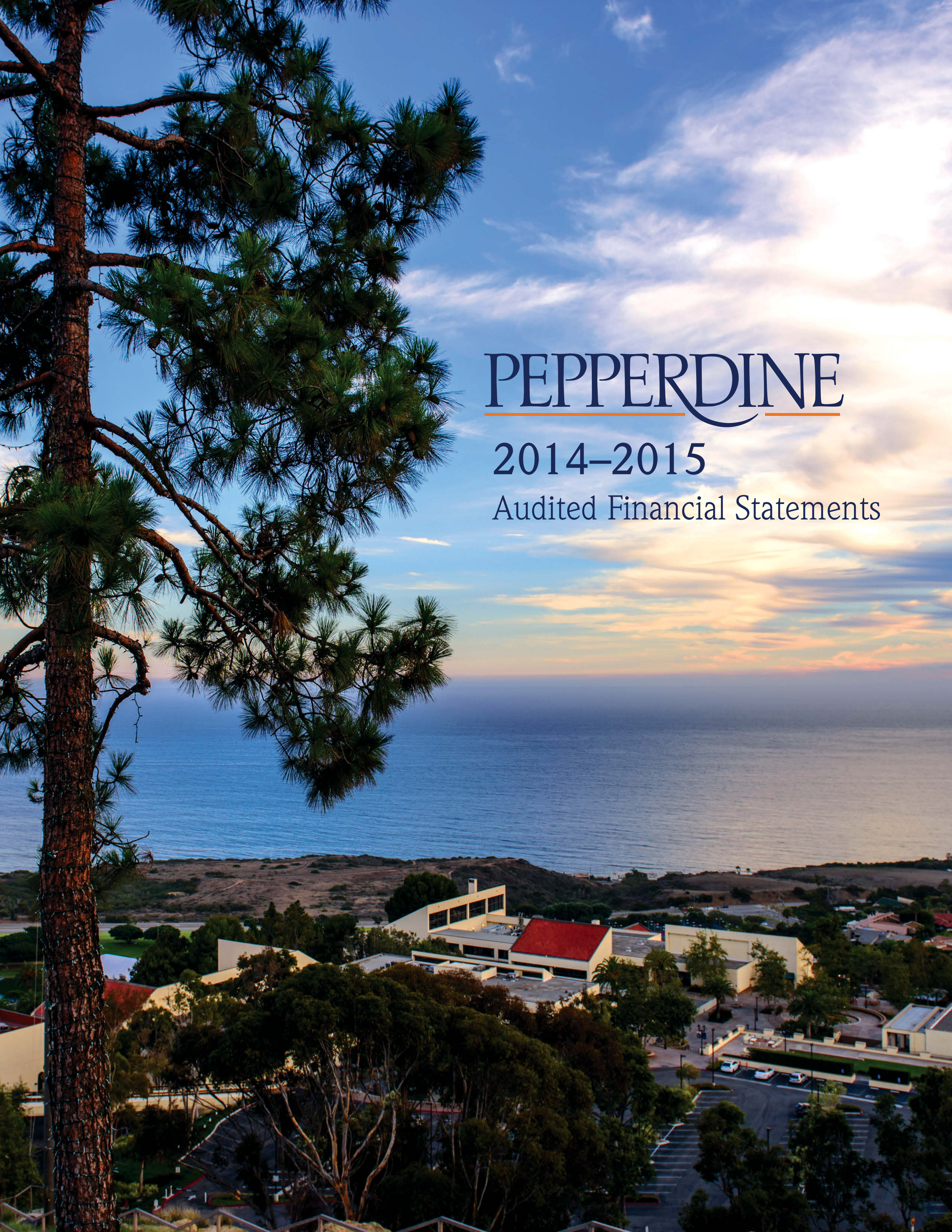

PEPPERDINE

2014–2015
Audited Financial Statements

PEPPERDINE UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2015 and 2014

PEPPERDINE UNIVERSITY

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Independent Auditor's Report

To the Board of Regents of Pepperdine University

We have audited the accompanying consolidated financial statements of Pepperdine University (the "University"), which comprise the consolidated statements of financial position as of July 31, 2015 and 2014 and the related consolidated statements of activities and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the consolidated financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pepperdine University at July 31, 2015 and 2014, 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.

PricewaterhouseCoopers LLP

November 20, 2015

PEPPERDINE UNIVERSITY
Consolidated Statements of Financial Position
At July 31, 2015 and 2014
(In thousands)

	2015	2014
ASSETS		
Cash and cash equivalents	$ 193,700	$ 34,650
Student receivables, less allowance for doubtful accounts of $988 and $1,007, respectively	2,198	1,848
Other accounts receivable	4,647	4,002
Prepaid expenses, inventories and other assets	2,330	2,997
Student loans, less allowance for loan losses of $1,300 and $1,564, respectively	21,481	22,038
Beneficial interests and contributions receivable, net	35,872	33,877
Investments	848,218	963,133
Assets held as trustee or agent	117,032	128,374
Property, facilities and equipment, net	358,787	361,613
Total assets	$1,584,265	$1,552,532
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	$ 22,925	$ 18,586
Accrued salaries and wages	3,324	4,369
Student deposits, advance payments and deferred revenue	9,136	11,092
Asset retirement obligations	6,428	6,199
U.S. government-funded student loans	16,004	15,695
Trust and agency obligations	64,323	69,136
Long-term obligations, net	261,903	233,395
Total liabilities	384,043	358,472
Net assets:		
Unrestricted	710,374	703,267
Temporarily restricted	127,308	137,943
Permanently restricted	362,540	352,850
Total net assets	1,200,222	1,194,060
Total liabilities and net assets	$1,584,265	$1,552,532

See accompanying notes to consolidated financial statements.

