Pacific Lutheran University

Independent Auditor's Report and Consolidated Financial Statements

May 31, 2024 and 2023

Contents

Forvis Mazars, LLP
111 E. Wayne Street, Suite 600
Fort Wayne, IN 46802
P 260.460.4000 | F 260.426.2235
forvismazars.us

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 subsidiaries (University), which comprise the consolidated statements of financial position as of May 31, 2024 and 2023, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Pacific Lutheran University and its subsidiaries, as of May 31, 2024 and 2023, and the changes in their net assets and there 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 audits 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.

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 Mazars, LLP

Fort Wayne, Indiana
December 6, 2024

Pacific Lutheran University
Consolidated Statements of Financial Position
(Dollar Amounts in Thousands)
May 31, 2024 and 2023

	2024	2023
Assets		
Cash and cash equivalents	$ 1,953	$ 3,856
Student accounts receivable, net of allowance		
2024 - $904, 2023 - $750	1,543	1,153
Grants and other receivables	1,191	1,073
Inventories and prepaid expenses	1,544	1,612
Contributions receivable, net	1,187	1,212
Student loans receivable, net	2,188	2,641
Note receivable	2,100	-
Investments	147,964	125,834
Fair value of interest rate swap agreement	1,579	1,653
Assets held under split-interest agreements	16,330	15,352
Reserve for bond payments	1,441	1,441
Property, plant, and equipment, net	114,332	117,578
Total assets	$ 293,352	$ 273,405
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	$ 17,517	$ 14,310
Long-term debt, net	56,786	58,425
Student deposits	1,942	1,987
Government grants refundable	3,367	3,850
Liabilities under split-interest agreements	8,995	9,457
Other liabilities	1,339	1,276
Total liabilities	89,946	89,305
Net Assets		
Net assets without donor restrictions	65,625	65,095
Net assets with donor restrictions	137,781	119,005
Total net assets	203,406	184,100
Total liabilities and net assets	$ 293,352	$ 273,405

Pacific Lutheran University
Consolidated Statements of Activities
(Dollar Amounts in Thousands)
Years Ended May 31, 2024 and 2023

	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains (Losses), and Other						
Tuition and fees, net	$ 52,568	$ -	$ 52,568	$ 51,344	$ -	$ 51,344
Sales and services of auxiliary enterprises	15,616	-	15,616	14,582	-	14,582
Grants	612	2,673	3,285	704	4,309	5,013
Contributions	2,980	9,353	12,333	3,044	6,911	9,955
Investment return (loss)	14,710	13,124	27,834	1,298	(230)	1,068
Change in value of split-interest agreements	71	1,534	1,605	(458)	(437)	(895)
Other revenue	4,441	94	4,535	3,998	-	3,998
Net assets released from restrictions	8,102	(8,102)	-	6,421	(6,421)	-
Total revenues, gains (losses), and other	99,100	18,676	117,776	80,933	4,132	85,065
Expenses						
Instruction	34,199	-	34,199	32,140	-	32,140
Public service	1,361	-	1,361	1,211	-	1,211
Academic support	4,405	-	4,405	4,426	-	4,426
Student services	10,759	-	10,759	11,073	-	11,073
Institutional support	22,398	-	22,398	21,295	-	21,295
Auxiliary enterprises	8,424	-	8,424	8,291	-	8,291
Allocated expenses	16,850	-	16,850	14,766	-	14,766
Total expenses	98,396	-	98,396	93,202	-	93,202
Change in Net Assets Before Other Activities	704	18,676	19,380	(12,269)	4,132	(8,137)
Other Activities						
Adjustment for operating lease elimination	(100)	100	-	(260)	260	-
Reclassification of net assets	-	-	-	(2,325)	2,325	-
Gain (loss) on interest rate swap	(74)	-	(74)	526	-	526
Change in Net Assets	530	18,776	19,306	(14,328)	6,717	(7,611)
Net Assets, Beginning of Year	65,095	119,005	184,100	79,423	112,288	191,711
Net Assets, End of Year	$ 65,625	$ 137,781	$ 203,406	$ 65,095	$ 119,005	$ 184,100

