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PEPPERDINE UNIVERSITY

Audited Financial Statements 2021–2022

Pepperdine University

Consolidated Financial Statements
July 31, 2022 and 2021

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Report of Independent Auditors

To the Board of Regents of Pepperdine University

Opinion

We have audited the accompanying consolidated financial statements of Pepperdine University and its subsidiaries (the "University"), which comprise the consolidated statements of financial position as of July 31, 2022 and 2021, 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, 2022 and 2021, 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

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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 11, 2022

Pepperdine University
Consolidated Statements of Financial Position
July 31, 2022 and 2021

(In thousands)

	2022	2021
Assets		
Cash and cash equivalents	$ 161,105	$ 145,646
Student receivables, less allowance for doubtful accounts of $2,411 and $2,164, respectively	4,285	3,167
Other accounts receivable	7,990	6,123
Prepaid expenses, inventories, and other assets	4,883	5,833
Student loans, less allowance for loan losses of $895 and $1,280, respectively	13,301	14,447
Beneficial interests and contributions receivable, net	50,855	43,232
Investments	1,532,667	1,509,125
Assets held as trustee or agent	191,907	215,984
Property, facilities, and equipment, net	507,897	491,767
Right of use assets	49,631	59,087
Total assets	$ 2,524,521	$ 2,494,411
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	$ 39,253	$ 27,612
Accrued salaries and wages	6,161	5,620
Student deposits, advance payments, and deferred revenue	29,141	22,282
Asset retirement obligations	7,448	7,376
U.S. government-funded student loans	5,393	7,660
Trust and agency obligations	102,613	120,564
Other long-term obligations	7,120	7,731
Long-term bonds payable, net	606,301	561,082
Lease liabilities, net	58,094	68,080
Total liabilities	861,524	828,007
Net assets		
Without donor restrictions	991,587	987,373
With donor restrictions	671,410	679,031
Total net assets	1,662,997	1,666,404
Total liabilities and net assets	$ 2,524,521	$ 2,494,411

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

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

(In thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support			
Student tuition and fees, net of student aid of $154,401	$ 345,457	$ -	$ 345,457
Room and board	46,943	-	46,943
Endowment support	49,396	-	49,396
Private gifts and grants	19,510	-	19,510
Government grants	14,116	-	14,116
Sales and services	6,527	-	6,527
Other revenue	6,981	-	6,981
Net assets released from restriction	9,251	(9,251)	-
Total revenues and other support	498,181	(9,251)	488,930
Expenses			
Personnel	228,030	-	228,030
Professional services	103,995	-	103,995
Operating expenses	68,379	-	68,379
Maintenance, equipment, repairs, and utilities	27,664	-	27,664
Depreciation	28,878	-	28,878
Interest	18,970	-	18,970
Total expenses	475,916	-	475,916
Change in net assets from operations before gain on sale of property, facilities, and equipment	22,265	(9,251)	13,014
Gain on sale or disposal of property, facilities, and equipment	19,368	-	19,368
Change in net assets from operations before non-operating revenues and expenses	41,633	(9,251)	32,382
Non-operating revenues and expenses			
Return on investment, net	(6,640)	(751)	(7,391)
Allocation of endowment support to operations	(26,843)	(22,553)	(49,396)
Private gifts and grants	-	31,034	31,034
Actuarial adjustment of trust and agency obligations	-	(2,026)	(2,026)
Other	(3,936)	(4,074)	(8,010)
Total non-operating revenues and expenses	(37,419)	1,630	(35,789)
Change in net assets	4,214	(7,621)	(3,407)
Net assets at beginning of year	987,373	679,031	1,666,404
Net assets at end of year	$ 991,587	$ 671,410	$ 1,662,997

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

Pepperdine University
Consolidated Statement of Activities
Year Ended July 31, 2021