PEPPERDINE UNIVERSITY
Consolidated Statement of Activities
For the year ended July 31, 2015
(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Student tuition and fees	$ 315,862	$ -	$ -	$ 315,862
Less student aid	(98,133)	-	-	(98,133)
Net student tuition and fees	217,729	-	-	217,729
Room and board	34,278	-	-	34,278
Private gifts and grants	11,950	3,785	10,405	26,140
Endowment support	34,571	-	261	34,832
Government grants	3,574	-	-	3,574
Sales and services	6,815	-	-	6,815
Other revenue	5,463	-	10	5,473
Net assets released from restriction	9,405	(9,405)	-	-
Total revenues	323,785	(5,620)	10,676	328,841
EXPENSES				
Instruction and research	91,579	-	-	91,579
Academic support	54,588	-	-	54,588
Student services	51,580	-	-	51,580
Management and plant operations	53,566	-	-	53,566
Auxiliary enterprises	27,559	-	-	27,559
Public service	14,900	-	-	14,900
Fundraising	6,172	-	-	6,172
Alumni relations and development	2,545	-	-	2,545
Total expenses	302,489	-	-	302,489
Change in net assets before nonoperating revenues and expenses	21,296	(5,620)	10,676	26,352
NON-OPERATING REVENUES AND EXPENSES				
Actuarial adjustment	-	317	(184)	133
Investment income:				
Dividends	7,834	2,429	6	10,269
Interest	340	12	66	418
Other	7,138	1	4	7,143
Investment expenses	(4,156)	(1,527)	-	(5,683)
Net realized and unrealized investment (losses) gains	(23,822)	(8,491)	1,681	(30,632)
Foreign currency translation	(789)	-	-	(789)
Other	(734)	2,244	(2,559)	(1,049)
Total non-operating revenues and expenses	(14,189)	(5,015)	(986)	(20,190)
Change in net assets	7,107	(10,635)	9,690	6,162
Net assets at beginning of year	703,267	137,943	352,850	1,194,060
Net assets at end of year	$ 710,374	$ 127,308	$ 362,540	$ 1,200,222

See accompanying notes to consolidated financial statements.

PEPPERDINE UNIVERSITY
Consolidated Statement of Activities
For the year ended July 31, 2014
(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Student tuition and fees	$ 298,111	$ -	$ -	$ 298,111
Less student aid	(96,604)	-	-	(96,604)
Net student tuition and fees	201,507	-	-	201,507
Room and board	34,425	-	-	34,425
Private gifts and grants	11,476	5,517	13,168	30,161
Endowment support	33,377	-	274	33,651
Government grants	3,679	-	-	3,679
Sales and services	6,430	-	-	6,430
Other revenue	6,118	50	1,136	7,304
Net assets released from restriction	5,058	(5,058)	-	-
Total revenues	302,070	509	14,578	317,157
EXPENSES				
Instruction and research	90,382	-	-	90,382
Academic support	49,647	-	-	49,647
Student services	49,145	-	-	49,145
Management and plant operations	52,521	-	-	52,521
Auxiliary enterprises	26,847	-	-	26,847
Public service	14,202	-	-	14,202
Fundraising	7,445	-	-	7,445
Alumni relations and development	2,304	-	-	2,304
Total expenses	292,493	-	-	292,493
Change in net assets before nonoperating revenues and expenses	9,577	509	14,578	24,664
NON-OPERATING REVENUES AND EXPENSES				
Actuarial adjustment	-	4,874	737	5,611
Investment income:				
Dividends	8,831	3,345	1	12,177
Interest	854	11	191	1,056
Other	6,142	-	3	6,145
Investment expenses	(3,500)	(1,319)	-	(4,819)
Net realized and unrealized investment gains	47,783	14,534	9,380	71,697
Foreign currency translation	15	-	-	15
Other	2,788	(2,616)	375	547
Total non-operating revenues and expenses	62,913	18,829	10,687	92,429
Change in net assets	72,490	19,338	25,265	117,093
Net assets at beginning of year	630,777	118,605	327,585	1,076,967
Net assets at end of year	$ 703,267	$ 137,943	$ 352,850	$ 1,194,060

See accompanying notes to consolidated financial statements.

