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Pepperdine University

Consolidated Financial Statements
July 31, 2024 and 2023

Pepperdine University
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July 31, 2024 and 2023

Report of Independent Auditors

To the Board of Regents of Pepperdine University

Opinion

We have audited the accompanying consolidated financial statements of Pepperdine University and its subsidiaries (the "University"), which comprise the consolidated statements of financial position as of July 31, 2024 and 2023, and the related consolidated statements of activities and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the University as of July 31, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

PricewaterhouseCoopers LLP

Los Angeles, California
November 19, 2024

Pepperdine University
Consolidated Statements of Financial Position
July 31, 2024 and 2023

(In thousands)	2024	2023
Assets		
Cash and cash equivalents	$ 91,797	$ 128,406
Student receivables, less allowance for credit losses of $2,556 and $2,736, respectively	5,635	4,736
Other accounts receivable	8,643	7,513
Prepaid expenses, inventories, and other assets	9,905	11,434
Student loans, less allowance for credit losses of $360 and $377, respectively	11,873	12,602
Beneficial interests and contributions receivable, net	43,656	47,298
Investments	1,622,468	1,545,076
Assets held as trustee or agent	234,069	210,620
Property, facilities, and equipment, net	630,225	541,533
Right of use assets	38,973	40,850
Total assets	$ 2,697,244	$ 2,550,068
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	$ 38,795	$ 37,374
Accrued salaries and wages	8,015	6,875
Student deposits, advance payments, and deferred revenue	29,050	29,531
Asset retirement obligations	7,488	7,515
U.S. government-funded student loans	2,034	3,438
Trust and agency obligations	113,256	98,637
Other long-term obligations	5,616	6,153
Long-term bonds payable, net	593,964	600,184
Lease liabilities, net	45,703	48,598
Total liabilities	843,921	838,305
Net assets		
Without donor restrictions	1,070,942	1,007,620
With donor restrictions	782,381	704,143
Total net assets	1,853,323	1,711,763
Total liabilities and net assets	$ 2,697,244	$ 2,550,068

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

Pepperdine University
Consolidated Statement of Activities
Year Ended July 31, 2024

(In thousands)	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support			
Student tuition and fees, net of student aid of $151,130	$ 356,656	$ -	$ 356,656
Room and board	49,847	-	49,847
Endowment support	56,992	-	56,992
Private gifts and grants, cash, and other financial assets	13,040		13,040
Private gifts and grants, nonfinancial assets	90	-	90
Government grants	5,227	-	5,227
Sales and services	7,935	-	7,935
Operating investment income	7,604	-	7,604
Other revenue	8,784	-	8,784
Net assets released from restriction	10,837	(10,837)	-
Total revenues and other support	517,012	(10,837)	506,175
Expenses			
Personnel	249,660	-	249,660
Professional services	100,334	-	100,334
Operating expenses	72,226	-	72,226
Maintenance, equipment, repairs, and utilities	36,158	-	36,158
Depreciation	31,346	-	31,346
Interest	17,953	-	17,953
Total expenses	507,677	-	507,677
Change in net assets from operations before non-operating revenues and expenses	9,335	(10,837)	(1,502)
Non-operating revenues and expenses			
Return on investment, net	101,490	59,787	161,277
Allocation of endowment support to operations	(31,617)	(25,375)	(56,992)
Private gifts and grants, cash, and other financial assets	-	20,234	20,234
Private gifts and grants, nonfinancial assets	-	6,320	6,320
Actuarial adjustment of trust and agency obligations	-	9,741	9,741
Other	(15,886)	18,368	2,482
Total non-operating revenues and expenses	53,987	89,075	143,062
Change in net assets	63,322	78,238	141,560
Net assets at beginning of year	1,007,620	704,143	1,711,763
Net assets at end of year	$ 1,070,942	$ 782,381	$ 1,853,323

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

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

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

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

Pepperdine University
Consolidated Statements of Cash Flows
Years Ended July 31, 2024 and July 31, 2023

