



LOYOLA UNIVERSITY MARYLAND, INC.

Financial Statements

May 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

LOYOLA UNIVERSITY MARYLAND, INC.

Table of Contents

	Page(s)
Independent Auditors' Report	1 – 2
Balance Sheets	3
Statements of Activities	4 – 5
Statements of Cash Flows	6
Notes to Financial Statements	7 – 27



KPMG LLP
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30 North Third Street
PO Box 1190
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Independent Auditors' Report

The Board of Trustees
Loyola University Maryland, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Loyola University Maryland, Inc. (the University), which comprise the balance sheets as of May 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Loyola University Maryland, Inc. as of May 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

October 23, 2013
Harrisburg, PA

LOYOLA UNIVERSITY MARYLAND, INC.

Balance Sheets

May 31, 2013 and 2012

(Dollars in thousands)

Assets	2013	2012
Cash and cash equivalents	\$ 44,969	34,817
Student tuition receivables (net of allowance for doubtful accounts of \$50 in 2013 and 2012)	1,873	1,637
Contributions receivable, net	4,694	2,983
Prepaid expenses and other assets	3,879	3,338
Investments	175,319	152,587
Deposits with bond trustees	6	833
Student loan receivables, net	6,194	5,884
Land, buildings, and equipment, net	312,676	319,350
Interest in perpetual trust	11,176	9,804
Total assets	<u>\$ 560,786</u>	<u>531,233</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 14,364	14,278
Deferred tuition and refundable advances	7,089	7,130
Bonds payable, net	150,239	150,048
Other liabilities	7,992	10,921
U.S. government grants refundable	2,882	2,863
Total liabilities	<u>182,566</u>	<u>185,240</u>
Net assets:		
Unrestricted	280,309	261,327
Temporarily restricted	31,528	23,670
Permanently restricted	66,383	60,996
Total net assets	<u>378,220</u>	<u>345,993</u>
Total liabilities and net assets	<u>\$ 560,786</u>	<u>531,233</u>

See accompanying notes to financial statements.

LOYOLA UNIVERSITY MARYLAND, INC.

Statement of Activities

Year ended May 31, 2013
(with comparative totals for 2012)

(Dollars in thousands)

				Totals	
	Unrestricted	Temporarily restricted	Permanently restricted	2013	2012
Operating revenues:					
Tuition and fees (net of tuition discounts of \$58,724 in 2013 and \$55,226 in 2012)	\$ 131,132	—	—	131,132	127,045
Contributions	4,075	719	—	4,794	5,096
Government grants and contracts	7,362	—	—	7,362	7,424
Sales and services of auxiliary enterprises	36,022	—	—	36,022	34,854
Other sources	3,684	—	—	3,684	3,836
Investment income	60	—	—	60	25
Endowment income designated for current operations	5,148	2,129	—	7,277	6,903
Net assets released from restrictions	1,848	(1,848)	—	—	—
Total revenues	<u>189,331</u>	<u>1,000</u>	<u>—</u>	<u>190,331</u>	<u>185,183</u>
Operating expenses:					
Instruction	61,154	—	—	61,154	58,420
Research	1,493	—	—	1,493	1,377
Public service	2,022	—	—	2,022	2,137
Academic support	9,834	—	—	9,834	9,390
Institutional support	41,168	—	—	41,168	40,098
Student services	33,031	—	—	33,031	31,581
Fundraising	4,732	—	—	4,732	4,479
Library	3,223	—	—	3,223	3,018
Auxiliary enterprises	25,807	—	—	25,807	24,709
Total expenses	<u>182,464</u>	<u>—</u>	<u>—</u>	<u>182,464</u>	<u>175,209</u>
Change in net assets from operating activities	<u>6,867</u>	<u>1,000</u>	<u>—</u>	<u>7,867</u>	<u>9,974</u>
Nonoperating activities:					
Contributions	—	679	3,978	4,657	6,093
Investment return, net of endowment spending	11,667	7,048	—	18,715	(15,006)
Change in value of split interest agreements	82	1	1,409	1,492	(244)
Change in fair value of swap	1,501	—	—	1,501	(3,099)
Loss on extinguishment of debt	(2,005)	—	—	(2,005)	—
Net assets released from restrictions	870	(870)	—	—	—
Change in net assets from nonoperating activities	<u>12,115</u>	<u>6,858</u>	<u>5,387</u>	<u>24,360</u>	<u>(12,256)</u>
Change in net assets	<u>18,982</u>	<u>7,858</u>	<u>5,387</u>	<u>32,227</u>	<u>(2,282)</u>
Net assets at beginning of year	<u>261,327</u>	<u>23,670</u>	<u>60,996</u>	<u>345,993</u>	<u>348,275</u>
Net assets at end of year	\$ <u><u>280,309</u></u>	<u><u>31,528</u></u>	<u><u>66,383</u></u>	<u><u>378,220</u></u>	<u><u>345,993</u></u>

See accompanying notes to financial statements.

LOYOLA UNIVERSITY MARYLAND, INC.