PEPPERDINE UNIVERSITY
Consolidated Statements of Cash Flows
For the Years Ended July 31, 2015 and 2014
(In thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	2015	2014
Change in net assets	$ 6,162	$ 117,093
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	19,499	18,102
Provision for doubtful accounts	100	-
Loss on early extinguishment of debt	236	-
Non-cash gifts	(8,495)	(12,265)
Adjustment of actuarial liability	(134)	(5,611)
Contributions restricted for long-term investment	(3,449)	(4,421)
Income restricted for long-term investment	(261)	(274)
Premium received on issuance of long-term obligations	2,763	-
Loss on disposal of property, facilities and equipment	191	105
Net realized and unrealized losses (gains) on investments	30,761	(71,697)
Change in assets and liabilities:		
Student receivables	(450)	(553)
Other accounts receivable	(645)	60
Beneficial interests and contributions receivable	2,532	2,475
Prepaid expenses, inventories and other assets	667	(813)
Accounts payable and accrued liabilities	221	(1,775)
Accrued salaries and wages	(1,045)	790
Student deposits, advance payments and deferred revenue	(1,836)	1,205
Net cash and cash equivalents provided by operating activities	46,817	42,421
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	131,008	41,534
Purchases of investments	(36,180)	(100,732)
Purchases of property, facilities and equipment	(12,915)	(26,244)
Student loans repaid	4,640	4,112
Student loans issued	(4,083)	(3,401)
Net cash and cash equivalents provided by (used in) investing activities	82,470	(84,731)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for long-term investment	6,154	6,511
Income restricted for long-term investment	261	274
Principal received on issuance of long-term obligations	51,485	-
Principal payments on long-term obligations	(25,295)	(1,490)
Payment of bond issue costs	(376)	-
Increase in U.S. government-funded student loans	309	355
Investment income and gains on annuities payable	3,825	9,845
Payment of trust and agency obligations	(6,600)	(7,476)
Net cash and cash equivalents provided by financing activities	29,763	8,019
Net change in cash and cash equivalents	159,050	(34,291)
Cash and cash equivalents at beginning of year	34,650	68,941
Cash and cash equivalents at end of year	$ 193,700	$ 34,650

See accompanying notes to consolidated financial statements.

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 7,600 students in its five colleges and schools. Seaver College, the University's undergraduate liberal arts college, the 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 George L. Graziadio School of Business and Management 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, and the Drescher Graduate Campus in 2003.

The University operates several consolidated affiliated companies. 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 plant operations expense to the functional expense categories included on the Consolidated Statements of Activities.

Adoption of New Accounting Pronouncements

The University has adopted the required guidance under ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs.* ASU 2015-03 requires that debt issuance costs be presented as a direct deduction from the carrying amount of the related debt liability, consistent with the presentation of debt discounts. Prior to the issuance of ASU 2015-03, debt issuance costs were required to be presented as a prepaid expense, separate from the related debt liability. ASU 2015-03 does not change the recognition and measurement requirements for debt issuance costs. The University early-adopted this standard on August 1, 2014, and applied its provisions retrospectively.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).* Under the new guidance, investments measured at net asset value ("NAV"), as a practical expedient for fair value, are excluded from the fair value hierarchy. ASU 2015-07 is effective for the University in the fiscal year beginning August 1, 2017. The University does not believe adoption of this standard will have a material impact on the financial statements.

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, 2015 and 2014 was immaterial, no provision for income taxes has been made in the accompanying Consolidated Financial Statements.

Net Assets

The University is required to classify its net assets into the following three categories according to donor-imposed restrictions or provisions of law:

Unrestricted net assets represent resources that are not restricted, either temporarily or permanently, by donor-imposed stipulations. They are available for support of all organizational operations and services.

Temporarily restricted net assets represent contributions and other assets whose use are limited by donor-imposed stipulations. These restrictions are temporary in that they either expire by the passage of time or by the fulfillment of certain obligations of the University pursuant to those stipulations.

Permanently restricted net assets represent contributions and other assets whose use by the University are limited by donor-imposed stipulations. These restrictions are permanent in that they neither expire by passage of time nor can they be otherwise removed by the University. Income from these assets can be unrestricted or restricted based on donor stipulations.

Revenue Recognition

Student tuition and fees and room and board are recorded as revenues in the period the services are rendered. 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 are not recorded as revenue until the conditions on which they depend have been substantially met. Grants received from departments or agencies of the government considered to be exchange transactions are not recorded as revenue until related costs are incurred. These revenues are subject to audit by government authorities. A receivable is recorded equal to the amount of expenditures incurred prior to the fiscal year end for which cash reimbursement has not been received. 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.

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.

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 short-term resources held by external investment managers are classified as investments.

Student Receivables

Student receivables are carried at cost, less an allowance for doubtful accounts.

Management believes that the allowance for doubtful accounts is adequate. 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 that interest accruals 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 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.

Management believes that the allowance for loan losses is adequate. Management uses available information to recognize losses on loans. 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, 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. Beneficial interests and contributions receivable where donor restrictions are met in the same fiscal year as the beneficial interest and contribution receivable is made are reported as unrestricted support. 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. Amounts to be received in future periods are discounted at a credit-adjusted interest rate.

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. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value. 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.

Realized and unrealized gains and losses are accounted for within unrestricted net assets, or as changes in temporarily or permanently restricted net assets if so stipulated by the donor of such assets.

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 2015 and 2014 the approved spending rate 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 392 individual donor-restricted endowment funds and 62 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 permanently restricted net assets (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 of donor-restricted net assets is classified as temporarily 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

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

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 and the present value of the related amounts due is recorded as a liability based on United States Internal Revenue Service life expectancy 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 adjustment of the actuarial liability on the Consolidated Statements of Activities. At July 31, 2015 and 2014, the estimated future payments to be made by the University have been discounted at 2.2% 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 plan under Section 457(b) and 457(f) of the United States Internal Revenue Code are carried at fair value 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 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:

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. Any gain or loss from such disposition is recorded as a component of other non-operating revenues and expenses on the Consolidated Statements of Activities.

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.

U.S. Government-Funded Student Loans

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

Foreign Currency Management

The University uses derivative financial instruments to reduce its net exposure to currency fluctuations. As such, the University enters into forward contracts and purchases currency futures (principally the Euro, the British pound, Argentinian Peso, 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 that eventual United States dollar net cash outflows resulting from costs outside the U.S. 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.

