



AUDITED FINANCIAL STATEMENTS

Year Ended May 31, 2022 and Summarized Information for May 31, 2021



PLU | PACIFIC
LUTHERAN
UNIVERSITY

MARTIN LUTHER
GIVEN BY THE BOARD OF TRUSTEES OF PACIFIC LUTHERAN UNIVERSITY
IN COMMEMORATION OF THE 400TH
ANNIVERSARY OF HIS BIRTH, 1517
MAY 31, 2017

Pacific Lutheran University
May 31, 2022 and 2021

Contents

Independent Auditor's Report..... 1

Consolidated Financial Statements

Statements of Financial Position..... 4
Statements of Activities 5
Statements of Cash Flows 6
Notes to Financial Statements..... 7



111 E. Wayne Street, Suite 600 / Fort Wayne, IN 46802

P 260.460.4000 / F 260.426.2235

forvis.com

Independent Auditor's Report

Board of Directors
Pacific Lutheran University
Tacoma, Washington

Opinion

We have audited the consolidated financial statements of Pacific Lutheran University and its subsidiary (University), which comprise the consolidated statement of financial position as of May 31, 2022, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pacific Lutheran University and its subsidiary, as of May 31, 2022, and the changes in their net assets and their cash flows for the year 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 (GAAS). Our responsibilities under those standards are further described in the "Auditor's 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.

Prior Year Audited by Other Auditors

The 2021 consolidated financial statements were audited by other auditors, and their report thereon, dated October 4, 2021, expressed an unmodified 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 within one year after the date that the consolidated financial statements are available to be issued.

Auditor's 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 auditor's 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 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 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.

FORVIS, LLP

Fort Wayne, Indiana
September 29, 2022

Pacific Lutheran University
Consolidated Statements of Financial Position
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Cash and cash equivalents	\$ 1,862	\$ 4,155
Student accounts receivable, net of allowance 2022 - \$653, 2021 - \$627	639	735
Grants and other receivables	957	1,069
Inventories and prepaid expenses	1,066	462
Contributions receivable, net	815	1,120
Student loans receivable, net	3,341	4,052
Investments	133,389	137,105
Fair value of interest rate swap asset	1,127	-
Assets held under split-interest agreements	16,406	15,077
Reserve for bond payments	1,441	1,441
Property, plant, and equipment, net	<u>121,319</u>	<u>125,767</u>
 Total assets	 <u>\$ 282,362</u>	 <u>\$ 290,983</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 12,789	\$ 12,806
Long-term debt, net	59,907	61,327
Student deposits	1,769	2,316
Government grants refundable	4,856	5,690
Liabilities under split-interest agreements	10,115	9,113
Fair value of interest rate swap liability	-	784
Other liabilities	1,215	1,291
Total liabilities	<u>90,651</u>	<u>93,327</u>
Net Assets		
Net assets without donor restrictions	79,423	80,362
Net assets with donor restrictions	<u>112,288</u>	<u>117,294</u>
Total net assets	<u>191,711</u>	<u>197,656</u>
 Total liabilities and net assets	 <u>\$ 282,362</u>	 <u>\$ 290,983</u>

Pacific Lutheran University
Consolidated Statements of Activities
(Dollar Amounts in Thousands)
Years Ended May 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains (Losses), and Other Support						
Tuition and fees, net	\$ 52,507	\$ -	\$ 52,507	\$ 58,464	\$ -	\$ 58,464
Sales and services of auxiliary enterprises	13,533	-	13,533	8,387	-	8,387
Grants	4,647	2,136	6,783	3,322	1,965	5,287
Contributions	5,603	5,034	10,637	3,159	12,052	15,211
Investment return (loss)	26	(6,718)	(6,692)	9,710	17,619	27,329
Change in value of split-interest agreements	(605)	(488)	(1,093)	554	1,056	1,610
Other revenue	2,475	-	2,475	2,123	-	2,123
Net assets released from restrictions	6,758	(6,758)	-	8,678	(8,678)	-
Total revenues, gains (losses), and other support	<u>84,944</u>	<u>(6,794)</u>	<u>78,150</u>	<u>94,397</u>	<u>24,014</u>	<u>118,411</u>
Expenses						
Instruction	30,094	-	30,094	27,374	-	27,374
Public service	1,081	-	1,081	865	-	865
Academic support	4,154	-	4,154	4,029	-	4,029
Student services	10,475	-	10,475	8,932	-	8,932
Institutional support	19,451	-	19,451	19,308	-	19,308
Auxiliary enterprises	7,327	-	7,327	5,668	-	5,668
Allocated expenses	14,197	-	14,197	14,707	-	14,707
Total expenses	<u>86,779</u>	<u>-</u>	<u>86,779</u>	<u>80,883</u>	<u>-</u>	<u>80,883</u>
Change in Net Assets Before Other Activities	<u>(1,835)</u>	<u>(6,794)</u>	<u>(8,629)</u>	<u>13,514</u>	<u>24,014</u>	<u>37,528</u>
Other Activities						
Excess depreciation adjustment	-	-	-	(1,383)	-	(1,383)
Liability adjustment for funds held for others	-	773	773	-	-	-
Adjustment for operating lease elimination	(239)	239	-	(361)	361	-
Reclassification of net assets	(776)	776	-	-	-	-
Gain on interest rate swap	1,911	-	1,911	856	-	856
Change in Net Assets	<u>(939)</u>	<u>(5,006)</u>	<u>(5,945)</u>	<u>12,626</u>	<u>24,375</u>	<u>37,001</u>
Net Assets, Beginning of Year	<u>80,362</u>	<u>117,294</u>	<u>197,656</u>	<u>67,736</u>	<u>92,919</u>	<u>160,655</u>
Net Assets, End of Year	<u>\$ 79,423</u>	<u>\$ 112,288</u>	<u>\$ 191,711</u>	<u>\$ 80,362</u>	<u>\$ 117,294</u>	<u>\$ 197,656</u>

Pacific Lutheran University
Consolidated Statements of Cash Flows
(Dollar Amounts in Thousands)
Years Ended May 31, 2022 and 2021