Statement of Activities

Year ended May 31, 2012

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total 2012</u>
Operating revenues:				
Tuition and fees (net of tuition discounts of \$55,226 in 2012)	\$ 127,045	—	—	127,045
Contributions	3,349	1,747	—	5,096
Government grants and contracts	7,424	—	—	7,424
Sales and services of auxiliary enterprises	34,854	—	—	34,854
Other sources	3,836	—	—	3,836
Investment income	25	—	—	25
Endowment income designated for current operations	5,005	1,898	—	6,903
Net assets released from restrictions	1,472	(1,472)	—	—
Total revenues	<u>183,010</u>	<u>2,173</u>	<u>—</u>	<u>185,183</u>
Operating expenses:				
Instruction	58,420	—	—	58,420
Research	1,377	—	—	1,377
Public service	2,137	—	—	2,137
Academic support	9,390	—	—	9,390
Institutional support	40,098	—	—	40,098
Student services	31,581	—	—	31,581
Fundraising	4,479	—	—	4,479
Library	3,018	—	—	3,018
Auxiliary enterprises	24,709	—	—	24,709
Total expenses	<u>175,209</u>	<u>—</u>	<u>—</u>	<u>175,209</u>
Change in net assets from operating activities	<u>7,801</u>	<u>2,173</u>	<u>—</u>	<u>9,974</u>
Nonoperating activities:				
Contributions	—	174	5,919	6,093
Investment return, net of endowment spending	(9,765)	(5,202)	(39)	(15,006)
Change in value of split interest agreements	196	(62)	(378)	(244)
Change in fair value of swap	(3,099)	—	—	(3,099)
Net assets released from restrictions	1,673	(1,673)	—	—
Change in net assets from nonoperating activities	<u>(10,995)</u>	<u>(6,763)</u>	<u>5,502</u>	<u>(12,256)</u>
Change in net assets	<u>(3,194)</u>	<u>(4,590)</u>	<u>5,502</u>	<u>(2,282)</u>
Net assets at beginning of year	<u>264,521</u>	<u>28,260</u>	<u>55,494</u>	<u>348,275</u>
Net assets at end of year	<u>\$ 261,327</u>	<u>23,670</u>	<u>60,996</u>	<u>345,993</u>

See accompanying notes to financial statements.

LOYOLA UNIVERSITY MARYLAND, INC.

Statements of Cash Flows

Years ended May 31, 2013 and 2012

(Dollars in thousands)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 32,227	(2,282)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,244	10,447
Loss on sale of assets	21	3
Loss on extinguishment of debt	2,005	—
Contributions restricted for long-term investment	(2,268)	(5,919)
Net realized and unrealized (gains) losses on investments	(23,792)	11,968
Change in fair value of interest rate swap	(1,501)	3,099
Change in assets and liabilities:		
Student tuition receivables, net	(236)	(89)
Prepaid expenses and other assets	(591)	1,616
Contributions receivable, net	(1,711)	606
Interest in perpetual trust	(1,372)	432
Accounts payable and accrued liabilities	86	1,818
Deferred tuition and refundable advances	(41)	43
Other liabilities	(34)	(208)
U.S. government grants refundable	19	15
Net cash provided by operating activities	<u>13,056</u>	<u>21,549</u>
Cash flows from investing activities:		
Purchase of land, buildings, and equipment	(3,741)	(8,709)
Sales of investments	46,345	15,116
Purchase of investments	(45,285)	(18,684)
Change in deposits with bond trustees	827	169
Issuance of student loans	(408)	(2,000)
Proceeds from payments on student loans receivable	98	708
Proceeds from repayment of notes receivable	—	533
Net cash used in investing activities	<u>(2,164)</u>	<u>(12,867)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	2,268	5,919
Proceeds from notes payable and long-term debt	86,538	—
Bond issuance costs	(547)	(61)
Payments on bonds and notes payable	(87,605)	(3,030)
Payments on line of credit	(1,245)	—
Cash received from issuance of annuities	10	30
Payments under annuities	(159)	(163)
Net cash (used in) provided by financing activities	<u>(740)</u>	<u>2,695</u>
Net increase in cash and cash equivalents	10,152	11,377
Cash and cash equivalents at beginning of year	<u>34,817</u>	<u>23,440</u>
Cash and cash equivalents at end of year	\$ <u>44,969</u>	<u>34,817</u>
Supplemental cash flow information:		
Cash paid during the year for interest	\$ 6,902	6,852

See accompanying notes to financial statements.

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2013 and 2012

(1) Nature of Operations and Summary of Significant Accounting Policies

(a) *Nature of Operations*

Loyola University Maryland, Inc. (the University or Loyola) is a private, nonprofit higher education institution located in Baltimore, Maryland. The University provides education and training services to approximately 3,900 undergraduate and 2,100 graduate students. The students are from approximately 40 states and 28 countries and 82% of undergraduate students live on campus during the academic year.

(b) *Basis of Presentation*

The financial statements of the University have been prepared on the accrual basis of accounting. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

The net assets of the University are classified into three groups based on the nature of the donor-imposed restriction, if any, as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets whose use is subject to donor-imposed stipulations that will be met either by actions of the University and/or the passage of time. Temporarily restricted net assets result from contributions and/or investment return on restricted endowment funds.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the return earned on related investments for general or specific purposes. Permanently restricted net assets result from contributions.

Revenues are reported as increases in unrestricted net assets unless their use is limited due to donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by donor stipulations or by law. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed into service.

Assets and liabilities are presented in the order of liquidity in the balance sheets except that investments may include short-term securities that are available for operations.

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2013 and 2012

(c) Cash and Cash Equivalents

The University considers all highly liquid investments with maturities of three months or less to be cash equivalents.

