# LOYOLA UNIVERSITY MARYLAND, INC.

Financial Statements

May 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

**LOYOLA UNIVERSITY MARYLAND, INC.**

## Table of Contents

KPMG LLP
750 East Pratt Street, 18th Floor
Baltimore, MD 21202

# Independent Auditors' Report

The Board of Trustees
Loyola University Maryland, Inc.:

We have audited the accompanying financial statements of Loyola University Maryland, Inc., which comprise the balance sheets as of May 31, 2018 and 2017, 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, 2018 and 2017, 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

Baltimore, Maryland
October 16, 2018

**LOYOLA UNIVERSITY MARYLAND, INC.**

Balance Sheets

May 31, 2018 and 2017

(Dollars in thousands)

| **Assets** | | **2018** | **2017** |
|---|---|---|---|
| Cash and cash equivalents | $ | 31,723 | 22,172 |
| Student tuition receivables (net of allowance for doubtful accounts of $385 in 2018 and $240 in 2017) | | 2,872 | 3,016 |
| Contributions receivable, net | | 10,612 | 8,948 |
| Prepaid expenses and other assets | | 5,137 | 3,021 |
| Investments | | 284,315 | 278,146 |
| Student loan receivables, net | | 3,476 | 4,272 |
| Land, buildings, and equipment, net | | 314,223 | 313,209 |
| Interest in perpetual trust | | 14,193 | 13,537 |
| Total assets | $ | 666,551 | 646,321 |
| **Liabilities and Net Assets** | | | |
| Liabilities: | | | |
| Accounts payable and accrued liabilities | $ | 17,578 | 21,233 |
| Deferred tuition and refundable advances | | 6,282 | 5,625 |
| Bonds payable, net | | 132,309 | 135,931 |
| Other liabilities | | 5,887 | 7,104 |
| U.S. government grants refundable | | 2,597 | 2,602 |
| Total liabilities | | 164,653 | 172,495 |
| Net assets: | | | |
| Unrestricted | | 351,281 | 337,867 |
| Temporarily restricted | | 52,092 | 43,623 |
| Permanently restricted | | 98,525 | 92,336 |
| Total net assets | | 501,898 | 473,826 |
| Total liabilities and net assets | $ | 666,551 | 646,321 |

See accompanying notes to financial statements.

**LOYOLA UNIVERSITY MARYLAND, INC.**

Statements of Activities

Year ended May 31, 2018
(with comparative totals for 2017)

(Dollars in thousands)

| | Unrestricted | Temporarily restricted | Permanently restricted | Totals 2018 | Totals 2017 |
|---|---|---|---|---|---|
| Operating revenues: | | | | | |
| Tuition and fees (net of tuition discounts of $82,599 in 2018 and $78,912 in 2017) | $ 128,155 | — | — | 128,155 | 134,056 |
| Contributions | 3,980 | 1,643 | — | 5,623 | 3,942 |
| Government grants and contracts | 9,152 | — | — | 9,152 | 8,746 |
| Sales and services of auxiliary enterprises | 54,800 | — | — | 54,800 | 55,667 |
| Other sources | 6,098 | — | — | 6,098 | 4,792 |
| Investment income | 376 | — | — | 376 | 732 |
| Endowment income designated for current operations | 6,099 | 4,133 | — | 10,232 | 9,331 |
| Net assets released from restrictions | 3,589 | (3,589) | — | — | — |
| Total revenues | 212,249 | 2,187 | — | 214,436 | 217,266 |
| Operating expenses: | | | | | |
| Instruction | 67,567 | — | — | 67,567 | 67,482 |
| Research | 1,479 | — | — | 1,479 | 1,752 |
| Public service | 1,951 | — | — | 1,951 | 1,861 |
| Academic support | 11,017 | — | — | 11,017 | 11,005 |
| Institutional support | 41,651 | — | — | 41,651 | 42,245 |
| Student services | 32,596 | — | — | 32,596 | 34,399 |
| Fundraising | 5,189 | — | — | 5,189 | 5,150 |
| Library | 4,234 | — | — | 4,234 | 3,902 |
| Auxiliary enterprises | 37,765 | — | — | 37,765 | 38,334 |
| Total expenses | 203,449 | — | — | 203,449 | 206,130 |
| Change in net assets from operating activities | 8,800 | 2,187 | — | 10,987 | 11,136 |
| Nonoperating activities: | | | | | |
| Contributions | — | 3,631 | 5,056 | 8,687 | 7,380 |
| Investment return, net of endowment spending | 3,341 | 2,694 | 454 | 6,489 | 14,771 |
| Change in value of split interest agreements | 2 | 3 | 679 | 684 | 1,120 |
| Change in fair value of swap | 1,225 | — | — | 1,225 | 1,110 |
| Net assets released from restrictions | 46 | (46) | — | — | — |
| Change in net assets from nonoperating activities | 4,614 | 6,282 | 6,189 | 17,085 | 24,381 |
| Change in net assets | 13,414 | 8,469 | 6,189 | 28,072 | 35,517 |
| Net assets at beginning of year | 337,867 | 43,623 | 92,336 | 473,826 | 438,309 |
| Net assets at end of year | $ 351,281 | 52,092 | 98,525 | 501,898 | 473,826 |