(In thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support			
Student tuition and fees, net of student aid of $135,565	$ 309,868	$ -	$ 309,868
Room and board	5,144	-	5,144
Endowment support	47,079	-	47,079
Private gifts and grants	14,018	-	14,018
Government grants	10,845	-	10,845
Sales and services	1,834	-	1,834
Other revenue	3,826	-	3,826
Net assets released from restriction	4,195	(4,195)	-
Total revenues and other support	396,809	(4,195)	392,614
Expenses			
Personnel	204,220	-	204,220
Professional services	73,486	-	73,486
Operating expenses	39,649	-	39,649
Maintenance, equipment, repairs, and utilities	19,058	-	19,058
Depreciation	28,679	-	28,679
Interest	19,624	-	19,624
Total expenses	384,716	-	384,716
Change in net assets from operations before non-operating revenues and expenses	12,093	(4,195)	7,898
Non-operating revenues and expenses			
Return on investment, net	181,846	122,490	304,336
Allocation of endowment support to operations	(25,417)	(21,662)	(47,079)
Private gifts and grants	-	40,509	40,509
Actuarial adjustment of trust and agency obligations	-	8,180	8,180
Other	(3,073)	(3,807)	(6,880)
Total non-operating revenues and expenses	153,356	145,710	299,066
Change in net assets	165,449	141,515	306,964
Net assets at beginning of year	821,924	537,516	1,359,440
Net assets at end of year	$ 987,373	$ 679,031	$ 1,666,404

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

Pepperdine University
Consolidated Statements of Cash Flows
Years Ended July 31, 2022 and 2021

(In thousands)

	2022	2021
Cash flows from operating activities		
Change in net assets	$ (3,407)	$ 306,964
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities		
Depreciation and amortization	26,749	27,592
Provision for doubtful accounts and loan losses	600	800
Loss on early extinguishment of debt	2,934	-
Non-cash gifts	(777)	(2,442)
Actuarial adjustment of trust and agency obligations	2,026	(8,180)
Contributions restricted for long-term investment	(4,300)	(3,856)
Income restricted for long-term investment	(117)	(99)
Change in unamortized bond premium and bond issue costs	(21,862)	-
Gain on disposal of property, facilities, and equipment	(19,368)	-
Net realized and unrealized losses / (gains) on investments	29,289	(279,406)
Change in assets and liabilities		
Student receivables	(2,038)	(1,188)
Other accounts receivable	(1,867)	(1,462)
Prepaid expenses, inventories, and other assets	950	(1,022)
Beneficial interests and contributions receivable, net	(8,865)	(21,870)
Accounts payable and accrued liabilities	5,605	(2,379)
Accrued salaries and wages	541	310
Student deposits, advance payments, and deferred revenue	6,859	3,146
Asset retirement obligations	(20)	(109)
Other long-term obligations	(611)	(91)
Other	5,994	3,857
Net cash and cash equivalents provided by operating activities	18,315	20,565
Cash flows from investing activities		
Proceeds from sales of investments	371,330	309,649
Purchases of investments	(416,701)	(269,056)
Purchases of property, facilities, and equipment	(48,243)	(42,695)
Proceeds from sale of property, facilities, and equipment	26,947	-
Student loans repaid	3,193	3,007
Student loans issued	(1,727)	(1,190)
Net cash and cash equivalents (used in) investing activities	(65,201)	(285)
Cash flows from financing activities		
Proceeds from contributions restricted for long-term investment	4,425	4,965
Income restricted for long-term investment	117	99
Principal received on issuance of long-term obligations	220,460	-
Principal payments and retirement of long-term obligations	(152,470)	(2,495)
Decrease in U.S. government-funded student loans	(2,267)	(1,344)
Investment activity on annuities	559	1,934
Payment of trust and agency obligations	(8,588)	(6,893)
Net cash and cash equivalents provided by / (used in) financing activities	62,236	(3,734)
Net change in cash and cash equivalents	15,350	16,546
Cash and cash equivalents at beginning of year	154,400	137,854
Cash and cash equivalents at end of year	$ 169,750	$ 154,400
Supplemental Cash Flow Information		
Cash and cash equivalents included in investments	$ 4,555	$ 709
Cash and cash equivalents included in assets held as trustee	$ 4,090	$ 8,045
Accrued amounts for capitalized asset additions	$ 13,979	$ 7,944
Cash paid for interest	$ 20,770	$ 21,649

