is prior to the University's fiscal year end. Such valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of investments, and other pertinent information. These estimates are subjective in nature and involve uncertainties and matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. In addition, the fair value estimates presented do not include the value of anticipated future operating activities and the value of assets and liabilities that are not considered financial instruments.

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The following tables summarize the valuations of the University's investments and other relevant assets as of July 31, 2023 and July 31, 2022, respectively based on their placement within the fair-value hierarchy:

<i>(in thousands)</i>	Level 1	Level 2	Level 3	NAV	Year ended July 31, 2023 Total
Investments					
Cash and cash equivalents	\$ 189,325	\$ -	\$ -	\$ -	\$ 189,325
Absolute return	-	-	-	212,575	212,575
Assets held by trustee*	101,146	702	-	62,645	164,493
Mutual funds	65,267	-	-	-	65,267
Fixed income	13,033	285,013	-	-	298,046
Real estate	-	79,584	-	80,150	159,734
Private equity	-	-	-	190,025	190,025
Natural resources	-	-	-	99,229	99,229
Public equity	429	-	-	155,970	156,399
Other	-	-	9,983	-	9,983
Total investments	369,200	365,299	9,983	800,594	1,545,076
Assets held as trustee or agent					
Cash and cash equivalents	22,984	-	-	-	22,984
Mutual funds	88,814	-	-	-	88,814
Fixed income	2,179	174	-	-	2,353
Real estate	-	92,751	-	132	92,883
Equities	90	-	-	569	659
Other	-	-	2,414	513	2,927
Total assets held as trustee or agent	114,067	92,925	2,414	1,214	210,620
Beneficial interests	-	-	13,694	-	13,694
Total beneficial interests	-	-	13,694	-	13,694
	<u>\$ 483,267</u>	<u>\$ 458,224</u>	<u>\$ 26,091</u>	<u>\$ 801,808</u>	<u>\$ 1,769,390</u>

<i>(in thousands)</i>	Level 1	Level 2	Level 3	NAV	Year Ended July 31, 2022 Total
Investments					
Cash and cash equivalents	\$ 120,039	\$ -	\$ -	\$ -	\$ 120,039
Absolute return	-	-	-	190,200	190,200
Assets held by trustee*	101,103	411	-	64,422	165,936
Mutual funds	97,816	-	-	-	97,816
Fixed income	12,839	296,520	-	-	309,359
Real estate	-	87,025	-	82,129	169,154
Private equity	-	-	-	196,463	196,463
Natural resources	-	-	-	122,848	122,848
Public equity	1,213	-	-	150,522	151,735
Other	-	-	9,117	-	9,117
Total investments	333,010	383,956	9,117	806,584	1,532,667
Assets held as trustee or agent					
Cash and cash equivalents	4,651	-	-	-	4,651
Mutual funds	91,315	-	-	-	91,315
Fixed income	-	176	-	-	176
Real estate	-	93,659	-	133	93,792
Equities	1	-	-	559	560
Other	-	-	908	505	1,413
Total assets held as trustee or agent	95,967	93,835	908	1,197	191,907
Beneficial interests	-	-	17,502	-	17,502
Total beneficial interests	-	-	17,502	-	17,502
	<u>\$ 428,977</u>	<u>\$ 477,791</u>	<u>\$ 27,527</u>	<u>\$ 807,781</u>	<u>\$ 1,742,076</u>

*For the years ended July 31, 2023 and July 31, 2022, assets held by trustee consists primarily of the balance of the Blanche E. Seaver Endowed Trust, of which the University is the sole irrevocable income and principal beneficiary.

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Level 1	Generally includes the University's investments in mutual funds and common stock that are regularly traded in active markets where quoted prices may be easily obtained.
Level 2	Generally includes the University's investments in debt securities and certain unlisted equity funds that offer a high degree of liquidity and transparency. Debt security prices are obtained from pricing services or from brokers. Real property is valued based on a number of different approaches, including third party appraisals, market comparisons, and discounted future rental revenues. Level 2 investments may also be priced using model-based valuation techniques where all assumptions are observable.
Level 3	Generally include the University's notes receivable, private limited partnerships, interests in life insurance policies, other investments and split interest agreements where the University is not the trustee but is named as the beneficiary. These investments do not typically transact on a regular basis, nor do they have readily determinable fair values. Notes receivable primarily consists of contingent interest loans with the University's key faculty and staff to help provide affordable loans for housing. The contingent interest loans' values incorporate the interest rates at the date of loan issuance and are due upon a triggering event. The primary unobservable input for these notes receivable is the applicable yield rates which range from 0.2% to 4.2%. Interests in life insurance policies are recorded at cash surrender values. The beneficial interests are recorded at the present value of the expected proceeds upon maturity. The primary unobservable inputs for beneficial interest in split-interest agreements are the applicable discount rates and life expectancies. Applicable discounts rates ranged from 0.4% to 10.0% for both years ended July 31, 2023 and 2022. Life expectancies ranged from 1 to 18 years and 1 to 19 years for the years ended July 31, 2023 and 2022, respectively. Significant increases or decreases in these inputs may result in a lower or higher fair value measurement.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. In addition, while the University believes that 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 estimate of fair value at the reporting date.