	2022	2021
Operating Activities		
Change in net assets	\$ (5,945)	\$ 37,001
Items not requiring (providing) cash		
Depreciation	5,726	6,990
Accretion	58	61
Amortization	41	227
Provision (credit) for doubtful student accounts and pledges	(40)	(33)
Net realized and unrealized losses (gains) on investments	8,952	(28,765)
Change in value of split interest agreements	612	(6,203)
Unrealized gain on interest rate swaps	(1,911)	(856)
Contributions to restricted long-term investment, loans, and plant	(6,398)	(1,015)
Gain on disposal of assets	-	(278)
Changes in		
Student accounts receivable	70	574
Grants and other receivables	112	932
Inventories, prepaid expense, and deposits	(604)	258
Contributions receivable	322	339
Accounts payable, accrued liabilities, and other liabilities	(151)	3,025
Student deposits	(547)	(595)
Government grants refundable	(834)	(938)
Net cash (used in) provided by operating activities	(537)	10,724
Investing Activities		
Purchases of investments	(30,180)	(34,813)
Proceeds from sale of investments	24,944	23,268
Purchase of property and equipment	(1,278)	(3,897)
Proceeds from sale of property and equipment	-	330
Net change in student loans receivable	760	706
Net cash used in investing activities	(5,754)	(14,406)
Financing Activities		
Payments on long-term debt	(1,461)	(1,413)
Contributions to restricted long-term investment, loans, and plant	6,398	1,015
Annuity payments and other	(939)	4,350
Net cash provided by financing activities	3,998	3,952
(Decrease) Increase in Cash and Cash Equivalents	(2,293)	270
Cash and Cash Equivalents, Beginning of Year	4,155	3,885
Cash and Cash Equivalents, End of Year	\$ 1,862	\$ 4,155
Supplemental Cash Flows Information		
Interest paid	\$ 1,936	\$ 2,196

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Note 1: Organization

Pacific Lutheran University (University) is a private nonprofit institution based in Tacoma, Washington, that offers a full range of liberal arts academic programs to undergraduate and graduate students. Affiliated with the Evangelical Lutheran Church in America, the University enrolls approximately 2,700 students. The University offers 49 majors and 59 minors, as well as graduate and professional programs in business administration, creative writing, education, finance, marketing analytics, marriage and family therapy, kinesiology, and nursing.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting and Principles of Consolidation

The accompanying financial statements are the consolidated statements of the University and its wholly-owned subsidiary Garfield Commons, LLC for the years ended May 31, 2022 and 2021. All material transactions between the University and its consolidated subsidiary have been eliminated. The accounting policies of the University reflect practices common to colleges and universities and conform to accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of short-term, highly liquid investments with an original maturity of three months or less, except for those held for long-term investment. The University's cash balances exceed Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) insured amounts at times. The University has not experienced any significant losses on its cash investments.

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Student Accounts Receivable

Student accounts receivable are stated at the amount of consideration from students of which the University has an unconditional right to receive. The University provides an allowance for doubtful accounts. Management determines the sufficiency of the allowance based on the length of time past due and historical experience. Student accounts are written off when all means of collection have been exhausted and collection is deemed unlikely.

Investments and Investment Return

Investments are stated at fair value. Whenever available, quotations from organized securities exchanges are used as the basis for fair value. For investments not traded on organized exchanges, fair value estimates are provided by investment managers. Real estate held for investment is recorded at estimated fair value based on appraisals or other reliable documentation.

Alternative investments are investments for which there is no readily determinable published value. The University is in the process of liquidating its alternative investment portfolio as opportunities become available. It is the University's strategy to have a balanced portfolio of equity, fixed income, and real estate investments.

Income from gains and losses are shown net of external and direct internal expenses on investments of endowment and similar funds and are reported as follows:

- Increases or decreases in net assets with donor restrictions if the terms of the gift or the University's interpretation of relevant state law requires they be added to the principal of a net asset with donor restrictions.
- Increases or decreases in net assets with donor restrictions if the terms of the gift impose restrictions on the use of the income.
- Increases or decreases in net assets without donor restrictions in all other cases.

Inventories

Bookstore inventories are valued at a percentage of retail value, which approximates cost and is not in excess of net realizable value.

Bond Proceeds Restricted for Capital Projects

Bond proceeds held by the trustee include amounts restricted for debt service as required by the trust indentures. These deposit accounts are not considered to be cash and cash equivalents.

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Bond Issuance Costs

Costs of bond issuance are deferred and amortized over the term of the related indebtedness and recorded as a charge against long-term debt.

Property, Plant, and Equipment

Property, plant, and equipment acquisitions over \$5 are stated at cost, less accumulated depreciation. Depreciation is charged to expense on the straight-line basis over the estimated useful life of each asset. Leasehold improvements are amortized over the shorter of the lease term or respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings	50 years
Building improvements	10 years
Improvements other than buildings	10 years
Library books	15 years
Equipment	10 years
Leasehold improvements	15 years

Long-Lived Asset Impairment

The University evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended May 31, 2022 and 2021.

Asset Retirement Obligations

The University recognizes the fair value of a liability for legal obligations associated with asset retirements under other liabilities on the consolidated statements of financial position in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made.

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Substantially all of the University's asset retirement obligations relate to estimated costs to remove asbestos from campus facilities. The estimate of the losses that are probable for asbestos removal was calculated using the expected cash flow approach and based on an inventory of the University's long-lived assets combined with an estimate of the current market prices to remove the asbestos. The University utilized a credit-adjusted risk-free rate to discount the asset retirement obligation.

Changes in the accrual for asset retirement obligations reflected in other liabilities on the consolidated statements of financial position for the years ended May 31, 2022 and 2021, are as follows:

	2022	2021
Balance, beginning of year	\$ 1,291	\$ 1,230
Accretion expense	58	61
Write-off of fully abated assets	(134)	-
Balance, end of year	\$ 1,215	\$ 1,291

Government Grants Refundable

Historically, funds provided by the United States Government under the Federal Perkins and Nursing Loan Programs are loaned to qualified students and could be reloaned after collections. The Federal Perkins Loan Program was discontinued on September 30, 2017, and the University will not be extending any further funds from this program. There is a 10-year period for the University to collect on these loans. In 2020, the Federal Government began requiring repayment of these loans. To date, the University has repaid \$2,953 of these loans to the U.S. Department of Education however, the timing and completion of final repayment remains unclear. These funds are ultimately refundable to the government and are included as liabilities in the consolidated statements of financial position.

Income Tax Status

The University is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income.

The University files tax returns in the U.S. federal jurisdiction.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions.

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions. The governing board has designated, from net assets without donor or certain grantor restrictions, net assets for a board-designated endowment.

Net assets with donor restrictions are subject to donor or certain grantor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor or grantor stipulates that resources be maintained in perpetuity.

Releases From Restriction

Expirations of restrictions on net assets (*i.e.*, the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed, and the law allows the release of the restriction) are reported on the consolidated statements of activities as net assets released from restrictions. Occasionally donor restrictions related to net assets may be clarified or changed, at which time they are reflected as reclassification of prior year net assets on the consolidated statements of activities.

