PEPPERDINE UNIVERSITY

AUDITED FINANCIAL STATEMENTS 2018-2019

Pepperdine University

Consolidated Financial Statements
July 31, 2019 and 2018

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July 31, 2019 and 2018

Report of Independent Auditors

To the Board of Regents of Pepperdine University

We have audited the accompanying consolidated financial statements of Pepperdine University (the "University") and its subsidiaries, which comprise the consolidated statements of financial position as of July 31, 2019 and 2018, and the related consolidated statements of activities and of cash flows for the years then ended.

Management's Responsibility 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; 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.

Auditors' 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 and its subsidiaries as of July 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP, 601 South Figueroa Street, Los Angeles, CA 90017
T: (213) 356 6000, F: (813) 637 4444, www.pwc.com/us

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the University changed the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity in 2019. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

November 20, 2019

Pepperdine University
Consolidated Statements of Financial Position
July 31, 2019 and 2018

(In thousands)

	2019	2018
Assets		
Cash and cash equivalents	$ 156,553	$ 148,113
Student receivables, less allowance for doubtful accounts of $2,122 and $1,587, respectively	2,633	2,562
Other accounts receivable	10,037	6,547
Prepaid expenses, inventories, and other assets	3,999	4,862
Student loans, less allowance for loan losses of $1,574 and $1,578, respectively	17,718	19,516
Beneficial interests and contributions receivable, net	49,925	38,122
Investments	1,162,146	1,147,769
Assets held as trustee or agent	111,911	118,853
Property, facilities, and equipment, net	447,788	444,814
Total assets	$ 1,962,710	$ 1,931,158
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued liabilities	$ 36,467	$ 32,490
Accrued salaries and wages	4,771	4,052
Student deposits, advance payments, and deferred revenue	18,213	10,099
Asset retirement obligations	6,965	6,757
U.S. government-funded student loans	13,431	13,188
Trust and agency obligations	62,986	67,500
Other long-term obligations	3,249	3,233
Long-term bonds payable, net	421,404	425,989
Total liabilities	567,486	563,308
Net assets:		
Without donor restrictions	851,662	829,606
With donor restrictions	543,562	538,244
Total net assets	1,395,224	1,367,850
Total liabilities and net assets	$ 1,962,710	$ 1,931,158

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

Pepperdine University
Consolidated Statement of Activities
Year Ended July 31, 2019

(In thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support			
Student tuition and fees, net of student aid of $121,168	$ 264,363	$ -	$ 264,363
Room and board	43,224	-	43,224
Endowment support	42,215	-	42,215
Private gifts and grants	13,811	-	13,811
Government grants	3,578	-	3,578
Sales and services	6,950	-	6,950
Other revenue	6,847	-	6,847
Net assets released from restriction	6,993	(6,993)	-
Total revenues and other support	387,981	(6,993)	380,988
Expenses			
Personnel	207,622	-	207,622
Operating expenses	116,319	-	116,319
Utilities, maintenance, repairs and equipment	26,531	-	26,531
Depreciation	27,560	-	27,560
Interest	12,953	-	12,953
Total expenses	390,985	-	390,985
Change in net assets before non-operating revenues and expenses	(3,004)	(6,993)	(9,997)
Non-operating revenues and expenses			
Actuarial adjustment of trust and agency obligations	-	(4,320)	(4,320)
Return on investment, net	45,926	14,430	60,356
Allocation of endowment support to operations	(22,143)	(20,072)	(42,215)
Private gifts and grants	-	17,015	17,015
Foreign currency translation	247	-	247
Other	1,030	5,258	6,288
Total non-operating revenues and expenses	25,060	12,311	37,371
Change in net assets	22,056	5,318	27,374
Net assets at beginning of year	829,606	538,244	1,367,850
Net assets at end of year	$ 851,662	$ 543,562	$ 1,395,224

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

Pepperdine University
Consolidated Statement of Activities
Year Ended July 31, 2018