See accompanying notes to financial statements.

**LOYOLA UNIVERSITY MARYLAND, INC.**

Statement of Activities

Year ended May 31, 2017

(Dollars in thousands)

| | Unrestricted | Temporarily restricted | Permanently restricted | Total 2017 |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Tuition and fees (net of tuition discounts of $78,912 in 2017) | $ 134,056 | — | — | 134,056 |
| Contributions | 3,475 | 467 | — | 3,942 |
| Government grants and contracts | 8,746 | — | — | 8,746 |
| Sales and services of auxiliary enterprises | 55,667 | — | — | 55,667 |
| Other sources | 4,792 | — | — | 4,792 |
| Investment income | 732 | — | — | 732 |
| Endowment income designated for current operations | 6,156 | 3,175 | — | 9,331 |
| Net assets released from restrictions | 2,361 | (2,361) | — | — |
| Total revenues | 215,985 | 1,281 | — | 217,266 |
| Operating expenses: | | | | |
| Instruction | 67,482 | — | — | 67,482 |
| Research | 1,752 | — | — | 1,752 |
| Public service | 1,861 | — | — | 1,861 |
| Academic support | 11,005 | — | — | 11,005 |
| Institutional support | 42,245 | — | — | 42,245 |
| Student services | 34,399 | — | — | 34,399 |
| Fundraising | 5,150 | — | — | 5,150 |
| Library | 3,902 | — | — | 3,902 |
| Auxiliary enterprises | 38,334 | — | — | 38,334 |
| Total expenses | 206,130 | — | — | 206,130 |
| Change in net assets from operating activities | 9,855 | 1,281 | — | 11,136 |
| Nonoperating activities: | | | | |
| Contributions | — | 1,457 | 5,923 | 7,380 |
| Investment return, net of endowment spending | 7,813 | 6,958 | — | 14,771 |
| Change in value of split interest agreements | 1 | (75) | 1,194 | 1,120 |
| Change in fair value of swap | 1,110 | — | — | 1,110 |
| Net assets released from restrictions | 398 | (398) | — | — |
| Change in net assets from nonoperating activities | 9,322 | 7,942 | 7,117 | 24,381 |
| Change in net assets | 19,177 | 9,223 | 7,117 | 35,517 |
| Net assets at beginning of year | 318,690 | 34,400 | 85,219 | 438,309 |
| Net assets at end of year | $ 337,867 | 43,623 | 92,336 | 473,826 |

See accompanying notes to financial statements.