(In thousands)	2024	2023
Cash flows from operating activities		
Change in net assets	$ 141,560	$ 48,766
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	30,615	27,491
Amortization of right of use assets	8,995	9,555
Provision for credit losses	570	450
Non-cash gifts	(16,343)	(15,073)
Actuarial adjustment of trust and agency obligations	(9,741)	(4,426)
Contributions restricted for long-term investment	(8,986)	(13,757)
Income restricted for long-term investment	(161)	(196)
Net realized and unrealized (gains) / losses on investments	(132,782)	(22,717)
Change in assets and liabilities:		
Student receivables	(1,404)	(1,351)
Other accounts receivable	(1,130)	477
Prepaid expenses, inventories, and other assets	1,529	(6,551)
Beneficial interests and contributions receivable, net	1,837	(3,191)
Accounts payable and accrued liabilities	(4,827)	(2,646)
Accrued salaries and wages	1,140	714
Student deposits, advance payments, and deferred revenue	(481)	390
Asset retirement obligations	(121)	(14)
Other long-term obligations	(537)	(967)
Lease liabilities, net	(10,011)	(10,271)
Other	6,252	4,993
Net cash and cash equivalents provided by operating activities	5,974	11,676
Cash flows from investing activities		
Proceeds from sales of investments and assets held as trustee or agent	361,908	252,754
Purchases of investments and assets held as trustee or agent	(298,837)	(241,301)
Purchases of property, facilities, and equipment	(113,454)	(59,863)
Student loans repaid	2,495	2,966
Student loans issued	(1,831)	(1,817)
Net cash and cash equivalents used in investing activities	(49,719)	(47,261)
Cash flows from financing activities		
Proceeds from contributions restricted for long-term investment	18,582	13,353
Income restricted for long-term investment	161	196
Principal payments and retirement of long-term obligations	(5,730)	(5,530)
Decrease in U.S. government-funded student loans	(1,404)	(1,955)
New trusts and restricted income on matured trusts	2,584	8,674
Payment of trust and agency obligations	(7,386)	(7,684)
Net cash and cash equivalents provided by financing activities	6,807	7,054
Net change in cash and cash equivalents	(36,938)	(28,531)
Cash and cash equivalents at beginning of year	141,219	169,750
Cash and cash equivalents at end of year	$ 104,281	$ 141,219
Supplemental cash flow information		
Cash included in investments	$ 988	$ 663
Cash included in assets held as trustee	11,496	12,150
Accrued amounts for capitalized asset additions	20,994	14,746
Cash paid for interest	19,558	19,753
Contributed investments included in assets held as trustee	6,774	13,354

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 9,500 students in its five colleges and schools. Seaver College, the University's undergraduate liberal arts college, the Caruso School of Law, and the School of Public Policy are headquartered on 830 acres in the Santa Monica Mountains overlooking the Pacific Ocean in Malibu, California. The Graduate School of Education and Psychology and the Pepperdine Graziadio Business School are headquartered at the University's West Los Angeles, California graduate campus.

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

The University operates several consolidated affiliated companies. Affiliated domestic companies that support Pepperdine University include Wave Services Inc., Wave Enterprises Inc., Wave Ventures, LLC, and Wave Justice, LLC. Affiliated international organizations that support Pepperdine University include: Pepperdine University (USA) in London, England; Pepperdine University, à Malibu, Succursale de Blonay – Saint Légier, in Blonay – Saint Légier, Switzerland; Cinderella Immobiliare S.R.L. in Florence, Italy; Fundación Pepperdine University Para América Latina in Buenos Aires, Argentina; Pepperdine University Rwanda CBC in Kigali, Rwanda; Pepperdine Ghana LBG in Accra, Ghana; and Pepperdine University Uganda Ltd. in Kampala, Uganda. 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 that could be materially affected by such estimates include: allowances for credit losses, beneficial interests and contributions receivable, investments, assets held as trustee or agent, accounts payable and accrued liabilities, and trust and agency obligations. The University's actual results could differ significantly from management's estimates. Management also utilizes certain estimates based on square footage to allocate depreciation, interest expense, and central operating expense to the functional expense categories.

Net Assets

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

Net Assets Without Donor Restrictions

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

Net Assets with Donor Restrictions
Net assets with donor restrictions are those net assets subject to donor-imposed stipulations that will be met either by actions of the University pursuant to those stipulations and/or by the passage of time. In addition, there are also net assets subject to donor-imposed stipulations that require the University maintain them in perpetuity. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

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

Student Receivables
Student receivables are carried at net realizable value, less an allowance for credit losses. Management uses available information to recognize expected losses over the life of the student receivables. In determining loss rates, management evaluates information related to its historical losses, adjusted for current economic conditions and reasonable and supportable economic forecasts. The amount of the allowance for credit losses is based on estimates and the University's actual losses may vary from management's estimates. Future additions to the allowance may be necessary based on changes in current and forecasted 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 credit losses. Interest income is recorded on the accrual basis of accounting in accordance with the terms of the receivables, except interest accruals that 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 the carrying value 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 carrying value, an allowance is recorded in the amount of the excess. 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 expected allowance for credit losses over the life of the loans. In determining the adequacy of the allowance for credit losses, management considers such factors as historical loss experience, known problem loans, assessment of current economic conditions, reasonable and supportable economic forecasts, and other appropriate data to identify the risks in the student loan portfolio. The amount of the allowance for credit 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 credit losses. Recoveries on loans previously charged off are credited to the allowance for credit losses. Provisions for credit losses are charged to expense and credited to the allowance for credit 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 current and forecasted economic conditions and other factors.