Tuition and Auxiliary Services Revenue

Tuition revenue is recognized over the term of the semester as the University provides services to students. Revenue is reported at the amount of consideration which the University expects to be entitled in exchange for providing tuition and auxiliary services. The University determines the transaction price based on standard charges for goods and services provided, reduced by discounts provided for scholarships provided to students.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Contributions received whose donor-imposed restrictions are met within the same reporting period are reported as increases in net assets without donor restrictions.

Expirations of restrictions on net assets with donor restrictions are reported as net assets released from restrictions between the applicable classes of net assets. Conditional promises to give are recognized when the donor-imposed conditions are substantially met.

Unconditional promises to give, due after one year, are reported at the present value of net realizable value, using interest rates approximating the three year annual average of U.S. inflation rates. Amortization of discounts is recorded within contribution revenue, if any.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues without donor restrictions. Contributions of cash or other assets to be used to acquire property and equipment are reported as revenues with donor restrictions; the restrictions are considered to be released at the time such long-lived assets are placed in service.

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Government Grants

Support funded by grants is recognized as the University meets the conditions prescribed by the grant agreement, performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Retirement Plans

The University has a defined contribution retirement plan for academic and nonacademic personnel. Individual contributions are based on a percentage of compensation. The University's contribution rate was 7.5% and 3% as of May 31, 2022 and 2021, respectively, resulting in total contributions of approximately \$2,890 and \$1,644, respectively. The reduction to 3% became effective on September 1, 2020, for a period of one year, and expired on August 31, 2021. This decision was made in response to uncertainty concerning the COVID-19 pandemic. The University also offers a deferred compensation plan to certain employees under Section 457 of the Internal Revenue Code. Total plan liabilities were \$667 and \$444 as of May 31, 2022 and 2021, respectively, and were reported within accounts payable and accrued liabilities on the consolidated statements of financial position.

Fundraising and Advertising Expenses

Fundraising expenses totaled \$2,791 and \$2,533 for the years ended May 31, 2022 and 2021, respectively. Advertising costs are expensed as incurred.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Note 15 presents the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general, and fundraising categories based on the pro rata share of on campus square footage and other methods.

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Note 3: Contributions Receivable

Contributions receivable consisted of the following:

	<u>2022</u>	<u>2021</u>
Due within one year	\$ 382	\$ 398
Due in one to five years	539	801
	<u>921</u>	<u>1,199</u>
Less		
Unamortized discount (0.25% - 2.50%)	(50)	(7)
Allowance for uncollectible promises to give	<u>(56)</u>	<u>(72)</u>
	<u>\$ 815</u>	<u>\$ 1,120</u>

Note 4: Student Loans Receivable

The University issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Student loans receivable are carried at the amount of unpaid principal less an estimated allowance for doubtful accounts. Allowances for doubtful accounts are established based on prior collection experience and current economic factors, which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms.

At May 31, 2022 and 2021, student loans represented approximately 1.2% and 1.4% of total assets.

At May 31, 2022 and 2021, student loans consisted of the following:

	<u>2022</u>	<u>2021</u>
Federal government programs	\$ 3,564	\$ 4,324
Less allowance for doubtful accounts		
Beginning of year	272	328
Decrease in allowance	(49)	(56)
End of year	<u>223</u>	<u>272</u>
Student loans receivable, net	<u>\$ 3,341</u>	<u>\$ 4,052</u>

Funds advanced by the federal government, including interest earned on federally funded loans, of \$4,856 and \$5,690 as of May 31, 2022 and 2021, respectively, are ultimately refundable to the government and are classified as liabilities in the consolidated statements of financial position.

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is charged. Student loans receivable through the loan programs are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are charged and recognized. The Federal Perkins and Nursing Loan Program receivables may be assigned to the U.S. Department of Education and U.S. Department of Health and Human Services, respectively. Students may be granted a deferment, forbearance, or cancellation of their student loan based on eligibility requirements defined by the U.S. Department of Education and U.S. Department of Health and Human Services.

A student loan receivable is considered to be delinquent if any portion of the receivable balance is outstanding for more than 60 days after the billing date. At May 31, 2022 and 2021, the following amounts were past due under student loan programs:

	Amounts Past Due			
	60-89 Days	90-119 Days	120+ Days	Total
2022	\$ 1	\$ 1	\$ 536	\$ 538
2021	-	1	806	807

Note 5: Investments

The following summarizes the University's investments at May 31:

	2022	2021
Stocks, included in short-term investments	\$ -	\$ 3
Endowed investments	118,858	122,411
Real estate, excluding endowment	13,459	13,106
Other	1,072	1,585
	\$ 133,389	\$ 137,105

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Note 6: Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Prices or valuations that require using significant unobservable inputs in determining fair value. The inputs into the determination of fair value require significant judgment or estimation. The use of either the market approach, which generally consists of using comparable market transactions, or the income approach which generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market, and/or other risk factors.

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying statements of financial position at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at May 31, 2022 and 2021:

	2022				
	Total Fair Value	Fair Value Measurements Using			Investments Measured at NAV^(A)
Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobserv- able Inputs (Level 3)		
Investments					
Short-term investments	\$ 134	\$ 134	\$ -	\$ -	\$ -
Mutual funds					
Domestic equity funds	17,565	17,565	-	-	-
Global fixed income funds	15,015	15,015	-	-	-
Index funds	36,104	36,104	-	-	-
Corporate bond funds	15,876	15,876	-	-	-
High yield bond funds	2,670	-	2,670	-	-
Commodity funds	11,345	11,345	-	-	-
Investments in real estate	13,909	-	13,909	-	-
Perpetual trusts held by others	16,053	-	-	16,053	-
Garfield North, LLC	2,098	-	-	2,098	-
Cash surrender value of life insurance	1,244	-	-	1,244	-
Alternative investments	586	-	-	-	586
Total investments	132,599	96,039	16,579	19,395	586
Assets Held Under Split-Interest Agreements					
Short-term investments	373	-	373	-	-
Mutual funds					
Domestic equity funds	5,384	5,384	-	-	-
International equity funds	3,402	3,402	-	-	-
Global fixed income funds	839	-	839	-	-
U.S. government bond funds	1,648	-	1,648	-	-
Corporate bond funds	1,942	-	1,942	-	-
High yield bond funds	347	-	347	-	-
Real estate funds	2,471	2,471	-	-	-
Total assets held under split-interest agreements	16,406	11,257	5,149	-	-
Reserve for Bond Payment	1,441	1,441	-	-	-
Interest Rate Swap	1,127	-	1,127	-	-