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 10,400 students in its five colleges and schools. Seaver College, the University's undergraduate liberal arts college, the Caruso School of Law, and the School of Public Policy are headquartered on 830 acres in the Santa Monica Mountains overlooking the Pacific Ocean in Malibu, California. The Graduate School of Education and Psychology and the Pepperdine Graziadio Business School are headquartered at the University's West Los Angeles, California graduate campus.

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

The University operates several consolidated affiliated companies. Affiliated domestic companies that support Pepperdine University include Wave Services Inc., Wave Enterprises Inc., Wave Ventures, LLC, and Wave Justice, LLC. Affiliated international organizations that support Pepperdine University include: Pepperdine University (USA) in London, England, Pepperdine University Succursale de Lausanne in Lausanne, Switzerland, Cinderella Immobiliare S.R.L in Florence, Italy, and Fundacion Pepperdine University Para America Latina in Buenos Aires, Argentina. 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, 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 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 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 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 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 2022 and 2021, 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 624 individual donor-restricted endowment funds and 96 University-designated quasi-endowment funds for a variety of purposes. The net assets associated with endowment funds, including funds designated by the University to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

(1) The duration and preservation of the fund

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

(3) General economic conditions

(4) The possible effect of inflation and deflation

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

(6) Other resources of the University

(7) The investment policies of the University

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

The endowment payout policy is based upon the average market value of the previous 60 months multiplied by a specified percentage. The payout percentage for the pooled endowment for the fiscal years ended July 31, 2022 and 2021 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 actuarial adjustment of trust and agency obligations on the Consolidated Statements of Activities. At July 31, 2022 and 2021, 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 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, 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 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, the University enters into forward contracts and purchases currency futures (principally the Euro, the British pound, and Swiss francs) to economically hedge forecasted cash flows denominated in foreign currencies. The purpose of the University's foreign currency hedging activities is to reduce the risk of eventual United States dollar net cash outflows resulting from costs outside the U.S. that will be adversely affected by changes in exchange rates.

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

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

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

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, 2022 and 2021 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. The University awarded scholarships in the amounts of $154.4 million and $135.6 million for the periods ended July 31, 2022 and July 31, 2021, 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, 2022 and 2021.

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.

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, 2022, the University had grants or contracts for which it has not yet met all obligations to recognize revenue, or to the right to recognize revenue is dependent on future events. These open commitments total $2.0 million and it is expected that revenue will be recognized as the University fulfills its obligations in future periods.

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

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

Accounting Pronouncements Implemented in Fiscal Year 2021
In February 2016, the FASB issued ASU 2016-02, *Leases*, and has subsequently issued supplemental and/or clarifying ASUs (collectively, ASC 842). These standards were issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about the leasing arrangements. The University adopted these standards in fiscal year 2021 using a modified retrospective transition approach, and recorded right of use assets and lease liabilities of $59.1 million and $68.1 million, respectively. For additional information, refer to Note 13, Leases. The University elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. The University has lease agreements with non-lease components that relate to the lease components. The University elected the practical expedient to account for non-lease components and the lease components to which they relate as a single lease component for all leases. Also,

the University elected not to record leases with an initial term of 12 months or less on the Consolidated Statements of Financial Position, as well as the practical expedient to not assess whether existing or expired land easements that were not previously accounted for as leases under Topic 840 are or contain a lease under Topic 842.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement: Disclosure Framework- Changes to the Disclosure Requirements for Fair Value Measurement*. 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 adopted this ASU effective August 1, 2020.