(d) Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the appropriate category of net assets in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions to be received after one year are discounted using an appropriate rate for the expected period of collection. Amortization of the discount is recorded as additional contribution revenue. An allowance is made for estimated uncollectible contributions based on management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

(e) Investments

Investments are stated at their estimated fair values, which are generally determined based on quoted market prices. The carrying value of certain alternative equity and fixed income investments held through limited partnerships and hedge funds is recorded at net asset value as provided by the fund managers or the general partners, unless the University plans to sell an investment in the near term at a value other than the net asset value as provided by the fund manager or the general partners. These estimated values, which are evaluated for reasonableness by the University, may differ from the values that would have been used had a ready market existed; the differences could be significant.

(f) Deposits with Bond Trustees

Deposits with bond trustees consist of a debt service sinking fund. This fund is invested primarily in short-term, highly liquid securities and will be used for payment of debt service.

(g) Student Loan Receivables

Student loan receivables consist of loans to students, which are made from the University's loan funds and the Federal Perkins Loan Program. The loans are reported at their estimated net realizable value. The allowance for uncollectible loans was \$411,000 at May 31, 2013 and 2012.

(h) Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, if purchased, or at estimated fair value at date of gift, if donated. Generally, the costs of maintenance and repairs are charged to expense when incurred, while major acquisitions, additions, renewals, and betterments are capitalized. Depreciation of buildings and equipment is computed using the straight-line method over the estimated useful lives of the related assets.

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2013 and 2012

The following estimated useful lives are used in calculating depreciation:

	<u>Estimated useful life</u>
Buildings	50 years
Equipment, furniture, fixtures, software, and other	5 – 7 years

(i) Interest in Perpetual Trust

Interest in perpetual trust represents resources neither in the possession nor under the control of the University, but held and administered by an outside fiscal agent, with the University deriving income from such funds as beneficiary. The amount recorded on the balance sheets represents 21% of the fair value of the portfolio of underlying assets of the trust.

(j) Valuation of Long-Lived Assets

Long-lived assets and certain identifiable intangibles to be held and used by an entity are required to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Also, in general, any long-lived assets and certain identifiable intangibles to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. The University periodically evaluates the recoverability of its long-lived assets including real estate and improvements and deferred costs, using objective methodologies. Such methodologies include evaluations based on cash flows generated by the underlying assets or other determinants of fair value. None of the University's long-lived assets were considered to be impaired as of May 31, 2013 and 2012.

(k) U.S. Government Grants Refundable

Funds provided by the United States government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collection. Such funds are ultimately refundable to the government.

(l) Tuition and Fees

Tuition and fees are recorded as revenues during the year the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Student aid (tuition discounts) provided by the University for tuition and fees is reported as a reduction of such revenue. Student aid does not include payments made to students for services rendered to the University.

(m) Fund-Raising Expenses

Direct fund-raising expenses for the years ended May 31, 2013 and 2012 were \$4,472,000 and \$4,242,000, respectively.

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2013 and 2012

(n) *Income Tax Status*

The University is qualified as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code, as amended. Accordingly, the University is not subject to income taxes except to the extent it has taxable income from activities that are not related to its exempt purpose. No provision for income taxes was required for fiscal years 2013 or 2012.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the University and recognize a tax liability (or asset) if the University has taken an uncertain tax position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the University, and has concluded that as of May 31, 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The University is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

(o) *Functional Expenses*

Costs related to the operation and maintenance of physical plant, including depreciation of plant assets and interest on related debt, are allocated to program and supporting activities based upon periodic inventories of facilities.

(p) *Nonoperating Activities*

Nonoperating activities reflect transactions of a long-term investment or capital nature, including contributions restricted for acquisitions of facilities and equipment; endowment contributions; endowment return in excess of, or less than, the University's spending policy; changes in the value of split-interest agreements, including perpetual trusts held by others; and, transactions of an unusual or infrequent nature.

(q) *Concentration of Credit Risk*

Financial instruments, which potentially subject the University to concentrations of credit risk, consist primarily of cash, cash equivalents, and investments.

(r) *Derivative Financial Instruments*

Derivative financial instruments (interest rate swap) are measured at fair value and recognized in the balance sheets as assets or liabilities, with the change in fair value included in the statements of activities. The fair value of the swap is determined using pricing models developed based on the LIBOR swap rate and other observable market data. The value is adjusted to reflect nonperformance risk of both the counterparty and the University.

(s) *Split-Interest Arrangements*

The University's split-interest agreements are primarily annuity arrangements and interest in perpetual trust (as discussed in note 1(i)). Beneficiaries designated by the donor receive distributions from the University over their lives in accordance with the respective agreements. Liabilities under the split-interest agreements represent the present value of the estimated future distributions to

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2013 and 2012

beneficiaries over the terms of the agreements. Gains and losses associated with changes in the estimates of future distributions to beneficiaries are included in the statements of activities.

The University has \$771,000 and \$802,000 of future annuity payments included in other liabilities at May 31, 2013 and 2012, respectively. In accordance with Maryland State law, the University has \$2,334,000 and \$2,243,000 of assets separately reserved for the annuity payments at May 31, 2013 and 2012, respectively. This amount is included in investments on the balance sheet.

(2) Contributions Receivable

Contributions receivable, net are summarized as follows as of May 31, 2013 and 2012 (in thousands):

	2013	2012
Due within one year	\$ 1,702	1,399
One to five years	3,096	1,453
More than five years	777	808
	<u>5,575</u>	<u>3,660</u>
Less:		
Discount (interest rates ranging from 1.2% to 1.6%)	(207)	(175)
Allowance for doubtful accounts	<u>(674)</u>	<u>(502)</u>
	<u>\$ 4,694</u>	<u>2,983</u>

As of May 31, 2013, the University had bequest intentions and conditional promises to give aggregating \$21.7 million, which have not been recognized as assets or revenues. If received, these gifts will generally be restricted for financial aid, general operations, buildings and equipment, and instruction and research as stipulated by the donors.