**LOYOLA UNIVERSITY MARYLAND, INC.**

Statements of Cash Flows

Years ended May 31, 2018 and 2017

(Dollars in thousands)

| | | 2018 | 2017 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Change in net assets | $ | 28,072 | 35,517 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | | |
| Depreciation and amortization | | 11,090 | 10,683 |
| Loss on disposal of assets | | — | 367 |
| Contributions restricted for long-term investment | | (6,636) | (7,292) |
| Net realized and unrealized gains on investments | | (13,911) | (22,582) |
| Change in fair value of interest rate swap | | (1,225) | (1,110) |
| Change in assets and liabilities: | | | |
| Student tuition receivables, net | | 144 | (144) |
| Contributions receivable, net | | (1,664) | 527 |
| Prepaid expenses and other assets | | (2,116) | 1,856 |
| Interest in perpetual trust | | (656) | (1,184) |
| Accounts payable and accrued liabilities | | (3,655) | 2,129 |
| Deferred tuition and refundable advances | | 657 | (649) |
| Other liabilities | | 8 | (243) |
| U.S. government grants refundable | | (5) | (201) |
| Net cash provided by operating activities | | 10,103 | 17,674 |
| Cash flows from investing activities: | | | |
| Purchase of land, buildings, and equipment | | (12,346) | (9,160) |
| Sales of investments | | 85,342 | 55,846 |
| Purchase of investments | | (77,570) | (118,458) |
| Issuance of student loans | | (253) | (649) |
| Proceeds from payments on student loans receivable | | 1,049 | 1,125 |
| Net cash used in investing activities | | (3,778) | (71,296) |
| Cash flows from financing activities: | | | |
| Proceeds from contributions restricted for long-term investment | | 6,636 | 7,292 |
| Payments on bonds payable | | (3,380) | (3,190) |
| Payments under annuities | | (30) | (23) |
| Net cash provided by financing activities | | 3,226 | 4,079 |
| Net increase (decrease) in cash and cash equivalents | | 9,551 | (49,543) |
| Cash and cash equivalents at beginning of year | | 22,172 | 71,715 |
| Cash and cash equivalents at end of year | $ | 31,723 | 22,172 |
| Supplemental cash flow information: | | | |
| Cash paid during the year for interest | $ | 5,662 | 5,914 |

See accompanying notes to financial statements.

## (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 (Baltimore). The University provides education and training services to approximately 3,900 undergraduate and 1,900 graduate students. The students are from approximately 39 states and 60 countries; 80% 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.

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.



(Continued)

***(c) Cash and Cash Equivalents***

The University considers all highly liquid investments with maturities of three months or less to be cash equivalents, except those held in the investment portfolio.

***(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 are recorded at net asset value (NAV) as provided by the fund managers or the general partners as a practical expedient to fair value, unless the University plans to sell an investment in the near term at a value other than NAV. 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. As of May 31, 2018 and 2017, the University had no plans or intentions to sell such investments.

***(f) 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 at May 31, 2018 and 2017.

***(g) 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.



(Continued)

(Dollars in thousands)

The following estimated useful lives are used in calculating depreciation:

| | **Estimated useful life** |
|---|---|
| Buildings | 50 years |
| Land improvements | 10 years |
| Equipment, furniture, fixtures, software, and other | 5–7 years |

***(h) 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, which is the University's proportionate interest, and approximates the estimated cash flows of the trust.

***(i) Valuation of Long-Lived Assets***

Certain buildings and land improvements held and used 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. 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, 2018 and 2017.

***(j) U.S. Government Grants Refundable***

Funds provided by the United States (U.S.) 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 U.S. government.

***(k) 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.

***(l) Fundraising Expenses***

Direct fundraising expenses for the years ended May 31, 2018 and 2017 were $4,945 and $4,857, respectively.

***(m) 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 2018 or 2017.

Management has analyzed the tax positions taken by the University, and has concluded that as of May 31, 2018, 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.

***(n) 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 use of facilities.

***(o) 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.

***(p) Concentration of Credit Risk***

Financial instruments, which potentially subject the University to concentrations of credit risk, consist primarily of cash and cash equivalents, investments, pledges receivable and certain revenue sources. The University has several bank accounts at May 31, 2018 containing balances which exceed FDIC limits. Investments are held at creditworthy financial institutions. By policy, these investments are kept within authorized limits designed to prevent risks caused by concentration. Credit risk with respect to pledges receivable is generally limited; however, the University receives support from a large number of donors and has maintained long-term relationships with these donors. At May 31, 2018, approximately 44% of net pledges receivable were from three major donors. At May 31, 2017, approximately 32% of net pledges receivable were from two major donors.

