

California Lutheran UNIVERSITY

Report of Independent Auditors and Consolidated Financial Statements with Supplementary Information 2023-2024



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Report of Independent Auditors

The Board of Regents
California Lutheran University and Affiliate

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of California Lutheran University and Affiliate, which comprise the consolidated statement of financial position as of May 31, 2024, 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 present fairly, in all material respects, the financial position of California Lutheran University and Affiliate as of May 31, 2024, 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 Financial Statements section of our report. We are required to be independent of California Lutheran University and Affiliate 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.

Report on Summarized Comparative Information

We have previously audited California Lutheran University and Affiliate's May 31, 2023 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 22, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2023, is consistent, in all material respects.

Responsibilities of Management for the 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 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 California Lutheran University and Affiliate's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audit of the 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 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 California Lutheran University and Affiliate'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 California Lutheran University and Affiliate'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.

Other Matter***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of financial position and consolidating schedule of activities as of and for the year ended May 31, 2024, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Los Angeles, California
October 29, 2024

California Lutheran University and Affiliate
Consolidated Statements of Financial Position
May 31, 2024 and 2023

ASSETS		
	<u>2024</u>	<u>2023</u>
ASSETS		
Cash and cash equivalents	\$ 62,582,071	\$ 43,834,576
Short-term investments	9,620,192	33,836,851
Receivables		
Student accounts, net	3,334,252	2,776,690
Grants	870,877	1,077,784
Contributions, net	3,921,829	5,119,554
Other	944,558	3,330,581
Prepaid expenses and deposits	1,999,021	2,346,843
Student loans receivable, net	458,773	728,318
Investments	152,041,611	140,780,460
Funds held in trusts by others	3,677,881	2,641,096
Deposits with trustee	2,471	885
Property, plant, and equipment, net	139,113,122	139,055,767
Intangible assets	475,000	475,000
Operating lease right-of-use assets	3,650,978	4,692,375
	<u>\$ 382,692,636</u>	<u>\$ 380,696,780</u>
Total assets		
	<u>\$ 382,692,636</u>	<u>\$ 380,696,780</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 2,194,708	\$ 1,962,391
Accrued liabilities	11,574,843	6,950,634
Contract liabilities – student deposits	2,906,381	3,762,114
Advances on conditional grants and contributions	1,990,344	2,212,272
Annuities payable	4,095,373	4,289,693
Deposits held in trust for others	784,845	747,389
Government grants refundable	299,993	827,594
Long-term debt, net	57,103,126	62,224,823
Operating lease liabilities	3,909,667	4,746,578
	<u>84,859,280</u>	<u>87,723,488</u>
Total liabilities		
	<u>84,859,280</u>	<u>87,723,488</u>
NET ASSETS		
Without donor restrictions	169,254,530	175,035,227
With donor restrictions	128,578,826	117,938,065
	<u>297,833,356</u>	<u>292,973,292</u>
Total net assets		
	<u>297,833,356</u>	<u>292,973,292</u>
Total liabilities and net assets		
	<u>\$ 382,692,636</u>	<u>\$ 380,696,780</u>

See accompanying notes.

California Lutheran University and Affiliate
Consolidated Statements of Activities
Years Ended May 31, 2024 and 2023

(With Summarized Comparative Financial Information for the Year Ended May 31, 2023)

	2024			2023
	Without Donor Restrictions	With Donor Restrictions	Total	Total
OPERATING				
Revenues, gains, and other support				
Tuition and fees	\$ 70,991,856	\$ -	\$ 70,991,856	\$ 71,217,359
Student room and board	19,553,562	-	19,553,562	19,635,578
Government and other grants	5,731,572	-	5,731,572	6,598,449
Contributions	3,555,672	2,001,442	5,557,114	6,615,634
Investment income, net	6,628,495	3,973,170	10,601,665	9,427,778
Sales and services of educational activities	1,472,518	-	1,472,518	1,394,200
Other	3,397,209	-	3,397,209	2,746,792
Sales and services of auxiliary enterprises	2,342,019	-	2,342,019	2,257,692
Subtotal	113,672,903	5,974,612	119,647,515	119,893,482
Net assets released from restrictions	6,116,482	(6,116,482)	-	-
Reclassifications and re-designations	(5,750)	5,750	-	-
Total revenues, gains, and other support	119,783,635	(136,120)	119,647,515	119,893,482
Expenses				
Program expenses				
Instruction	43,067,780	-	43,067,780	43,246,055
Public service	7,337,316	-	7,337,316	8,141,585
Academic support	7,471,399	-	7,471,399	7,741,253
Student services	25,176,040	-	25,176,040	25,843,578
Auxiliary enterprises	19,926,140	-	19,926,140	20,538,592
Support expenses				
Institutional support	22,959,396	-	22,959,396	20,351,936
Total operating expenses	125,938,071	-	125,938,071	125,862,999
Change in net assets from operating activities	(6,154,436)	(136,120)	(6,290,556)	(5,969,517)
NONOPERATING				
Endowment returns (losses), net of appropriations for operations	2,517,196	6,494,764	9,011,960	(10,722,807)
(Losses) / gains on other investments	(158,225)	1,289,134	1,130,909	(928,544)
Building gifts released from restrictions	606,842	(606,842)	-	-
Contributions	161,926	3,599,825	3,761,751	1,215,706
Gain on disposal of property, plant, and equipment	-	-	-	12,000
Other nonoperating expense	(2,754,000)	-	(2,754,000)	(547,105)
Change in net assets from nonoperating activities	373,739	10,776,881	11,150,620	(10,970,750)
Change in net assets	(5,780,697)	10,640,761	4,860,064	(16,940,267)
NET ASSETS, beginning of year	175,035,227	117,938,065	292,973,292	309,913,559
NET ASSETS, end of year	<u>\$ 169,254,530</u>	<u>\$ 128,578,826</u>	<u>\$ 297,833,356</u>	<u>\$ 292,973,292</u>

See accompanying notes.

California Lutheran University and Affiliate
Consolidated Statements of Cash Flows
Years Ended May 31, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,860,064	\$ (16,940,267)
Adjustments to reconcile change in net assets to net cash (used in) by operating activities		
Depreciation	8,007,618	8,082,177
Accretion of bond premium and amortization of debt issuance costs	(731,697)	(844,266)
Amortization of operating lease right-of-use assets	1,041,397	1,617,108
Unrealized (gain) loss on investments, net	(17,758,501)	3,214,954
Change in allowance	85,000	(135,121)
Actuarial adjustment of annuities payable	(228,698)	345,772
Loan receivable cancellations and write-offs	(85,000)	9,327
Gain on disposal of assets	-	(12,000)
Gain on funds held in trust by others	(1,036,785)	(164,964)
Contributions restricted for plant, loans, and long-term investment	(3,761,751)	(1,215,705)
Interest earned on deposits with trustee	-	(3,019)
Changes in assets and liabilities		
Student accounts receivable	(601,139)	(437,106)
Grants receivable	206,907	159,903
Contributions receivable	1,197,725	874,107
Other receivables	2,386,023	179,323
Prepaid expenses and deposits	347,822	(367,381)
Accounts payable	613,417	(27,345)
Accrued liabilities	4,624,209	514,679
Contract liabilities – student deposits	(855,733)	(191,214)
Advances on conditional grants and contributions	(221,928)	195,411
Operating lease liabilities	(836,911)	(1,658,997)
Net cash flows (used in) operating activities	<u>(2,747,961)</u>	<u>(6,804,624)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(174,934,278)	(109,778,963)
Sales of investments	206,437,669	123,921,771
Liquidation of deposits held with trustee – reserve funds	(1,586)	3,214,131
Net change in deposits held in trust for others	37,456	5,994
Purchase of property, plant, and equipment and construction in progress	(8,446,083)	(3,157,235)
Proceeds from the sale of property, plant, and equipment	-	12,000
Repayments received on loans to students	170,729	122,985
Net cash (used in) provided by investing activities	<u>23,263,908</u>	<u>14,340,683</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of principal on indebtedness	(4,390,000)	(4,175,000)
Change in governmental grants refundable, net	(527,601)	19,431
Payments to annuitants	(612,601)	(645,821)
Contributions received restricted for plant, loans, and long-term investment	3,761,751	1,215,705
Net cash used in financing activities	<u>(1,768,451)</u>	<u>(3,585,685)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	<u>18,747,495</u>	<u>3,950,374</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>43,834,576</u>	<u>39,884,202</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 62,582,071</u></u>	<u><u>\$ 43,834,576</u></u>