(3) Fair Value Measurement

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The new standard does not extend the use of fair value, but rather, provides guidance about how fair value should be applied where it is already required or permitted under IFRS or U.S. GAAP. For U.S. GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS. The ASU also requires additional disclosures for nonpublic entities to provide quantitative information about significant unobservable inputs used for all Level 3 measurements and a description of the valuation process used. The provisions of the ASU are effective for annual or interim reporting periods beginning after December 15, 2011. The University adopted the provisions of the ASU in fiscal year 2013. The adoption of ASU 2011-04 did not have a material effect on the University's financial statements.

The fair value of the University's financial instruments is determined based on the amount 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 assuming the transaction occurs in the entity's principal (or most advantageous) market. Those fair value measurements maximize the use of observable inputs.

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2013 and 2012

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, student tuition receivables, student loan receivables, prepaid expenses and other assets, accounts payable and accrued liabilities, deferred tuition and refundable advances, U.S. government grants refundable and other liabilities: The carrying amounts, at face value or cost plus accrued interest, approximate fair value because of the short maturity of these instruments. An estimate of the fair value of student loan receivables administered by the University under federal government loan programs is not practical because the receivables can only be assigned to the United States government or its designees.

Contributions receivable: The fair value is determined as the present value of future cash receipts discounted at an interest rate that reflects the risks inherent in those cash flows based on Level 3 inputs (notes 1(d) and 2).

Interest in perpetual trust: The fair value is determined as the University's percentage interest in the year-end fair value of the underlying investment securities of the trust.

Investments: The fair value of fixed income securities, common stock and equity mutual and other funds are determined using quoted market prices at the reporting date multiplied by the quantity on hand. The carrying amount of money market funds approximates the fair value because of the short maturity of these investments. The fair value of the University's interest in limited partnerships and hedge funds is generally reported at the net asset value (NAV) reported by the fund managers or general partners, which is used as a practical expedient to estimate the fair value of the University's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of May 31, 2013 and 2012, the University had no plans or intentions to sell investments at amounts different from NAV.

Deposits with bond trustee: The fair value is determined using quoted market prices at the reporting date.

Interest rate swap: The fair value of the interest rate swap is determined using pricing models developed based on the LIBOR swap rate and other observable market data. The value is adjusted to reflect nonperformance risk of either the counterparty or the University.

Bonds payable: The fair value of the University's long-term debt is determined by discounting the future cash flows of each instrument at rates that reflect, among other things, market interest rates and the University's credit standing. In determining an appropriate spread to reflect its credit standing, the University considers interest rates currently offered to the University for similar debt instruments of comparable maturities by the University's bankers as well as other banks that regularly compete to provide financing to the University. Bonds payable are categorized in Level 2 of the fair value hierarchy. The carrying value of the University's variable rate debt approximates fair value. The fair value of the University's fixed rate debt was \$117.2 million and \$98.9 million at May 31, 2013 and 2012, respectively.

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2013 and 2012

The three levels of the fair value hierarchy are 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 asset or liabilities.

The following table presents assets and liabilities that are measured at fair value on a recurring basis as of May 31, 2013 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Investments:				
Cash and money funds	\$ 2,271	—	—	2,271
Fixed income funds:				
Core bond total return strategy	12,366	—	—	12,366
Global government bonds	8,650	—	—	8,650
Floating rate high income	—	4,427	—	4,427
U.S. mortgage-backed securities	5,000	—	—	5,000
Other fixed income fund	1,477	—	—	1,477
Total fixed income funds	<u>27,493</u>	<u>4,427</u>	<u>—</u>	<u>31,920</u>
Equity funds:				
Domestic	38,451	—	—	38,451
International developed	25,046	—	—	25,046
International emerging markets	10,446	—	—	10,446
Inflation funds	—	4,004	—	4,004
Commodity related securities	2,140	—	—	2,140
Common stock	50	—	—	50
Total equity funds	<u>76,133</u>	<u>4,004</u>	<u>—</u>	<u>80,137</u>
Common collective trust funds	—	4,107	—	4,107
Hedge funds:				
Hedge equity fund of funds	—	4,691	18,000	22,691
Nonagency residential mortgage-backed securities	—	—	9,145	9,145
Absolute return fund of funds	—	—	5,228	5,228
Total hedge funds	<u>—</u>	<u>4,691</u>	<u>32,373</u>	<u>37,064</u>

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2013 and 2012

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Private equity:				
Multi-strategy fund of funds	\$ —	—	7,680	7,680
Direct private debt and equity	—	—	6,244	6,244
Real estate investments	—	—	3,167	3,167
Venture capital fund of funds	—	—	1,539	1,539
Total private equity	—	—	18,630	18,630
Other	—	—	1,190	1,190
Total investments	105,897	17,229	52,193	175,319
Other financial assets:				
Deposits with bond trustee	—	6	—	6
Interest in perpetual trust	—	—	11,176	11,176
Total financial assets	<u>\$ 105,897</u>	<u>17,235</u>	<u>63,369</u>	<u>186,501</u>
Financial liabilities:				
Interest rate swap	\$ —	4,616	—	4,616