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

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

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

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

Pooled Assets
The University manages two separate investment pools designated as Pool A and Pool D. Pooled investments and allocation of pooled investment income are accounted for using the unit market value method. The Total Rate of Return methodology is utilized for Pool A, which consists primarily of quasi and true-endowment funds. The annual total payout is calculated based on an approved spending rate that is applied to a five-year monthly average market value of Pool A funds. For fiscal years 2024 and 2023, 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. The state required reserve for the charitable gift annuity agreements was approximately $10.0 million for fiscal years 2024 and 2023.

Endowment
The University's endowment consists of 654 individual donor-restricted endowment funds and 104 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 as much of an endowment fund as the University determines is prudent for the uses, benefits, purposes, and duration for which the endowment funding is established, subject to the intent of the donor as expressed in the gift instrument. As a result of this interpretation, the University classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift. The remaining portion is classified as donor restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate endowment funds:

(1) The duration and preservation of the fund

(2) The purposes of the University and the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the University

(7) The investment policies of the University

The University has adopted an endowment payout policy to preserve and enhance the purchasing power of the endowment and to provide a relatively stable and constant return sufficient to meet a portion of the spending needs of the University.

The endowment payout policy is based upon the average market value of the previous 60 months multiplied by a specified percentage. The payout percentage for the pooled endowment for the fiscal years ended July 31, 2024 and 2023 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 Agency Obligations

The University uses the actuarial method of recording charitable gift annuities and charitable remainder trusts. When a gift is received, the fair value of the gift received is recorded as an asset, the present value of the related amounts due is recorded as a liability based on the Individual Annuity Reserve 2012 tables, and the remainder is recorded as private gift and grant revenue in the appropriate net asset category on the Consolidated Statements of Activities. Investment income is credited, and annuity payments, direct costs of funds management, and investment losses are charged to the related liability. In situations where trust assets are not readily convertible to cash, annuitant payments have been made by the University. For life contingent gifts, the liability is adjusted annually based on the changes in the expected life, and is reflected as an actuarial adjustment of trust and agency obligations on the Consolidated Statements of Activities. At July 31, 2024 and 2023, the discount rate used to calculate future payments to be made by the University ranged from 0.4% per annum to 10.0% per annum.

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

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

Deferred Compensation Plans

Contributions to the University's deferred compensation plans under Section 457(b) and 457(f) of the 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. While employee accounts remain active, the University is not currently utilizing the Section 457(f) plan.

Property, Facilities, and Equipment

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

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

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

Leases

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

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

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

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

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

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

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

Income Taxes
As a not-for-profit educational institution, the University is exempt from Federal and California income taxes under Section 501(c)(3) of the Internal Revenue Code, and Section 23701(d) of the California Revenue and Taxation Code (except for taxes on unrelated business income). Since the University's unrelated business income for the years ended July 31, 2024 and 2023 was immaterial, no provision for income taxes has been made in the accompanying Consolidated Financial Statements.

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

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

Tuition and fees and room and board are recognized as revenue in the period in which the University satisfies its performance obligation to its students. A performance obligation is a promise in a contract to transfer a distinct good or service to the 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, 2024 and 2023.

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

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

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

At July 31, 2024 and 2023, the University had grants or contracts for which it had not yet met all obligations to recognize revenue, or the right to recognize revenue is dependent on future events. These open commitments total $4.9 million and $4.8 million, respectively. It is expected the revenue related to these grants or contracts will be recognized as the University fulfills its obligations in future periods.

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

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

Reclassifications
The University has reclassified certain amounts at or for the year ended July 31, 2023 to conform with the current year presentation. Specifically, the reconciliation of beginning and ending balances for financial instruments designated as Level 3 has been reported based on the type of financial instrument in Note 22. This reclassification has not changed the results of operations or ending net assets for the prior period.

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* (Topic 326), which replaces the current GAAP incurred loss impairment methodology with one that reflects expected credit losses, and requires consideration of current conditions and reasonable and supportable forecasts to inform credit loss estimates. The guidance is effective for annual reporting periods beginning after December 15, 2022. The University adopted ASU 2016-13 for the fiscal year ended July 31, 2024 with no material impact on the consolidated financial statements.

3. Financial Assets and Liquidity Resources

As of July 31, 2024 and 2023, 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)	2024	2023
Financial assets available for current use:		
Cash and cash equivalents	$ 91,797	$ 128,406
Student and other receivables, net	10,021	8,536
Short term investments	205,838	224,415
Board and University designated endowment funds	446,465	398,008
Reserve funds	13,902	12,541
Financial assets available at year end for current use	768,023	771,906
Liquidity resources		
Bank line of credit	10,000	10,000
Total financial assets and liquidity resources available for current use	$ 778,023	$ 781,906

As described in Note 2, the income from the University's endowment is subject to a spending rate of 5.0% for the years ended July 31, 2024 and 2023. The University's endowment funds consist of donor-restricted endowments and University and board-designated, quasi-endowments. Donor-restricted endowments are restricted for specific purposes, and therefore, are not available for general expenditure. For the years ended July 31, 2024 and 2023, $446.5 million and $398.0 million, respectively, represent amounts from quasi-endowments that are available within one year. Although the University does not intend to spend from its quasi-endowments, other than amounts appropriated based on the annual spending rate and subject to the annual budget approval and appropriation process, these amounts could be made available if necessary.