See accompanying notes.

California Lutheran University and Affiliate

Notes to Consolidated Financial Statements

Note 1 – Organization

California Lutheran University (Cal Lutheran) is an institution of higher education affiliated with the Evangelical Lutheran Church in America. Cal Lutheran offers undergraduate and graduate degrees in the liberal arts, sciences, and professional fields.

California Lutheran Educational Foundation (the Foundation) is a private foundation whose primary function is to provide fundraising support for Cal Lutheran.

KCLU-FM California Lutheran University (the Station) is a noncommercial radio station operated by Cal Lutheran. The Station's assets, liabilities, net assets, and activities are included as part of Cal Lutheran's financial statements and specifically identified using Cal Lutheran's general accounting system.

Note 2 – Summary of Significant Accounting Policies

Principles of consolidation – The consolidated financial statements include the accounts of Cal Lutheran and the Foundation (collectively referred to as the University). All significant intercompany balances and transactions have been eliminated in consolidation.

Basis of presentation – The University's resources are classified for accounting and reporting purposes into two net asset categories according to the existence or absence of donor-imposed restrictions. Descriptions of the two net asset categories and types of transactions affecting each category follow:

- *Net assets without donor restrictions* – Net assets without donor restrictions are free of donor-imposed restrictions. The board has designated a portion of net assets without donor restrictions to function as endowment. All revenues, gains, and losses that are not restricted by donors are included in this classification. All expenditures are reported in the without donor restrictions class of net assets, including expenditures funded by restricted contributions. Expenditures funded by restricted contributions are reported in the without donor restrictions net asset class because the use of restricted contributions in accordance with donors' stipulations results in the release of such restrictions.
- *Net assets with donor restrictions* – Net assets with donor restrictions are limited as to use by donor-imposed stipulations that may expire with the passage of time or that may be satisfied by action of the University. Net assets with donor restrictions are designated by donors for specific purposes and include unconditional pledges and accumulated appreciation on donor-restricted endowments which have not been appropriated by the board of regents for distribution. Some net assets with donor restrictions are required by donors to be held in perpetuity. The donors of substantially all net assets to be held in perpetuity permit the University to use a portion of income earned on the related investments for specific purposes.
- *Expiration of donor-imposed restrictions* – Net assets are released from donor restrictions by incurring expenses to satisfy the restricted purposes and by occurrence of events specified by the donors, including the passage of time. Donor restriction on long-lived assets or cash to construct or acquire long-lived assets are considered to have expired when the assets are placed in service.

California Lutheran University and Affiliate

Notes to Consolidated Financial Statements

Operating measure – The University divides its statements of activities into operating and nonoperating activities. The operating activities of the University include all income and expenses related to carrying out its educational mission. Operating revenues include investment income and investment gains used to fund current operations.

Nonoperating activities include current year realized and unrealized gains (losses) on investments, net of the amount of endowment appreciation used to fund operations. Endowment appreciation used to fund operating and nonoperating activities is included in net assets released from restrictions as the Board has appropriated them. Nonoperating activities also include contributions for property and equipment and endowments held in perpetuity, releases of restrictions as contributions restricted for property and equipment is placed into service, gains or losses on disposal of property and equipment, and change in asset retirement obligations.

Cash and cash equivalents – The University considers all highly liquid investments, except those held for long-term investments, with original maturities of three months or less when purchased, to be cash equivalents.

Student accounts receivable – Student accounts receivable are carried at the unpaid balance of the original amount billed to students less an estimate made for credit losses based on historical experience and management's evaluation of receivables at the end of each year. The allowance for credit losses was approximately \$203,000, \$199,000, and \$334,000 as of May 31, 2024, 2023, and 2022, respectively. Management determines an allowance for credit losses based on historical experience and management's evaluation of current and reasonably supportable expected future economic conditions and the students willingness to pay.. Student accounts are written off when deemed uncollectable. Recoveries of student accounts previously written off are recorded when received. A student account receivable is considered to be delinquent if any portion of the balance is outstanding for more than 90 days after the billing date. The net balance of student accounts receivable was \$3,334,252, \$2,776,690, and \$2,204,463 as of May 31, 2024, 2023, and 2022, respectively.

Interest is charged on past due accounts receivable. Receivables from students' accounts are generally unsecured.

Grants receivable – Grants receivable consist of amounts due within one year from government agencies or private donors based on the terms of the related grant agreements. Management periodically reviews the status of all grants receivable for collectability. Each balance is assessed based on management's knowledge of and relationship with the government agency or the donor and the age of the receivable balance. There was no allowance for doubtful accounts at May 31, 2024 and 2023.

Contributions receivable – Unconditional promises to give are recorded as contributions receivable and revenue in the period such promises are made by the donor. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promise becomes unconditional. Contributions receivable are classified as donor restrictions based on time restrictions. Unconditional promises to give due in subsequent years are reported at their net realizable value using a present value technique, determined using a risk-free interest rate (see Note 4). The University had no conditional contributions receivable at May 31, 2024.

California Lutheran University and Affiliate

Notes to Consolidated Financial Statements

The University estimates an allowance for uncollectable unconditional promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made. The allowance was approximately \$31,000 and \$42,000 at May 31, 2024 and 2023, respectively.

Other receivables – The University has many sources of receivables apart from the student experience that include: receivables from outside summer camps, use of University facilities, housing assistance loans to faculty net of an allowance for credit losses, and a receivable from the Los Angeles Rams™ football team for land improvements. Management determines an allowance for credit losses based on historical experience and management's evaluation of current and reasonably supportable expected future economic conditions and the students willingness to pay. There was no allowance for doubtful accounts for other receivables at May 31, 2024 and 2023.

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 estimate for credit losses. Allowances for credit losses are established based on prior collection experience and future economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms (see Note 5).

Investments – Investments are reported at fair value. Changes in the fair value of investments are reflected as realized and unrealized gains and losses and are reported in the consolidated statements of activities. Realized gains and losses on disposition of investment securities are determined using average cost, and transactions are recorded on a trade-date basis. Interest income is recorded on the accrual basis.

Investment income or loss includes realized gains and losses on investments, interest, and dividends and is net of investment related expenses. Investment income or loss is included in operating and nonoperating revenues, gains, and other support without donor restrictions unless the income or loss is restricted by donor or law.