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

	2021				
	Fair Value Measurements Using				
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobserv- able Inputs (Level 3)	Investments Measured at NAV ^(A)
Investments					
Short-term investments	\$ 185	\$ 182	\$ 3	\$ -	\$ -
Mutual funds					
Domestic equity funds	18,367	18,367	-	-	-
Global fixed income funds	11,525	11,525	-	-	-
Index funds	37,627	37,627	-	-	-
Corporate bond funds	19,708	19,708	-	-	-
High yield bond funds	1,519	-	1,519	-	-
Commodity funds	13,768	13,768	-	-	-
Investments in real estate	13,474	-	13,474	-	-
Perpetual trusts held by others	16,067	-	-	16,067	-
Garfield North, LLC	3,104	-	-	3,104	-
Cash surrender value of life insurance	1,344	-	-	1,344	-
Alternative investments	663	-	-	-	663
Total investments	137,351	101,177	14,996	20,515	663
Assets Held Under Split-Interest Agreements					
Short-term investments	436	-	436	-	-
Mutual funds					
Domestic equity funds	4,802	4,802	-	-	-
International equity funds	3,110	3,110	-	-	-
Global fixed income funds	781	-	781	-	-
U.S. government bond funds	1,492	-	1,492	-	-
Corporate bond funds	1,860	-	1,860	-	-
High yield bond funds	313	-	313	-	-
Real estate funds	2,282	2,282	-	-	-
Total assets held under split-interest agreements	15,076	10,194	4,882	-	-
Reserve for Bond Payment	1,441	1,441	-	-	-
Interest Rate Swap	(784)	-	(784)	-	-

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts prescribed in the consolidated statements of financial position. The following tables list the alternative investments in which NAV was utilized as the practical expedient for estimating fair value by major category as of May 31, 2022:

May 31, 2022	Fair Value	Remaining Life	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Private equity	\$ 375	1 to 12 years	\$ 356	3 to 5 years to draw	N/A
Funds of funds	\$ 211	N/A	None	Annual with 120 days notice	1 year lock-up. Upon full redemption, 90% is returned, with the remaining 10% held back until the completion of the annual audit.

May 31, 2021	Fair Value	Remaining Life	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Private equity	\$ 458	1 to 12 years	\$ 356	3 to 5 years to draw	N/A
Funds of funds	\$ 205	N/A	None	Annual with 120 days notice	1 year lock-up. Upon full redemption, 90% is returned, with the remaining 10% held back until the completion of the annual audit.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at May 31, 2022 and 2021.

Mutual and Commodity Funds

Valued at the daily closing price as reported by the fund. Mutual funds held by the University are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price.

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Short-Term Investments

Primarily consist of money market funds for which quoted prices are not readily available. The fair values are estimated using Level 2 inputs based on multiple sources of information, which may include market data and/or quoted market prices from either market that, are not active or are for the same or similar assets in active markets.

Reserve for Bond Payment

Valued at the daily closing price as reported by the fund. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The funds held by the University are deemed to be actively traded.

Investments in Real Estate

Determined by the market approach using appraised values, property tax assessments, capitalization rates, and other information for similar assets.

Hedge Funds, Private Equity Funds, and Funds of Funds

Quoted prices are not readily available and funds cannot be redeemed within a short period of time. The University has estimated the fair value of these funds using the NAV provided by the investee as of the most recent date, adjusted for cash receipts, cash disbursements, and significant known valuation changes in market values of publicly held securities contained in the portfolio and security distributions through May 31, 2022 and 2021.

Perpetual Trusts Held by Others

Estimate of fair value is based on fair value of underlying investments of the University's proportionate interest in the trusts based on Level 3 information received from trustees. Trust assets consist of, but are not limited to, cash and cash equivalents, corporate and government bonds, mutual funds, and equity securities. These assets are not subject to control or direction by the University.

Interest Rate Swap

The fair value of the interest rate swap is calculated and reported by the issuing bank as the present value of the difference between the fixed-rate payments to be made by the University and the variable rate payments to be received by the University under the terms of the swap. The fixed-rate payments are known, and the variable-rate payments are estimated based on the market yield curve that are observable or that can be corroborated by market data and, therefore, is classified within Level 2 of the valuation hierarchy.

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. While the University believes 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 presents a reconciliation of the consolidated statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended May 31, 2022:

	Perpetual Trusts Held by Others	Garfield North, LLC	Cash Surrender Value of Life Insurance
Balance, June 1, 2020	\$ 13,459	\$ 2,698	\$ 1,322
Total realized and unrealized gains included in change in net assets	<u>2,608</u>	<u>406</u>	<u>22</u>
Balance, May 31, 2021	16,067	3,104	1,344
Maturities	-	-	(142)
Total realized and unrealized (losses) gains included in change in net assets	<u>(14)</u>	<u>(1,006)</u>	<u>42</u>
Balance, May 31, 2022	<u>\$ 16,053</u>	<u>\$ 2,098</u>	<u>\$ 1,244</u>

Total gains and losses are included in the consolidated statements of activities for the years ended May 31, 2022 and 2021.

Note 7: Endowment Investments

The University's endowment consists of 615 and 598 individual funds at May 31, 2022 and 2021, respectively, established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed stipulations. Board-designated funds are classified as net assets without donor restrictions.

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Interpretation of Relevant Law

The University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the 2009 Washington legislature as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as net assets with donor restrictions: (a) the original value of gifts donated to the donor-restricted endowment, (b) the original value of subsequent gifts to the donor-restricted endowment, and (c) accumulations to the donor-restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the University and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the University
7. Investment policies of the University

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

The following summarizes the University's endowment investments, which are recorded at fair value unless otherwise noted, at May 31:

	2022			
	Without Donor Restrictions	With Donor Restrictions		Total
		Original Gift	Accumulated Gains (Losses)	
Board-designated funds - purpose	\$ 19,460	\$ -	\$ -	\$ 19,460
Donor-restricted funds				
Underwater funds	-	36,816	(1,828)	34,988
Other funds	-	45,902	5,494	51,396
Funds held by others	-	7,696	9,601	17,297
Total endowment funds	\$ 19,460	\$ 90,414	\$ 13,267	\$ 123,141
	2021			
	Without Donor Restrictions	With Donor Restrictions		Total
		Original Gift	Accumulated Gains (Losses)	
Board-designated funds - purpose	\$ 21,696	\$ -	\$ -	\$ 21,696
Donor-restricted funds				
Underwater funds	-	7,659	(477)	7,182
Other funds	-	70,797	12,975	83,772
Funds held by others	-	7,696	9,715	17,411
Total endowment funds	\$ 21,696	\$ 86,152	\$ 22,213	\$ 130,061