The University invests cash in short-term investments and money market funds. Additionally, the University has reserve funds of $13.9 million and $12.5 million at July 31, 2024 and 2023, respectively, which represent amounts available within one year. These funds are to be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside of normal operations.

The University's cash flows have seasonal variations during the year attributable to tuition billing, and a concentration of contributions received at calendar and fiscal year end. The University structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs and as detailed in Note 11, the University maintains a line of credit for general corporate purposes. No amounts were drawn as of July 31, 2024 and 2023.

4. Student Receivables

Student receivables consist of the following at July 31, 2024 and 2023:

(in thousands)	2024	2023
Graduate School of Education and Psychology	$ 4,551	$ 4,774
Pepperdine Graziadio Business School	1,102	1,227
Seaver College	1,301	834
Caruso School of Law	592	454
Other	645	183
Gross student receivables	8,191	7,472
Allowance for credit losses	(2,556)	(2,736)
	$ 5,635	$ 4,736

5. Student Loans

Student loans consist of the following at July 31, 2024 and 2023:

(in thousands)	2024	2023
Weingart	$ 8,455	$ 8,009
Perkins	2,846	3,991
Other	932	979
Gross student loans	12,233	12,979
Allowance for credit losses	(360)	(377)
	$ 11,873	$ 12,602

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, 2024, the discount rate applied to beneficial interests and contributions receivable ranged from 3.9% per annum to 5.2% per annum and at July 31, 2023, it ranged from 3.9% per annum to 5.4% per annum.

The following table provides a summary of beneficial interests and contributions receivable by expected collection date at July 31, 2024:

(in thousands)	Beneficial Interests	Contributions Receivable	Total
In one year or less	$ 6	$ 14,074	$ 14,080
Between one and five years	-	12,504	12,504
More than five years	13,101	6,245	19,346
	13,107	32,823	45,930
Less: Discount	1,310	(3,584)	(2,274)
	$ 14,417	$ 29,239	$ 43,656

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

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

Beneficial interests include assets held by external trustees and totaled $14.4 million at July 31, 2024 and $13.7 million at July 31, 2023.

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. $974,000 and $595,000 of beneficial interests and contributions receivable were written off during the years ended July 31, 2024 and 2023, respectively.

As of the years ended July 31, 2024 and 2023, conditional promises to give in the net amounts of $27.7 million and $31.3 million, respectively, were received but not recognized for the promotion of academic excellence, academic programs, and research. The University's conditional pledge amounts by category as of July 31, 2024 and 2023 are as follows:

(in thousands)	2024	2023
Academic benchmarks	$ 27,570	$ 30,067
Matching contributions	141	292
Private grants	-	972
	$ 27,711	$ 31,331

7. Investments

The University's investments consist of the following at July 31, 2024 and 2023:

(in thousands)		**2024**		**2023**
Cash and cash equivalents	$	158,665	$	189,325
Absolute return		224,739		212,575
Assets held by trustee		171,521		164,493
Mutual funds		77,617		65,267
Fixed income		306,686		298,046
Real estate		140,816		159,734
Private equity		203,581		190,025
Natural resources		109,537		99,229
Public equity		212,609		156,399
Other		16,697		9,983
	$	1,622,468	$	1,545,076

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

Investment return consists of the following for the years ended July 31, 2024 and 2023:

(in thousands)		**2024**		**2023**
Investment income	$	35,697	$	36,450
Realized gains / (losses)		57,430		44,796
Unrealized gains / (losses)		75,352		(22,079)
Management fees		(7,202)		(5,991)
	$	161,277	$	53,176

8. Endowment Activities

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

(in thousands)	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 682,689	$ 536,182	$ 1,218,871
Investment return			
Investment income	13,348	15,662	29,010
Net realized and unrealized appreciation	72,422	46,440	118,862
Investment management fees	(4,493)	(2,477)	(6,970)
Total investment return	81,277	59,625	140,902
Endowment support	(31,617)	(25,375)	(56,992)
Investment return, net of payout	49,660	34,250	83,910
Other changes in endowment investments			
Private gifts and grants	-	4,581	4,581
Maturities	-	2,240	2,240
Reinvestments, transfers, and other	8,058	1,371	9,429
Total other changes in endowment investments	8,058	8,192	16,250
Total endowment net assets, end of year	$ 740,407	$ 578,624	$ 1,319,031

Unspent appropriations of endowment without donor restrictions was $20.8 million at July 31, 2024.