(In thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support			
Student tuition and fees, net of student aid of $113,321	$ 249,487	$ -	$ 249,487
Room and board	38,580	-	38,580
Endowment support	40,523	-	40,523
Private gifts and grants	10,471	-	10,471
Government grants	3,397	-	3,397
Sales and services	7,065	-	7,065
Other revenue	9,188	-	9,188
Net assets released from restriction	4,914	(4,914)	-
Total revenues and other support	363,625	(4,914)	358,711
Expenses			
Personnel	197,228	-	197,228
Operating expenses	93,486	-	93,486
Utilities, maintenance, repairs, and equipment	25,698	-	25,698
Depreciation	23,617	-	23,617
Interest	11,899	-	11,899
Total expenses	351,928	-	351,928
Change in net assets before non-operating revenues and expenses	11,697	(4,914)	6,783
Non-operating revenues and expenses			
Actuarial adjustment of trust and agency obligations	-	7,215	7,215
Return on investment, net	40,949	33,585	74,534
Allocation of endowement support to operations	(21,187)	(19,336)	(40,523)
Private gifts and grants	-	24,680	24,680
Foreign currency translation	(66)	-	(66)
Other	(1,694)	(304)	(1,998)
Total non-operating revenues and expenses	18,002	45,840	63,842
Change in net assets before cumulative effect of change in accounting principle	29,699	40,926	70,625
Cumulative effect of change in accounting principle	1,076	(1,076)	-
Net assets at beginning of year	798,831	498,394	1,297,225
Net assets at end of year	$ 829,606	$ 538,244	$ 1,367,850

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

Pepperdine University
Consolidated Statements of Cash Flows
Years Ended July 31, 2019 and 2018

(In thousands)

	2019	2018
Cash flows from operating activities		
Change in net assets	$ 27,374	$ 70,625
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	26,319	20,532
Provision for doubtful accounts	600	200
Loss on early extinguishment of debt	-	15
Non-cash gifts	(10,618)	(11,896)
Actuarial adjustment of trust and agency obligations	4,320	(7,215)
Contributions restricted for long-term investment	(4,389)	(8,440)
Income restricted for long-term investment	(64)	(63)
Premium received on issuance of long-term obligations	-	2,847
Loss on disposal of property, facilities and equipment	3	70
Net realized and unrealized gains on investments	(37,215)	(54,150)
Change in assets and liabilities:		
Student receivables	(672)	(1,175)
Other accounts receivable	(3,491)	(594)
Beneficial interests and contributions receivable, net	(4,143)	734
Prepaid expenses, inventories and other assets	864	(736)
Accounts payable and accrued liabilities	11,363	1,256
Accrued salaries and wages	719	(41)
Student deposits, advance payments, and deferred revenue	8,114	(3,607)
Asset retirement obligations	208	251
Net cash and cash equivalents provided by operating activities	19,292	8,613
Cash flows from investing activities		
Proceeds from sales of investments	280,704	206,922
Purchases of investments	(251,994)	(257,940)
Purchases of property, facilities and equipment	(37,901)	(77,133)
Student loans repaid	3,281	3,716
Student loans issued	(1,482)	(2,611)
Net cash and cash equivalents used in investing activities	(7,392)	(127,046)
Cash flows from financing activities		
Proceeds from contributions restricted for long-term investment	6,156	10,442
Income restricted for long-term investment	64	63
Principal received on issuance of long-term obligations	-	145,870
Principal payments on long-term obligations	(3,350)	(24,745)
Net change in bond issue costs	-	(84)
Increase (decrease) in U.S. government-funded student loans	242	(2,307)
Investment activity on annuities	(1,901)	(2,149)
Payment of trust and agency obligations	(4,671)	(5,000)
Net cash and cash equivalents (used in) provided by financing activities	(3,460)	122,090
Net change in cash and cash equivalents	8,440	3,657
Cash and cash equivalents at beginning of year	148,113	144,456
Cash and cash equivalents at end of year	$ 156,553	$ 148,113

The accompanying notes are an integral part of these 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 8,000 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 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, 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.

Net Assets

Under generally accepted accounting principles applicable to not-for-profit organizations, net assets, revenues, expenses, 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:

<u>Net Assets without donor restrictions</u> – 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 Trustees or management for specific purposes (known as quasi endowment net assets).

<u>Net assets with donor restrictions</u> – 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 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 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 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. 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 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 receivable is made are reported as 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. 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.

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 institutions 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 2019 and 2018, 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 527 individual donor-restricted endowment funds and 79 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 percentage for the pooled endowment for the fiscal years ended July 31, 2019 and 2018 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.