Short-term investments consist of investments that are not restricted by donors or board-designated endowments and can be liquidated upon need by the University.

Fair value of financial instruments – A reasonable estimate of the fair value of the receivables from students under government loan programs and grants refundable to the government for student loans could not be made because the notes receivable are not saleable and can only be assigned to the U.S. government or its designee. The fair value of receivables under institutional loan programs approximates carrying value.

The carrying amounts of the actuarial liability for trusts and annuities payable are based on life expectancies, quoted market prices, and the applicable discount rates in effect at the time the agreements were received by the University.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Estimates of fair value involve assumptions and estimation methods that are uncertain, and, therefore, the estimates could differ from actual results.

California Lutheran University and Affiliate

Notes to Consolidated Financial Statements

The fair values for investments and other financial instruments recorded at fair value on a recurring basis are included in Note 6.

Funds held in trusts by others – Funds held in trust by others totaled approximately \$3,677,881 and \$2,641,000 at May 31, 2024 and 2023, respectively. These amounts represent the University's beneficial interest in irrevocable split interest agreements held or controlled by a third party.

Deposits with trustee – Deposits with trustee include cash and short-term investments restricted for debt service, as required by the trust indenture, as well as bond construction funds for future property additions.

Property, plant, and equipment – Physical property assets are stated at cost (or at fair value if donated), less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings and improvements (10–40 years), equipment (3–10 years), and library books and materials (20 years). Normal repair and maintenance expenses are charged to operations as incurred. The University capitalizes physical property additions in excess of \$10,000.

Intangible assets – Intangible assets are non-monetary assets without physical substance. The University's intangible assets consist of a Federal Communications Commission (FCC) broadcasting license acquired for \$475,000. The intangible asset, determined to have an indefinite useful life, is not amortized but instead is tested for impairment at least annually.

Impairment of long-lived and intangible assets – The University reviews long-lived assets, including: property held for sale; property, plant, and equipment; and intangibles for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Leases – The University recognizes an operating lease liability and an operating right-of-use (ROU) asset for all leases, including operating leases with an expected term greater than 12 months, on its consolidated statements of financial position. Operating lease ROU assets and liabilities are recognized on the consolidated statements of financial position at commencement date, which is the date that the University gains access to the property or underlying asset. The lease liability is determined based on the present value of the minimum rental payments using a risk-free incremental borrowing rate in effect at the time of the lease commencement. The incremental borrowing rate was 3.31% and 2.86% for the years ended May 31, 2024 and 2023, respectively. The ROU asset is determined based on the lease liability adjusted for lease incentives received. Operating lease cost is recognized on a straight-line basis over the lease term. Certain optional renewal periods were not included in the determination of the lease liability and ROU asset if management determined it was not reasonably certain that the lease would be extended.

California Lutheran University and Affiliate

Notes to Consolidated Financial Statements

Asset retirement obligations – The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the cost of the retirement obligation is capitalized by increasing the carrying value of the related asset. Over time, the liability is accreted to its present value each year, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statements of activities. The obligation to perform the asset retirement activity is not conditional, even though the timing or method may be conditional. Substantially all of the University's conditional asset retirement obligation relates to the estimated cost to remove asbestos and lead paint from campus facilities. The University reviews its estimate annually and adjusts the recorded liability as needed.

The asset retirement obligation of approximately \$621,000 and \$556,000 at May 31, 2024 and 2023, respectively, is included in accrued liabilities on the consolidated statements of financial position.

Advances on conditional grants and contributions – The University received advances on contributions from vendors related to its bookstore and food service operations. These contributions are conditional upon the continuation of the contract with the food service and bookstore vendors. In addition, the value of the land improvements from the development of a football complex for the Los Angeles Rams™ is included in advances on conditional contributions.

Annuities payable – The University has arrangements with donors classified as charitable remainder trusts and charitable gift annuities included in annuities payable on the consolidated statements of financial position. In general, under these arrangements the University receives a gift from a donor and agrees to pay the donor-stipulated amounts over the remaining life of the donor. The arrangement may cover one or more beneficiary and/or successor beneficiary 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 with or without donor restrictions, or, in some instances, distributed to third-party beneficiaries.

When a gift is received under one of these arrangements, it is split into the amount representing the actuarial present value of the future distributions 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 historical interest rates varying from 1.2% to 10% in making the calculations.

The University received no gifts relating to annuity payable agreements for the years ended May 31, 2024 or 2023. The asset value relating to deferred gift agreements is recorded in investments on the consolidated statements of financial position.

California Lutheran University and Affiliate

Notes to Consolidated Financial Statements

Deposits held in trust for others – Deposits held in trust for others represent gifts received by the University where a portion of the gift benefits other nonprofit organizations. The University provides investment management services for those other organizations' endowment or reserve funds. Each organization's interest is determined through a unitization process based on the fair value of the assets placed in the pool by each participant. Investment income and net realized and unrealized gains and losses are allocated equitably based on the number of units assigned to each participant. A liability is recorded at the estimated fair value of assets deposited with the University. At May 31, 2024 and 2023, the balance that was held in custody by the University amounted to approximately \$785,000 and \$747,000, respectively.

Government grants refundable – Funds provided by the United States government under the Federal Perkins Loan Program were originally loaned to qualified students. On October 1, 2017, the Federal Perkins Extension Act of 2015 expired and no longer permitted disbursements to students of any kind after June 30, 2018. These funds are ultimately refundable to the government and are included as liabilities in the consolidated statements of financial position. The University has been notified that the government will continue collecting the federal share of the University's Perkins Loan Revolving Funds in future fiscal years.

Revenue Recognition

Tuition and fees – The University uses the output measure for revenue recognition of tuition and fees revenue, which means the revenue is recognized pro rata over each instructional course as performance obligations associated with the delivery of educational services are provided. A contract is entered into with a student and covers a course or semester. The University determined there are no costs that are capitalized to obtain or fulfill these contracts with a student. Revenue recognition begins once a student starts attending a course.

Registration and other fees that do not relate to instruction are recognized when no longer refundable. The University's receivables represent unconditional rights to consideration from its contracts with students; accordingly, receivables are not recorded until students have begun a course and the revenue recognition has commenced.

The University maintains an institutional tuition refund policy, which provides for all or a portion of tuition to be refunded if a student withdraws during stated refund periods. If a student withdraws at a time when only a portion, or none of the tuition is refundable, then in accordance with its revenue recognition policy, the University continues to recognize the tuition that was not refunded pro rata over the applicable period of instruction. The University's education programs have start and end dates that differ from its fiscal year end. Students are generally billed for courses and programs prior to the start of the course or program. Therefore, at the end of each fiscal year, a portion of revenue from these programs is not yet earned and is recorded as contract liabilities in the consolidated statements of financial position. Student tuition and fees received in advance of services to be rendered are also recorded as contract liabilities. Substantially all contract liabilities recorded as of May 31, 2023, were recognized as part of tuition and fees during the year ended May 31, 2024. The University applies the practical expedient permitted by United States generally accepted accounting principles (U.S. GAAP) and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

California Lutheran University and Affiliate

Notes to Consolidated Financial Statements

Financial assistance in the form of scholarships and grants that cover a portion of tuition and other costs is reflected as a reduction of tuition and fees revenues. Gross tuition and fees less financial assistance are summarized as follows for the years ended May 31:

	<u>2024</u>	<u>2023</u>
Tuition and fees	\$ 134,489,907	\$ 134,902,663
Less scholarships and grants	<u>(63,498,051)</u>	<u>(63,685,304)</u>
Net tuition and fees	<u>\$ 70,991,856</u>	<u>\$ 71,217,359</u>

Student room and board – The University uses the output measure for revenue recognition of student room and board, which means the revenue is recognized pro rata as performance obligations associated with the delivery of room and board services are provided. A contract is entered into with a student and typically covers a similar period of a course or semester that corresponds to their education program. The University determined there are no costs that are capitalized to obtain or fulfill these contracts with a student. Revenue recognition begins once a student moves into the housing. Deposits and other fees are recognized when no longer refundable.