Designations of endowment funds for the year ended July 31, 2024 are as follows:

(in thousands)	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted funds			
Original value	$ -	$ 435,536	$ 435,536
Appreciation	-	143,088	143,088
Board and University designated funds	740,407	-	740,407
	$ 740,407	$ 578,624	$ 1,319,031

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

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

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

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

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

The University has recorded deficiencies resulting from the decline in fair value of endowment funds to amounts below the original gift amount as a reduction of donor restricted net assets. As of July 31, 2024, the University did not have any deficits of this nature. As of July 31, 2023, deficits of this nature had an original value of $2.8 million and a current fair value of $2.8 million, with a deficiency of $25,000. 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, 2024 and 2023:

(in thousands)	**2024**	**2023**
Cash and cash equivalents	$ 13,408	$ 22,984
Mutual funds	94,812	88,814
Fixed income	9,107	2,353
Real estate	113,234	92,883
Equities	1,364	659
Other	2,144	2,927
	$ 234,069	$ 210,620

10. Property, Facilities, and Equipment

Property, facilities, and equipment consist of the following at July 31, 2024 and 2023:

(in thousands)	**2024**	**2023**
Land	$ 24,720	$ 24,720
Buildings and improvements	681,633	674,269
Furniture, fixtures, and equipment	79,424	67,779
Construction in progress	172,277	76,270
Total cost	958,054	843,038
Less: Accumulated depreciation	(327,829)	(301,505)
	$ 630,225	$ 541,533

The University had no sales of property, facilities, and equipment during the year ended July 31, 2024 and 2023, and disposals of fully depreciated assets did not generate a gain or loss.

11. Line of Credit

During the years ended July 31, 2024 and July 31, 2023, the University had a $10.0 million committed line of credit available for general corporate purposes at the daily simple Secured Overnight Financing Rate (SOFR) plus 0.65% per annum. The line of credit matures on July 31, 2026, and no amount has been drawn on this line of credit.

12. Long-Term Obligations

Long-term obligations consist of the following at July 31, 2024 and 2023:

(in thousands, except original issue amount)		**2024**		**2023**
CEFA Revenue Bonds (Pepperdine University) Series 2015, 2.00% - 5.00% due 2016 - 2045 (Original issue amount $76,455,000)	$	5,350	$	6,970
CEFA Revenue Bonds (Pepperdine University) Series 2016, 3.00% - 5.00% due 2019 - 2049 (Original issue amount $100,000,000)		5,570		6,810
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)		17,120		18,425
Pepperdine University Taxable Bond, Series 2020A, 3.301% due 2059 (Original issue amount $223,505,000)		223,505		223,505
Pepperdine University Taxable Bond, Series 2021A, 0.592% - 2.840%, due 2022-2051 (Original issue amount $220,460,000)		217,340		218,905
		593,885		599,615
Net premium on long-term obligations		2,071		2,863
Bond issuance costs		(1,992)		(2,294)
	$	593,964	$	600,184

The agreements contain covenants relating to the maintenance of University assets, insurance, and other general items. The University was in compliance with all covenants as of July 31, 2024 and July 31, 2023.

At July 31, 2024, principal payments on the preceding obligations are due in the following fiscal years:

(in thousands)		
2025	$	5,935
2026		6,175
2027		6,430
2028		6,665
2029		6,860
Thereafter		561,820
	$	593,885

13. Leases

The University leases facilities and equipment for educational and research purposes under operating leases expiring through 2030. The facilities leases are primarily for use in its graduate educational programs, namely for the West Los Angeles, Calabasas, and Irvine campuses. These leases typically have an initial term of five to ten years, and may include one or more options to renew. Leases on facilities contain renewal options and rent escalation clauses based on the Consumer Price Index. The exercise of lease renewal options is at the University's sole discretion. When determining the lease term, the University includes options to extend or terminate the lease when the option to exercise is certain.

Future minimum lease payments expiring through fiscal 2030 under these non-cancelable operating leases at July 31, 2024 are as follows:

(in thousands)

2025	$	8,919
2026		9,443
2027		9,675
2028		9,828
2029		8,755
Thereafter		2,153
		48,773
Discount to present value		(3,070)
	$	45,703

The operating lease costs for the years ended July 31, 2024 and 2023 were $9.9 million and $9.8 million, respectively. Cash payments recorded for the years ended July 31, 2024 and 2023 were $10.9 million and $10.7 million, respectively, and are reflected within cash flows from operating activities on the Consolidated Statements of Cash Flows. The weighted average remaining years on operating leases is 4.8 and 5.2 for the years ended July 31, 2024 and 2023, respectively. The weighted average discount rate of 2.4% and 2.1% for the years ended July 31, 2024 and 2023, respectively, is based on a risk-free rate.