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Changes to the endowment net assets for the years ended May 31, 2022 and 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 1, 2020	\$ 15,585	\$ 85,272	\$ 100,857
Investment return			
Investment income, net	573	4,281	4,854
Net appreciation	4,923	15,114	20,037
Total investment return	<u>5,496</u>	<u>19,395</u>	<u>24,891</u>
Contributions	190	5,358	5,548
Appropriation of endowment net assets for expenditure	(18)	(1,323)	(1,341)
Transfers	443	(337)	106
Endowment net assets, May 31, 2021	<u>21,696</u>	<u>108,365</u>	<u>130,061</u>
Investment return (loss)			
Investment income, net	-	2,238	2,238
Net depreciation	(1,282)	(8,305)	(9,587)
Total investment return (loss)	<u>(1,282)</u>	<u>(6,067)</u>	<u>(7,349)</u>
Contributions	263	3,885	4,148
Appropriation of endowment net assets for expenditure	(770)	(2,874)	(3,644)
Transfers	(447)	372	(75)
Endowment net assets, May 31, 2022	<u>\$ 19,460</u>	<u>\$ 103,681</u>	<u>\$ 123,141</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. UPMIFA allows an institution to continue to spend on an endowment that is below the level of the original contributions and the University does not have a policy to suspend distributions on such endowments. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new donor-restricted contributions and continued appropriation for certain programs that was deemed prudent by the governing board.

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce an acceptable level of return while assuming a moderate level of investment risk. The University expects its endowment funds, over time, to provide an average annual rate of approximately 7%. Actual returns in any year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The University has a policy that limits the amount the endowment shall distribute annually to 4.5% of a three-year average market value of the principal, on a unit value basis. The average computation is to include the November 30 quarter end preceding the beginning of the fiscal year. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects to achieve a total return, over a three-year moving average basis, at least equal to the spending rate plus the rate of inflation as measured by the Consumer Price Index (CPI) for urban customers. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Note 8: Net Assets With Donor Restrictions

Net assets with donor restrictions at May 31, 2022 and 2021, are restricted for the following purposes or periods:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose	\$ 1,748	\$ 2,925
Contributions receivable and split-interest agreements	6,859	6,004
Endowments		
Subject to appropriation when a specified event occurs	13,267	22,213
Subject to endowment spending policy and appropriation	<u>90,414</u>	<u>86,152</u>
Total endowments	<u>103,681</u>	<u>108,365</u>
Total net assets with donor restrictions	<u>\$ 112,288</u>	<u>\$ 117,294</u>

Net assets with donor restrictions are released by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors during the years ended May 31 were as follows:

	<u>2022</u>	<u>2021</u>
Scholarships, instruction, and other departmental support	\$ 4,279	\$ 6,069
Other releases from restrictions	<u>2,479</u>	<u>2,609</u>
	<u>\$ 6,758</u>	<u>\$ 8,678</u>

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Note 9: Long-Term Debt and Line of Credit

Long-term debt at May 31 consisted of the following:

	Interest Rate Mode	Interest Rate	Maturity Date	May 31,	
				2022	2021
Series 2014 bonds - term	Fixed	4.63%	11/1/2041	\$ 5,800	\$ 5,800
Series 2014 bonds - serial	Fixed	5.25%	11/1/2044	4,200	4,200
Series 2016 bonds	Variable rate	2.10%	11/1/2041	42,086	43,547
Commercial mortgage	Stepped	3.88%	3/1/2030	8,473	8,473
				60,559	62,020
Less unamortized discount, premium, and debt issuance costs				(652)	(693)
				\$ 59,907	\$ 61,327

Series 2014

In June 2014, the Washington Higher Education Facilities Authority (WHEFA) issued Revenue Bonds (Pacific Lutheran University) Series 2014 on behalf of the University totaling \$10,000. The bond proceeds were used to provide a portion of the funds to finance the renovations, additions, and improvements to University residence halls, including Stuen Hall, Ordal Hall, and South Hall, and to other University facilities located on its campus and to pay the costs of issuing the bonds. Principal payments begin on November 1, 2037. Unamortized debt issuance costs totaled \$154 and \$161 for the years ended May 31, 2022 and 2021, respectively.

Series 2016

In August 2016, WHEFA issued Refunding Revenue Bonds (Pacific Lutheran University Project) Series 2016 on behalf of the University totaling \$48,933. The bond proceeds were used to refund the Series 2006 WHEFA bonds. The structure of the bonds moved from fixed rate term and serial bonds to variable rate direct placement bonds. The interest rate is calculated at 70% of LIBOR plus an applicable margin ranging from 140 to 200 basis points based on the University's liquidity ratio as defined in the bond agreement (2.10% and 2.06% at May 31, 2022 and 2021, respectively). Principal payments on the bonds began in November 2017 and range from \$1,821 to \$2,830, paid annually. Unamortized debt issuance costs totaled \$310 and \$330 for the years ended May 31, 2022 and 2021, respectively.

The bonds are secured by a pledge of all revenues without donor restrictions as defined by the security agreement and the University's interest, if any, in the Debt Service Fund.

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Commercial Mortgage

On February 21, 2020, Garfield Commons LLC, a wholly-owned subsidiary, refinanced its commercial mortgage to Kitsap Credit Union, for \$8,473. The note is secured by the assets of Garfield Commons LLC, with the University providing a limited guarantee. The note bears interest of 3.88% with principal payments commencing in March 2023. The proceeds were used to refinance existing debt and the remaining proceeds were used to provide liquidity to the endowment. Unamortized debt issuance costs totaled \$97 and \$107 for the years ended May 31, 2022 and 2021, respectively.

Lines of Credit

The University maintains an unsecured \$5,000 line of credit, which it could draw upon in the event of an unanticipated liquidity need. The University had borrowed \$5,000 and \$4,000 on the line as of May 31, 2022 and 2021, respectively, and is included with accounts payable and accrued expenses on the consolidated statements of financial position. The line is scheduled to renew annually on November 1 and accrued interest at 4% and 3.25% as of May 31, 2022 and 2021, respectively.

The University maintains a margin credit facility with Charles Schwab, its investment custodian, equal to 50% of all securities and cash under custody, which serves as the collateral. As of May 31, 2022, the University had no outstanding balance on the credit facility, and total funds available for withdrawal of \$39,485. As of May 31, 2022, the margin rate was 1.16%, and is based on the Federal Funds rate plus a 1.1% credit spread.

The loan agreements with the Washington Higher Education Facilities Authority require the University to comply with certain financial and other covenants described in those agreements. As of May 31, 2022, management is not aware of any violations of these covenants.