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The following table sets forth a reconciliation of beginning and ending balances for the fiscal year ended July 31, 2023 for financial instruments designated as Level 3:

(in thousands)

	Investments	Assets held as trustee or agent	Beneficial interests	Total
Beginning balance	\$ 9,117	\$ 908	\$ 17,502	\$ 27,527
Realized gains / (losses)	1,148	(273)	-	875
Unrealized gains	16	-	951	967
Purchases / additions	960	1,015	593	2,568
Proceeds / maturities	(1,276)	-	(5,352)	(6,628)
Net transfers in	18	764	-	782
Ending balance	<u>\$ 9,983</u>	<u>\$ 2,414</u>	<u>\$ 13,694</u>	<u>\$ 26,091</u>

The following table sets forth a reconciliation of beginning and ending balances for the fiscal year ended July 31, 2022 for financial instruments designated as Level 3:

(in thousands)

	Investments	Assets held as trustee or agent	Beneficial interests	Total
Beginning balance	\$ 9,612	\$ 823	\$ 15,219	\$ 25,654
Realized gains	-	85	-	85
Unrealized gains / (losses)	91	-	(1,600)	(1,509)
Purchases / additions	500	-	5,000	5,500
Proceeds / maturities	(1,086)	-	-	(1,086)
Net transfers out	-	-	(1,117)	(1,117)
Ending balance	<u>\$ 9,117</u>	<u>\$ 908</u>	<u>\$ 17,502</u>	<u>\$ 27,527</u>

All net realized and unrealized gains in the tables above are reflected in return on investment, net in the accompanying Consolidated Statements of Activities.

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The University uses the NAV to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments in other investment companies (in partnership format) by major category for the year ended July 31, 2023:

(in thousands, except # of funds)

Investment Category	Strategy	NAV in Funds	# of Funds	Remaining Life	Amount of Unfunded Commitment	Redemption Terms	Redemption Restrictions
Absolute Return	US and non-US investments in relative value, event driven, long/short, and directional strategies	\$ 212,925	23	Open Ended	N/A	Ranges from quarterly with 30, 45, 60 or 90 days notice, semi annual with 90 days notice, annual with 45, 60 or 90 days notice, every 36 months with 45 days notice	0.2 % of NAV is locked up in side-pockets
Assets Held by Trustee	US and non-US investments in private equity, venture capital, fixed income, relative value, event driven, long/short and directional strategies	62,645	9	Approx 7 years to Open Ended	N/A	N/A	N/A
Private Natural Resources	US and non-US investments in upstream, midstream, and downstream natural resources	99,392	21	Approx 7 years	37,476	Redemptions are not permitted during the life of the fund	N/A
Private Real Estate	US and non-US real estate	80,282	26	Approx 7 years	25,192	Redemptions are not permitted during the life of the fund	N/A
Public Equity	US and non-US equity securities	156,227	5	Open Ended	N/A	Ranges from daily to monthly	N/A
Private Equity	US and non-US equity securities and venture capital	190,337	75	Approx 7 years	104,892	Redemptions are not permitted during the life of the fund	N/A
		<u>\$ 801,808</u>			<u>\$ 167,560</u>		

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The University uses the NAV to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments in other investment companies (in partnership format) by major category for the year ended July 31, 2022:

(in thousands, except # of funds)

Investment Category	Strategy	NAV in Funds	# of Funds	Remaining Life	Amount of Unfunded Commitment	Redemption Terms	Redemption Restrictions
Absolute Return	US and non-US investments in relative value, event driven, long/short, and directional strategies	\$ 190,507	21	Open Ended	\$ -	Ranges from quarterly with 30, 45, 60 or 90 days notice, semi annual with 90 days notice, annual with 45, 60 or 90 days notice, every 36 months with 45 days notice	0.3 % of NAV is locked up in side-pockets
Assets Held by Trustee	US and non-US investments in private equity, venture capital, fixed income, relative value, event driven, long/short and directional strategies	64,422	9	Approx 7 years to Open Ended	-	N/A	N/A
Private Natural Resources	US and non-US investments in upstream, midstream, and downstream natural resources	123,046	23	Approx 7 years	48,200	Redemptions are not permitted during the life of the fund	N/A
Private Real Estate	US and non-US real estate	82,262	28	Approx 7 years	30,336	Redemptions are not permitted during the life of the fund	N/A
Public Equity	US and non-US equity securities	150,765	5	Open Ended	-	Ranges from daily to monthly	N/A
Private Equity	US and non-US equity securities and venture capital	196,779	77	Approx 7 years	115,200	Redemptions are not permitted during the life of the fund	N/A
		<u>\$ 807,781</u>			<u>\$ 193,736</u>		

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23. Subsequent Events

Management has evaluated subsequent events through November 28, 2023, the date the financial statements were issued. There are no events that require adjustment or additional disclosure in these financial statements.