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 and 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 adjustment of the actuarial liability on the Consolidated Statements of Activities. At July 31, 2019 and 2018, the discount rate used to calculate future payments to be made by the University ranged from 1.0% per annum to 10.6% 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 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 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 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 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.

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, 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.

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.

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, 2019 and 2018 was immaterial, no provision for income taxes has been made in the accompanying Consolidated Financial Statements.

Public Law 115-97, known as the Tax Cuts and Jobs Act ("TCJA") was signed into law on December 22, 2017. The TCJA included several provisions that effected Internal Revenue Code Section 501(c), (3) tax-exempt organizations, such as Pepperdine University. Management has reviewed the provisions effecting tax-exempt organizations and has determined that the income tax impact is immaterial for the fiscal year ended July 31, 2019 and 2018.

Revenue Recognition
The University's revenue recognition policies are as follows:

- <u>Student tuition and fees (net of scholarship) and room and board</u> - 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. The University awarded scholarships in the amounts of $121.2 million and $113.3 million for the periods ended July 31, 2019 and July 31, 2018, respectively.

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, 2019 and 2018.

- 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 - 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.

- 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.

- Sales and services – Sales and services revenue, includes income from supporting services such as conferences and events, dining facilities, and bookstores, are 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.

New Accounting Pronouncements
In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating the transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017. On August 1, 2018, the University adopted ASU 2014-19 using the full retrospective adoption method. In accordance with the full retrospective adoption method, the University elected to retroactively adjust only those contracts that did not meet the definition of a completed contract at the date of initial application. This guidance did not significantly impact the timing of the University's revenue recognition, but did result in scholarships being considered a reduction of the transaction price. Additional disclosures were also required and are included in the notes to the consolidated financial statements.

In June 2018, the FASB issued standard ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* This standard provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also helps determine whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. The University adopted this standard for fiscal year 2019 on a modified prospective basis for contracts not yet completed as of, or entered into subsequent to, the beginning of the fiscal year. The adoption did not result in a material change to how the University accounts for revenue from contributions, grants and contracts.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit-Entities*. This guidance revises the not-for-profit reporting model. The guidance streamlines and clarifies net asset reporting, imposes new reporting requirements related to liquidity and expenses, and requires reporting a net measure of investment return. This standard requires the University to recognize underwater endowment funds as a reduction of net assets with donor restrictions. It also requires enhanced disclosures for board designations, composition of net assets without donor restrictions, liquidity, and expenses by both natural and functional classification. Additionally, presentation of investment management fees is no longer required. This guidance is effective for fiscal years beginning after December 15, 2017. The University has adopted this guidance effective for the year ended July 31, 2019 and retrospectively for the year ended July 31, 2018. Certain material classifications have been made to the fiscal year 2018 reported amounts in the Consolidated Statement of Activities to the current presentation, including the reclassification of a component of the Blanche E. Seaver Endowed Trust.

In addition, the net assets have been reclassified for 2018 due to the adoption as follows (in thousands):

Net Asset Classification **July 31, 2018**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Unrestricted	$ 828,530	$ -	$ 828,530
Temporarily restricted	-	129,423	129,423
Permanently restricted	-	409,897	409,897
Net assets as previously presented	828,530	539,320	1,367,850
Reclassifications			
Underwater endowments	1,076	(1,076)	-
Net assets as reported after adoption of accounting standard	$ 829,606	$ 538,244	$ 1,367,850

New Authoritative Pronouncements Not Yet Adopted by the University

In February 2016, the FASB issued ASU 2016-02, *Leases*. This guidance requires the recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the balance sheet. The guidance is effective for annual reporting periods beginning after December 15, 2018. Management believes adoption will have a material impact on the financial statements.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. The standard addresses the classification of certain transactions within the statement of cash flows, including cash payments for debt repayment or debt extinguishment costs, contingent considerations payments made after a business combination, and distribution received from equity method investments. The guidance is effective for fiscal years beginning after December 15, 2018. The University is evaluating the impact this will have on its financial statements.

In November 2016, the FASB issued ASU 2016-08, *Statement of Cash Flows, Restricted Cash (Topic 230)*. This standard requires that the Consolidated Statement of Cash Flows explain the change during the period in the total cash, cash equivalents, restricted cash and restricted cash equivalents ("Total Cash"). Additionally, a disclosure describing the nature of the restrictions and a reconciliation of Total Cash to the amounts of Cash and cash equivalents presented on the Consolidated Statement of Financial Position is required. This standard is effective for fiscal year 2020. The University is evaluating the impact this will have on its financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement: Disclosure Framework- Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820)*. This ASU is effective for fiscal years beginning after December 15, 2019, with early adoption permissible. This ASU removes certain disclosures, modifies certain disclosures and adds additional disclosures related to fair value measurement. The University is evaluating the impact this will have on its financial statements.