In March 2019, the FASB issued ASU 2019-03, *Updating the Definitions of Collections, Not-for-Profit Entities*. 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 adoption of this ASU did not materially impact the consolidated financial statements.

Authoritative Pronouncements not yet Adopted by the University
In June 2016, the FASB issued ASU 2016-*13 Measurement of Credit Losses on Financial Instruments* (Topic 326) which replaces the current GAAP incurred loss impairment methodology with one that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The guidance is effective for annual reporting periods beginning after December 15, 2022. The University is currently evaluating the impact this ASU will have on the consolidated financial statements.

3. Financial Assets and Liquidity Resources

As of July 31, 2022 and 2021, 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)	2022	2021
Financial assets available for current use:		
Cash and cash equivalents	$ 161,105	$ 145,646
Student and other receivables, net	10,911	7,807
Short term investments	225,942	237,661
Board and University designated endowment funds	386,092	345,323
Reserve funds	12,343	12,337
Financial assets available at year end for current use	796,393	748,774
Liquidity resources:		
Bank line of credit	10,000	50,000
Total financial assets and liquidity resources available for current use	$ 806,393	$ 798,774

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. As detailed in Note 11, the University maintains a line of credit for general corporate purposes. No amounts were drawn as of July 31, 2022 and 2021.

4. Student Receivables

Student receivables consist of the following at July 31, 2022 and 2021:

(in thousands)	2022	2021
Graduate School of Education and Psychology	$ 3,834	$ 2,696
Pepperdine Graziadio Business School	1,199	1,109
Seaver College	955	950
Other	708	576
Gross student receivables	6,696	5,331
Allowance for doubtful accounts	(2,411)	(2,164)
	$ 4,285	$ 3,167

5. Student Loans

Student loans consist of the following at July 31, 2022 and 2021:

(in thousands)	**2022**	**2021**
Weingart	$ 7,538	$ 7,183
Perkins	5,690	7,540
Other	968	1,004
Gross student loans	14,196	15,727
Allowance for loan losses	(895)	(1,280)
	$ 13,301	$ 14,447

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, 2022, the discount rate applied to beneficial interests and contributions receivable ranged from 0.19% per annum to 2.96% per annum and at July 31, 2021, ranged from 0.06% per annum to 1.15% per annum.

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

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

The following table provides a summary of beneficial interests and contributions receivable by expected collection date at July 31, 2021:

(in thousands)	Beneficial Interests	Contributions Receivable	Total
In one year or less	$ -	$ 1,966	$ 1,966
Between one and five years	-	18,051	18,051
More than five years	15,219	8,995	24,214
	15,219	29,012	44,231
Less: Discount	-	(999)	(999)
	$ 15,219	$ 28,013	$ 43,232

During the years ended July 31, 2022 and 2021, the University received payments on prior year promises to give of $11.2 million and $4.9 million, respectively.

Beneficial interests include assets held by external trustees and totaled $17.5 million at July 31, 2022 and $15.2 million at July 31, 2021. During the years ended July 31, 2022 and 2021, $1.1 million and $35.2 million of beneficial interests were reclassified to assets held as trustee or agent when the University became trustee and co-trustee, respectively.

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. During the year ended July 31, 2022 $222,000 of beneficial interests and contributions receivable were written off. No beneficial interests or contributions receivable were written off during the year ended July 31, 2021.