See Notes to Consolidated Financial Statements

Pacific Lutheran University
Consolidated Statements of Cash Flows
(Dollar Amounts in Thousands)
Years Ended May 31, 2024 and 2023

	2024	2023
Operating Activities		
Change in net assets	$ 19,306	$ (7,611)
Items not requiring (providing) cash		
Depreciation	5,399	5,694
Accretion	63	61
Amortization	50	49
Provision for credit losses	200	268
Net realized and unrealized (gains) losses on investments	(23,400)	2,205
Change in value of split-interest agreements	(835)	1,054
Unrealized (gain) loss on interest rate swaps	74	(526)
Contributions to restricted long-term investment, loans, and plant	(4,298)	(5,328)
Changes in		
Student accounts receivable	(562)	(729)
Grants and other receivables	(118)	(116)
Inventories, prepaid expense, and deposits	68	(546)
Contributions receivable	(3)	(450)
Accounts payable, accrued liabilities, and other liabilities	3,207	1,521
Student deposits	(45)	218
Government grants refundable	(483)	(1,006)
Net cash used in operating activities	(1,377)	(5,242)
Investing Activities		
Purchases of investments	(39,009)	(65,352)
Proceeds from sale of investments	38,179	70,702
Purchase of property and equipment	(2,153)	(1,953)
Net change in student loans receivable	453	700
Net cash provided by (used in) investing activities	(2,530)	4,097
Financing Activities		
Payments on long-term debt	(1,689)	(1,531)
Contributions to restricted long-term investment, loans, and plant	4,298	5,328
Annuity payments and other	(605)	(658)
Net cash provided by financing activities	2,004	3,139
Increase (Decrease) in Cash and Cash Equivalents	(1,903)	1,994
Cash and Cash Equivalents, Beginning of Year	3,856	1,862
Cash and Cash Equivalents, End of Year	$ 1,953	$ 3,856
Supplemental Cash Flows Information		
Interest paid	$ 2,304	$ 1,873
Sale of investment property financed by note receivable	2,100	-

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 42 majors and 62 minors, as well as graduate and professional programs in business administration, creative writing, education, marketing analytics, marriage and family therapy, nursing and social work.

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 subsidiaries, Garfield Commons, LLC and MB2K, LLC for the years ended May 31, 2024 and 2023. All material transactions between the University and its consolidated subsidiaries 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.

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 credit losses. Management determines the sufficiency of the allowance based on the length of time past due and historical experience, adjusted for reasonable and supportable forecasts. 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.

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.

(Dollar Amounts in Thousands)

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, 2024 and 2023.

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.

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, 2024 and 2023, are as follows:

	2024	2023
Balance, beginning of year	$ 1,276	$ 1,215
Accretion expense	63	61
Balance, end of year	$ 1,339	$ 1,276

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 $4,274 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.

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.

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% as of May 31, 2024 and 2023, resulting in total contributions of approximately $3,434 and $3,456, respectively. The University also offers a deferred compensation plan to certain employees under Section 457 of the Internal Revenue Code. Total plan liabilities were $768 and $644 as of May 31, 2024 and 2023, respectively, and were reported within accounts payable and accrued liabilities on the consolidated statements of financial position.

Fundraising and Advertising Expenses

Fundraising expenses totaled $2,598 and $2,842 for the years ended May 31, 2024 and 2023, 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.

(Dollar Amounts in Thousands)

Note 3. Contributions Receivable

Contributions receivable consisted of the following:

	2024	2023
Due within one year	$ 585	$ 463
Due in one to five years	782	890
	1,367	1,353
Less		
Unamortized discount (2.5% - 4.9%)	(99)	(58)
Allowance for uncollectible promises to give	(81)	(83)
	$ 1,187	$ 1,212

Contributions due in more than one year are discounted using the three year average of the annual U.S. inflation rates. The discount rates for these contributions were 4.9% and 3.8% at May 31, 2024 and 2023, respectively. Contributions due in less than one year were not discounted.

Note 4. Student Loans Receivable and Note Receivable

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, 2024 and 2023, student loans represented approximately 0.7% and 1.0% of total assets.