Reclassifications

Certain amounts were reclassified at or for the year ended July 31, 2014 to conform with the current year's presentation.

3. Student Receivables

Student receivables consist of the following at July 31, 2015 and 2014:

	2015	2014
	(In thousands)	
Graziadio School of Business and Management. ...	$2,054	$1,678
Seaver College.	778	773
Graduate School of Education and Psychology	242	268
Other	112	136
Gross student receivables	3,186	2,855
Allowance for doubtful accounts.	(988)	(1,007)
	$2,198	$1,848

Activity in the allowance for doubtful accounts was as follows:

	For the year ended July 31, 2015	2014
	(In thousands)	
Beginning balance	$1,007	$1,343
Provision for doubtful accounts	100	-
Accounts charged off	(322)	(501)
Recoveries of previously charged off accounts	203	165
Net recoveries/(charge-offs)	(119)	(336)
Ending balance	$ 988	$1,007

4. Student Loans

Student loans consist of the following at July 31, 2015 and 2014:

	2015	2014
	(In thousands)	
Perkins	$13,839	$13,399
Weingart	7,627	8,305
Other	1,315	1,898
Gross student loans	22,781	23,602
Allowance for loan losses	(1,300)	(1,564)
	$21,481	$22,038

Activity in the allowance for loan losses was as follows:

	For the year ended July 31,	
	2015	2014
	(In thousands)	
Beginning balance	$1,564	$1,599
Loans charged off	(364)	(155)
Recoveries of previously charged off loans	100	120
Net charge-offs	(264)	(35)
Ending balance	$1,300	$1,564

5. Beneficial Interests and Contributions Receivable

Unconditional promises to give with payments due in future periods are reported as temporarily or permanently restricted beneficial interests and contributions receivable. Unconditional promises to give are recorded at their discounted present value based on a credit-adjusted interest rate. At July 31, 2015, the discount rate applied to beneficial interests and contributions receivable ranged from 0.31% per annum to 3.42% per annum and at July 31, 2014 ranged from 0.12% per annum to 3.58% per annum.

The following table provides a summary of beneficial interests and contributions receivable by expected collection date at July 31, 2015 and 2014:

	2015	2014
	(In thousands)	
In one year or less	$ 3,886	$ 3,080
Between one and five years	1,091	7,807
More than five years	31,445	23,736
	36,422	34,623
Less discount	(550)	(746)
	$35,872	$33,877

During the years ended July 31, 2015 and 2014, the University received payments on prior year promises to give of $2.8 million and $3.1 million, respectively.

Beneficial interests and contributions receivable include assets held by external trustees totaling $30.7 million at July 31, 2015 and $25.6 million at July 31, 2014.

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." Beneficial interests and contributions receivable written off during the years ended July 31, 2015 and 2014 amounted to $5.1 million and $101,000, respectively.

During the years ended July 31, 2015 and 2014 promises to give in the net amount of $15.2 million and $4.6 million were received but not recognized, respectively. Promises to give may not be recognized because a donor has not provided sufficient documentation, the promise is conditional, or the promise is revocable.

6. Investments

The University's investments consist of the following at July 31, 2015 and 2014:

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
	(In thousands)			
Cash and cash equivalents	$ 44,347	$ 44,347	$ 62,403	$ 62,403
Absolute return	91,331	125,400	71,993	106,818
Assets held by trustee	12,250	151,625	12,250	148,989
Mutual funds	13,374	14,053	12,393	13,175
Fixed income	61,738	62,330	62,933	61,841
Notes receivable	7,455	7,455	7,789	7,789
Opportunistic distressed	16,088	26,280	27,409	39,705
Private equity	109,803	124,227	107,033	126,668
Natural resources	33,516	39,859	41,109	47,019
Private real estate	56,187	45,501	53,866	38,331
Public equity	130,247	151,401	212,705	257,893
Real estate	37,377	52,851	34,977	49,324
Other	2,889	2,889	3,178	3,178
	$616,602	$848,218	$710,038	$963,133
Pooled investments	$540,510	$615,738	$636,689	$737,126
Separately invested	76,092	232,480	73,349	226,007
	$616,602	$848,218	$710,038	$963,133

Assets held by trustee includes the balance of the Blanche E. Seaver Endowed Trust, of which the University is the sole irrevocable income and principal beneficiary. The Blanche E. Seaver Endowed Trust was recorded at $151.6 million and $149.0 million at July 31, 2015 and 2014, respectively.

Investment expenses for the years ended July 31, 2015 and 2014 includes investment management fees totaling $5.7 million and $4.4 million, respectively.

7. Endowment Activities

Changes in endowment net assets for the year ended July 31, 2015 are as follows:

	Unrestricted Appropriations	Unrestricted Principal	Temporarily Restricted (In thousands)	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 6,975	$401,472	$67,878	$314,158	$790,483
Investment income	1	5,375	2,249	31	7,656
Net realized and unrealized appreciation	114	11,632	6,258	1,575	19,579
Private gifts and grants	-	46	57	4,460	4,563
Deferred gifts	-	-	-	5,559	5,559
Endowment support (appropriation of endowment assets for expenditure)	34,571	(18,034)	(16,537)	-	-
Net (expenditures) reinvestments of endowment assets	(34,240)	(631)	-	219	(34,652)
Endowment net assets, end of year	$ 7,421	$399,860	$59,905	$326,002	$793,188