The following table presents assets and liabilities that are measured at fair value on a recurring basis as of May 31, 2012 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Investments:				
Cash and money funds	\$ 4,281	—	—	4,281
Fixed income funds:				
Core bond total return strategy	11,834	—	—	11,834
Global government bonds	3,767	—	—	3,767
Diversified fixed income portfolio	8,325	—	—	8,325
U.S. mortgage-backed securities	4,278	—	—	4,278
Other fixed income fund	1,234	—	—	1,234
Total fixed income funds	<u>29,438</u>	<u>—</u>	<u>—</u>	<u>29,438</u>
Equity funds:				
Domestic	36,749	—	—	36,749
International developed	10,391	—	—	10,391
International emerging markets	8,762	—	—	8,762

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2013 and 2012

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Inflation funds	\$ —	3,857	—	3,857
Commodity related securities	2,102	—	—	2,102
Common stock	25	—	—	25
Total equity funds	<u>58,029</u>	<u>3,857</u>	<u>—</u>	<u>61,886</u>
Common collective trust funds	—	3,088	—	3,088
Hedge funds:				
Hedge equity fund of funds	—	3,794	31,159	34,953
Absolute return fund of funds	—	—	6,673	6,673
Total hedge funds	<u>—</u>	<u>3,794</u>	<u>37,832</u>	<u>41,626</u>
Private equity:				
Multi-strategy fund of funds	—	—	7,035	7,035
Direct private debt and equity	—	—	1,982	1,982
Real estate investments	—	—	2,061	2,061
Total private equity	<u>—</u>	<u>—</u>	<u>11,078</u>	<u>11,078</u>
Other	<u>—</u>	<u>—</u>	<u>1,190</u>	<u>1,190</u>
Total investments	91,748	10,739	50,100	152,587
Other financial assets:				
Deposits with bond trustee	—	833	—	833
Interest in perpetual trust	—	—	9,804	9,804
Total financial assets	<u>\$ 91,748</u>	<u>11,572</u>	<u>59,904</u>	<u>163,224</u>
Financial liabilities:				
Interest rate swap	\$ —	6,118	—	6,118

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2013 and 2012

The following table presents a reconciliation for all Level 3 assets measured at fair value on a recurring basis for the year ended May 31, 2013 (in thousands):

	<u>Hedge funds</u>	<u>Private equity</u>	<u>Other</u>	<u>Interest in perpetual trust</u>	<u>Total</u>
Beginning balance, June 1, 2012	\$ 37,832	11,078	1,190	9,804	59,904
Total gains and losses included in changes in net assets:					
Dividend and interest income	(8)	(92)	—	—	(100)
Net realized and unrealized gains	3,432	2,044	—	1,372	6,848
Purchases and issuances	8,300	6,547	—	—	14,847
Sales and settlements	<u>(17,183)</u>	<u>(947)</u>	<u>—</u>	<u>—</u>	<u>(18,130)</u>
Ending balance, May 31, 2013	<u>\$ 32,373</u>	<u>18,630</u>	<u>1,190</u>	<u>11,176</u>	<u>63,369</u>

The following table presents a reconciliation for all Level 3 assets measured at fair value on a recurring basis for the year ended May 31, 2012 (in thousands):

	<u>Hedge funds</u>	<u>Private equity</u>	<u>Other</u>	<u>Interest in perpetual trust</u>	<u>Total</u>
Beginning balance, June 1, 2011	\$ 48,765	8,268	1,273	10,236	68,542
Total gains and losses included in changes in net assets:					
Dividend and interest income	24	18	—	—	42
Net realized and unrealized gains	(113)	(33)	(83)	(432)	(661)
Purchases and issuances	—	3,507	—	—	3,507
Sales and settlements	<u>(10,844)</u>	<u>(682)</u>	<u>—</u>	<u>—</u>	<u>(11,526)</u>
Ending balance, May 31, 2012	<u>\$ 37,832</u>	<u>11,078</u>	<u>1,190</u>	<u>9,804</u>	<u>59,904</u>

The University did not transfer any assets between levels during fiscal year 2013.

(4) Investments

Investments are professionally managed by outside investment organizations subject to direction and oversight by a committee of the Board of Trustees. The Board of Trustees has established investment policies and guidelines, which cover asset allocation and performance objectives and impose various restrictions and limitations on the managers. These restrictions and limitations are specific to each asset classification and cover concentrations of market risk (at both the individual issuer and industry group levels), credit quality of fixed income and short-term investments, and various other matters.

Investments are exposed to certain risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, changes in the value of investment securities

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2013 and 2012

could occur in the near term, and these changes could materially affect the amounts reported in the accompanying financial statements.

Investment return is summarized as follows (in thousands) for the years ended May 31, 2013 and 2012:

	2013	2012
Income from interest and dividends	\$ 2,811	4,330
Net realized and unrealized gain (loss) on investments	23,792	(11,968)
Investment fees	(551)	(440)
Total investment return	\$ <u>26,052</u>	<u>(8,078)</u>

Investment return is included in the statements of activities as follows for the years ended May 31, 2013 and 2012:

	2013	2012
Operating	\$ 7,337	6,928
Nonoperating	18,715	(15,006)
	\$ <u>26,052</u>	<u>(8,078)</u>

The table below summarizes investments for which net asset value has been used to determine fair value and for which there is no readily determinable fair value, as well as certain attributes related to such investments as of May 31, 2013:

Investment	Fair value	Remaining average life of the funds	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Common collective trust funds	\$ 4,107	N/A	\$ —	Monthly	10-30 days
Hedge funds:					
Long and short (a)	22,691	N/A	—	Various	30 – 105 days
Nonagency residential mortgage-backed securities (b)	9,145	N/A	—	Quarterly	60 days
Absolute return (c)	5,228	N/A	—	As available	N/A
Private equity		4 months			
Diversified (d)	<u>18,630</u>	to 13 years	<u>11,020</u>	N/A	N/A
	\$ <u>59,801</u>		\$ <u>11,020</u>		

- (a) This category includes investments in hedge funds and other funds of funds that invest in a variety of long and short funds where the underlying investments are primarily marketable securities. The frequency of redemption varies from monthly to multiyear lock-up, with a maximum of 3 years.