At May 31, 2024 and 2023, student loans consisted of the following:

	2024	2023
Federal government programs	$ 2,328	$ 2,813
Less allowance for doubtful accounts		
Beginning of year	172	223
Decrease in allowance	(32)	(51)
End of year	140	172
Student loans receivable, net	$ 2,188	$ 2,641

(Dollar Amounts in Thousands)

Funds advanced by the federal government, including interest earned on federally funded loans, of $3,367 and $3,850 as of May 31, 2024 and 2023, respectively, are ultimately refundable to the government and are classified as liabilities in the consolidated statements of financial position.

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, 2024 and 2023, the following amounts were past due under student loan programs:

	Amounts Past Due			
	60-89 Days	90-119 Days	120+ Days	Total
2024	$ 1	$ 1	$ 214	$ 216
2023	-	1	159	160

Note Receivable

In May 2024, the University entered into a note receivable agreement related to the sale of certain investment property in the amount of $2,100,000. The note is due in two equal installments of principal of $1,050,000 on May 31, 2025 and May 31, 2026. The note bears interest at 0%, except in the case of late or defaulted payments, at which point the note bears interest at 7% during the period of default.

(Dollar Amounts in Thousands)

Note 5. Investments

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

	2024	2023
Endowed investments	$ 124,935	$ 112,149
Real estate, excluding endowment	21,602	11,803
Other	1,427	1,882
	$ 147,964	$ 125,834

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 observable 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.

(Dollar Amounts in Thousands)

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, 2024 and 2023:

	2024				
		Fair Value Measurements Using			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observabl Inputs (Level 2)	Significant Unobserv-able Inputs (Level 3)	Investment Measured at NAV(A)
Investments					
Short-term investments	$ 79	$ 79	$ -	$ -	$ -
Mutual funds					
Domestic equity funds	73,134	73,134	-	-	-
Global fixed income funds	12,319	12,319	-	-	-
Index funds	54	54	-	-	-
Corporate bond funds	4,919	4,919	-	-	-
High yield bond funds	2,986	-	2,986	-	-
Investments in real estate	22,090	-	22,090	-	-
Perpetual trusts held by others	16,879	-	-	16,879	-
Garfield North, LLC	2,793	-	-	2,793	-
Cash surrender value of life insurance	1,033	-	-	1,033	-
Alternative investments	11,678	-	-	-	11,678
Total investments	147,964	90,505	25,076	20,705	11,678
Assets Held Under Split-Interest Agreements					
Short-term investments	460	-	460	-	-
Mutual funds					
Domestic equity funds	4,603	4,603	-	-	-
International equity funds	3,507	3,507	-	-	-
Global fixed income funds	669	-	669	-	-
U.S. government bond funds	1,580	-	1,580	-	-
Corporate bond funds	1,928	-	1,928	-	-
Real estate funds	3,583	3,583	-	-	-
Total assets held under split-interest agreements	16,330	11,693	4,637	-	-
Reserve for Bond Payment	1,441	1,441			
Interest Rate Swap	1,579		1,579		

(Dollar Amounts in Thousands)

	2023				
		Fair Value Measurements Using			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observabl Inputs (Level 2)	Significant Unobserv-able Inputs (Level 3)	Investment Measured at NAV(A)
Investments					
Short-term investments	$ 544	$ 544	$ -	$ -	$ -
Mutual funds					
Domestic equity funds	49,927	49,927	-	-	-
Global fixed income funds	24,535	24,535	-	-	-
Index funds	44	44	-	-	-
Corporate bond funds	4,542	4,542	-	-	-
High yield bond funds	2,352	-	2,352	-	-
Commodity funds	-	-	-	-	-
Investments in real estate	12,251	-	12,251	-	-
Perpetual trusts held by others	15,459	-	-	15,459	-
Garfield North, LLC	3,685	-	-	3,685	-
Cash surrender value of life insurance	1,089	-	-	1,089	-
Alternative investments	11,406	-	334	-	11,072
Total investments	125,834	79,592	14,937	20,233	11,072
Assets Held Under Split-Interest Agreements					
Short-term investments	482	-	482	-	-
Mutual funds					
Domestic equity funds	4,908	4,908	-	-	-
International equity funds	3,179	3,179	-	-	-
Global fixed income funds	803	-	803	-	-
U.S. government bond funds	1,589	-	1,589	-	-
Corporate bond funds	1,863	-	1,863	-	-
High yield bond funds	334	-	334	-	-
Real estate funds	2,194	2,194	-	-	-
Total assets held under split-interest agreements	15,352	10,281	5,071	-	-
Reserve for Bond Payment	1,441	1,441	-	-	-
Interest Rate Swap	1,653	-	1,653	-	-