The approximate payment obligation requirements for all long-term debt for the five years subsequent to May 31, 2022, are:

2023	\$ 1,532
2024	1,699
2025	1,757
2026	1,812
2027	1,845
Thereafter	<u>51,914</u>
	<u>\$ 60,559</u>

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Note 10: Property and Equipment

Property and equipment at May 31, 2022 and 2021, consists of:

	<u>2022</u>	<u>2021</u>
Land	\$ 3,554	\$ 3,554
Buildings	160,247	160,052
Improvements other than buildings	8,535	8,213
Equipment and vehicles	9,100	9,986
Library books	2,610	3,135
Leasehold improvements	8,508	8,508
Nondepreciated assets	1,194	1,194
Construction in progress	147	167
	<u>193,895</u>	<u>194,809</u>
Less accumulated depreciation and amortization	<u>(72,576)</u>	<u>(69,042)</u>
	<u>\$ 121,319</u>	<u>\$ 125,767</u>

The University has written off library assets that are fully depreciated and obsolete in the amount of \$543 and \$560 as of May 31, 2022 and 2021, respectively. The University also disposed of \$1,650 of fully depreciated buildings, building improvements, and equipment for the year ended May 31, 2022.

Note 11: Deferred Gift Agreements

The University has arrangements with donors classified as charitable lead trusts, charitable remainder trusts, and charitable gift annuities. In general, under these arrangements, the University receives a gift from a donor in which it has a remainder interest and agrees to pay the donor stipulated amounts over the life of the donor. The arrangement may cover one or more lives. The University invests and administers the related assets and makes distributions to the beneficiaries as required. When the agreement reaches the end of its term, remaining assets are retained by the University as net assets without donor restrictions or net assets with donor restrictions, or in some instances, distributed to third-party beneficiaries. Liabilities recorded under these arrangements totaled \$10,115 and \$9,113 at May 31, 2022 and 2021, respectively. Total assets held by the University under deferred gift agreements totaled \$16,888 and \$15,204 at May 31, 2022 and 2021, respectively.

When a gift is received under one of these arrangements, it is split into the amount representing the actuarial present value of future distributions back to the donor and the remaining gift value to be retained for the benefit of the University or third-party beneficiaries.

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered, and age and sex characteristics of the donor. The University used discount rates ranging from 1.2% to 10.6% in making the calculations at May 31, 2022 and 2021.

The University maintains separate reserve funds adequate to meet future payments under its charitable gift annuity contracts as required by governing states' law. The total amount held in separate reserve funds under liabilities as split-interest agreements on the consolidated statements of financial position was \$1,393 and \$974, respectively, as of May 31, 2022 and 2021.

Note 12: Operating Leases

The University has an operating lease for equipment and also has four building facility leases. Rental expense under all leases totaled \$642 and \$669 for the years ended May 31, 2022 and 2021, respectively. As of May 31, 2022, the University's four building facility leases had maturities ranging from 2023 to 2025. Two of the facility leases are between the University and Garfield Commons, LLC, which became a wholly-owned subsidiary in fiscal year 2020; due to consolidation, intercompany rental expense of \$239 has been eliminated on the consolidated statements of activities for fiscal year 2022.

Thereafter, future minimum lease payments at May 31, 2022, were:

2023	\$	316
2024		274
2025		202
	\$	792

Note 13: Interest Rate Swap

The University uses variable-rate debt to finance the acquisition of land, buildings, and equipment as indicated in Note 9. The variable rate at May 31, 2022 and 2021, was 2.10% and 2.06% (70% of LIBOR plus an applicable margin ranging from 140 to 200 basis points based on the University's liquidity ratio as defined in the bond agreement), respectively. These debt obligations expose the University to variability in interest payments due to changes in interest rates. The University believes it is prudent to limit the variability of a portion of its interest payments and has entered into an interest rate swap to manage fluctuation in cash flows resulting from interest rate risk.

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Under the interest rate swap, the University receives variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of fixed-rate debt. In August 2016, the University acquired a 10-year amortizing swap from Washington Federal at a fixed rate of 1.016%. The notional amount of this swap fluctuates over time per the underlying amortization schedule as principal payments are made on the bonds. The amortizing swap had a notional amount of \$34,304 and \$35,519 at May 31, 2022 and 2021, respectively. There was no cash exchange at the time of acquisition of this swap due to the relationship between the variable rates and the swap rate at that time.

Change in the fair value of the interest rate swap is reported as unrealized gains or losses on interest rate swap related to bonds on the consolidated statements of activities. Providing that the University holds the swap to maturity, the value of the derivative will be zero. This swapping transaction can be terminated at the market rates at any time during the term of the swap.

The University does not enter into derivative instruments for any purpose other than interest payment hedging purposes and does not speculate for investment purposes using derivative instruments.

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Note 14: Liquidity and Availability

The following table reflects the University's financial assets as of May 31, 2022 and 2021, reduced by amounts not available for general expenditures within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Other considerations of non-liquid assets are state required annuity reserves, assets held for others, perpetual endowments and accumulated earnings net of appropriations within one year, trust assets or governing board designations for long-term investment. These investments include quasi-endowments and trusts.

	2022	2021
Financial Assets		
Cash and cash equivalents	\$ 1,862	\$ 4,155
Accounts receivable	639	735
Contributions receivable	815	1,120
Grants and other receivables	957	1,069
Investments	133,389	137,105
Assets held under split-interest agreements	16,406	15,077
Bond reserves restricted	1,441	1,441
Financial assets, at year-end	155,509	160,702
Less those unavailable for general expenditure within one year		
Accounts and contributions receivable collectible beyond one year	1,049	1,310
Grants and other receivables unavailable beyond one year	956	1,069
Bond reserves required for issued bonds	1,441	1,441
Funds with donor restrictions for educational expenses	2,601	3,298
Investments and other financial assets held for others	10,115	9,113
Perpetual and term endowments, and accumulated earnings subject to appropriation beyond one year	103,681	104,720
Investments held in trusts and various state-required annuity reserves	6,156	6,256
Financial assets available to meet cash needs for general expenditures within one year	\$ 29,510	\$ 33,495

As of May 31, 2022 and 2021, the University has liquid assets on hand to cover 134 and 160 days of operating expenses, respectively. The University's practice is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The University maintains an unsecured \$5,000 line of credit and a margin line of credit, both of which could be drawn upon to cover short-term liquidity needs.