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2013 and 2012

- (b) This category includes investments in hedge funds that invest across the corporate capital structure and nonagency residential mortgage-backed securities. The investments include bank loans, high yield bonds, distressed securities, direct investments in private companies, domestic equities and convertible arbitrage.
- (c) This category includes investments in hedge funds and other funds of funds that invest in a variety of absolute return hedge funds. These funds are in the liquidation process; redemptions will be received quarterly beginning in fiscal year 2014 as funds are available. It is anticipated that the funds will be significantly redeemed by fiscal year 2016.
- (d) This category includes investments in private equity funds that invest in diversified growth companies through various industries that mainly operate within the U.S., with the average remaining life of the funds varying from 4 months, 2.5 years, 6 years, 9 years, and 13 years.

The table below summarizes investments for which net asset value has been used to determine fair value and for which there is no readily determinable fair value, as well as certain attributes related to such investments as of May 31, 2012:

Investment	Fair value	Remaining average life of the funds	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Common collective trust funds	\$ 3,088	N/A	\$ —	Monthly	10-30 days
Hedge funds:					
Long and short (a)	34,953	N/A	—	Various	30 – 105 days
Absolute return (b)	6,673	N/A	—	As available	N/A
Private equity		7 months			
Diversified (c)	11,078	to 10 years	13,635	N/A	N/A
	<u>\$ 55,792</u>		<u>\$ 13,635</u>		

- (a) This category includes investments in hedge funds and other funds of funds that invest in a variety of long and short funds where the underlying investments are primarily marketable securities. The frequency of redemption varies from monthly to multiyear lock-up, with a maximum of 3 years.
- (b) This category includes investments in hedge funds and other funds of funds that invest in a variety of absolute return hedge funds. These funds are in the liquidation process; redemptions were made semiannually in fiscal year 2013 and will be received quarterly beginning in fiscal year 2014 as funds are available. It is anticipated that the funds will be significantly redeemed by fiscal year 2016.
- (c) This category includes investments in private equity funds that invest in diversified growth companies through various industries that mainly operate within the U.S., with the average remaining life of the funds varying from 7 months, 15 months, 7 years, and 10 years.

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2013 and 2012

(5) Land, Buildings, and Equipment

Land, buildings, and equipment, net, as of May 31, 2013 and 2012 consist of the following (in thousands):

	<u>2013</u>	<u>2012</u>
Land and land improvements	\$ 16,022	15,803
Buildings	385,472	382,824
Equipment, furniture, fixtures, software, and other	33,772	32,557
Investment in Loyola/Notre Dame Library	12,106	12,106
Construction in progress	3,074	3,508
	<u>450,446</u>	<u>446,798</u>
Less accumulated depreciation	<u>(137,770)</u>	<u>(127,448)</u>
	<u>\$ 312,676</u>	<u>319,350</u>

Depreciation expense totaled \$10,394,000 and \$10,360,000 for the years ended May 31, 2013 and 2012, respectively.

The Loyola/Notre Dame Library, Inc. (the Library), a separate legal corporation, was formed in February 1968 for the mutual benefit of the University and Notre Dame of Maryland University (Notre Dame). The Library building is situated on six acres of land between the two campuses. The land and the building, including improvements, were contributed in equal shares by Loyola and Notre Dame and are the property of the Library. The Library has its own Board of Trustees consisting of twelve members: three from the University, three from Notre Dame, and six other members. The University and Notre Dame are required to financially support the Library's annual operations through payments of joint and use costs. Joint costs are equally shared and use costs are based on each institution's proportionate share of adjusted semester hours. The University incurred approximately \$3,223,000 and \$3,018,000 in joint and use costs for the Library during the years ended May 31, 2013 and 2012, respectively.

(6) Bonds Payable and Other Debt Matters

Bonds payable, net as of May 31, 2013 and 2012 consist of the following (in thousands):

	<u>2013</u>	<u>2012</u>
Maryland Health and Higher Education Facility Authority (MHHEFA) revenue bonds:		
Series 1996B variable rate		
due annually through October 2013 (0.25% and		
0.17% as of May 31, 2013 and 2012, respectively)	\$ 1,400	2,800

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Series 1999		
5.25% term – refunded June 2012	\$ —	5,915
5.00% term – refunded June 2012	—	27,440
	<u>—</u>	<u>33,355</u>
Series 2006A		
4.750% term due October 2033, principal beginning October 2027	10,400	10,400
5.000% term due October 2040, principal beginning October 2034	18,050	18,050
5.125% term due October 2045, principal beginning October 2041	34,545	34,545
	<u>62,995</u>	<u>62,995</u>
Series 2007 variable rate (1.52% as of May 31, 2012) – refunded June 2012	—	9,285
Series 2008, variable rate (0.24% as of May 31, 2012) – refunded June 2012	—	42,510
Series 2012A		
2.00-5.00% serial due October 2032, principal beginning October 2012	28,970	—
4.00-5.00% term due October 2039, principal beginning October 2033	19,225	—
	<u>48,195</u>	<u>—</u>
Series 2012B variable rate due annually through October 2026 (1.20% as of May 31, 2013)	32,595	—
	<u>145,185</u>	<u>150,945</u>
Less discounts and premium, net	5,054	(897)
	<u>\$ 150,239</u>	<u>150,048</u>

The Series 1996B bonds require monthly interest payments at variable rates determined by the remarketing agent as set forth in the agreement. The University has the option to convert from a variable to a fixed rate of interest and may change between fixed and variable rates over the term of the bonds, as defined and specified in the agreement. The Series 1996B bonds are subject to mandatory tender prior to any change in interest rate method, or at the option of the University. The University is required to make sinking fund payments on October 1 of each year.