(Dollar Amounts in Thousands)

(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, 2024:

May 31, 2024	Fair Value	Remaining Life	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Private equity	$ 11,676	1 to 12 years	$ -	3 to 5 years to draw	N/A
Funds of funds	$ 2	N/A	None	Annual with 120 days' notice	1 year lock-up. Upon full redepmtion, 90% is returned, with the remaining 10% held back until the completion of the annual audit.

May 31, 2023	Fair Value	Remaining Life	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Private equity	$ 11,041	1 to 12 years	$ 356	3 to 5 years to draw	N/A
Funds of funds	$ 31	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 measured at fair value. There have been no changes in the methodologies used at May 31, 2024 and 2023.

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.

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, 2024 and 2023.

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.

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.

(Dollar Amounts in Thousands)

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, 2024:

	Perpetual Trusts Held by Others	Garfield North, LLC	Cash Surrender Value of Life Insurance
Balance, June 1, 2022	$ 16,053	$ 2,098	$ 1,244
Maturities	-	-	(202)
Total realized and unrealized (losses) gains included in change in net assets	(594)	1,587	47
Balance, May 31, 2023	15,459	3,685	1,089
Total realized and unrealized (losses) gains included in change in net assets	1,420	(892)	(56)
Balance, May 31, 2024	$ 16,879	$ 2,793	$ 1,033

Total gains and losses are included in the consolidated statements of activities for the years ended May 31, 2024 and 2023.

Note 7. Endowment Investments

The University's endowment consists of approximately 628 and 615 individual funds at May 31, 2024 and 2023, 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.

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

(Dollar Amounts in Thousands)

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

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

	2024			
		With Donor Restrictions		
	Without Donor Restrictions	Original Gift	Accumulated Gains (Losses)	Total
Board-designated funds - purpose	$ 12,751	$ -	$ -	$ 12,751
Donor-restricted funds				
Underwater funds	-	10,541	(480)	10,061
Other funds	-	80,811	10,309	91,120
Funds held by others	-	7,696	10,217	17,913
Total endowment funds	$ 12,751	$ 99,048	$ 20,046	$ 131,845

	2023			
		With Donor Restrictions		
	Without Donor Restrictions	Original Gift	Accumulated Gains (Losses)	Total
Board-designated funds - purpose	$ 11,899	$ -	$ -	$ 11,899
Donor-restricted funds				
Underwater funds	-	39,512	(2,056)	37,456
Other funds	-	47,638	4,134	51,772
Funds held by others	-	7,696	8,853	16,549
Total endowment funds	$ 11,899	$ 94,846	$ 10,931	$ 117,676

(Dollar Amounts in Thousands)

Changes to the endowment net assets for the years ended May 31, 2024 and 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 1, 2022	$ 19,460	$ 103,681	$ 123,141
Investment return (loss)			
Investment income, net	378	1,684	2,062
Net depreciation	(390)	(2,396)	(2,786)
Total investment return (loss)	(12)	(712)	(724)
Contributions	7	4,504	4,511
Appropriation of endowment net assets for expenditure	(734)	(1,696)	(2,430)
Transfers	(6,822)	-	(6,822)
Endowment net assets, May 31, 2023	11,899	105,777	117,676
Investment return			
Investment income, net	206	1,923	2,129
Net appreciation	943	10,403	11,346
Total investment return	1,149	12,326	13,475
Contributions	189	3,817	4,006
Appropriation of endowment net assets for expenditure	(486)	(3,138)	(3,624)
Transfers	-	312	312
Endowment net assets, May 31, 2024	$ 12,751	$ 119,094	$ 131,845

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.