The University's receivables represent unconditional rights to consideration from its contracts with students; accordingly, receivables are not recorded until students have moved into student housing. If a student withdraws at a time when only a portion or none of the room and board is refundable, then in accordance with its revenue recognition policy, the University continues to recognize the room and board that was not refunded pro rata over the applicable housing period. Students are generally billed for room and board prior to their moving in. Therefore, at the end of each fiscal year, a portion of revenue from these programs is not yet earned and is recorded as contract liabilities – student deposits in the consolidated statements of financial position. The balance of contract liabilities – student deposits was \$2,906,38, \$3,762,114, and \$3,953,328 as of May 31, 2024, 2023, and 2022, respectively.

Government and other grants – Individual governmental and private grant arrangements have been evaluated and determined to be nonreciprocal, meaning the granting entity has not received a direct benefit in exchange for the resources provided. Instead, revenue is recognized like a conditional contribution—when the barrier to entitlement is overcome. The barrier to entitlement is considered overcome when expenditures associated with each grant are determined to be allowable and all other significant conditions of the grant are met.

Contributions – Unconditional contributions, including promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met.

Sales and services of educational activities and other revenue – Sales and services of educational activities revenue are earned at the time of activity or event. Other revenue activities consist of conferences, facility usage, and rents which are recognized at the time of the activity or event.

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Sales and services of auxiliary enterprises – Sales and services of auxiliary enterprises include revenue from activities that further the University's mission for providing education outside of student enrollment, including sponsorship of travel seminars, off-location training for schoolteachers, economic forecast presentations, Kingsmen's Shakespeare educational tours, and speaker series. Revenue is recognized in the period the services are provided.

Retirement plans – The University has certain contributory retirement plans for academic and nonacademic personnel. Contributions for employees are determined on a percentage of annual compensation. The cost of the retirement plans is paid currently and approximated \$2,087,000 and \$4,109,000 for the years ended May 31, 2024 and 2023, respectively.

Fundraising and advertising expenses – Fundraising expenses approximated \$2,475,000 and \$2,589,000 for the years ended May 31, 2024 and 2023, respectively, and are included in institutional support expenses on the consolidated statements of activities. Advertising costs approximated \$913,000 and \$1,250,000 for the years ended May 31, 2024 and 2023, respectively, and are expensed as incurred.

Functional allocation of expenses – The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited using a full-time-equivalent or square-footage basis that is consistently applied. The expenses that are allocated include interest, depreciation, salaries and wages, employee benefits, occupancy and utilities, services, supplies and other expenses, and operation and maintenance of plant expenses.

Use of estimates – The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications – Certain amounts presented in the prior year consolidated financial statements have been reclassified to conform to the current year presentation.

Prior year summarized comparative information – The consolidated financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ended May 31, 2023, from which summarized information was derived.

Income tax status – The Internal Revenue Service has determined that the University and Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code as non-profit organizations. They are also exempt from state income taxes. However, any unrelated business income may be subject to taxation. The University follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the consolidated financial statements recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the University for uncertain tax positions as of May 31, 2024 and 2023.

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Accounting standard adopted – On June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (CECL), which requires the establishment of an allowance for estimated credit losses on financial assets, including trade and other receivables and contract assets, at each reporting date. The Organization adopted the new standard on June 1, 2023, using the modified-retrospective approach, which did not have a significant effect on the financial statements as of and for the year ended May 31, 2023. Therefore, there was no cumulative effect to beginning retained earnings as it was determined to be immaterial.

Note 3 – Other Concentrations of Credit Risk

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash, investments, and accounts receivable. Cash, cash equivalents, and investments are concentrated in a limited number of financial institutions and amounts in excess of Federal Deposit Insurance Corporation (FDIC) and Securities Investors Protection Corporation (SIPC) limits and similar coverages are subject to the usual risks of balances in excess of those limits.

Student loan receivables and other receivables are due from a variety of sources concentrated primarily in the western 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.

Contributions receivable as of May 31, 2024 and 2023, are principally due from one major contributor (see Note 4).

Note 4 – Contributions Receivable

Contributions receivable include the following unconditional promises to give at May 31:

	2024	2023
Projects with donor restrictions, net allowance	\$ 4,125,014	\$ 5,471,918
Less present value discount	<u>(203,185)</u>	<u>(352,364)</u>
Contributions receivable, net	<u>\$ 3,921,829</u>	<u>\$ 5,119,554</u>
Amounts due in		
Less than one year	\$ 1,554,119	\$ 1,481,654
One to five years	<u>2,367,710</u>	<u>3,637,900</u>
	<u>\$ 3,921,829</u>	<u>\$ 5,119,554</u>

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Unconditional promises to give have been reduced by an allowance for unfulfilled pledges of approximately \$31,000 and \$42,000 at May 31, 2024 and 2023, respectively. The present value discount is based on U.S. Treasury risk-free rates based on when the gift was received and the length of collections. A range of 0.74% – 3.12%, was used to discount unconditional promises to give at May 31, 2024 and 2023.

Approximately \$3,542,243 and \$4,909,120 of the net contributions receivable at May 31, 2024 and 2023, respectively, are due from current and former members of the Regents of the University.

Note 5 – Credit Quality of Student Loans Receivable

At May 31, 2024 and 2023, student loans receivable represented 0.12% and 0.19% of total assets, respectively.

Student loans consisted of the following at May 31:

	2024	2023
Federal government programs	\$ 538,689	\$ 808,204
Institutional programs	5,114	5,114
	543,803	813,318
Less allowance for doubtful accounts	(85,030)	(85,000)
Student loans receivable, net	<u>\$ 458,773</u>	<u>\$ 728,318</u>

Funds advanced by the federal government 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 Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

At May 31, the following amounts were past due under student loan programs:

May 31,	1–30 days	31–60 days	61–90 days	91+ days	Total
2024	\$ -	\$ 741	\$ 232	\$ 144,503	\$ 145,476
2023	\$ 1,187	\$ 595	\$ 562	\$ 162,537	\$ 164,881

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Note 6 – Fair Value Measurements

Fair value is defined as 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. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels are defined as follows:

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 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

In certain cases, securities are measured using the net asset value (NAV) per share practical expedient, an estimate of fair value, and are excluded from the fair value hierarchy. The University obtains the fair value for these securities from fund managers. The fund managers use various models, comparisons, and assumptions to estimate fair value. Consideration is given to the type of investment, risks, marketability, restrictions, dispositions, and quotations from other market participants. Adjustments may be determined by management to account for the time period since the date of the fund's last statement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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The following table summarizes financial instruments measured at fair value on a recurring basis by classification within the fair value hierarchy as of May 31, 2024:

	Level 1	Level 2	Level 3	Measured Using NAV Practical Expedient	Total
ASSETS					
Deposits with trustee/funds held in trust					
Cash and short-term investments	\$ 2,471	\$ -	\$ -	\$ -	\$ 2,471
Funds held in trust by others – beneficial interest	-	-	3,677,881	-	3,677,881
Total funds held by others	2,471	-	3,677,881	-	3,680,352
Short-term investments					
Corporate bonds – U.S.	-	8,442,837	-	-	8,442,837
Corporate bonds – Non-U.S.	-	1,177,356	-	-	1,177,356
Total short-term investments	-	9,620,192	-	-	9,620,192
Investments					
Cash equivalents	4,586,753	-	-	-	4,586,753
Cash surrender value of life insurance contracts	-	3,335,980	-	-	3,335,980
Equity securities funds – U.S.	9,380,491	-	-	15,219,245	24,599,736
Equity securities funds – Non-U.S.	24,910,003	-	-	24,105,440	49,015,443
Total equity securities funds	34,290,494	-	-	39,324,685	73,615,179
Comingled funds – U.S.	1,006,529	-	-	3,184,204	4,190,734
Comingled funds – Non-U.S.	17,016,964	-	-	16,874,838	33,891,803
Government bonds	-	2,598,389	-	-	2,598,389
Total fixed income	18,023,493	2,598,389	-	20,059,043	40,680,925
Commodities and other investments	12,488	-	-	17,399,655	17,412,143
Hedge funds	-	-	-	2,642	2,642
Partnerships					
Private equity	-	-	-	12,131,005	12,131,005
Venture capital	-	-	-	277,274	277,274
Total partnerships	-	-	-	12,408,279	12,408,279
Total investments	56,913,228	5,934,369	-	89,194,304	152,041,901
Total assets measured at fair value or NAV	<u>\$ 56,915,699</u>	<u>\$ 15,554,561</u>	<u>\$ 3,677,881</u>	<u>\$ 89,194,304</u>	<u>\$ 165,342,445</u>
LIABILITIES					
Deposits held in trust for others	\$ -	\$ 789,751	\$ -	\$ -	\$ 789,751
Total liabilities measured at fair value or NAV	<u>\$ -</u>	<u>\$ 789,751</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 789,751</u>

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The following table summarizes financial instruments measured at fair value on a recurring basis by classification within the fair value hierarchy as of May 31, 2023:

	Level 1	Level 2	Level 3	Measured Using NAV Practical Expedient	Total
ASSETS					
Deposits with trustee/funds held in trust					
Cash and short-term investments	\$ 885	\$ -	\$ -	\$ -	\$ 885
Funds held in trust by others – beneficial interest	-	-	2,641,096	-	2,641,096
Total funds held by others	885	-	2,641,096	-	2,641,981
Short-term investments					
Corporate bonds – U.S.	-	24,545,244	-	-	24,545,244
Corporate bonds – Non-U.S.	-	9,291,607	-	-	9,291,607
Total short-term investments	-	33,836,851	-	-	33,836,851
Investments					
Cash equivalents	2,608,895	-	-	-	2,608,895
Cash surrender value of life insurance contracts	-	3,261,424	-	-	3,261,424
Equity securities funds – U.S.	7,459,183	-	-	16,143,401	23,602,584
Equity securities funds – Non-U.S.	26,020,224	-	-	22,526,829	48,547,053
Total equity securities funds	33,479,407	-	-	38,670,230	72,149,637
Comingled funds – U.S.	866,658	-	-	760,549	1,627,207
Comingled funds – Non-U.S.	16,393,874	-	-	15,758,965	32,152,839
Government bonds	-	2,654,688	-	-	2,654,688
Total fixed income	17,260,532	2,654,688	-	16,519,514	36,434,734
Commodities and other investments	56,648	-	-	15,632,099	15,688,747
Hedge funds	-	-	-	2,642	2,642
Partnerships					
Private equity	-	-	-	10,308,060	10,308,060
Venture capital	-	-	-	326,321	326,321
Total partnerships	-	-	-	10,634,381	10,634,381
Total investments	53,405,482	5,916,112	-	81,458,866	140,780,460
Total assets measured at fair value or NAV	<u>\$ 53,406,367</u>	<u>\$ 39,752,963</u>	<u>\$ 2,641,096</u>	<u>\$ 81,458,866</u>	<u>\$ 177,259,292</u>
LIABILITIES					
Deposits held in trust for others	\$ -	\$ 747,389	\$ -	\$ -	\$ 747,389
Total liabilities measured at fair value or NAV	<u>\$ -</u>	<u>\$ 747,389</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 747,389</u>

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as general classification of such instruments pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include cash equivalents, U.S. equity securities funds, non-U.S. equity securities funds, U.S. comingled funds, non-U.S. comingled funds, and commodities and other investments, other than those measured at net asset value.

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Level 2 securities are valued based on similar assets in an active market and include government bonds, corporate bonds, and the cash surrender value of life insurance contracts. Level 2 liabilities include deposits held in trust with others for the cash surrender value of certain life insurance policies due to other organizations.

The University's beneficial interest in irrevocable split interest agreements held or controlled by a third party is classified as Level 3 as the fair values are based on significant unobservable inputs. The carrying amount of the actuarial asset for split-interest agreements approximates fair value based on life expectancies, quote market prices, and the present value discount included in the carrying amount. Since the University has an irrevocable right to receive the income earned from the trusts' assets, the fair value of the University's beneficial interest is estimated to approximate the net present value of each trust's assets. The trusts are with the Evangelical Lutheran Church of America (ELCA), representing 16 individual donors, with payout rates ranging from 5% to 9% per year discounted by 5%.

Securities measured using NAV per share as a practical expedient include equity securities funds, comingled funds, commodities and other investments, hedge funds, private equity partnerships, and venture capital partnerships.

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 tables present a reconciliation of the consolidated statements of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended May 31, 2024 and 2023:

	Balance May 31, 2023	Net Realized and Unrealized Gains Included in Change in Net Assets	Purchases, Issuances, and Settlement, net	Net Transfers in (out) of Level 3	Balance May 31, 2024
ASSETS					
Funds held in trust by others – beneficial interest	\$ 2,641,096	\$ 1,036,785	\$ -	\$ -	\$ 3,677,881
	Balance May 31, 2022	Net Realized and Unrealized Gains Included in Change in Net Assets	Purchases, Issuances, and Settlement, net	Net Transfers in (out) of Level 3	Balance May 31, 2023
ASSETS					
Funds held in trust by others – beneficial interest	\$ 2,476,132	\$ 164,964	\$ -	\$ -	\$ 2,641,096

The University's policy is to recognize transfers in and transfers out as of the last day of the reporting period.

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The following table provides additional information for investments in certain entities that measure fair value using the NAV practical expedient:

	Fair Value at May 31, 2024	Capital Commitments	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Investee Strategies and Other Restrictions
Equity securities funds – U.S.	\$ 15,219,245	\$ -	\$ -	Daily	1–2 days	[1]
Equity securities funds – Non U.S.	24,105,440	-	-	Daily	2–30 days	[1]
Comingled funds – U.S.	3,184,204	-	-	Daily	2–15 days	[1]
Comingled funds – Non U.S.	16,874,838	-	-	Daily	2–15 days	[1]
Commodities and other	17,399,655	-	-	Daily	2 days	[1]
Hedge funds	2,642	-	-	Not permitted	n/a	[1]
Partnerships	-	-	-			
Private equity	12,131,005	21,500,000	7,558,000	Not permitted	n/a	[2]
Venture capital	277,274	1,366,000	17,000	Not permitted	n/a	[2]
Total	\$ 89,194,304	\$ 22,866,000	\$ 7,575,000			

[1] Absolute total return in long/short equity and multi-strategy hedge funds.