In March 2019, the FASB issued ASU 2019-03, *Updating the Definitions of Collections, Not-for-Profit Entities (Topic 958)*. This ASU is effective for fiscal years beginning after December 15, 2019, with early adoption permissible. This ASU modifies the term "Collections", which in turn may change collection recognition policies, and adds certain disclosure requirements. The University is evaluating the impact this will have on its financial statements.

3. Financial Assets and Liquidity Resources

As of July 31, 2019 and 2018, 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:

(in thousands)		2019		2018
Cash and cash equivalents, adjusted	$	144,846	$	116,204
Student and other receiveables, net		7,779		5,960
Short term investments		134,808		115,227
Board and University designated endowment funds		476,365		463,023
Reserve funds		25,489		45,734
Financial assets available at year end for current use	$	789,287	$	746,148

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. Additionally, the University maintains a line of credit that can be drawn upon as needed. As of July 31 2019 and 2018, amounts available under this facility amounted to $50.0 million.

4. Student Receivables

Student receivables consist of the following at July 31, 2019 and 2018:

(in thousands)	2019	2018
Pepperdine Graziadio Business School	$ 798	$ 1,475
Seaver College	1,731	1,561
Graduate School of Education and Psychology	1,307	584
Other	919	529
Gross student receivables	4,755	4,149
Allowance for doubtful accounts	(2,122)	(1,587)
	$ 2,633	$ 2,562

5. Student Loans

Student loans consist of the following at July 31, 2019 and 2018:

(in thousands)	2019	2018
Perkins	$ 11,218	$ 13,300
Weingart	6,921	6,789
Other	1,153	1,005
Gross student loans	19,292	21,094
Allowance for loan losses	(1,574)	(1,578)
	$ 17,718	$ 19,516

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, 2019, the discount rate applied to beneficial interests and contributions receivable ranged from 1.82% per annum to 2.81% per annum and at July 31, 2018, ranged from 1.51% per annum to 3.15% per annum.

The following table provides a summary of beneficial interests and contributions receivable by expected collection date at July 31, 2019:

(in thousands)	Beneficial Interests	Contributions Receivable	Total
In one year or less	$ 2,328	$ 39	$ 2,367
Between one and five years	-	13,178	13,178
More than five years	34,729	635	35,364
	37,057	13,852	50,909
Less: Discount	-	(984)	(984)
	$ 37,057	$ 12,868	$ 49,925

The following table provides a summary of beneficial interests and contributions receivable by expected collection date at July 31, 2018:

(in thousands)	Beneficial Interests	Contributions Receivable	Total
In one year or less	$ 7	$ 67	$ 74
Between one and five years	65	13,381	13,446
More than five years	24,898	770	25,668
	24,970	14,218	39,188
Less: Discount	-	(1,066)	(1,066)
	$ 24,970	$ 13,152	$ 38,122

During the years ended July 31, 2019 and 2018, the University received payments on prior year promises to give of $2.4 million, and $3.2 million, respectively.

Beneficial interests include assets held by external trustees totaled $37.1 million at July 31, 2019, and $25.0 million at July 31, 2018.

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, 2019 and 2018 amounted to $5.1 million and $3.0 million, respectively.

During the years ended July 31, 2019 and 2018, promises to give in the net amount of $30.4 million and $29.9 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. When conditional promises to give become unconditional, they will be recorded and generally will be restricted for endowment, operations, and capital projects as stipulated by the donor.

7. Investments

The University's investments consist of the following at July 31, 2019 and 2018:

(in thousands)	**2019**	**2018**
Cash and cash equivalents	$ 175,511	$ 144,749
Absolute return	166,984	174,149
Assets held by trustee	159,370	165,822
Mutual funds	56,078	50,993
Fixed income	124,565	167,300
Real estate	129,580	118,469
Private equity	127,110	124,180
Natural resources	131,763	108,572
Public equity	78,791	76,923
Opportunistic distressed	11,862	13,928
Other	532	2,684
	$ 1,162,146	$ 1,147,769
Pooled investments	$ 792,695	$ 789,722
Separately invested	369,451	358,047
	$ 1,162,146	$ 1,147,769

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 Statement of Activities.