As of the years ended July 31, 2022 and 2021, promises to give in the net amount of $67.3 million and $50.0 million were received but not recognized, respectively. These promises are designated for a variety of purposes, including academic programming, student and general purposes. 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, 2022 and 2021:

(in thousands)	**2022**	**2021**
Cash and cash equivalents	$ 120,039	$ 191,782
Absolute return	190,200	182,042
Assets held by trustee	165,936	187,435
Mutual funds	97,816	91,652
Fixed income	309,359	274,959
Real estate	169,154	183,782
Private equity	196,463	198,623
Natural resources	122,848	101,853
Public equity	151,735	87,385
Other	9,117	9,612
	$ 1,532,667	$ 1,509,125

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, 2022 and 2021:

(in thousands)	**2022**	**2021**
Investment income	$ 28,603	$ 31,547
Realized gains	40,424	120,544
Unrealized (losses) / gains	(69,713)	158,862
Management fees	(6,705)	(6,617)
	$ (7,391)	$ 304,336

8. Endowment Activities

Changes in endowment net assets for the year ended July 31, 2022 are as follows:

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

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

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

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

Changes in endowment net assets for the year ended July 31, 2021 are as follows:

(in thousands)	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 481,231	$ 427,076	$ 908,307
Investment return			
Investment income	13,520	15,558	29,078
Net realized and unrealized appreciation	141,964	108,942	250,906
Investment management fees	(4,095)	(2,294)	(6,389)
Total investment return	151,389	122,206	273,595
Endowment support	(25,416)	(21,663)	(47,079)
Investment return, net of payout	125,973	100,543	226,516
Other changes in endowment investments			
Private gifts and grants	-	4,942	4,942
Maturities	-	3,597	3,597
Reinvestments, transfers, and other	760	1,170	1,930
Total other changes in endowment investments	760	9,709	10,469
Total endowment net assets, end of year	$ 607,964	$ 537,328	$ 1,145,292

Undistributed appropriations of endowment without donor restrictions was $21.3 million at July 31, 2021.

Designations of endowment funds for the year ended July 31, 2021 are as follows:

(in thousands)	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted funds:			
Original value	$ -	$ 418,285	$ 418,285
Appreciation	-	119,043	119,043
Board and University designated funds	607,964	-	607,964
	$ 607,964	$ 537,328	$ 1,145,292

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, 2022, deficits of this nature had an original value of $3.4 million and a current fair value of $3.3 million with a deficiency of $24,000. As of July 31, 2021, deficits of this nature did not exist in donor-restricted endowment funds. 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, 2022 and 2021:

(in thousands)		2022		2021
Cash and cash equivalents	$	4,651	$	8,794
Mutual funds		91,315		102,389
Fixed income		176		104
Real estate		93,792		102,903
Equities		560		486
Other		1,413		1,308
	$	191,907	$	215,984

During the year ended July 31, 2022, the University became trustee of $2.7 million of trust assets with corresponding trust and agency obligations of $1.8 million. During the year ended July 31, 2021, the University became trustee of $76.2 million of trust assets with corresponding trust and agency obligations of $41.0 million. These trust assets were formerly held by external trustees and were reclassified from beneficial interests and contributions receivable, net.

10. Property, Facilities, and Equipment

Property, facilities, and equipment consist of the following at July 31, 2022 and 2021:

(in thousands)		2022		2021
Land	$	24,720	$	28,613
Buildings and improvements		602,944		639,533
Furniture, fixtures, and equipment		55,378		53,785
Construction in progress		102,001		59,990
Total cost		785,043		781,921
Less: Accumulated depreciation		(277,146)		(290,154)
	$	507,897	$	491,767

During the year ended July 31, 2022, the University sold its property in Lausanne, Switzerland for $26.9 million, realizing a gain of $19.5 million. Disposals of fully depreciated assets resulted in a loss of $137,000. The University had no sales of property, facilities, and equipment during the year ended July 31, 2021 and disposals of fully depreciated assets did not generate a gain or loss.

11. Line of Credit

During the year ended July 31, 2021, the University had a $50.0 million committed line of credit available for general corporate purposes at the LIBOR daily floating rate plus 0.55% per annum. The line expired on July 1, 2022. The University has never drawn on its lines of credit.