For the year ended July 31, 2024, the University recognized $7.1 million in right of use assets and lease liabilities, net related to the amendment of the lease for the Irvine campus and new equipment leases. For the year ended July 31, 2023, the University recognized $774,000 in right of use assets and lease liabilities, net related to a new equipment lease.

The University records short-term leases (those 12 months or less in duration) as operating expenditures in the period in which the lease obligations are incurred. The University recorded expenses of $30,000 and $711,000 related to short-term leases for the years ended July 31, 2024 and 2023, respectively.

14. Asset Retirement Obligations

The following table illustrates the change in conditional asset retirement obligations during the year ended July 31, 2024:

(in thousands)

Abatement Timeframe	Average Abatement Date	Balance at July 31, 2023	Accretion	Costs Incurred	Balance at July 31, 2024
10 - 30 years	2036	$ 5,802	$ 12	$ (121)	$ 5,693
31 - 40 years	2044	1,513	73	-	1,586
41 - 50 years	2048	188	9	-	197
51+ years	2061	12	1	(1)	12
		$ 7,515	$ 95	$ (122)	$ 7,488

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

(in thousands)

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

15. Net Assets

At July 31, 2024 and 2023, net assets without donor restrictions and with donor restrictions were available for the following purposes:

(in thousands)	2024 Without Donor Restrictions	2024 With Donor Restrictions	2024 Total Net Assets
Educational program support	$ 173,721	$ 398,818	$ 572,539
Student scholarships and loans	168,116	220,987	389,103
Facilities and debt service	302,694	22,587	325,281
Public service	4,661	12,390	17,051
Student services and athletics	7,331	13,339	20,670
Annuities and remainder trusts	-	95,631	95,631
University designated support and reserves	401,269	-	401,269
Other	13,150	18,629	31,779
	$ 1,070,942	$ 782,381	$ 1,853,323

(in thousands)	2023 Without Donor Restrictions	2023 With Donor Restrictions	2023 Total Net Assets
Educational program support	$ 194,408	$ 369,519	$ 563,927
Student scholarships and loans	160,333	202,086	362,419
Facilities and debt service	245,941	5,784	251,725
Public service	4,916	11,518	16,434
Student services and athletics	8,086	11,393	19,479
Annuities and remainder trusts	-	87,978	87,978
University designated support and reserves	379,051	-	379,051
Other	14,885	15,865	30,750
	$ 1,007,620	$ 704,143	$ 1,711,763

16. Contributed Nonfinancial Assets

Contributed nonfinancial assets for the years ended July 31, 2024 and July 31, 2023 recognized within the Consolidated Statements of Activities included the following:

(in thousands)	2024	2023	Status	Valuation
Without Donor Restrictions:				
Artwork	$ -	$ 1,002	Capitalized	Fair value: third-party appraisal
Flights and ground transportation	-	66	Utilized in program services	Fair value: retail price
Other	90	79	Utilized in management and general, program services, and fundraising	Fair value: retail price
	$ 90	$ 1,147		
With Donor Restrictions:				
Real Estate	$ 6,316	$ -	Included in assets held as trustee or agent	Fair value: third-party appraisal
Furniture and home décor	4	-	Included in assets held as trustee or agent	Fair value: retail price
	$ 6,320	$ -		

For the year ended July 31, 2024, contributed nonfinancial assets with donor restrictions are included in assets held as trustee or agent and are held to be monetized. Proceeds received from monetizing these assets will be restricted for endowed scholarships and funds. For the year ended July 31, 2023, there were no contributed nonfinancial assets with donor restrictions.

17. Employee Retirement and Deferred Compensation Plans

The University participates in a defined contribution plan that provides retirement benefits for eligible employees. Benefits for the plan are funded by contributions from the University and its employees. University contributions are non-refundable and fully vested. There are no prior service costs. The University contributed $13.3 million and $12.1 million to this plan for the years ended July 31, 2024 and 2023, 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. While employee accounts remain active, the University is not currently utilizing the Section 457(f) plan. Under the Section 457(b) plan, eligible employees may defer a limited amount of their compensation to future years. Although deferred by employees for tax purposes, amounts contributed to this plan by the University are treated as an expense in the year earned. The balance held by the University in the plan is recorded as a component of assets held as trustee or agent and trust and agency obligations. There were no University contributions to the deferred compensation plan for the years ended July 31, 2024 and 2023. At July 31, 2024 and 2023, the balance in this plan was $15.7 million and $14.0 million, respectively.