***(q) Derivative Financial Instruments***

Derivative financial instruments (interest rate swap) are measured at fair value and recognized 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, adjusted for credit risk as appropriate.



(Continued)

### *(r) Split-Interest Arrangements*

The University's split-interest agreements are primarily annuity arrangements and interest in perpetual trust (as discussed in note 1(h)). 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 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 \$386 and \$399 of future annuity payments included in other liabilities at May 31, 2018 and 2017, respectively. In accordance with Maryland State law, the University has \$616 and \$620 of assets separately reserved for the annuity payments at May 31, 2018 and 2017, respectively. This amount is included in investments on the balance sheets.

### *(s) New Accounting Pronouncements*

The FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Particularly, that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Topic 606 is effective for fiscal year 2019. The University is currently evaluating the impact of this new accounting guidance on the financial statements.

The FASB issued ASU No. 2016-02, *Leases*, which will require lessees to recognize most leases on the balance sheet, increasing their reported assets and liabilities – sometimes very significantly. This update was developed to provide financial statement users with more information about an entity's leasing activities, and will require changes in processes and internal controls. The adoption of ASU 2016-02 is effective for fiscal year 2020, and will require application of the new guidance at the beginning of the earliest comparable period presented. The University is currently evaluating the impact of this new accounting guidance on its financial statements.

The FASB issued ASU No. 2016-14, *Not for Profit Entities* (NFP), which amends the requirements for financial statements and notes in Topic 958, Not for Profit Entities, which reduces the number of net asset classes, requires the presentation of expenses by natural class and by function, and enhances the qualitative and quantitative disclosures around liquidity. ASU 2016-14 is effective for the University in fiscal year 2019.



(Continued)

(Dollars in thousands)

## (2) Contributions Receivable

Contributions receivable, net, are summarized as follows as of May 31, 2018 and 2017:

| | | 2018 | 2017 |
|---|---|---|---|
| Due within one year | $ | 4,484 | 4,787 |
| One to five years | | 6,961 | 5,289 |
| More than five years | | 942 | 161 |
| | | 12,387 | 10,237 |
| Less: | | | |
| Discount (interest rates ranging from 1.2% to 4.7%) | | (725) | (404) |
| Allowance for doubtful accounts | | (1,050) | (885) |
| | $ | 10,612 | 8,948 |

As of May 31, 2018, the University had bequest intentions and conditional promises to give aggregating $33,959, 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, instruction and research as stipulated by the donors.

## (3) Fair Value Measurements

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 University's principal (or most advantageous) market. Those fair value measurements maximize the use of observable inputs.

The three levels of the fair value hierarchy are as follows:

Level 1: Quoted or published 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. Inputs are obtained from various sources including market participants, dealers and brokers.

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

*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, which approximates the estimated cash flows of the trust to the University.

(Dollars in thousands)

*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.

*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.

The following table presents assets and liabilities that are measured at fair value on a recurring basis as of May 31, 2018. Certain investments that are measured at fair value using NAV as a practical expedient have not been categorized in the fair value hierarchy, and are included to permit reconciliation to the balance sheet.

| | | NAV or equivalent | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|---|
| Financial assets: | | | | | | |
| Investments: | | | | | | |
| Cash and money market funds | $ | — | 56,316 | — | — | 56,316 |
| Fixed income funds: | | | | | | |
| Core bond total return | | — | 10,759 | — | — | 10,759 |
| Floating rate high income | | — | 6,597 | — | — | 6,597 |
| Other fixed income fund | | — | 360 | — | — | 360 |
| Total fixed income funds | | — | 17,716 | — | — | 17,716 |
| Equity funds: | | | | | | |
| Domestic | | — | 35,572 | — | — | 35,572 |
| International developed | | 29,529 | 25,712 | — | — | 55,241 |
| Emerging markets | | 10,342 | 6,186 | — | — | 16,528 |
| Total equity funds | | 39,871 | 67,470 | — | — | 107,341 |