Designations of endowment funds for the year ended July 31, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(In thousands)		
Donor-restricted funds	$ -	$59,905	$326,002	$385,907
University-designated funds	407,281	-	-	407,281
Total	$407,281	$59,905	$326,002	$793,188

Changes in endowment net assets for the year ended July 31, 2014 are as follows:

	Unrestricted Appropriations	Unrestricted Principal	Temporarily Restricted (In thousands)	Permanently Restricted	Total
Endowment net assets, beginning of year	$6,404	$362,473	$52,274	$294,509	$715,660
Investment income	46	6,877	3,209	1,131	11,263
Net realized and unrealized appreciation	-	49,749	30,049	9,380	89,178
Private gifts and grants	-	309	-	5,759	6,068
Transfer of assets from Assets Held as Trustee or Agent to endowment assets	-	-	-	2,919	2,919
Endowment support (appropriation of endowment assets for expenditure)	33,377	(17,530)	(15,847)	-	-
Net (expenditures) reinvestments of endowment assets	(32,852)	(406)	(1,807)	460	(34,605)
Endowment net assets, end of year	$ 6,975	$401,472	$67,878	$314,158	$790,483

Designations of endowment funds for the year ended July 31, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(In thousands)		
Donor-restricted funds	$ 1,254	$62,920	$314,158	$378,332
University-designated funds	407,193	4,958	-	412,151
Total	$408,447	$67,878	$314,158	$790,483

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 unrestricted net assets. Such deficiencies totaled $3.3 million and $2.7 million and affected 82 and 45 donor-restricted true endowment funds with a market value of $35.7 million and $24.7 million at July 31, 2015 and July 31, 2014, respectively.

8. Assets Held as Trustee or Agent

The University's assets held as trustee or agent consist of the following at July 31, 2015 and 2014:

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
	(In thousands)			
Publicly traded stocks	$ 1,037	$ 1,314	$ 4,779	$ 6,233
Bonds	56	49	387	382
Mutual funds	63,962	68,742	67,909	74,558
Notes receivable	2,709	2,709	2,933	2,934
Real estate	32,144	37,126	32,759	36,615
Alternative investments	1,258	1,422	1,267	1,459
Other	5,468	5,670	5,963	6,193
	$106,634	$117,032	$115,997	$128,374
Pooled investments	$24,673	$ 25,244	$ 25,107	$ 26,532
Separately invested	81,961	91,788	90,890	101,842
	$106,634	$117,032	$115,997	$128,374

9. Pooled Investments

The following table sets forth data for the University's investment pools at July 31, 2015 and 2014:

	2015		2014	
	Pool A	Pool D	Pool A	Pool D
Per unit fair value at end of year	$391.47	$125.98	$408.70	$ 129.37
Number of units owned at end of year:				
Unrestricted	989,821	109,590	1,246,680	101,633
Temporarily restricted	12,275	31,902	12,132	40,082
Permanently restricted	572,745	48,240	544,783	52,549
Agency	1,475	-	3,426	-
Total units	1,576,316	189,732	1,807,021	194,264
Average annual income per unit	$1.95	$5.35	$3.85	$5.79

10. Property, Facilities and Equipment

Property, facilities and equipment consist of the following at July 31, 2015 and 2014

	2015	2014
	(In thousands)	
Land	$ 28,613	$ 28,613
Buildings and improvements	458,849	454,221
Furniture, fixtures and equipment	63,863	63,591
Construction in progress	15,705	12,522
Total cost	567,030	558,947
Less: accumulated depreciation	(208,243)	(197,334)
	$358,787	$361,613

11. Lines of Credit

At July 31, 2015 the University had a $100.0 million line of credit available for general purposes at Wells Fargo Bank's one-month LIBOR rate plus 0.45% per annum. The line expires on February 29, 2016.

At July 31, 2015, the University also had a $600,000 line of credit which expired on August 31, 2015, available to fund the purchase of up to $20.0 million worth of foreign currency forward contracts for the funding of its international programs at Comerica Bank's prime rate plus 3.0% per annum.

At July 31, 2014, the University had a $500,000 line of credit which expired August 31, 2014, available to fund the purchase of up to $5.0 million worth of foreign currency forward contracts for the funding of its international programs at Comerica Bank's prime rate plus 3.0% per annum.

12. Long-Term Obligations

Long term obligations consist of the following at July 31, 2015 and 2014:

	2015	2014
	(In thousands)	
CEFA 5.00% Refunding Revenue Bonds (Pepperdine University) Series 2005 A, due 2035-2036	$ 72,175	$ 92,365
CEFA 5.00% Refunding Revenue Bonds (Pepperdine University) Series 2005 B, due 2033	12,770	16,340
Pepperdine University Taxable Bonds Series 2009 A 5.45% interest, due 2019	50,000	50,000
California Infrastructure and Economic Development Bank Refunding Revenue Bonds Series 2010, 5.00% due 2019-2029	15,345	15,345
CEFA Revenue Bonds (Pepperdine University) Series 2012, 3.00%-5.00% due 2013 -2033	46,975	48,510
CEFA Revenue Bonds (Pepperdine University) Series 2014, 2.00%-5.00% due 2015 -2044	51,485	-
	248,750	222,560
Net premium on long-term obligations	16,493	13,987
Bond issuance costs	(3,340)	(3,152)
	$261,903	$233,395

At July 31, 2015, principal payments on the preceding obligations were due as follows:

	(In thousands)
2015 – 2016	$ 1,900
2016 – 2017	1,910
2017 – 2018	1,985
2018 – 2019	2,060
2019 – 2020	53,150
2020 – 2021	3,210
2021 – 2022	3,375
2022 – 2023	3,540
2023 – 2024	3,715
2024 – 2025	3,905
2025 – 2026	3,950
2026 – 2027	4,150
2027 – 2028	4,355
2028 – 2029	4,575
2029 – 2030	4,810
2030 – 2031	3,190
2031 – 2032	3,355
2032 – 2033	19,810
2033 – 2034	3,695
2034 – 2035	44,820
2035 – 2036	47,065
2036 – 2037	1,355
2037 – 2038	2,605
2038 – 2039	2,735
2039 – 2040	2,870
2040 – 2041	3,015
2041 – 2042	3,165
2042 – 2043	3,325
2043 – 2044	3,490
2044 – 2045	3,665
	$248,750

13. Net Assets

At July 31, 2015 and 2014, temporarily and permanently restricted net assets were available for the following purposes:

	2015		2014	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
	(In thousands)			
Educational program support	$ 57,765	$224,028	$ 56,788	$217,918
Student services and athletics	1,601	4,586	1,824	4,498
Student loans and scholarships	30,347	108,011	34,633	104,662
Annuities and remainder trusts	28,452	10,400	36,113	10,475
Facilities	3,846	4,619	3,183	4,619
Public service	988	6,893	930	6,690
Other	4,309	4,003	4,472	3,988
	$127,308	$362,540	$137,943	$352,850

14. Operating Lease Commitments

The University leases facilities for use primarily in its graduate programs. Future minimum lease payments expiring through 2020 under these non-cancelable operating leases at July 31, 2015 are as follows:

	(In thousands)
2015– 2016	$10,101
2016– 2017	10,618
2017– 2018	9,643
2018– 2019	3,119
2019– 2020	46
	$33,527

Leases on facilities contain renewal options and rent escalation clauses based on the Consumer Price Index.

15. Employee Retirement and Deferred Compensation Plans

The University participates in a defined contribution plan, which provides retirement benefits for eligible employees. Benefits for the plan are funded by contributions from the University and its employees. University contributions are non-refundable and fully vested. There are no prior service costs. The University contributed $9.6 million and $9.3 million to these plans for the years ended July 31, 2015 and 2014, 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 this plan, 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. University contributions to these deferred compensation plans for the years ended July 31, 2015 and 2014 were $201,000 and $284,000, respectively.

16. 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, 2015 and 2014, the University sold three and five units with associated sales values of $1.4 million and $1.9 million, respectively. Should all 122 of the units be available for purchase at July 31, 2015 and 2014, 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 $63.3 million and $58.4 million, respectively. At July 31, 2015 and 2014, the University held legal title to 13 and 10 units with a value of $7.6 million and $5.4 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 rents are paid to the University for the grounds, utilities and other services subject to adjustments based on the Consumer Price Index and on the costs of furnishing utilities and services.

At July 31, 2015, the University guaranteed the performance of $19.1 million 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, 2015 and 2014, University-owned notes receivable from on-campus housing sales amounted to $3.4 million and $3.5 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 1.00% per annum and 7.25% per annum and are collateralized by deeds of trust. Interest income recognized by the University related to these notes was $44,800 and $41,000 for the years ended July 31, 2015 and 2014, respectively. No allowance for loan losses has been recorded against these loans based on their collateralization and prior collection history. At July 31, 2015 there were no past due amounts related to these notes receivable.

17. Supplemental Cash Flow Information

	For the year ended July 31,	
	2015	2014
	(In thousands)	
Cash paid during the period for:		
Interest	$11,583	$11,295
Accrued capitalized asset additions	6,889	2,470

18. Natural Expenses

The University's classifications of expenses in the Consolidated Statements of Activities by natural expense category are as follows:

	For the year ended July 31,	
	2015	2014
	(In thousands)	
Personnel	$176,139	$171,826
Professional services	21,222	19,298
Depreciation	19,999	18,740
Travel and development	12,598	12,153
Interest	11,388	10,739
Rentals	11,037	10,476
Student meals	7,947	7,989
Equipment	7,615	8,687
Maintenance	6,855	6,057
Supplies	6,583	5,597
Utilities	6,280	6,021
Insurance	4,669	4,670
Advertising and promotion	3,851	4,280
Other	6,306	5,960
	$302,489	$292,493

19. Commitments and Contingencies

At July 31, 2015, approximately $30.7 million of the balance in cash and cash equivalents was related to funds that were restricted for specific construction projects. The University anticipates that these funds will be expended within 12 months.

In the normal course of operations, the University is named as a defendant in lawsuits and is subject to periodic examinations by regulatory agencies. After consultation with legal counsel, management is of the opinion 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, 2015, the University had open commitments to invest approximately $121.0 million with investment managers and/or limited partnerships over approximately seven years.

At July 31, 2015, the University's maximum exposure under guarantees of Guaranteed Access To Education ("GATE") student loans totaled approximately $227,000.

At July 31, 2015, the University had outstanding commitments for capital expenditures in connection with the various construction projects of approximately $4.4 million. The University expects to fund these costs principally through unrestricted net assets available. Accordingly, no liability has been recorded in the accompanying Consolidated Statements of Financial Position.

As discussed in Note 16, the University guarantees the performance of certain mortgages for on-campus condominiums.

20. 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, trust and agency obligations, long-term obligations and various off-balance sheet items. 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. 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 with United States Government mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition could not be made without incurring excessive costs.