[2] Venture and buyout, in the U.S. and international.

The University's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the world equity, fixed-income, commodities, real estate, and private equity markets. This strategy provides the University with a long-term asset mix that is most likely to meet the University's long-term return goals with the appropriate level of risk.

The University's hedge funds and partnership investments were entered into to diversify the University's portfolio, to provide predictability in overall earnings, and to provide market-neutral holdings. The University's management, the finance and investment committee of the board of regents, and the University's external investment consultants regularly review performance reports provided by the general partners of these investments. The University's external investment consultants attend meetings of the various general partners in order to evaluate the risk associated with these investments. In addition, the University monitors its portfolio mix to ensure that it is in accordance with board policy.

Investments, in general, are subject to various risks, including credit, interest, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

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Note 7 – Property, Plant, and Equipment

Property, plant, and equipment consisted of the following at May 31:

	<u>2024</u>	<u>2023</u>
Depreciable		
Buildings	\$ 186,761,979	\$ 186,761,979
Improvements other than buildings	48,254,531	43,090,523
Equipment	24,014,027	22,181,565
Library books and materials	<u>3,854,264</u>	<u>3,792,750</u>
	262,884,802	255,826,817
Less accumulated depreciation	<u>(130,180,139)</u>	<u>(122,932,202)</u>
	132,704,663	132,894,615
Non-depreciable		
Land	2,946,661	2,946,661
Construction in progress	<u>3,461,798</u>	<u>3,214,491</u>
Property, plant, and equipment, net	<u><u>\$ 139,113,122</u></u>	<u><u>\$ 139,055,767</u></u>

Depreciation expense totaled approximately \$8,007,000 and \$8,082,000 for the years ended May 31, 2024 and 2023, respectively.

At May 31, 2024, the following construction projects were in progress:

	<u>Estimated Total Cost (Unaudited)</u>	<u>Cost to Date</u>	<u>Funding Plan (Unaudited)</u>
New School of Management Building	\$ 22,000,000	\$ 1,392,009	Donations/operations/ Deposits with trustee
Softball Stadium	5,000,000	1,343,157	Donations/operations
Other projects		<u>726,632</u>	Donations/operations
		<u><u>\$ 3,461,798</u></u>	

Costs to date associated with the new school of management building represent planning and design work. As of May 31, 2024, physical construction of the project has not commenced.

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Note 8 – Long-Term Debt

The University had the following long-term debt outstanding at May 31:

	2024	2023
California Municipal Financing Authority (CMFA)		
Revenue Bonds 2018 Series	\$ 53,970,000	\$ 58,360,000
Unamortized bond premium	3,742,445	4,519,665
Unamortized debt issuance costs	(609,319)	(654,842)
	<u>\$ 57,103,126</u>	<u>\$ 62,224,823</u>

On August 16, 2018, the University issued CMFA 2018 Series bonds for \$77,710,000 at a premium of \$9,800,724, to defease the 2014A and 2014B Series CMFA loans and the 2008 Series Revenue bonds. Additionally, the bonds were used to borrow \$15 million for new construction projects on campus. The 2018 Series bonds are made up of 21 individual series bonds ranging in maturity from October 1, 2018 through October 1, 2038, with a coupon rate of 5% and an effective interest rate of 3.41%. The annual maturities range from \$2,495,000 to \$5,360,000. The debt is secured by a pledge on future revenue.

Debt issuance costs are amortized on a straight-line basis over the term of the related indebtedness. Amortization of approximately \$43,000 was recorded within interest expense for the years ended May 31, 2024 and 2023.

The University has agreed to certain covenants, including covenants to maintain its existence and not to take action that would impair the tax-exempt status of interest on the bonds; however, the University is not required to maintain specific financial covenants.

Principal maturities of long-term debt are as follows:

	Principal
Years Ending May 31,	
2025	4,615,000
2026	4,850,000
2027	5,100,000
2028	5,360,000
2029	2,505,000
Thereafter	<u>31,540,000</u>
	<u>\$ 53,970,000</u>

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Notes to Consolidated Financial Statements

Note 9 – Restrictions and Limitations on Net Asset Balances

Net assets with donor restrictions consisted of the following at May 31:

	2024	2023
Net assets held in perpetuity		
Endowment funds	\$ 68,528,574	\$ 66,660,520
Funds held in trust by others	3,399,780	2,440,308
Student loan funds	304,278	304,278
Annuity, life income, and similar funds	177,766	190,562
	<u>72,410,398</u>	<u>69,595,668</u>
Net assets restricted for time and purpose		
Gifts and other unexpended revenues and gains available for		
Scholarships, instruction, and other departmental support	17,709,556	18,194,110
Acquisition of buildings and equipment	7,878,823	6,502,404
Accumulated earnings on endowment funds	29,516,916	22,678,941
Funds held in trust by others	14,875	13,313
Annuity, life income, and similar funds	1,048,927	953,629
	<u>56,169,097</u>	<u>48,342,397</u>
Total net assets with donor restrictions	<u>\$ 128,579,495</u>	<u>\$ 117,938,065</u>

Net assets without donor restrictions consist of the following at May 31:

	2024	2023
Operations	\$ 48,873,555	\$ 60,164,549
Endowment funds – board-designated	46,938,706	44,407,980
Funds held in trust by others	263,226	187,476
Property, plant, equipment, and operating lease right-of-use assets	73,874,955	70,275,222
	<u>\$ 169,950,442</u>	<u>\$ 175,035,227</u>

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Note 10 – Net Assets Released from Restrictions

Net assets were released from restrictions during the years ended May 31, 2024 and 2023, by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

	2024	2023
Scholarships, instruction, and other departmental support	\$ 6,116,482	\$ 6,452,210
Acquisition and completion of construction of buildings and equipment	606,842	949,140
	<u>\$ 6,723,324</u>	<u>\$ 7,401,350</u>

Note 11 – Endowment

The University's endowment consists of approximately 300 individual funds 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 U.S. 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 restrictions.

Interpretation of relevant law – The University's governing board has interpreted the California-enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Regents. See Note 2 for further information on net asset classifications.

The remaining portion of the donor-restricted endowment fund that is not held in perpetuity is classified as donor-restricted until it is appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purposes of the University and the donor-restricted endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and the appreciation and depreciation of investments;
6. Other resources of the University; and
7. The investment policies of the University.

California Lutheran University and Affiliate

Notes to Consolidated Financial Statements

Endowment net asset composition by type of fund consists of the following as of May 31, 2024:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 96,496,245	\$ 96,496,245
Board-designated endowment funds*	46,938,706	1,549,244	48,487,950
Underwater funds	-	-	-
Total endowment net assets	<u>\$ 46,938,706</u>	<u>\$ 98,045,489</u>	<u>\$ 144,984,195</u>

* Amounts within board-designated endowment funds that are shown as with donor restrictions have a donor restriction for the same purpose as the board-designated endowment, but are not donor-endowed.