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Note 15: Analysis of Expense by Functional and Natural Categories

Expenses by functional and natural categories at May 31:

	2022							
	Program Services				Support Services			
	Instruction and Research	Student Services	Public Services	Total Program Services	Administration	Fundraising	Total Support Services	Total
Compensation	\$ 23,467	\$ 8,789	\$ 555	\$ 32,811	\$ 9,609	\$ 1,816	\$ 11,425	\$ 44,236
Employee benefits	5,983	1,993	151	8,127	4,507	428	4,935	13,062
Service, supplies, and other expenses	4,745	6,894	376	12,015	6,290	547	6,837	18,852
Facility operations and maintenance	2,335	555	9	2,899	473	-	473	3,372
Depreciation and accretion	3,914	929	14	4,857	793	-	793	5,650
Interest	1,112	265	4	1,381	226	-	226	1,607
Total expenses	<u>\$ 41,556</u>	<u>\$ 19,425</u>	<u>\$ 1,109</u>	<u>\$ 62,090</u>	<u>\$ 21,898</u>	<u>\$ 2,791</u>	<u>\$ 24,689</u>	<u>\$ 86,779</u>
	2021							
	Program Services				Support Services			
	Instruction and Research	Student Services	Public Services	Total Program Services	Administration	Fundraising	Total Support Services	Total
Compensation	\$ 23,616	\$ 7,900	\$ 527	\$ 32,043	\$ 9,261	\$ 1,727	\$ 10,988	\$ 43,031
Employee benefits	5,414	1,780	128	7,322	4,489	347	4,836	12,158
Service, supplies, and other expenses	2,376	4,886	211	7,473	6,679	459	7,138	14,611
Facility operations and maintenance	2,528	600	9	3,137	512	-	512	3,649
Depreciation and accretion	3,925	932	14	4,871	796	-	796	5,667
Interest	1,224	291	4	1,519	248	-	248	1,767
Total expenses	<u>\$ 39,083</u>	<u>\$ 16,389</u>	<u>\$ 893</u>	<u>\$ 56,365</u>	<u>\$ 21,985</u>	<u>\$ 2,533</u>	<u>\$ 24,518</u>	<u>\$ 80,883</u>

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

The consolidated financial statements report compensation, benefits, and services to the appropriate direct program. The table above has certain categories of expenses that are attributable to one or more programs or supporting functions of the University allocated to these functional programs. These expenses include facility operations and maintenance, depreciation and accretion, and interest. These costs are allocated based on square footage methodology.

Note 16: Related Party Transactions

Garfield Commons, LLC

The University's endowment holds an investment in Garfield Commons, LLC (Company), the University's wholly-owned subsidiary. The assets and liabilities and operations of the Company are consolidated with the University's consolidated financial statements for presentation. The net assets of the Company are unitized in conjunction with the University's endowment management calculation, and are allocated accordingly among the University's board-designated and donor restricted endowments.

Garfield North, LLC

The University has a 29% ownership interest in Garfield North, LLC. Garfield Partners, LLC (GP) has a 71% ownership. At May 31, 2022 and 2021, the University's investment in Garfield North, LLC, totaled \$2,098 and \$3,104, respectively, and is included in investments on the consolidated statements of financial position.

Under the terms of the partnership agreement, as amended, the University provided financing to Garfield North, LLC in the form of a loan in the amount of \$1,000. Interest was at 3%. Principal payments of \$150 were to be made periodically from available cash flow, until the loan was paid in full. The loan was jointly and severally guaranteed by GP, the related party and another entity in an amount equal to their 71% of the loan. The remaining balance of the loan and all accrued interest was paid in full in January 2021.

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Note 17: Revenue From Contracts With Students and Customers

Tuition, Residential Services, and Meal Plan Services Revenue

Revenue from contracts with students for tuition, residential services, and meal plan services is reported at the amount that reflects the consideration to which the University expects to be entitled in exchange for providing instruction and housing, food, and other services. These amounts are due from students, third-party payers, and others and are net of scholarships and institutional aid of \$63,839 and \$65,593 for the years ended May 31, 2022 and 2021, respectively.

Revenue is recognized as performance obligations are satisfied, which is primarily ratably over the academic term, with the exception of certain meal plans that are recognized at a point in time. Generally, the University bills students prior to the beginning of the semester and student accounts receivable are due in full before classes begin unless the student has entered into a monthly payment plan.

If a student withdraws during the academic term, the student is refunded based on a prorated calculation of the completed amount of the academic term, up to 60% completion. No refunds are awarded after 60% of the academic term is complete. At year-end, there is no refund liability as the academic term is substantially complete.

Tuition, residential services, and meal plan services revenue are considered to be separate contracts with separate performance obligations.

Transaction Price and Recognition

The University determines the transaction price based on standard charges for goods and services provided, reduced by certain institutional scholarships, and aid in accordance with the University's policies for granting certain merit-based aid. The University determines its estimates of explicit price concessions based on its discount policies and merit awards.

From time to time the University will incur student credit balances and student deposits which represent the excess of tuition and fees and other student payments received as compared to amounts recognized as revenue. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of June 30, 2022 and 2021, the University has a liability for refunds or deposits from students recorded of approximately \$1,769 and \$2,316 respectively, which are reported as student deposits on the consolidated statements of financial position.

The University has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors:

- Payers (for example, students, governmental programs, and others) that have different reimbursement and payment methodologies
- Demographic and enrollment trends

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

- Institutional aid and federal and state aid programs

Performance Obligations and Transaction Price Allocated to Remaining Performance Obligations

Because all of its performance obligations relate to contracts with a duration of less than one year, the University has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to providing instruction to students. The performance obligations for these contracts are generally completed when the academic term is completed.

Disaggregation of Revenue

The composition of revenue by segment for the years ended May 31, 2022 and 2021, is as follows:

	2022	2021
Net tuition and fees	\$ 52,507	\$ 58,464
Room	6,457	4,230
Board	6,440	3,920
Other auxiliary	636	237
	<u>\$ 66,040</u>	<u>\$ 66,851</u>

The composition of revenue based on timing of revenue recognition for the years ended May 31, 2022 and 2021, is as follows:

	2022	2021
Services transferred over time	\$ 58,964	\$ 62,694
Sales at point in time	7,076	4,157
	<u>\$ 66,040</u>	<u>\$ 66,851</u>

Contract Balances

The following table provides information about the University's receivables:

	2022	2021
Accounts receivable, beginning of the year	\$ 735	\$ 1,357
Accounts receivable, end of the year	639	735

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Note 18: Coronavirus Aid, Relief, and Economic Security Act and Other Coronavirus Events

The spread of the SARS-CoV-2 virus and the incident of COVID-19 impacted and disrupted the University’s operations over the past year. Adhering to public safety measures and government mandates resulted in events and activities being limited or cancelled, including changes to how the University delivered educational and related auxiliary services during fiscal years 2021 and 2022. Given the uncertainty and the disruption caused by COVID-19, there may be continuing short and long-term implications to the University’s operations and the ultimate financial effects cannot be reasonably estimated at this time.