Investment return consists of the following for the years ended July 31, 2019 and 2018:

	2019	**2018**
Investment income	$ 29,331	$ 26,826
Realized gains	29,482	47,969
Unrealized gains	7,733	6,179
Management fees	(6,190)	(6,440)
	$ 60,356	$ 74,534

8. Endowment Activities

Changes in endowment net assets for the year ended July 31, 2019 are as follows:

(in thousands)	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 464,099	$ 440,043	$ 904,142
Investment return:			
Investment income	6,216	11,315	17,531
Net realized and unrealized appreciation	21,527	5,212	26,739
Investment management fees	(3,699)	(2,122)	(5,821)
Total investment return	24,044	14,405	38,449
Endowment support	(22,143)	(20,072)	(42,215)
Investment return, net of payout	1,901	(5,667)	(3,766)
Other changes in endowment investments			
Private gifts and grants	-	3,914	3,914
Maturities	1,015	2,515	3,530
Reinvestments, transfers, and other	9,350	380	9,730
Total other changes in endowment investments	10,365	6,809	17,174
Total endowment net assets, end of year	$ 476,365	$ 441,185	$ 917,550

Undistributed appropriations of endowment without donor restrictions was $20.3 million at July 31, 2019.

Designations of endowment funds for the year ended July 31, 2019 are as follows:

(in thousands)	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted funds:			
Original value	$ -	$ 371,322	$ 371,322
Appreciation	-	69,863	69,863
Board and University designated funds	476,365	-	476,365
	$ 476,365	$ 441,185	$ 917,550

Changes in endowment net assets for the year ended July 31, 2018 are as follows:

(in thousands)	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 443,462	$ 416,871	$ 860,333
Investment return:			
Investment income	6,824	11,445	18,269
Net realized and unrealized appreciation	34,358	24,094	58,452
Investment management fees	(3,778)	(2,156)	(5,934)
Total investment return	37,404	33,383	70,787
Endowment support	(21,187)	(19,336)	(40,523)
Investment return, net of payout	16,217	14,047	30,264
Other changes in endowment investments			
Private gifts and grants	16	10,342	10,358
Maturities	-	2,008	2,008
Reinvestments, transfers, and other	3,328	(2,149)	1,179
Impact of accounting adoption	1,076	(1,076)	-
Total other changes in endowment investments	4,420	9,125	13,545
Total endowment net assets, end of year	$ 464,099	$ 440,043	$ 904,142

Undistributed appropriations of endowment without donor restrictions was $14.1 million at July 31, 2018.

Designations of endowment funds for the year ended July 31, 2018 are as follows:

(in thousands)	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted funds:			
Original value	$ -	$ 365,452	$ 365,452
Appreciation	-	74,591	74,591
Board and University desginated funds	464,099	-	464,099
	$ 464,099	$ 440,043	$ 904,142

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. Deficits of this nature exist in donor-restricted endowment funds, which together have an original value of $25.8 million and a current fair value of $24.8 million with a deficiency of $1.0 million and an original value of $25.0 million and a current fair value of $23.9 million and a deficiency of $1.1 million as of July 31, 2019 and 2018, respectively. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments, and authorized appropriation that was deemed prudent.

9. Assets Held as Trustee or Agent

The University's assets held as trustee or agent consist of the following at July 31, 2019 and 2018:

(in thousands)	2019	2018
Cash and cash equivalents	$ 5,866	$ 1,345
Mutual funds	77,952	82,190
Fixed income	111	60
Real estate	27,137	33,327
Equities	205	183
Other	640	1,748
	$ 111,911	$ 118,853
Pooled investments	$ 23,577	$ 23,345
Separately invested	88,334	95,508
	$ 111,911	$ 118,853

10. Pooled Investments

The following table sets forth data for the University's investment pools at July 31, 2019 and 2018:

	2019		2018	
	Pool A	Pool D	Pool A	Pool D
Per unit fair value at end of year	$ 423.85	$ 143.90	$ 422.24	$ 142.38
Number of units owned at end of year				
Without donor restriction	1,209,241	103,152	1,229,029	103,151
With donor restriction	660,994	55,165	641,273	55,447
Agency	1,878	-	1,811	-
Total units	1,872,113	158,317	1,872,113	158,598
Average annual income per unit	$ 17.39	$ 2.11	$ 28.39	$ 1.84