12. Long-Term Obligations

Long-term obligations consist of the following at July 31, 2022 and 2021:

(in thousands, except original issue amount)		**2022**		**2021**
CEFA Revenue Bonds (Pepperdine University) Series 2015, 2.00% - 5.00% due 2016 - 2045 (Original issue amount $76,455,000)	$	8,505	$	69,945
CEFA Revenue Bonds (Pepperdine University) Series 2016, 3.00% - 5.00% due 2019 - 2049 (Original issue amount $100,000,000)		8,000		97,835
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)		19,675		20,870
Pepperdine Taxable Bond, Series 2020A, 3.301% due 2059 (Original issue amount $223,505,000)		223,505		223,505
Pepperdine Taxable Bond, Series 2021A, 0.592% - 2.840%, due 2022-2051 (Original issue amount $220,460,000)		220,460		-
		605,145		537,155
Net premium on long-term obligations		3,785		26,830
Bond issuance costs		(2,629)		(2,903)
	$	606,301	$	561,082

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, 2022 and July 31, 2021.

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

At July 31, 2022, principal payments on the preceding obligations are due in the following fiscal years:

(in thousands)		
2023	$	5,530
2024		5,730
2025		5,935
2026		6,175
2027		6,430
Thereafter		575,345
	$	605,145

13. Leases

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

Future minimum lease payments expiring through fiscal 2029 under these non-cancelable operating leases at July 31, 2022 are as follows:

(in thousands)

2023	$	11,199
2024		10,880
2025		9,916
2026		8,511
2027		7,267
Thereafter		13,993
		61,766
Discount to present value		(3,672)
	$	58,094

The operating lease costs for the years ended July 31, 2022 and July 31, 2021 were both $11.8 million. Cash payments recorded for the year ended July 31, 2022 and July 31, 2021 was $12.3 million and $11.9 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 6.3 years and 6.9% for the years ended July 31, 2022 and 2021, respectively. The weighted average discount rate of 2.0% and 2.1% for the years ended July 31, 2022 and 2021, respectively, is based on a risk-free rate.

The University records short-term leases (those 12 months or less in duration) as operating expenditures in the period in which the lease obligations are incurred.

14. Asset Retirement Obligations

The following table illustrates the change in conditional asset retirement obligations during the year ended July 31, 2022:

(in thousands)

Abatement Timeframe	Average Abatement Date	Balance at July 31, 2021	Accretion	Costs Incurred	Balance at July 31, 2022
10 - 20 years	2022	$ 5,781	$ 15	$ (20)	$ 5,776
21 - 30 years	2036	31	2	-	33
31 - 40 years	2044	1,382	67	-	1,449
41 - 50 years	2048	171	8	-	179
51+ years	2061	11	-	-	11
		$ 7,376	$ 92	$ (20)	$ 7,448

15. Net Assets

At July 31, 2022 and 2021, net assets without donor restrictions and with donor restrictions were available for the following purposes:

	2022		
(in thousands)	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Educational program support	$ 185,689	$ 366,762	$ 552,451
Student scholarships and loans	163,259	196,207	359,466
Facilities and debt service	230,467	5,252	235,719
Public service	5,217	11,299	16,516
Student services and athletics	7,292	11,384	18,676
Annuities and remainder trusts	-	64,606	64,606
University designated support and reserves	386,869	-	386,869
Other	12,794	15,900	28,694
	$ 991,587	$ 671,410	$ 1,662,997

	2021		
(in thousands)	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Educational program support	$ 197,221	$ 374,508	$ 571,729
Student scholarships and loans	162,457	192,317	354,774
Facilities and debt service	213,313	6,838	220,151
Public service	5,741	10,153	15,894
Student services and athletics	1,157	10,851	12,008
Annuities and remainder trusts	-	68,391	68,391
University designated support and reserves	394,250	-	394,250
Other	13,234	15,973	29,207
	$ 987,373	$ 679,031	$ 1,666,404

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 $11.9 million and $5.1 million to these plans for the years ended July 31, 2022 and 2021, 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 agency obligations. There were no University contributions to these deferred compensation plans for the years ended July 31, 2022 and July 31, 2021. At July 31, 2022 and 2021, balances in the plans were $13.5 million and $14.9 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 the years ended July 31, 2022 and 2021, the University sold three and eight units with associated sales values of $2.7 million and $6.0 million, respectively. Should all 121 of the units be available for purchase at July 31, 2022 and 2021, 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 $84.9 million and $81.0 million, respectively.