(Dollars in thousands)

| | NAV or equivalent | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| Public global real estate securities | $ 6,689 | — | — | — | 6,689 |
| Hedge funds: | | | | | |
| Multi-strategy fund | 11,016 | — | — | — | 11,016 |
| Nonagency residential mortgage-backed securities | 9,129 | — | — | — | 9,129 |
| Long/short | 34,364 | — | — | — | 34,364 |
| Total hedge funds | 54,509 | — | — | — | 54,509 |
| Private equity: | | | | | |
| Multi-strategy fund of funds | 3,536 | — | — | — | 3,536 |
| Direct private debt and equity | 14,566 | — | — | 5,761 | 20,327 |
| Real estate investments | 5,668 | — | — | — | 5,668 |
| Venture capital fund of funds | 10,321 | — | — | — | 10,321 |
| Total private equity | 34,091 | — | — | 5,761 | 39,852 |
| Other | — | — | — | 1,892 | 1,892 |
| Total investments | 135,160 | 141,502 | — | 7,653 | 284,315 |
| Other financial assets: | | | | | |
| Interest in perpetual trust | — | — | — | 14,193 | 14,193 |
| Total financial assets | $ 135,160 | 141,502 | — | 21,846 | 298,508 |
| Financial liabilities: | | | | | |
| Interest rate swap | $ — | — | 1,873 | — | 1,873 |

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, 2018:

| | Private equity | Other | Interest in perpetual trust | Total |
|---|---|---|---|---|
| Beginning balance, June 1, 2017 | $ 4,759 | 1,874 | 13,537 | 20,170 |
| Net realized and unrealized gains | 1,249 | 18 | 656 | 1,923 |
| Sales and settlements | (247) | — | — | (247) |
| Ending balance, May 31, 2018 | $ 5,761 | 1,892 | 14,193 | 21,846 |

(Dollars in thousands)

The following table presents assets and liabilities that are measured at fair value on a recurring basis as of May 31, 2017. Certain investments that are measured at fair value using NAV as a practical expedient have not been categorized in the fair value hierarchy, and are included to permit reconciliation to the balance sheet.

| | NAV or equivalent | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| Financial assets: | | | | | |
| Investments: | | | | | |
| Cash and money market funds | $ — | 65,034 | — | — | 65,034 |
| Fixed income funds: | | | | | |
| Core bond total return | — | 10,743 | — | — | 10,743 |
| Global government bonds | — | 7,206 | — | — | 7,206 |
| Floating rate high income | — | 6,743 | — | — | 6,743 |
| Other fixed income fund | — | 372 | — | — | 372 |
| Total fixed income funds | — | 25,064 | — | — | 25,064 |
| Equity funds: | | | | | |
| Domestic | — | 33,704 | — | — | 33,704 |
| International developed | 19,017 | 22,343 | — | — | 41,360 |
| Emerging markets | 9,253 | 5,292 | — | — | 14,545 |
| Total equity funds | 28,270 | 61,339 | — | — | 89,609 |
| Public global real estate securities | 4,752 | — | — | — | 4,752 |
| Hedge funds: | | | | | |
| Multi-strategy fund | 8,470 | 3,349 | — | — | 11,819 |
| Nonagency residential mortgage-backed securities | 8,442 | — | — | — | 8,442 |
| Long/short | 31,764 | — | — | — | 31,764 |
| Total hedge funds | 48,676 | 3,349 | — | — | 52,025 |
| Private equity: | | | | | |
| Multi-strategy fund of funds | 4,208 | — | — | — | 4,208 |
| Direct private debt and equity | 15,178 | — | — | 4,759 | 19,937 |
| Real estate investments | 5,443 | — | — | — | 5,443 |
| Venture capital fund of funds | 10,200 | — | — | — | 10,200 |
| Total private equity | 35,029 | — | — | 4,759 | 39,788 |
| Other | — | — | — | 1,874 | 1,874 |
| Total investments | 116,727 | 154,786 | — | 6,633 | 278,146 |
| Other financial assets: | | | | | |
| Interest in perpetual trust | — | — | — | 13,537 | 13,537 |
| Total financial assets | $ 116,727 | 154,786 | — | 20,170 | 291,683 |
| Financial liabilities: | | | | | |
| Interest rate swap | $ — | — | 3,098 | — | 3,098 |