Financial Liabilities

The carrying value of trust and agency obligations is considered to approximate fair value. The fair value of the University's CEFA and other bonds payable is based on recent trading information available to the University for its debt, or for debt with similar terms and remaining maturities, and approximates Level 2 in the fair value hierarchy. The fair value for notes payable were estimated based upon the discounted amount of future cash flows utilizing current rates offered for debt of similar remaining maturities.

The carrying amount of the University's financial instruments at July 31, 2015 and 2014 are the same as their estimated fair values with the exception of CEFA and other bonds payable which have the values outlined below:

	2015		2014	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
		(In thousands)		
CEFA and other bonds payable...............	$261,903	$268,451	$233,395	$242,522

Off-Balance Sheet and 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.

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 following table summarizes the valuations of the University's investments and other relevant assets as of July 31, 2015, based on their placement within the fair-value hierarchy:

	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	$ 44,347	$ -	$ -	$ 44,347
Absolute return	-	65,734	59,666	125,400
Assets held by trustee	107,305	6,284	38,036	151,625
Mutual funds	14,053	-	-	14,053
Fixed Income	274	61,925	131	62,330
Notes receivable	-	-	7,455	7,455
Opportunistic distressed	-	48	26,232	26,280
Private equity	-	-	124,227	124,227
Natural resources	-	-	39,859	39,859
Private real estate	-	-	45,501	45,501
Public equity	91,932	59,469	-	151,401
Real estate	-	52,851	-	52,851
Other	-	-	2,889	2,889
Total investments	$257,911	$246,311	$343,996	$848,218
Assets held as trustee or agent				
Publicly traded stocks	$ 2,673	$ -	$ -	$ 2,673
Bonds	49	-	-	49
Mutual Funds	68,320	-	-	68,320
Real Estate	-	37,126	2,709	39,835
Alternative investments	339	273	814	1,426
Other	4,062	-	667	$ 4,729
Total assets held as trustee or agent	$ 75,443	$ 37,399	$ 4,190	$117,032
Total	$333,354	$283,710	$348,186	$965,250

The following summary table illustrates the valuations of the University's investments and other relevant assets as of July 31, 2014, based on their placement within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
		(In thousands)		
Investments				
Cash and cash equivalents	$ 62,403	$ -	$ -	$ 62,403
Absolute return	-	30,253	76,565	106,818
Assets held by trustee	106,896	-	42,093	148,989
Mutual funds	13,175	-	-	13,175
Fixed income	-	61,694	147	61,841
Notes receivable	-	-	7,789	7,789
Opportunistic distressed	-	-	39,705	39,705
Private equity	-	-	126,668	126,668
Natural resources	-	6,337	40,682	47,019
Private real estate	-	-	38,331	38,331
Public equity	149,191	108,702	-	257,893
Real estate	-	-	49,324	49,324
Other	-	-	3,178	3,178
Total investments	$331,665	$206,986	$424,482	$963,133
Assets held as trustee or agent				
Publicly traded stocks	$ 6,233	$ -	$ -	$ 6,233
Bonds	382	-	-	382
Mutual funds	74,558	-	-	74,558
Notes receivable	-	-	2,934	2,934
Real estate	-	-	36,615	36,615
Alternative investments	398	278	783	1,459
Other	5,548	-	645	6,193
Total assets held as trustee or agent	$ 87,119	$ 278	$ 40,977	$ 128,374
Total	$418,784	$207,264	$465,459	$1,091,507

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. Non-listed equity funds that consistently transact on a daily, weekly, or monthly basis are valued at reported NAV. Level 2 investments may also be priced using model-based valuation techniques where all assumptions are observable.

Level 3 generally includes the University's alternative investments, which consist of hedge funds, private equity funds, real estate funds, and other fund of funds. These investments do not typically transact on a regular basis, nor do they have readily determinable fair values. Therefore, the University relies heavily on investment manager-reported valuations, usually in the form of NAV. The University performs due diligence around all reported NAV's to ensure the values are accurate and appropriate. Level 3 also includes the University's real property. Oil and gas interests are valued by discounting future expected royalty revenues, while real property is valued based on a number of different approaches including third party appraisals, market comparisons, and discounted future rental revenues.

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.

The following table sets forth a reconciliation of beginning and ending balances for financial instruments designated as Level 3 for the year ended July 31, 2015 (in thousands):

Beginning Balance July 31, 2014	**Realized Gains**	**Unrealized Losses**	**Purchase Cost**	**Total Proceeds**	**Transfers into Level 3**	**Transfers out of Level 3**	**Ending Balance July 31, 2015**
			(In thousands)				
$465,459	$33,679	($20,089)	$62,561	($99,471)	$264	($94,217)	$348,186

The following table sets forth a reconciliation of beginning and ending balances for financial instruments designated as Level 3 for the year ended July 31, 2014 (in thousands):

Beginning Balance July 31, 2013	**Realized Gains**	**Unrealized Losses**	**Purchase Cost**	**Total Proceeds**	**Transfers into Level 3**	**Transfers out of Level 3**	**Ending Balance July 31, 2014**
			(In thousands)				
$426,892	$27,751	$32,431	$57,655	($83,718)	$17,610	($13,162)	$465,459

All net realized and unrealized gains in the table above are reflected in the accompanying consolidated Statement of Activities.