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.

Endowment Borrowing

On May 29, 2024, the University executed a loan from the donor-restricted endowment in the amount of $12,500,000 principally to prepay a portion of the Series 2016 Bonds (see Note 9). The loan bears interest at 5.0% and is payable annually. All unpaid principal is due in full on November 30, 2026. As of May 31, 2024, no amounts had been drawn on this loan.

(Dollar Amounts in Thousands)

Note 8. Net Assets With Donor Restrictions

Net assets with donor restrictions at May 31, 2024 and 2023, are restricted for the following purposes or periods:

	2024	2023
Subject to expenditure for specified purpose	$ 10,165	$ 6,298
Contributions receivable and split-interest agreements	8,522	6,930
Endowments		
Subject to appropriation when a specified event occurs	20,046	10,931
Subject to endowment spending policy and appropriation	99,048	94,846
Total endowments	119,094	105,777
Total net assets with donor restrictions	$ 137,781	$ 119,005

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:

	2024	2023
Scholarships, instruction, and other departmental support	$ 2,954	$ 4,212
Other releases from restrictions	5,148	2,209
	$ 8,102	$ 6,421

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, 2024	May 31, 2023
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	5.26%	11/1/2041	39,015	40,576
Commercial mortgage	Stepped	4.50%	3/1/2030	8,324	8,452
				57,339	59,028
Less unamortized discount, premium, and debt issuance costs				(553)	(603)
				$ 56,786	$ 58,425

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 $140 and $148 for the years ended May 31, 2024 and 2023, 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 SOFR plus 200 basis points (5.72% and 5.16% at May 31, 2024 and 2023, 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 $270 and $290 for the years ended May 31, 2024 and 2023, 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.

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 4.50% 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 $59 and $78 for the years ended May 31, 2024 and 2023, 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 on the line as of May 31, 2024 and 2023, and is included with accounts payable and accrued liabilities on the consolidated statements of financial position. The line is scheduled to renew annually on November 1 and accrued interest at 8.5% and 8.25% as of May 31, 2024 and 2023, 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, 2024, the outstanding balance was $5,000 and is included within accounts payable and accrued liabilities on the statement of financial position. Total funds available for withdrawal were $29,486. As of May 31, 2023, the University had no outstanding balance on the credit facility. The interest rate is determined by Charles Schwab according to a tiered schedule based on the balance of the borrowings. At May 31, 2024, the interest rate was 6.60%.

The 2016 loan agreement with the Washington Higher Education Facilities Authority (the “2016 Loan”) requires the University to comply with certain financial covenants described therein. As of May 31, 2024, the University is in violation of certain of these covenants. The University has obtained a forbearance of these violations until November 2026. The agreement, which contains revised debt service and liquidity covenants, required the University to make a principal payment on the loan totaling $12,256, which was funded through borrowing from the University's endowment. This includes prepayment of the University's scheduled principal payments for the years 2024, 2025 and 2026. This payment was made on October 30, 2024. The University foresees no difficulty in meeting is obligations under the agreement.

(Dollar Amounts in Thousands)

The approximate payment obligation requirements for all long-term debt for the five years subsequent to May 31, 2024, are:

2025	$	12,400
2026		145
2027		122
2028		1,910
2029		1,975
Thereafter		40,787
	$	57,339

Note 10. Property and Equipment

Property and equipment at May 31, 2024 and 2023, consists of:

		2024		2023
Land	$	3,554	$	3,554
Buildings		161,536		160,454
Improvements other than buildings		5,120		8,588
Equipment and vehicles		8,914		9,081
Library books		1,792		2,154
Leasehold improvements		6,880		6,871
Nondepreciated assets		1,194		1,194
Construction in progress		655		693
		189,645		192,589
Less accumulated depreciation and amortization		(75,313)		(75,011)
	$	114,332	$	117,578

The University has written off library assets that are fully depreciated and obsolete in the amount of $365 and $465 as of May 31, 2024 and 2023, respectively. The University also disposed of $4,644 and $2,793 of fully depreciated buildings, building improvements, and equipment for the years ended May 31, 2024 and 2023, respectively.