At July 31, 2022 and 2021, the University held legal title to 25 and 20 units with a value of $17.1 million and $13.5 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, 2022 and 2021, the University guaranteed the performance of $15.6 million and $12.9 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, 2022 and 2021, University-owned notes receivable from on-campus housing sales amounted to $3.0 million and $3.5 million, respectively. These amounts are included as a component of investments on the Consolidated Statements of Financial Position. The notes bear interest at various rates ranging between 0.2% per annum and 4.2% per annum and are collateralized by deeds of trust. No allowance for loan losses has been recorded against these loans based on their collateralization and prior collection history. At July 31, 2022 and July 31, 2021, 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, 2022, natural and functional expenses consist of the following:

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

For the year ended July 31, 2021, natural and functional expenses consist of the following:

(in thousands)	Program Services	Management and General	Fundraising	Year Ended July 31, 2021 Total
Personnel	$ 154,815	$ 43,062	$ 6,343	$ 204,220
Professional services	63,236	9,953	297	73,486
Operating expenses	37,631	1,694	324	39,649
Maintenance, equipment, repairs, and utilities	5,692	13,361	5	19,058
Depreciation	22,806	5,761	112	28,679
Interest	16,683	2,859	82	19,624
	$ 300,863	$ 76,690	$ 7,163	$ 384,716

19. Related Parties

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

20. 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, 2022, the University had open commitments to invest approximately $193.7 million with investment managers and/or limited partnerships over approximately seven years.

At July 31, 2022, the University's maximum exposure under guarantees of Guaranteed Access To Education ("GATE") student loans totaled approximately $220,000.

At July 31, 2022, the University had outstanding commitments for capital expenditures in connection with the various construction projects of approximately $29.7 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.

21. 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, 2022 and July 31, 2021, respectively based on their placement within the fair-value hierarchy:

(in thousands)	**Level 1**	**Level 2**	**Level 3**	**NAV**	**Year ended July 31, 2022 Total**
Investments					
Cash and cash equivalents	$ 120,039	$ -	$ -	$ -	$ 120,039
Absolute return	-	-	-	190,200	190,200
Assets held by trustee*	101,103	411	-	64,422	165,936
Mutual funds	97,816	-	-	-	97,816
Fixed income	12,839	296,520	-	-	309,359
Real estate	-	87,025	-	82,129	169,154
Private equity	-	-	-	196,463	196,463
Natural resources	-	-	-	122,848	122,848
Public equity	1,213	-	-	150,522	151,735
Other	-	-	9,117	-	9,117
Total investments	333,010	383,956	9,117	806,584	1,532,667
Assets held as trustee or agent					
Cash and cash equivalents	4,651	-	-	-	4,651
Mutual funds	91,315	-	-	-	91,315
Fixed income	-	176	-	-	176
Real estate	-	93,659	-	133	93,792
Equities	1	-	-	559	560
Other	-	-	908	505	1,413
Total assets held as trustee or agent	95,967	93,835	908	1,197	191,907
	$ 428,977	$ 477,791	$ 10,025	$ 807,781	$ 1,724,574