18. Faculty and Staff Housing

The University sells condominium units to certain faculty and staff. The sales terms include restrictions on the buyers' eligibility and include a resale price based on a defined index that is not controlled by the University. The University has a right of first refusal to purchase the units when offered for sale by the owner. The University has historically exercised this right and then subsequently sold the units within a short period of time. For the years ended July 31, 2024 and 2023, the University sold seven and ten units with associated sales values of $4.7 million and $6.5 million, respectively. Should all 121 of the units be available for purchase at July 31, 2024 and 2023, 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 $94.1 million and $89.1 million, respectively.

At July 31, 2024 and 2023, the University held legal title to 15 and 19 units with a value of $11.7 million and $14.0 million, respectively.

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

At July 31, 2024 and 2023, the University guaranteed the performance of $19.1 million and $20.7 million, respectively, in mortgage loans, obtained by its faculty and staff. These mortgage loans were issued by independent third-party lenders and all of the proceeds of these loans were used to facilitate the purchase of on-campus housing.

At July 31, 2024 and 2023, University-owned notes receivable from on-campus housing sales amounted to $3.9 million and $3.6 million, respectively. These amounts are included as a component of investments on the Consolidated Statements of Financial Position. The notes bear interest at various rates ranging between 0.2% per annum and 3.2% per annum and are collateralized by deeds of trust. No allowance for credit losses has been recorded against these loans based on their collateralization and prior collection history. At July 31, 2024 and July 31, 2023, there were no past due amounts related to these notes receivable.

19. Natural and Functional Expenses

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

For the year ended July 31, 2024, natural and functional expenses consist of the following:

(in thousands)	Program Services	Management and General	Fundraising	Year Ended July 31, 2024 Total
Personnel	$ 179,314	$ 64,342	$ 6,004	$ 249,660
Professional services	78,181	21,847	306	100,334
Operating expenses	56,979	14,619	628	72,226
Maintenance, equipment, repairs, and utilities	8,684	27,456	18	36,158
Depreciation	25,406	5,816	124	31,346
Interest	14,622	3,260	71	17,953
	$ 363,186	$ 137,340	$ 7,151	$ 507,677

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

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

Advertising and promotion costs are a component of operating expenses on the Consolidated Statements of Activities. For the years ended July 31, 2024 and 2023, the University had advertising and promotion costs of $8.5 million and $7.0 million, respectively, which were expensed as incurred.

20. Related Parties

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

The University invests in several investment funds, including some in which it has significant influence over the operations. For the years ended July 31, 2024 and 2023, the University made capital contributions of $4.2 million and $8.3 million, respectively, to such funds. Additionally, for the years ended July 31, 2024 and 2023, the University received distributions of $2.4 million and $366,000, respectively, from such funds.

21. Commitments and Contingencies

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

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

At July 31, 2024, the University had open commitments to invest approximately $138.5 million with investment managers and/or limited partnerships over approximately seven years.

At July 31, 2024, the University's maximum exposure under guarantees of Guaranteed Access To Education ("GATE") student loans totaled approximately $220,000.

At July 31, 2024, the University had outstanding commitments for capital expenditures in connection with the various construction projects of approximately $258.0 million. The University expects to fund these costs principally through net assets available without donor restrictions. Accordingly, no liability has been recorded in the accompanying Consolidated Statements of Financial Position.

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

22. Fair Value of Financial Instruments

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

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

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

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

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

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

Level 1 Quoted prices available in active markets for identical investments.

Level 2 Quoted prices in active markets for similar investments; quoted prices for identical investments in markets that are inactive; and prices based on observable inputs other than an unadjusted quoted price.

Level 3 Prices based on significant unobservable inputs.

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

The following tables summarize the valuations of the University's investments and other relevant assets as of July 31, 2024 and July 31, 2023, respectively, based on their placement within the fair-value hierarchy:

(in thousands)	Level 1	Level 2	Level 3	NAV	Year Ended July 31, 2024 Total
Investments					
Cash and cash equivalents	$ 158,665	$ -	$ -	$ -	$ 158,665
Absolute return	-	-	-	224,739	224,739
Assets held by trustee*	105,551	-	-	65,970	171,521
Mutual funds	77,617	-	-	-	77,617
Fixed income	13,884	292,802	-	-	306,686
Real estate	-	64,484	-	76,332	140,816
Private equity	-	-	-	203,581	203,581
Natural resources	-	-	-	109,537	109,537
Public equity	972	-	-	211,637	212,609
Other	5,518	-	11,179	-	16,697
Total investments	362,207	357,286	11,179	891,796	1,622,468
Assets held as trustee or agent					
Cash and cash equivalents	13,408	-	-	-	13,408
Mutual funds	94,812	-	-	-	94,812
Fixed income	136	8,971	-	-	9,107
Real estate	-	113,105	-	129	113,234
Equities	661	-	-	703	1,364
Other	9	-	1,567	568	2,144
Total assets held as trustee or agent	109,026	122,076	1,567	1,400	234,069
Beneficial interests	-	-	14,417	-	14,417
Total beneficial interests	-	-	14,417	-	14,417
	$ 471,233	$ 479,362	$ 27,163	$ 893,196	$ 1,870,954