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 $8,995 and $9,457 at May 31, 2024 and 2023, respectively. Total assets held by the University under deferred gift agreements totaled $16,330 and $15,352 at May 31, 2024 and 2023, 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.

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 1.6% to 10.6% in making the calculations at May 31, 2024 and 2023.

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 $1,900 and $1,698, respectively, as of May 31, 2024 and 2023.

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 $644 and $642 for the years ended May 31, 2024 and 2023, respectively. As of May 31, 2024, the University’s four building facility leases had maturities in 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 $100 and $260 has been eliminated on the consolidated statements of activities for fiscal year 2024 and 2023, respectively.

Future minimum lease payments at May 31, 2024, are $259 for 2025.

ASU 2016-02 *Leases* (Topic 842), was effective for the University on June 1, 2022. However, due to the insignificant impact of the new standard for the University, no right-of-use asset and lease liability has been recorded for these operating leases.

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, 2024 and 2023, was 5.72% and 5.16% (70% of SOFR plus 200 basis points), 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.

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 $31,762 and $33,053 at May 31, 2024 and 2023, 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.

(Dollar Amounts in Thousands)

Note 14. Liquidity and Availability

The following table reflects the University's financial assets as of May 31, 2024 and 2023, 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.

	2024	2023
Financial Assets		
Cash and cash equivalents	$ 1,965	$ 3,856
Accounts receivable	1,543	1,153
Contributions receivable	1,187	1,212
Grants and other receivables	1,191	1,073
Investments	147,964	125,834
Assets held under split-interest agreements	16,330	15,352
Bond reserves restricted	1,441	1,441
Financial assets, at year-end	171,621	149,921
Less those unavailable for general expenditure within one year		
Accounts and contributions receivable collectible beyond one year	1,836	1,671
Grants and other receivables unavailable beyond one year	1,191	1,073
Bond reserves required for issued bonds	1,441	1,441
Funds with donor restictions for educational expenses	5,444	4,405
Investments and other financial assets held for others	8,852	9,457
Perpetual and term endowments, and accumulated earnings subject to appropriation beyond one year	121,312	104,783
Investments held in trusts and various state-required annuity reserves	8,131	6,548
Financial assets available to meet cash needs for general expenditures within one year	$ 23,414	$ 20,543

As of May 31, 2024 and 2023, the University has liquid assets on hand to cover 90 and 88 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. At May 31, 2024 and 2023, the line of credit was fully drawn upon. An additional $24,486 was available to the University under the margin line of credit at May 31, 2024. See Note 9 for additional details on this instrument.

(Dollar Amounts in Thousands)

Note 15. Analysis of Expense by Functional and Natural Categories

Expenses by functional and natural categories at May 31:

2024

	Program Services				Support Services			
	Instruction and Research	Student Services	Public Services	Total Program Services	Administration	Fundraising	Total Support Services	Total
Compensation	$ 23,715	$ 9,402	$ 711	$ 33,828	$ 11,017	$ 1,531	$ 12,548	$ 46,376
Employee benefits	6,112	2,149	167	8,428	4,367	427	4,794	13,222
Service, supplies, and other expenses	8,757	7,565	461	16,783	7,827	640	8,467	25,250
Facility operations and maintenance	4,112	976	14	5,102	834	-	834	5,936
Depreciation and accretion	3,723	884	13	4,620	755	-	755	5,375
Interest	1,550	368	5	1,923	314	-	314	2,237
Total expenses	$ 47,969	$ 21,344	$ 1,371	$ 70,684	$ 25,114	$ 2,598	$ 27,712	$ 98,396

2023

	Program Services				Support Services			
	Instruction and Research	Student Services	Public Services	Total Program Services	Administration	Fundraising	Total Support Services	Total
Compensation	$ 22,366	$ 9,218	$ 620	$ 32,204	$ 11,068	$ 1,830	$ 12,898	$ 45,102
Employee benefits	5,877	2,111	158	8,146	4,666	446	5,112	13,258
Service, supplies, and other expenses	7,698	7,919	432	16,049	7,394	566	7,960	24,009
Facility operations and maintenance	2,527	600	9	3,136	512	-	512	3,648
Depreciation and accretion	3,924	932	14	4,870	795	-	795	5,665
Interest	1,053	250	4	1,307	213	-	213	1,520
Total expenses	$ 43,445	$ 21,030	$ 1,237	$ 65,712	$ 24,648	$ 2,842	$ 27,490	$ 93,202

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.