(Dollars in thousands)

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, 2017:

| | | Private equity | Other | Interest in perpetual trust | Total |
|---|---|---|---|---|---|
| Beginning balance, June 1, 2016 | $ | 4,308 | 1,830 | 12,353 | 18,491 |
| Net realized and unrealized gains | | 794 | 44 | 1,184 | 2,022 |
| Purchases and issuances | | 646 | — | — | 646 |
| Sales and settlements | | (989) | — | — | (989) |
| Ending balance, May 31, 2017 | $ | 4,759 | 1,874 | 13,537 | 20,170 |

## (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 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 for the years ended May 31, 2018 and 2017:

| | | 2018 | 2017 |
|---|---|---|---|
| Income from interest and dividends | $ | 4,514 | 3,566 |
| Net realized and unrealized gains on investments | | 13,911 | 22,582 |
| Investment fees | | (1,328) | (1,314) |
| Total investment return | $ | 17,097 | 24,834 |

(Dollars in thousands)

Investment return is included in the statements of activities as follows for the years ended May 31, 2018 and 2017:

| | | 2018 | 2017 |
|---|---|---|---|
| Operating | $ | 10,608 | 10,063 |
| Nonoperating | | 6,489 | 14,771 |
| | $ | 17,097 | 24,834 |

The table below summarizes investments for which NAV as a practical expedient has been used to estimate fair value as of May 31, 2018 and 2017:

| Investment | | Fair value 2018 | Fair value 2017 | Remaining average life of the funds | | Unfunded commitments as of May 31, 2018 | Unfunded commitments as of May 31, 2017 | Redemption frequency (if currently eligible) | Redemption notice period |
|---|---|---|---|---|---|---|---|---|---|
| Equity funds: | | | | | | | | | |
| International developed (a) | $ | 29,529 | 19,017 | N/A | $ | — | — | Various | 3–10 days |
| Emerging markets (b) | | 10,342 | 9,253 | N/A | | — | — | Monthly | 7 days |
| Public global real estate securities (c) | | 6,689 | 4,752 | N/A | | — | — | Monthly | 15 days |
| Hedge funds: | | | | | | | | | |
| Multi-strategy (d) | | 11,016 | 8,470 | N/A | | — | — | Various | 30–60 days |
| Nonagency residential mortgage-backed securities (e) | | 9,129 | 8,442 | N/A | | — | — | Quarterly | 60 days |
| Long/short (f) | | 34,364 | 31,764 | N/A | | — | — | Various | 30–105 days |
| Private equity diversified (g) | | 34,091 | 35,029 | 0 to 14 years | | 30,816 | 25,384 | N/A | N/A |
| | $ | 135,160 | 116,727 | | $ | 30,816 | 25,384 | | |

(a) Investments in international developed equity funds that invest in diversified portfolios of mid and smaller capitalization equity securities and equity securities listed on major international exchanges. The frequency of redemptions varies from semi-monthly to monthly.

(b) Investments in equity and equity equivalent instruments outside the United States and specifically in emerging markets.

(c) Investments of a portfolio of publicly traded equity securities issued by real estate investment trusts and other publicly held real estate companies primarily in North America, Europe, Australia, and Asia.

(d) Investments in a variety of multi-strategy funds that invest in activities, such as: event-driven funds with an emphasis on merger arbitrage, distressed debt, and capital structure arbitrage; master limited partnerships that mostly pertain to the use of natural resources; and, a customizable commingled fund which operates as a collective investment trust that pools assets of various entities to create a larger, diversified portfolio of assets managed collectively in accordance with a common investment strategy. The frequency of redemption varies from daily to annually.

(Dollars in thousands)

(e) 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.

(f) 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 three years.

(g) 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 receiving redemptions as funds are available to 14 years as of May 31, 2018. Capital is distributed to investors as the funds' investments are liquidated over that time period.