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

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, May 31, 2023	<u>\$ 44,407,980</u>	<u>\$ 89,339,461</u>	<u>\$ 133,747,441</u>
Investment return			
Investment income, net of fees of \$484,490	324,831	697,522	1,022,353
Net appreciation – realized and unrealized	<u>5,018,495</u>	<u>9,770,413</u>	<u>14,788,908</u>
Total investment return	5,343,326	10,467,935	15,811,261
Contributions	165	1,700,283	1,700,448
Changes in cash surrender values	116,781	118,939	235,720
Appropriation of endowment assets for expenditure	(2,826,130)	(3,973,170)	(6,799,300)
Transfers	<u>(103,416)</u>	<u>392,042</u>	<u>288,626</u>
Total change to endowment net assets	<u>2,530,726</u>	<u>8,706,029</u>	<u>11,236,755</u>
Endowment net assets, May 31, 2024	<u>\$ 46,938,706</u>	<u>\$ 98,045,490</u>	<u>\$ 144,984,196</u>

Endowment net asset composition by type of fund consists of the following as of May 31, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 87,766,397	\$ 87,766,397
Board-designated endowment funds*	44,407,980	1,455,517	45,863,497
Underwater funds	-	117,547	117,547
Total endowment net assets	<u>\$ 44,407,980</u>	<u>\$ 89,339,461</u>	<u>\$ 133,747,441</u>

* Amounts within board-designated endowment funds that are shown as with donor restrictions have a donor restriction for the same purpose as the board-designated endowment, but are not donor-endowed.

California Lutheran University and Affiliate

Notes to Consolidated Financial Statements

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

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, May 31, 2022	\$ 48,467,396	\$ 94,594,647	\$ 143,062,043
Investment return			
Investment income, net of fees of \$467,254	388,333	771,119	1,159,452
Net depreciation – realized and unrealized	(1,730,110)	(3,314,069)	(5,044,179)
Total investment return	(1,341,777)	(2,542,950)	(3,884,727)
Contributions	150	1,018,954	1,019,104
Changes in cash surrender values	22,821	87,386	110,207
Appropriation of endowment assets for expenditure	(2,740,610)	(4,097,470)	(6,838,080)
Transfers	-	278,894	278,894
Total change to endowment net assets	(4,059,416)	(5,255,186)	(9,314,602)
Endowment net assets, May 31, 2023	\$ 44,407,980	\$ 89,339,461	\$ 133,747,441

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. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new donor-restricted contributions and continued appropriation for certain programs that were deemed prudent by the governing board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in net assets with donor restrictions. At May 31, 2024, there were no funds with deficiencies. At May 31, 2023, there were no funds with deficiencies.

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 that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Return objectives and risk parameters – The University has adopted investment and spending policies that attempt to be prudent and 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, the long-term minimum need of the endowment is to exceed a total return averaging at least the annual spending rate plus inflation, fees, and costs. Actual returns in any year may vary from this amount. The long-term objective is to build endowment value over time by achieving incremental returns in excess of need while appropriately managing portfolio risk.

California Lutheran University and Affiliate

Notes to Consolidated Financial Statements

Spending policy and how the investment objectives relate to spending policy – The University has a policy of appropriating for distribution each year 5.00% of its endowment fund's average fair value for the twelve quarters prior to and including December 31 preceding the fiscal year end. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of 4.00% annually. 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.

Note 12 – Commitments and Contingencies

Leases – The University has operating lease commitments for offsite student facilities through 2028. Lease expense associated with these leases totaled approximately \$1,569,400 and \$1,821,300 for the years ended May 31, 2024 and 2023, respectively. Future minimum lease payments on leases in effect on May 31, 2024, are as follows:

Years Ending May 31,	
2025	\$ 1,405,759
2026	1,199,042
2027	671,595
2028	687,555
2029	180,879
Thereafter	<u>-</u>
Total lease payments	4,144,830
Less imputed interest	<u>(235,163)</u>
Operating lease liabilities as of May 31, 2024	<u><u>\$ 3,909,667</u></u>

Additionally, the University leases space for various locations. The operating lease arrangements are renewed month-to-month.

Additional information for the University's leases at May 31, 2024, is summarized below:

Operating cash flows from finance leases (i.e., interest)	\$ 90,350
Financing cash flows from finance leases (i.e., principal portion)	\$ 1,479,050
Weighted-average remaining lease term	2.08
Weighted-average discount rate	3.31%

Litigation – In the normal course of business, the University is subject to legal claims. After consultation with the University's legal counsel, management of the University is of the opinion that liabilities, if any, arising from such claims would not have a material effect on the University's financial position.

California Lutheran University and Affiliate

Notes to Consolidated Financial Statements

Federal and state grant programs – Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable grant. The amount, if any, of expenditures that may be disallowed by grantors cannot be determined at this time, although the University expects such amounts, if any, to be immaterial.

Note 13 – Supplemental Disclosure of Cash Flow Information

Supplemental disclosure of cash flow information is as follows for the years ended May 31:

	<u>2024</u>	<u>2023</u>
Interest paid, net of interest capitalized of \$0 and \$0 for 2024 and 2023, respectively	<u>\$ 2,050,030</u>	<u>\$ 2,127,191</u>
Supplemental disclosure of noncash investing activities		
Acquisition of property and equipment through accounts payable	<u>\$ 543,656</u>	<u>\$ 162,546</u>

Note 14 – Related-Party Transactions

Other than contributions receivable due from current and former board members as discussed in Note 4, there were no other significant related-party transactions that took place during the years ended May 31, 2024 and 2023.

California Lutheran University and Affiliate

Notes to Consolidated Financial Statements

Note 15 – 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 use because of contractual or donor-imposed restrictions within one year of the consolidated statements of financial position date:

	2024	2023
Financial assets		
Cash and cash equivalents	\$ 62,582,071	\$ 43,834,576
Short-term investments	9,620,192	33,836,851
Receivables	9,071,516	12,304,609
Student loans receivable	458,773	728,318
Investments	152,041,611	140,780,460
Funds held in trusty by others	3,677,881	2,641,096
Deposits with trustee – reserve funds	2,471	885
	<hr/>	<hr/>
Total financial assets	237,454,515	234,126,795
Less amounts unavailable for general expenditure within one year		
Receivables collectable beyond one year	(2,367,710)	(3,637,900)
Investments and other financial assets held by others	(3,677,881)	(2,641,096)
Student loan funds	(458,773)	(728,318)
Bond reserve funds	(2,471)	(885)
Funds with donor restrictions for educational expenses	(17,709,556)	(18,194,110)
Perpetual and term endowments subject to appropriation beyond one year	(98,045,490)	(89,339,461)
Funds restricted for acquisition of buildings and equipment	(7,878,823)	(6,502,404)
Board-designated endowment funds	(46,938,706)	(44,407,980)
Funds held in trust and various state required annuity reserves	(6,870,562)	(7,249,354)
Student managed fund not collectable	-	(92,578)
	<hr/>	<hr/>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 53,504,543</u>	<u>\$ 61,332,709</u>

Endowment funds consist of donor-restricted endowments and funds designated by the board as the quasi-endowment. Income from donor-restricted endowments is restricted for specific purposes and is not available for general expenditure. However, these amounts could be made available if necessary. As part of the University's liquidity plan, it structures its financial assets to be available as obligations become due. Cash is held in interest-bearing bank accounts and is invested in short-term fixed income accounts.