11. Property, Facilities and Equipment

Property, facilities and equipment consist of the following at July 31, 2019 and 2018:

(in thousands)	2019	2018
Land	$ 28,613	$ 28,613
Buildings and improvements	612,136	591,976
Furniture, fixtures and equipment	51,266	50,506
Construction in progress	13,893	10,116
Total cost	705,908	681,211
Less: Accumulated depreciation	(258,120)	(236,397)
	$ 447,788	$ 444,814

12. Lines of Credit

At July 31, 2019, 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 University has never drawn on the line of credit. The line expires on July 1, 2022.

13. Long-Term Obligations

Long-term obligations consist of the following at July 31, 2019 and 2018:

(in thousands)	**2019**	**2018**
CEFA Revenue Bonds (Pepperdine University) Series 2012, 3.00% - 5.00% due 2013 - 2033 (Original issue amount $50,000,000)	$ 18,760	$ 20,535
CEFA Revenue Bonds (Pepperdine University) Series 2014, 2.00% - 5.00% due 2015 - 2044 (Original issue amount $51,485,000)	50,340	50,625
CEFA Revenue Bonds (Pepperdine University) Series 2015, 2.00% - 5.00% due 2016 - 2045 (Original issue amount $76,455,000)	72,685	73,975
CEFA Revenue Bonds (Pepperdine University) Series 2016, 3.00% - 5.00% due 2019 - 2049 (Original issue amount $100,000,000)	100,000	100,000
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)	20,870	20,870
	387,655	391,005
Net premium on long-term obligations	36,816	38,190
Bond issuance costs	(3,067)	(3,206)
	$ 421,404	$ 425,989

At July 31, 2019, principal payments on the preceding obligations are due in the following fiscal years:

(in thousands)	
2020	$ 4,485
2021	4,580
2022	4,785
2023	4,995
2024	5,230
Thereafter	363,580
	$ 387,655

14. Net Assets

At July 31, 2019 and 2018, net assets without donor restrictions and with donor restrictions were available for the following purposes:

(in thousands)	2019 Without Donor Restictions	2019 With Donor Restrictions	2019 Total Net Assets
Educational program support	$ 153,739	$ 324,164	$ 477,903
Student scholarships and loans	139,461	159,175	298,636
Facilities and debt service	201,168	5,178	206,346
Public service	3,863	8,366	12,229
Student services and athletics	447	7,564	8,011
Annuities and remainder trusts	-	25,941	25,941
Univesity designated support and reserves	346,726	-	346,726
Other	6,258	13,174	19,432
	$ 851,662	$ 543,562	$ 1,395,224

(in thousands)	2018 Without Donor Restictions	2018 With Donor Restrictions	2018 Total Net Assets
Educational program support	$ 145,501	$ 315,606	$ 461,107
Student scholarships and loans	136,967	155,759	292,726
Facilities and debt service	178,876	6,722	185,598
Public service	4,065	8,499	12,564
Student services and athletics	(213)	6,881	6,668
Annuities and remainder trusts	-	32,251	32,251
Univesity designated support and reserves	363,423	-	363,423
Other	987	12,526	13,513
	$ 829,606	$ 538,244	$ 1,367,850

15. Operating Lease Commitments

The University leases facilities for use primarily in its graduate programs. Future minimum lease payments expiring through fiscal 2029 under these non-cancelable operating leases at July 31, 2019 are as follows:

(in thousands)	
2020	$ 12,520
2021	13,722
2022	14,072
2023	13,061
2024	13,491
Thereafter	50,716
	$ 117,582

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

16. 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 nonrefundable and fully vested. There are no prior service costs. The University contributed $11.1 million and $10.7 million to these plans for the years ended July 31, 2019 and 2018, 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. Balances held by the University in the plans are recorded as a component of assets held as trustee or agent and trust and agent obligations. University contributions to these deferred compensation plans for the years ended July 31, 2019 and 2018 were $419,000 and $404,000, respectively. At July 31, 2019 and 2018, balances in the plans were $11.9 million and $12.3 million, respectively.