(in thousands)	**Level 1**	**Level 2**	**Level 3**	**NAV**	**Year Ended July 31, 2021 Total**
Investments					
Cash and cash equivalents	$ 191,782	$ -	$ -	$ -	$ 191,782
Absolute return	-	-	-	182,042	182,042
Assets held by trustee*	122,663	767	-	64,005	187,435
Mutual funds	91,652	-	-	-	91,652
Fixed income	13,355	261,604	-	-	274,959
Real estate	-	103,772	-	80,010	183,782
Private equity	-	-	-	198,623	198,623
Natural resources	-	-	-	101,853	101,853
Public equity	-	-	-	87,385	87,385
Other	-	-	9,612	-	9,612
Total investments	419,452	366,143	9,612	713,918	1,509,125
Assets held as trustee or agent					
Cash and cash equivalents	8,794	-	-	-	8,794
Mutual funds	102,389	-	-	-	102,389
Fixed income	-	104	-	-	104
Real estate	-	102,767	-	136	102,903
Equities	-	-	-	486	486
Other	-	-	823	485	1,308
Total assets held as trustee or agent	111,183	102,871	823	1,107	215,984
	$ 530,635	$ 469,014	$ 10,435	$ 715,025	$ 1,725,109

*For the years ended July 31, 2022 and July 31, 2021, 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 and other investments. These investments do not typically transact on a regular basis, not do they have readily determinable fair values. Notes receivable primarily consists of contingent interest loans with the University's key faculty and staff to help provide affordable loans for housing. The contingent interest loans values incorporate the interest rates at the date of loan issuance and are due upon a triggering event. The primary unobservable input for these notes receivable is the applicable yield rates which range from 0.2%. to 4.9%. Interests in life insurance policies are recorded at cash surrender values. 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 financial instruments designated as Level 3:

(in thousands)		**2022**		**2021**
Beginning balance	$	10,435	$	10,364
Realized gains / (losses)		85		(74)
Unrealized gains / (losses)		91		(148)
Purchase cost		500		770
Total proceeds		(1,086)		(477)
Ending balance	$	10,025	$	10,435

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, 2022:

(in thousands, except # of funds)

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

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, 2021:

(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	$ 182,353	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	0.3 % of NAV is locked up in side-pockets
Assets Held by Trustee	US and non-US investments in private equity, venture capital, fixed income, relative value, event driven, long/short and directional	64,005	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	102,027	20	Approx 7 years	26,433	Redemptions are not permitted during the life of the fund	N/A
Private Real Estate	US and non-US real estate	80,146	28	Approx 7 years	36,488	Redemptions are not permitted during the life of the fund	N/A
Public Equity	US and non-US equity securities	87,534	4	Open Ended	-	Ranges from daily to monthly	N/A
Private Equity	US and non-US equity securities and venture capital	198,960	70	Approx 7 years	79,738	Redemptions are not permitted during the life of the fund	N/A
		$ 715,025			$ 142,659		

22. Current Economic Conditions and Subsequent Events

The spread of COVID-19, a strain of coronavirus responsible for the outbreak characterized as a pandemic by the World Health Organization, is altering the behavior of businesses and people in a manner that may have negative effects on the University's financial condition through impacts on the economy, investment markets and University operations overseas and in the United States. The extent of future impacts will depend on future developments, including but not limited to the duration of the outbreak, effects on financial markets, and overall economic impacts.

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

During fiscal year 2021, Pepperdine recognized approximately $5.5 million in total HEERF II federal funding. Consistent with the terms of the certification, the University used $1.8 million of the funds received to provide emergency financial aid grants directly to students. The University used the remaining $3.7 million to cover the institutional lost revenue and additional costs related to the disruption of campus operations due to the coronavirus. During fiscal year 2022, Pepperdine recognized approximately $9.6 million in total HEERF III federal funding. Consistent with the terms of the certification, the University used $4.8 million of the funds received to provide emergency financial aid grants directly to students. The University used the remaining $4.8 million to cover additional costs related to the disruption of campus operations due to the coronavirus.

Management has evaluated subsequent events through November 11, 2022, the date the financial statements were issued. As of August 1, 2022, 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. No amount has been drawn on this line of credit. There are no other events that require adjustment or additional disclosure in these financial statements.