Higher Education Emergency Relief Funds

Federal relief efforts have been created to help offset revenue losses and expense increases that colleges and universities faced because of COVID-19. The *Coronavirus Aid, Relief, and Economic Security Act* (CARES) created a Higher Education Emergency Relief Fund (HEERF) to provide financial relief to students and institutions who were impacted by the COVID-19 pandemic. The *Coronavirus Response and Relief Supplemental Appropriations Act* (CRRSAA) and the *American Rescue Plan* (ARP) provided additional rounds of HEERF (II and III). The HEERF funds contained two components, an institutional award and a student aid award. The student aid portion must be distributed to students in the form of emergency financial aid grants to generally cover any component of the cost of attendance for the distribution of education or emergency costs that arose due to COVID-19. The institutional portion can be used for multiple items, but largely to cover lost revenue, defray and pay for expenses related to the disruption of campus operations due to COVID-19, and reimburse for costs associated with a transition to distance education environment, among other items.

The following cumulative amounts have been awarded as HEERF as of May 31, 2022 and 2021:

	May 31, 2022			May 31, 2021		
	Student Portion	Institutional Portion	Total	Student Portion	Institutional Portion	Total
Awarded						
HEERF I	\$ 1,468	\$ 1,468	\$ 2,936	\$ 1,468	\$ 1,468	\$ 2,936
HEERF II	1,468	2,872	4,340	1,468	2,872	4,340
HEERF III	3,828	3,828	7,656	3,828	3,828	7,656
	\$ 6,764	\$ 8,168	\$ 14,932	\$ 6,764	\$ 8,168	\$ 14,932

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

The following non-cumulative amounts have been applied to the grant for the years ending May 31, 2022 and 2021:

	May 31, 2022			May 31, 2021		
	Student Portion	Institutional Portion	Total	Student Portion	Institutional Portion	Total
Amounts Applied						
HEERF I	\$ -	\$ -	\$ -	\$ 1,256	\$ -	\$ 1,256
HEERF II	92	-	92	1,376	2,872	4,248
HEERF III	3,828	3,828	7,656	-	-	-
	\$ 3,920	\$ 3,828	\$ 7,748	\$ 2,632	\$ 2,872	\$ 5,504

The University has spent all funds under HEERF as of May 31, 2022.

Note 19: Concentration of Credit Risk

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash, investments, accounts receivable, notes receivable, real estate contracts receivable, and other receivables. Cash and cash equivalents in excess of federally insured limits are subject to the usual risks of balances in excess of those limits. The majority of the University's cash and cash equivalents are on deposit with a single bank. Investments are diversified in order to limit credit risk. Investments are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. Concentrations of credit risk with respect to the real estate contracts receivable are limited due to the University holding a secured position in these agreements. Student notes and receivables and other receivables are due from a variety of sources concentrated primarily in the northwestern United States. In addition, the University's students receive a substantial amount of support from state and federal student financial assistance programs, which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the University's programs and activities.

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Note 20: Commitments and Contingencies

Regulation and Litigation

The University receives funding or reimbursement from governmental agencies for various activities which are subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions. The University is subject to such regulatory reviews, and while these reviews may result in repayments and/or civil remedies, management believes, based on its current knowledge and information, that such repayments and/or civil remedies, if any, would not have a material effect on the University's financial position.

The University is subject to legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, there are no matters that will materially affect the University's financial position.

Note 21: Subsequent Events

Subsequent events have been evaluated through September 29, 2022, which is the date the consolidated financial statements were available to be issued.

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Note 22: Washington State Regulatory Requirements

Washington State statutory requirements related to charitable gift annuities require the following disclosure of unconsolidated financial information for the University as of May 31, 2022:

	Pacific Lutheran University (Consolidated)	Wholly- Owned Subsidiary	Unconsolidated
Assets			
Cash and cash equivalents	\$ 1,862	\$ 234	\$ 1,628
Student receivables, net	639	-	639
Grants and other receivables	957	20	937
Inventories and prepaid expenses	1,066	10	1,056
Contributions receivable, net	815	-	815
Student loans receivable, net	3,341	-	3,341
Investments	133,389	-	133,389
Fair value of interest rate swap	1,127	-	1,127
Assets held under split-interest agreements	16,406	-	16,406
Reserve for bond payments	1,441	-	1,441
Property, plant, and equipment, net	121,319	10,905	110,414
	<u>\$ 282,362</u>	<u>\$ 11,169</u>	<u>\$ 271,193</u>
Liabilities			
Accounts payable and accrued liabilities	\$ 12,789	\$ 12	\$ 12,777
Long-term debt	59,907	8,376	51,531
Student deposits	1,769	-	1,769
Government grants refundable	4,856	-	4,856
Liabilities under split-interest agreements	10,115	-	10,115
Fair value of interest rate swap	-	-	-
Other liabilities	1,215	-	1,215
Total liabilities	<u>90,651</u>	<u>8,388</u>	<u>82,263</u>
Net Assets			
Net assets without donor restriction	79,423	449	78,974
Net assets with donor restriction	112,288	2,332	109,956
Total net assets	<u>191,711</u>	<u>2,781</u>	<u>188,930</u>
	<u>\$ 282,362</u>	<u>\$ 11,169</u>	<u>\$ 271,193</u>

The amount included to meet future payments under gift annuity contracts in liabilities under split-interest agreements was \$1,147 and \$743 as of May 31, 2022 and 2021, respectively.

Pacific Lutheran University
Notes to Consolidated Financial Statements
(Dollar Amounts in Thousands)
May 31, 2022 and 2021

Note 23: Department of Education Financial Responsibility Information

The following information is required by the U.S. Department of Education for the year ended May 31, 2022:

	<u>2022</u>
Annuities and life income funds with donor restrictions	\$ 6,044
Property, plant, and equipment, net of accumulated depreciation - pre-implementation	105,845
Property, plant, and equipment, net of accumulated depreciation - post-implementation without outstanding debt	15,327
Total expenses and losses without donor restriction	87,018
Total revenue and gains without donor restrictions	86,587

Note 24: Future Changes in Accounting Principles

New Lease Accounting Standards

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the consolidated balance sheets as both a right-of-use asset and a liability. The standard has two types of leases for consolidated statements of operations recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. The University is evaluating the effect the standard will have on the consolidated financial statements.