California Lutheran University and Affiliate

Notes to Consolidated Financial Statements

Note 16 – Functional Allocation of Expenses

Expenses by function and nature consist of the following for the year ended May 31, 2024:

	Instruction	Public Service	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	Maintenance of Plant	Total
Salaries and wages	\$27,818,309	\$ 3,148,816	\$ 3,555,538	\$ 11,815,533	\$ 577,534	\$13,118,554	\$ 3,293,748	\$ 63,328,032
Employee benefits	5,095,758	632,460	640,711	2,388,070	104,092	4,115,435	942,558	13,919,084
Services, supplies, and other expenses	5,080,327	2,977,360	2,150,809	7,810,157	6,653,096	1,965,087	1,408,842	28,045,678
Occupancy and utilities	75,746	231,750	181,915	123,197	2,691,842	2,383,650	4,899,529	10,587,629
Depreciation	2,030,659	125,434	493,312	1,253,319	3,585,061	519,832	-	8,007,617
Interest	796,262	50,405	-	-	1,053,463	1,382	148,519	2,050,031
	40,897,061	7,166,225	7,022,285	23,390,276	14,665,088	22,103,940	10,693,196	125,938,071
Operation and maintenance of plant	2,170,719	171,091	449,114	1,785,764	5,261,052	855,456	(10,693,196)	-
Total operating expenses	<u>\$43,067,780</u>	<u>\$ 7,337,316</u>	<u>\$ 7,471,399</u>	<u>\$ 25,176,040</u>	<u>\$19,926,140</u>	<u>\$22,959,396</u>	<u>\$ -</u>	<u>\$125,938,071</u>

Expenses by function and nature consist of the following for the year ended May 31, 2023:

	Instruction	Public Service	Academic Support	Student Services	Auxiliary Enterprises	Institutional Support	Maintenance of Plant	Total
Salaries and wages	\$27,198,712	\$ 3,180,378	\$ 3,261,352	\$ 11,688,167	\$ 585,505	\$12,410,978	\$ 3,507,473	\$ 61,832,565
Employee benefits	5,865,243	696,791	686,863	2,757,746	104,648	4,001,697	1,128,071	15,241,059
Services, supplies, and other expenses	4,974,210	3,665,304	2,636,480	8,169,976	6,708,364	(12,465)	1,998,449	28,140,318
Occupancy and utilities	37,765	246,470	185,440	93,900	2,946,309	2,530,292	4,399,513	10,439,689
Depreciation	2,048,539	126,555	501,001	1,264,515	3,617,090	524,477	-	8,082,177
Interest	849,354	46,995	-	-	1,069,592	1,496	159,754	2,127,191
	40,973,823	7,962,493	7,271,136	23,974,304	15,031,508	19,456,475	11,193,260	125,862,999
Operation and maintenance of plant	2,272,232	179,092	470,117	1,869,274	5,507,084	895,461	(11,193,260)	-
Total operating expenses	<u>\$43,246,055</u>	<u>\$ 8,141,585</u>	<u>\$ 7,741,253</u>	<u>\$ 25,843,578</u>	<u>\$20,538,592</u>	<u>\$20,351,936</u>	<u>\$ -</u>	<u>\$125,862,999</u>

Note 17 – Subsequent Events

Subsequent events are events or transactions that occur after the consolidated statement of financial position date but before the consolidated financial statements are issued. The University recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. The University does not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position but arose after the consolidated statement of financial position date and before the consolidated financial statements are issued.

The University has evaluated subsequent events through October 29, 2024, which is the date the consolidated financial statements were issued.

Supplementary Information

California Lutheran University and Affiliate
Consolidating Statement of Financial Position
May 31, 2024

ASSETS			
	California Lutheran University	California Lutheran Education Foundation	Total
ASSETS			
Cash and cash equivalents	\$ 62,582,071	\$ -	\$ 62,582,071
Short-term investments	9,620,192	-	9,620,192
Receivables			
Student accounts, net	3,334,252	-	3,334,252
Grants	870,877	-	870,877
Contributions, net	3,921,829	-	3,921,829
Other	944,558	-	944,558
Prepaid expenses and deposits	1,999,021	-	1,999,021
Student loans receivable, net	458,773	-	458,773
Investments	149,017,623	3,023,988	152,041,611
Funds held in trusts by others	3,677,881	-	3,677,881
Deposits with trustee	2,471	-	2,471
Property, plant, and equipment, net	139,113,122	-	139,113,122
Intangible assets	475,000	-	475,000
Operating lease right-of-use assets	3,650,978	-	3,650,978
Total assets	\$ 379,668,648	\$ 3,023,988	\$ 382,692,636
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$ 2,194,708	\$ -	\$ 2,194,708
Accrued liabilities	11,574,843	-	11,574,843
Contract liabilities – student deposits	2,906,381	-	2,906,381
Advances on conditional grants and contributions	1,990,344	-	1,990,344
Annuities payable	2,993,494	1,101,879	4,095,373
Deposits held in trust for others	617,043	167,802	784,845
Government grants refundable	299,993	-	299,993
Long-term debt	57,103,126	-	57,103,126
Operating lease liabilities	3,909,667	-	3,909,667
Total liabilities	83,589,599	1,269,681	84,859,280
NET ASSETS			
Without donor restrictions	169,223,642	30,888	169,254,530
With donor restrictions	126,855,407	1,723,419	128,578,826
Total net assets	296,079,049	1,754,307	297,833,356
Total liabilities and net assets	\$ 379,668,648	\$ 3,023,988	\$ 382,692,636

California Lutheran University and Affiliate
Consolidating Statement of Activities
Year Ended May 31, 2024

	California Lutheran University	California Lutheran Education Foundation	Total
OPERATING			
Revenues, gains, and other support			
Tuition and fees	\$ 70,991,856	\$ -	\$ 70,991,856
Student room and board	19,553,562	-	19,553,562
Government and other grants	5,731,572	-	5,731,572
Contributions	5,557,114	-	5,557,114
Investment income, net	10,601,665	-	10,601,665
Sales and services of educational activities	1,472,518	-	1,472,518
Other	3,397,209	-	3,397,209
Sales and services of auxiliary enterprises	2,342,019	-	2,342,019
Total	119,647,515	-	119,647,515
Expenses			
Program expenses			
Instruction	43,067,780	-	43,067,780
Public service	7,337,316	-	7,337,316
Academic support	7,471,399	-	7,471,399
Student services	25,176,040	-	25,176,040
Auxiliary enterprises	19,926,140	-	19,926,140
Support expenses			
Institutional support	22,959,396	-	22,959,396
Total operating expenses	125,938,071	-	125,938,071
Change in net assets from operating activities	(6,290,556)	-	(6,290,556)
NONOPERATING			
Endowment returns, net of appropriations for operations	9,120,862	(108,902)	9,011,960
Gain on other investments	1,130,909	-	1,130,909
Contributions	3,761,751	-	3,761,751
Other nonoperating expense	(2,754,000)	-	(2,754,000)
Change in net assets from nonoperating activities	11,259,522	(108,902)	11,150,620
Change in net assets	4,968,966	(108,902)	4,860,064
NET ASSETS, beginning of year	291,137,955	1,835,337	292,973,292
NET ASSETS, end of year	\$ 296,106,921	\$ 1,726,435	\$ 297,833,356