## (5) Land, Buildings, and Equipment

Land, buildings, and equipment, net, as of May 31, 2018 and 2017 consist of the following:

| | 2018 | 2017 |
|---|---|---|
| Land and land improvements | $ 20,087 | 20,087 |
| Buildings | 426,053 | 419,002 |
| Equipment, furniture, software, and other | 39,813 | 38,673 |
| Investment in Loyola/Notre Dame Library | 12,106 | 12,106 |
| Construction in progress | 5,945 | 1,790 |
| | 504,004 | 491,658 |
| Less accumulated depreciation | (189,781) | (178,449) |
| | $ 314,223 | 313,209 |

Depreciation expense totaled $11,332 and $10,924 for the years ended May 31, 2018 and 2017, 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 $4,180 and $3,855 in joint and use costs for the Library during the years ended May 31, 2018 and 2017, respectively.

(Dollars in thousands)

### (6) Bonds Payable and Other Debt Matters

Bonds payable, net as of May 31, 2018 and 2017 consist of the following:

| | 2018 | 2017 |
|---|---|---|
| Maryland Health and Higher Education Facility Authority (MHHEFA) revenue bonds: | | |
| Series 2012A: | | |
| 3.00–5.00% serial due October 2032, principal beginning October 2012 | $ 20,730 | 24,110 |
| 4.00–5.00% term due October 2039, principal beginning October 2033 | 19,225 | 19,225 |
| | 39,955 | 43,335 |
| Series 2012B variable rate: | | |
| Due annually through October 2026 (2.33% and 1.73% as of May 31, 2018 and 2017, respectively) | 26,170 | 26,170 |
| Series 2014: | | |
| 3.25–5.00% serial due October 2034, principal beginning October 2027 | 13,065 | 13,065 |
| 4.00–5.00% term due October 2045, principal beginning October 2035 | 47,300 | 47,300 |
| | 60,365 | 60,365 |
| | 126,490 | 129,870 |
| Unamortized bond premium and debt issuance costs | 5,819 | 6,061 |
| | $ 132,309 | 135,931 |

The Series 2012B, and the serial 2012A and 2014 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.

The covenants on the Series 2012A, 2012B, and 2014 bonds 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, 2018 and 2017.

Interest expense and net amortization of bond premium and debt issuance costs were $5,431 and $5,608 in 2018 and 2017, respectively. Interest expense was $5,673 and $5,850 in 2018 and 2017, respectively. No amounts were capitalized in 2018 and 2017.

### *(a) 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. The notional amount outstanding under the swap agreement as of May 31, 2018 is $26,170 and amortizes through October 2026 in accordance with the Series 2012B bonds.

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 $1,873 and $3,098 as of May 31, 2018 and 2017, respectively, and is included in other liabilities on the balance sheets.

### *(b) 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 $12,000 as of May 31, 2018 and 2017. This line of credit will be used, if necessary, for working capital and will remain open until January 31, 2019, unless extended. No portion of the line was utilized during fiscal years 2018 or 2017. The balance as of May 31, 2018 and 2017 was $0.

### *(c) Principal Repayment Schedule*

Aggregate annual principal payments on the bonds (not including unamortized bond premium and debt issuance costs) over the next five fiscal years and thereafter are: $3,540 in 2019, $3,700 in 2020, $3,875 in 2021, $4,020 in 2022, $4,165 in 2023, and $107,190 thereafter.

## (7) Interest in Perpetual Trust

In June 1996, the University received an interest in the Marion I. and 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 $535 and $479 in 2018 and 2017, 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 $656 and $1,184 in 2018 and 2017, respectively.

(Dollars in thousands)

## (8) Restricted Net Assets

Temporarily restricted net assets as of May 31, 2018 and 2017 are restricted for the following purposes:

| | | 2018 | 2017 |
|---|---|---|---|
| General operations (purpose restricted) | $ | 12,028 | 10,905 |
| Buildings and equipment | | 3,666 | 964 |
| Cumulative gains on permanent endowment funds (financial aid, faculty, instruction, and other) | | 33,174 | 30,027 |
| Other, passage of time | | 3,224 | 1,727 |
| Total | $ | 52,092 | 43,623 |

Releases from restriction were for financial aid and general operations of the University.