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, 2015:

(In thousands, except # of funds)

Investment Category	Strategy	NAV in Funds	# of Funds	Remaining Life	Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Absolute Return (level 2 & 3)	US and non-US investments in relative value, event driven, long/short and directional	$125,400	33	Open Ended	$ -	Ranges between quarterly with 30, 45, 60 or 90 days notice, semi annual with 90 days notice, annual with 45, 60 or 90 days notice	0.8% of NAV is locked up for an undetermined time
Assets Held by Trustee (level 3)	US and non-US investments in relative value, event driven, long/short and directional	44,320	12	Open Ended	-	Ranges between quarterly with 30, 45, 60 or 90 days notice, semi annual with 90 days notice, annual with 45, 60 or 90 days notice	0.8% of NAV is locked up for an undetermined time
Public Natural Resources (level 2)	US and non-US Investments in upstream, midstream, and downstream natural resources	-	1	Approx 7 years	-	Redemptions are not permitted during the life of the fund	N/A
Private Natural Resources (level 3)	US and non-US Investments in upstream, midstream, and downstream natural resources	-	-	Approx 7 years	26,949	Redemptions are not permitted during the life of the fund	N/A
Private Real Estate (level 3)	US and non-US real estate	45,469	23	Approx 7 years	26,839	Redemptions are not permitted during the life of the fund	N/A
Public Equity (level 2)	US and non-US equity securities	59,469	6	Open Ended	-	Ranges from daily to monthly	N/A
Fixed Income (level 2 & 3)	US and non-US fixed income securities	61,925	1	Open Ended	-	Daily	N/A
Opportunistic Distressed (level 3)	US and non-US distressed debt securities	26,231	7	Approx 7 years	5,532	Redemptions are not permitted during the life of the fund	N/A
Private Equity (level 3)	US and non-US equity securities	124,227	66	Approx 7 years	61,708	Redemptions are not permitted during the life of the fund	N/A
Total		$487,041			$121,028		

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, 2014:

Investment Category	Strategy	NAV in Funds	# of Funds	Remaining Life	Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
		(In thousands, except # of funds)					
Absolute Return (level 2 & 3)	US and non-US investments in relative value, event driven, long/short and directional	$106,818	32	Open Ended	$ 2,887	Ranges between quarterly with 30, 45, 60 or 90 days notice, semi annual with 90 days notice, annual with 45, 60 or 90 days notice	1.1% of NAV is locked up for an undetermined time
Assets Held By Trustee (level 3)	US and non-US investments in relative value, event driven, long/short and directional	42,093	10	Open Ended	-	Ranges between quarterly with 30, 45, 60 or 90 days notice, semi annual with 90 days notice, annual with 45, 60 or 90 days notice	1.1% of NAV is locked up for an undetermined time
Public Natural Resources (level 2)	US and non-US Investments in upstream, midstream, and downstream natural resources	6,337	3	Approx 7 years	-	Redemptions are not permitted during the life of the fund	N/A
Private Natural Resources (level 3)	US and non-US Investments in upstream, midstream, and downstream natural resources	40,682	14	Approx 7 years	9,375	Redemptions are not permitted during the life of the fund	N/A
Private Real Estate (level 3)	US and non-US real estate	38,331	24	Approx 7 years	22,260	Redemptions are not permitted during the life of the fund	N/A
Public Equity (level 2)	US and non-US equity securities	108,702	11	Open Ended	-	Ranges from daily to monthly	N/A
Fixed Income (level 2 & 3)	US and non-US fixed income securities	61,841	8	Open Ended	-	Daily	N/A
Opportunistic Distressed (level 3)	US and non-US distressed debt securities	39,705	8	Approx 7 years	6,922	Redemptions are not permitted during the life of the fund	N/A
Private Equity (level 3)	US and non-US equity securities	126,668	64	Approx 7 years	50,940	Redemptions are not permitted during the life of the fund	N/A
Total		$571,177			$92,384		

21. Asset Retirement Obligations

The following table illustrates the change in conditional asset retirement obligations during the year ended July 31, 2015:

Abatement Timeframe	Average Abatement Date	Balance at July 31, 2014	Accretion	Costs Incurred	Balance At July 31, 2015
			(In thousands)		
10 years	2016	$ 798	$ 39	$ -	$ 837
11-20 years	2022	4,156	201	(71)	4,286
21-30 years	2036	22	1	-	23
31-40 years	2044	1,091	53	-	1,144
41-50 years	2048	124	6	-	130
51+ years	2061	8	-	-	8
		$6,199	$300	$(71)	$6,428

22. Foreign Currency Transactions

For the years ended July 31, 2015 and 2014, the University recorded approximately $789,000 in net losses and $15,000 in net gains on foreign currency hedging transactions, respectively.

23. Subsequent Events

The University has performed an evaluation of subsequent events through November 20, 2015 which is the date these financial statements were issued.

On September 3, 2015 the University refunded $84.9 million of CEFA Series 2005A and Series 2005B Revenue Bonds by issuing $76.5 million of CEFA Series 2015 Revenue Bonds. Total proceeds from the issue were $87.8 million with a total interest cost to maturity of 3.89%. As a result of the refunding, the University recognized a gain on early extinguishment of debt of $1.9 million. The CEFA Series 2015 Bonds mature between 2016 and 2035.

On August 1, 2015 the University entered into a 10-year, five month lease for instructional and administrative space in Calabasas, California. The lease begins January 1, 2016 and may be extended at the University's discretion for up to an additional 10 years. Under the terms of the lease the University is obligated to make lease payments of approximately $15.6 million over the initial 10 year term.