The Series 2006A, 2012B, and the serial 2012A outstanding bonds are subject to redemption prior to maturity at the principal amount thereof plus accrued interest to the redemption date. The University is required to make sinking fund payments on October 1 of each year.

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2013 and 2012

On June 7, 2012, MHHEFA issued a tax-exempt bond with a par value of \$49,250,000 (Series 2012A) on behalf of the University. Approximately \$33,748,000 of these proceeds was used to retire the Series 1999 bonds (\$33,355,000 for principal, approximately \$393,000 for interest); \$9,285,000 was used to retire the Series 2007 bonds; \$10,000,000 was used to retire a portion of the Series 2008 bonds. The remaining proceeds were used for debt issuance costs and to fund a swap termination fee.

On June 26, 2012, MHHEFA issued a tax-exempt bond with a par value of \$32,595,000 (Series 2012B bonds). Approximately \$32,510,000 of these proceeds was used to retire the remaining Series 2008 bonds outstanding at May 31, 2012. The remaining proceeds were used to fund debt issuance costs.

As of May 31, 2012, the University had a letter of credit outstanding with a financial institution in the amount of \$42,918,000, as required by certain bond agreements. This letter of credit was intended to protect the University in potential situations where variable debt markets could be unavailable for re-marketing in the short-term, by bridging the market event. The letter of credit provided for debt re-payment funding during these situations, while the University sought replacement financing in the bond market. The letter of credit was canceled in June 2012 with the retiring of the Series 2008 bonds.

The covenants on the Series 1996B, 2006A, 2012A, and 2012B bonds in fiscal year 2013 and the Series 1996B, 1999, 2006A, 2006B, and 2007 bonds in fiscal year 2012 restrict the sale of assets and include other requirements as defined in the agreement. The University was in compliance with its covenants as of May 31, 2013 and 2012.

Interest costs on long-term debt, net of amounts capitalized, were \$6,922,779 and \$6,813,949 in 2013 and 2012, respectively. No amounts were capitalized in 2013 and 2012.

Interest Rate Swap Arrangement

The University has an interest rate swap agreement with a major financial institution to fix the interest rate on the Series 2012B bonds. The agreement effectively fixed the interest rate of the bond issue at 3.25% through October 1, 2026. The initial notional amount outstanding under the swap agreement is \$32,690,000 and amortizes through October 2026.

The University receives a floating rate based on 67% of LIBOR and pays at 3.25%. Settlement occurs monthly, and payments made or received under the swap agreement are recognized as an increase or decrease in the related interest expense.

The fair value of the interest rate swap was a liability of \$4,616,000 and \$6,118,000 as of May 31, 2013 and 2012, respectively, and is included in other liabilities on the balance sheets.

Line of Credit

The University entered into an agreement with a financial institution to provide a general use line of credit with a maximum available commitment totaling \$35 million. This line of credit will be used, if necessary, for working capital and will remain open until June 30, 2014, unless extended. The balance as of May 31, 2013 and 2012 was \$0 and \$1,245,000, respectively, and is included in other liabilities on the balance sheets.

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2013 and 2012

Principal Repayment Schedule

Aggregate annual principal payments on the bonds over the next five fiscal years and, thereafter, are as follows (in thousands):

2014	\$	3,150
2015		3,120
2016		3,225
2017		3,190
2018 and thereafter		132,500
	\$	<u>145,185</u>

(7) Interest in Perpetual Trust

In June 1996, the University received an interest in the Marion I. & Henry J. Knott Scholarship Fund, Inc., an irrevocable perpetual trust. Under the terms of the agreement, as amended, the University receives 21% of investment income earned on the trust into perpetuity. Underlying investment securities in the trust include cash and cash equivalents, fixed income mutual funds, equity securities, and alternative investments. The University is to use the income distributed from the trust for scholarships for students in undergraduate studies.

The University received distributions from the scholarship trust of approximately \$123,000 and \$118,000 in 2013 and 2012, respectively. The change in value of the University's interest in the perpetual trust is recorded as change in value of split interest agreements on the statements of activities and was \$1,373,000 and \$(432,000) in 2013 and 2012, respectively.

(8) Temporarily Restricted Net Assets

Temporarily restricted net assets as of May 31, 2013 and 2012 are restricted for the following purposes (in thousands):

	<u>2013</u>	<u>2012</u>
General operations (purpose restricted)	\$ 7,480	6,501
Buildings and equipment	227	274
Cumulative gains on permanent endowment funds	22,144	15,095
Other, passage of time	<u>1,677</u>	<u>1,800</u>
Total	\$ <u>31,528</u>	<u>23,670</u>

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2013 and 2012

(9) Permanently Restricted Net Assets

Permanently restricted net assets as of May 31, 2013 and 2012 are restricted to investment in perpetuity, the income from which is expendable to support operations as follows (in thousands):

	<u>2013</u>	<u>2012</u>
Financial aid	\$ 37,699	34,526
Instruction and research	25,450	24,981
General operations	<u>3,234</u>	<u>1,489</u>
Total	<u>\$ 66,383</u>	<u>60,996</u>

(10) Endowment

The University's endowment consists of approximately 205 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The University does not include pledges receivable, its interest in the perpetual trust, and charitable gift annuities as part of its endowment.