17. 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 both years ended July 31, 2019 and 2018, the University sold four units with associated sales values of $2.4 million and $2.6 million, respectively. Should all 121 of the units be available for purchase at July 31, 2019 and 2018, 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 $73.8 million and $70.2 million, respectively. At July 31, 2019 and 2018, the University held legal title to 16 and 14 units with a value of $11.7 million and $9.4 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, 2019, the University guaranteed the performance of $18.2 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, 2019 and 2018, University-owned notes receivable from on-campus housing sales amounted to $2.9 million and $2.8 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 0.6% 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, 2019, there were no past due amounts related to these notes receivable.

18. 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 plant operations expense.

For the year ended July 31, 2019, natural and functional expenses consist of the following:

(in thousands)	Program Services	Management and General	Fundraising	Year Ended July 31, 2019 Total
Personnel	$ 150,219	$ 51,566	$ 5,837	$ 207,622
Operating expenes	82,642	32,589	1,088	116,319
Utilities, maintenance, repairs and equipment	7,148	19,377	6	26,531
Depreciation	22,530	4,920	110	27,560
Interest	10,536	2,365	52	12,953
Total	**$ 273,075**	**$ 110,817**	**$ 7,093**	**$ 390,985**

For the year ended July 31, 2018, natural and functional expenses consist of the following:

(in thousands)	Program Services	Management and General	Fundraising	Year Ended July 31, 2018 Total
Personnel	$ 142,925	$ 48,811	$ 5,492	$ 197,228
Operating expenes	66,129	26,006	1,351	93,486
Utilities, maintenance, repairs and equipment	8,615	17,079	4	25,698
Depreciation	19,294	4,228	95	23,617
Interest	9,733	2,118	48	11,899
Total	**$ 246,696**	**$ 98,242**	**$ 6,990**	**$ 351,928**

19. Commitments and Contingencies

At July 31, 2019, $11.7 million of the balance in cash and cash equivalents was related to funds that were designated for specific construction projects. The University anticipates that the funds available at July 31, 2019, will be expended by December 31, 2019.

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, 2019, the University had open commitments to invest approximately $132.0 million with investment managers and/or limited partnerships over approximately seven years.

At July 31, 2019, the University's maximum exposure under guarantees of Guaranteed Access To Education ("GATE") student loans totaled approximately $220,000.

At July 31, 2019, the University had outstanding commitments for capital expenditures in connection with the various construction projects of approximately $1.6 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 17, 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, 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.

The following table summarizes the valuations of the University's investments and other relevant assets as of July 31, 2019, based on their placement within the fair-value hierarchy:

(in thousands)	**Level 1**	**Level 2**	**Level 3**	**NAV**	**Total**
Investments					
Cash and cash equivalents	$ 175,511	$ -	$ -	$ -	$ 175,511
Absolute return	-	-	-	166,984	166,984
Assets held by trustee*	102,054	5,399	-	51,917	159,370
Mutual funds	56,078	-	-	-	56,078
Fixed income	12,606	111,959	-	-	124,565
Real estate	-	60,989	7,900	60,691	129,580
Private equity	-	-	-	127,110	127,110
Natural resources	-	-	-	131,763	131,763
Public equity	12,716	-	-	64,781	77,497
Opportunistic distressed	-	-	-	11,862	11,862
Other	-	-	1,826	-	1,826
Total investments	$ 358,965	$ 178,347	$ 9,726	$ 615,108	$ 1,162,146
Assets held as trustee or agent					-
Cash and cash equivalents	$ 5,866	$ -	$ -	$ -	$ 5,866
Mutual funds	77,952	-	-	-	77,952
Fixed income	-	111			111
Real estate	-	27,076	-	61	27,137
Equities	14	-	-	191	205
Other	-	-	328	312	640
Total assets held as trustee or agent	$ 83,832	$ 27,187	$ 328	$ 564	$ 111,911
	$ 442,797	$ 205,534	$ 10,054	$ 615,672	$ 1,274,057

*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

The following summary table illustrates the valuations of the University's investments and other relevant assets as of July 31, 2018, based on their placement within the fair value hierarchy:

(in thousands)	Level 1	Level 2	Level 3	NAV	Total
Investments					
Cash and cash equivalents	$ 144,749	$ -	$ -	$ -	$ 144,749
Absolute return	-	-	-	174,149	174,149
Assets held by trustee*	117,445	-	-	48,377	165,822
Mutual funds	50,993	-	-	-	50,993
Fixed income	104,715	62,585	-	-	167,300
Real estate	-	62,586	7,574	48,309	118,469
Private equity	-	-	-	124,180	124,180
Natural resources	-	-	-	108,572	108,572
Public equity	23,975	-	-	52,948	76,923
Opportunistic distressed	-	-	-	13,928	13,928
Other	822	-	1,862	-	2,684
Total investments	$ 442,699	$ 125,171	$ 9,436	$ 570,463	$ 1,147,769
Assets held as trustee or agent					-
Cash and cash equivalents	$ 1,345	$ -	$ -	$ -	$ 1,345
Mutual funds	82,190	-	-	-	82,190
Fixed income	-	60	-	-	60
Real estate	-	33,280	-	47	33,327
Equities	13	-	-	170	183
Other	-	-	1,461	287	1,748
Total assets held as trustee or agent	$ 83,548	$ 33,340	$ 1,461	$ 504	$ 118,853
	$ 526,247	$ 158,511	$ 10,897	$ 570,967	$ 1,266,622

* 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.

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 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. Oil and gas interests are valued by discounting future expected royalty 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:

(in thousands)	**2019**	**2018**
Beginning balance	$ 10,897	$ 10,449
Realized (losses) / gains	(562)	510
Unrealized losses	(36)	(75)
Purchase cost	234	1,369
Total proceeds	(479)	(1,356)
Ending balance	$ 10,054	$ 10,897

All net realized and unrealized gains in the table above are reflected in the accompanying Consolidated Statements 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, 2019:

(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	US and non-US investments in relative value, event driven, long/short, and directional strategies	$ 167,152	25	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	0.4 % 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	51,917	6	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	131,895	23	Approx 7 years	34,924	Redemptions are not permitted during the life of the fund	N/A
Private Real Estate	US and non-US real estate	60,752	31	Approx 7 years	40,871	Redemptions are not permitted during the life of the fund	N/A
Public Equity	US and non-US equity securities	64,846	4	Open Ended	-	Ranges from daily to monthly	N/A
Opportunistic Distressed	US and non-US distressed debt securities	11,874	8	Approx 7 years	2,639	Redemptions are not permitted during the life of the fund	N/A
Private Equity	US and non-US equity securities and venture capital	127,236	56	Approx 7 years	53,606	Redemptions are not permitted during the life of the fund	N/A
		$ 615,672			$ 132,040		

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, 2018:

(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	US and non-US investments in relative value, event driven, long/short, and directional strategies	$ 174,317	27	Open Ended	$ 2,220	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	0.4 % 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	48,377	4	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	108,677	26	Approx 7 years	43,383	Redemptions are not permitted during the life of the fund	N/A
Private Real Estate	US and non-US real estate	48,356	26	Approx 7 years	42,121	Redemptions are not permitted during the life of the fund	N/A
Public Equity	US and non-US equity securities	52,998	3	Open Ended	-	Ranges from daily to monthly	N/A
Opportunistic Distressed	US and non-US distressed debt securities	13,942	8	Approx 7 years	2,655	Redemptions are not permitted during the life of the fund	N/A
Private Equity	US and non-US equity securities and venture capital	124,300	54	Approx 7 years	46,410	Redemptions are not permitted during the life of the fund	N/A
		$ 570,967			$ 136,789		

21. Asset Retirement Obligations

The following table illustrates the change in conditional asset retirement obligations during the year ended July 31, 2019:

(in thousands)

Abatement Timeframe	Average Abatement Date	Balance at July 31, 2018	Accretion	Costs Incurred	Balance At July 31, 2019
10-20 years	2022	$ 5,298	$ 216	$ -	$ 5,514
21 -30 years	2036	27	1	-	28
31-40 years	2044	1,274	61	(78)	1,257
41-50 years	2048	149	7	-	156
51+ years	2061	9	1	-	10
		$ 6,757	$ 286	$ (78)	$ 6,965

22. Supplemental Cash Flow Information

(in thousands)	2019	2018
Accrued capitalized asset additions	$ 4,824	$ 12,194
Cash paid during the period for interest	$ 17,345	$ 14,929

23. Subsequent Events

Management has evaluated subsequent events through November 20th, the date the financial statements were issued. There were no subsequent events that require disclosure.