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

* For the years ended July 31, 2024 and July 31, 2023, 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 include the University's notes receivable, private limited partnerships, interests in life insurance policies, other investments, and split interest agreements where the University is not the trustee but is named as the beneficiary. These investments do not typically transact on a regular basis, nor do they have readily determinable fair values. Notes receivable primarily consists of contingent interest loans with the University's key faculty and staff to help provide affordable loans for housing. The contingent interest loans' values incorporate the interest rates at the date of loan issuance and are due upon a triggering event. The primary unobservable input for these notes receivable is the applicable yield rates, which range from 0.2% to 3.2% and 0.2% to 4.2% for the years ended July 31, 2024 and 2023, respectively. Interests in life insurance policies are recorded at cash surrender values. The beneficial interests are recorded at the present value of the expected proceeds upon maturity. The primary unobservable inputs for beneficial interest in split-interest agreements are the applicable discount rates and life expectancies. Applicable discounts rates ranged from 4.0% to 5.2% and 4.0% to 4.1% for the years ended July 31, 2024 and 2023, respectively. Life expectancies ranged from less than one year to 17 years and one year to 18 years for the years ended July 31, 2024 and 2023, respectively. Significant increases or decreases in these inputs may result in a lower or higher fair value measurement.

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

The following table sets forth a reconciliation of beginning and ending balances for the fiscal year ended July 31, 2024 for financial instruments designated as Level 3:

(in thousands)	Beginning balance	Realized gains / (losses)	Unrealized gains / (losses)	Purchases / additions	Proceeds / maturities	Net transfers in / (out)	Total
Investments							
Notes receivable	$ 8,081	$ -	$ -	$ 655	$ (176)	$ 546	$ 9,106
Partnerships	1,374	-	2	-	-	-	1,376
Other	528	163	6	-	-	-	697
Assets held as trustee or agent							
Notes receivable	500	-	-	-	-	-	500
Partnerships	1,015	-	(97)	-	-	-	918
Other	899	-	(14)	5	(28)	(713)	149
Beneficial Interests	13,694	-	1,310	-	(587)	-	14,417
Ending balance	$ 26,091	$ 163	$ 1,207	$ 660	$ (791)	$ (167)	$ 27,163

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

(in thousands)	Beginning balance	Realized gains / (losses)	Unrealized gains / (losses)	Purchases / additions	Proceeds / maturities	Net transfers in / (out)	Total
Investments							
Notes receivable	$ 7,477	$ -	$ -	$ 960	$ (356)	$ -	$ 8,081
Partnerships	1,132	1,148	14	-	(920)	-	1,374
Other	508	-	2	-	-	18	528
Assets held as trustee or agent							
Notes receivable	773	(273)	-	-	-	-	500
Partnerships	-	-	-	1,015	-	-	1,015
Other	135	-	-	-	-	764	899
Beneficial Interests	17,502	-	951	593	(5,352)	-	13,694
Ending balance	$ 27,527	$ 875	$ 967	$ 2,568	$ (6,628)	$ 782	$ 26,091

All net realized and unrealized gains in the tables above are reflected in return on investment, net 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, 2024:

(in thousands, except # of funds)

Investment Category	Strategy	NAV in Funds	# of Funds	Remaining Life	Amount of Unfunded Commitment	Redemption Terms	Redemption Restrictions
Absolute return	US and non-US investments in relative value, event driven, long/short, and directional strategies	$ 225,120	23	Open ended	N/A	Ranges from quarterly with 30, 45, 60 or 90 days notice, semi-annual with 90 days notice, annual with 45, 60 or 90 days notice, to every 36 months with 45 days notice	1.2% of NAV is locked up in side-pockets
Assets held by trustee	US and non-US investments in private equity, venture capital, relative value, event driven, long/short and directional strategies	65,970	9	Approx 7 years to open ended	N/A	N/A	N/A
Private natural resources	US and non-US investments in upstream, midstream, and downstream natural resources	109,722	20	Approx 7 years	31,380	Redemptions are not permitted during the life of the fund	N/A
Private real estate	US and non-US real estate	76,462	26	Approx 7 years	25,443	Redemptions are not permitted during the life of the fund	N/A
Public equity	US and non-US equity securities	211,996	5	Open ended	N/A	Ranges from daily to monthly	N/A
Private equity	US and non-US equity securities and venture capital	203,926	71	Approx 7 years	81,669	Redemptions are not permitted during the life of the fund	N/A
		$ 893,196			$ 138,492		

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

(in thousands, except # of funds)

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

23. Subsequent Events

Management has evaluated subsequent events through November 19, 2024, the date the financial statements were issued. There are no events that require adjustment or additional disclosure in these financial statements.