(a) Interpretation of Relevant Law

The Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring that donor-restricted endowment funds be managed with the long-term objective of at least maintaining the real value (after inflation) of the funds. The University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the directions of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Trustees 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 of investments;
6. The other resources of the University; and
7. The investment policies of the University.

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2013 and 2012

Endowment net assets consist of the following as of May 31, 2013 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (539)	22,144	51,998	73,603
Board-designated endowment funds	<u>103,552</u>	<u>—</u>	<u>—</u>	<u>103,552</u>
Total endowed net assets	<u>\$ 103,013</u>	<u>22,144</u>	<u>51,998</u>	<u>177,155</u>

Endowment net assets consist of the following as of May 31, 2012 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,374)	15,095	49,730	63,451
Board-designated endowment funds	<u>92,670</u>	<u>—</u>	<u>—</u>	<u>92,670</u>
Total endowed net assets	<u>\$ 91,296</u>	<u>15,095</u>	<u>49,730</u>	<u>156,121</u>

Changes in endowment net assets for the year ended May 31, 2013 are as follows (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 1, 2012	\$ 91,296	15,095	49,730	156,121
Investment return	16,217	9,776	—	25,993
Contributions collected	50	—	2,268	2,318
Appropriation for expenditure	<u>(4,550)</u>	<u>(2,727)</u>	<u>—</u>	<u>(7,277)</u>
Endowment net assets, May 31, 2013	<u>\$ 103,013</u>	<u>22,144</u>	<u>51,998</u>	<u>177,155</u>

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2013 and 2012

Changes in endowment net assets for the year ended May 31, 2012 are as follows (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 1, 2011	\$ 101,053	20,297	44,581	165,931
Investment return	(5,386)	(2,670)	—	(8,056)
Contributions collected	—	—	5,149	5,149
Appropriation for expenditure	<u>(4,371)</u>	<u>(2,532)</u>	<u>—</u>	<u>(6,903)</u>
Endowment net assets, May 31, 2012	<u>\$ 91,296</u>	<u>15,095</u>	<u>49,730</u>	<u>156,121</u>

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the original value of the fund. Deficiencies of this nature are reported in unrestricted net assets and were \$539,000 and \$1,374,000 as of May 31, 2013 and 2012, respectively. 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 unrestricted net assets.

(c) 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. Under the investment policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark composed of S&P 500 and Barclays Capital Aggregate Bond indexes while assuming a moderate level of investment risk. The University expects its endowment funds, over three to five years, to provide an average annual real rate of return of at least 5%. Actual returns in any given year may vary from this amount.

(d) 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 emphasis on investments in equities, bonds, and absolute return strategies in a ratio to achieve its long-term return objectives within prudent risk constraints.

(e) Spending Policy and How the Investment Objectives Relate to Spending Policy

The University has a policy of appropriating for a maximum distribution each year of up to 5% of its endowment funds' average fair value using the prior three years through the fiscal year-end preceding the fiscal year in which the distribution is planned. In establishing these policies, the University considered the expected return on its endowment.

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2013 and 2012

(11) Retirement Benefit Plans

Retirement benefits are provided for faculty, administrators, and hourly employees, through direct payments to the retirement annuity plans. The University contributes an amount equal to 11% of the eligible employees' base salary. Contributions under these plans are fully vested and retirement payments are limited to the amount of the annuities. The University's contributions were approximately \$6,730,000 and \$6,217,000 in 2013 and 2012, respectively.

(12) Commitments and Contingencies

(a) Leases

The University leases classroom facilities and office space in Columbia, Maryland, under a noncancelable operating lease agreement expiring in 2016. The University also leases parking spaces in Baltimore, Maryland under a noncancelable operating lease agreement expiring 2017. The University also leases clinical, classroom, and office facilities in Baltimore, Maryland, under a noncancelable operating lease agreement expiring in 2024. The leases contain cost escalation clauses providing for increases in rentals due to increased tax or operating costs over defined base period amounts. Rent expense for the years ended May 31, 2013 and 2012 was approximately \$2,390,000 and \$2,292,000, respectively.

The aggregate annual minimum lease payments to be paid through the expiration of the initial terms of these leases as of May 31, 2013 are as follows (in thousands):

2014	\$	2,270
2015		2,345
2016		2,243
2017		453
2018		393
Thereafter		2,117
	\$	<u><u>9,821</u></u>

(b) Other

The University is subject to various claims, litigation, and other assessments in the normal course of its operations, and liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Management of the University does not expect the ultimate resolution of these actions to have a material adverse effect on the University's financial position.

(13) Related Party Activity

Several members of the Board of Trustees are employed by firms providing services to the University such as construction services and banking services. These transactions totaled \$1,023,000 in fiscal year 2013. All related party activity is conducted in accordance with the University's normal policies and procedures.

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2013 and 2012

(14) Subsequent Events

The University has evaluated subsequent events from the balance sheet date through October 23, 2013, the date at which the financial statements were available to be issued, and determined that there are no items to disclose.