MB2K, LLC

In July 2022, the University acquired MB2K, LLC, a nurse practitioner clinic. The assets and liabilities and operations of MB2K, LLC are consolidated with the University's consolidated financial statements for presentation.

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, 2024 and 2023, the University's investment in Garfield North, LLC, totaled $2,793 and $3,685, respectively, and is included in investments on the consolidated statements of financial position.

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 $68,186 for the years ended May 31, 2024 and 2023, 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 May 31, 2024 and 2023, the University has a liability for refunds or deposits from students recorded of approximately $1,941 and $1,987, 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
- 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.

(Dollar Amounts in Thousands)

Disaggregation of Revenue

The composition of revenue by segment for the years ended May 31, 2024 and 2023, is as follows:

	2024	2023
Net tuition and fees	$ 52,568	$ 51,344
Room	7,211	6,787
Board	7,498	6,868
Other auxiliary	907	927
Other income	4,441	3,998
	$ 72,625	$ 69,924

The composition of revenue based on timing of revenue recognition for the years ended May 31, 2024 and 2023, is as follows:

	2024	2023
Services transferred over time	$ 59,779	$ 58,131
Sales at point in time	12,846	11,793
	$ 72,625	$ 69,924

Contract Balances

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

	2024	2023
Accounts receivable, beginning of the year	$ 1,153	$ 639
Accounts receivable, end of the year	1,543	1,153

Note 18. 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.

Note 19. 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 20. Subsequent Events

Subsequent events have been evaluated through December 6, 2024, which is the date the consolidated financial statements were available to be issued.

(Dollar Amounts in Thousands)

Note 21. 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, 2024:

	Pacific Lutheran University (Consolidated)	Wholly-Owned Subsidiaries	Unconsolidated
Assets			
Cash and cash equivalents	$ 1,953	$ 270	$ 1,683
Student receivables, net	1,543	-	1,543
Grants and other receivables	1,191	250	941
Inventories and prepaid expenses	1,544	214	1,330
Contributions receivable, net	1,187	-	1,187
Student loans receivable, net	2,188	-	2,188
Investments	147,964	-	147,964
Notes Receivable	2,100	-	2,100
Fair value of interest rate swap	1,579	-	1,579
Assets held under split-interest	16,330	-	16,330
Reserve for bond payments	1,441	-	1,441
Property, plant, and equipment, net	114,332	10,588	103,744
Total assets	$ 293,352	$ 11,322	$ 282,030
Liabilities			
Accounts payable and accrued liabilities	$ 17,517	$ 71	$ 17,446
Long-term debt	56,786	8,382	48,404
Student deposits	1,942	-	1,942
Government grants refundable	3,367	-	3,367
Liabilities under split-interest agreements	8,995	-	8,995
Other liabilities	1,339	-	1,339
Total liabilities	89,946	8,453	81,493
Net Assets			
Net assets without donor restriction	65,625	680	64,945
Net assets with donor restriction	137,781	2,162	135,619
Total net assets	203,406	2,842	200,564
Total liabilities and net assets	$ 293,352	$ 11,295	$ 282,057

The amount included to meet future payments under gift annuity contracts in liabilities under split-interest agreements was $1,549 and $1,520 as of May 31, 2024 and 2023, respectively.

Note 22. Department of Education Financial Responsibility Information

The following information is required by the U.S. Department of Education for the year ended May 31, 2024:

	2024
Annuities and life income funds with donor restrictions	$ 7,335
Intangible assets	204
Property, plant, and equipment, net of accumulated depreciation - pre-implementation	101,840
Property, plant, and equipment, net of accumulated depreciation - post-implementation without outstanding debt	11,837
Total revenue and gains without donor restrictions	99,000