Permanently restricted net assets as of May 31, 2018 and 2017 are restricted to investment in perpetuity, the income from which is expendable to support operations as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Financial aid | $ | 56,049 | 51,558 |
| Instruction and research | | 36,666 | 33,865 |
| General operations | | 5,810 | 6,913 |
| Total | $ | 98,525 | 92,336 |

## (9) Endowment

The University's endowment consists of approximately 296 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


(Continued)

(Dollars in thousands)

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: duration and preservation of the fund, purposes of the endowment fund, general economic conditions, possible effect of inflation and deflation, expected total return from investments, other resources of the University, and investment policies.

Endowment net assets consist of the following as of May 31, 2018:

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|---|
| Donor-restricted endowment funds | $ | — | 33,174 | 78,548 | 111,722 |
| Board-designated endowment funds | | 116,429 | — | — | 116,429 |
| | $ | 116,429 | 33,174 | 78,548 | 228,151 |

Endowment net assets consist of the following as of May 31, 2017:

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|---|
| Donor-restricted endowment funds | $ | — | 30,027 | 71,912 | 101,939 |
| Board-designated endowment funds | | 112,927 | — | — | 112,927 |
| | $ | 112,927 | 30,027 | 71,912 | 214,866 |

Changes in endowment net assets for the year ended May 31, 2018 are as follows:

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|---|
| Endowment net assets, June 1, 2017 | $ | 112,927 | 30,027 | 71,912 | 214,866 |
| Investment return | | 8,715 | 8,001 | — | 16,716 |
| Contributions collected | | 165 | — | 6,182 | 6,347 |
| Change in donor designation | | — | — | 454 | 454 |
| Appropriation for expenditure | | (5,378) | (4,854) | — | (10,232) |
| Endowment net assets, May 31, 2018 | $ | 116,429 | 33,174 | 78,548 | 228,151 |



(Continued)

(Dollars in thousands)

Changes in endowment net assets for the year ended May 31, 2017 are as follows:

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|---|
| Endowment net assets, June 1, 2016 | $ | 104,918 | 23,068 | 64,820 | 192,806 |
| Investment return | | 13,235 | 10,864 | — | 24,099 |
| Contributions collected | | 200 | — | 7,092 | 7,292 |
| Appropriation for expenditure | | (5,426) | (3,905) | — | (9,331) |
| Endowment net assets, May 31, 2017 | $ | 112,927 | 30,027 | 71,912 | 214,866 |

### (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. There were no deficiencies of this nature. 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.

### (10) Retirement Benefit Plan

Retirement benefits are provided to eligible employees (participants), through direct payments to the defined contribution retirement plan. The University contributed an amount equal to 9% of the participant's eligible compensation for the years ended May 31, 2018 and 2017. Contributions under the plan are fully vested and retirement payments are limited to the amount of the participant's account. The University's contributions were approximately $6,433 and $6,491 in 2018 and 2017, respectively.

### (11) Commitments and Contingencies

#### *(a) Leases*

The University leases classroom facilities, office space, student housing, parking spaces, and printing equipment. Certain 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, 2018 and 2017 was approximately $2,942 and $3,061, respectively.

The aggregate annual minimum lease payments to be paid through the expiration of the initial terms of these leases as of May 31, 2018 are as follows: $2,909 in 2019, $2,842 in 2020, $1,220 in 2021, $719 in 2022, $555 in 2023, and $36 thereafter.

#### *(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.

### (12) Related Party Activity

Several members of the Board of Trustees are employed by organizations that provide services to the University, primarily banking and insurance services. Fees to companies that employ related parties totaled $530 in fiscal year 2018. All related party activity is conducted in accordance with the University's normal policies and procedures.

### (13) Subsequent Events

The University has evaluated subsequent events from the balance sheet date through October 16, 2018, the date at which the financial statements were issued, and determined that there are no items to disclose.