KPMG

LOYOLA UNIVERSITY MARYLAND, INC.

Financial Statements

May 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

LOYOLA UNIVERSITY MARYLAND, INC.

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KPMG LLP
1 East Pratt Street
Baltimore, MD 21202-1128

Independent Auditors' Report

The Board of Trustees
Loyola University Maryland, Inc.:

We have audited the accompanying financial statements of Loyola University Maryland, Inc. (the University), which comprise the balance sheets as of May 31, 2017 and 2016, 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, 2017 and 2016, 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 17, 2017

LOYOLA UNIVERSITY MARYLAND, INC.

Balance Sheets

May 31, 2017 and 2016

(Dollars in thousands)

Assets		**2017**	**2016**
Cash and cash equivalents	$	22,172	71,715
Student tuition receivables (net of allowance for doubtful accounts of $240 in 2017 and $190 in 2016)		3,016	2,872
Contributions receivable, net		8,948	9,475
Prepaid expenses and other assets		3,021	4,877
Investments		278,146	192,930
Student loan receivables, net		4,272	4,748
Land, buildings, and equipment, net		313,209	315,340
Interest in perpetual trust		13,537	12,353
Total assets	$	646,321	614,310
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	21,233	19,104
Deferred tuition and refundable advances		5,625	6,274
Bonds payable, net		135,931	139,363
Other liabilities		7,104	8,457
U.S. government grants refundable		2,602	2,803
Total liabilities		172,495	176,001
Net assets:			
Unrestricted		337,867	318,690
Temporarily restricted		43,623	34,400
Permanently restricted		92,336	85,219
Total net assets		473,826	438,309
Total liabilities and net assets	$	646,321	614,310

See accompanying notes to financial statements.

LOYOLA UNIVERSITY MARYLAND, INC.

Statements of Activities

Year ended May 31, 2017
(with comparative totals for 2016)

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Totals 2017	Totals 2016
Operating revenues:					
Tuition and fees (net of tuition discounts of $78,912 in 2017 and $73,119 in 2016)	$ 134,056	—	—	134,056	133,104
Contributions	3,475	467	—	3,942	3,878
Government grants and contracts	8,746	—	—	8,746	10,029
Sales and services of auxiliary enterprises	55,667	—	—	55,667	52,971
Other sources	4,792	—	—	4,792	3,905
Investment income	732	—	—	732	112
Endowment income designated for current operations	6,156	3,175	—	9,331	9,689
Net assets released from restrictions	2,361	(2,361)	—	—	—
Total revenues	215,985	1,281	—	217,266	213,688
Operating expenses:					
Instruction	67,482	—	—	67,482	67,181
Research	1,752	—	—	1,752	1,261
Public service	1,861	—	—	1,861	1,748
Academic support	11,005	—	—	11,005	10,925
Institutional support	42,245	—	—	42,245	41,120
Student services	34,399	—	—	34,399	33,175
Fundraising	5,150	—	—	5,150	4,618
Library	3,902	—	—	3,902	3,385
Auxiliary enterprises	38,334	—	—	38,334	35,538
Total expenses	206,130	—	—	206,130	198,951
Change in net assets from operating activities	9,855	1,281	—	11,136	14,737
Nonoperating activities:					
Contributions	—	1,457	5,923	7,380	4,082
Investment return, net of endowment spending	7,813	6,958	—	14,771	(17,605)
Change in value of split interest agreements	1	(75)	1,194	1,120	(294)
Change in fair value of swap	1,110	—	—	1,110	(151)
Net assets released from restrictions	398	(398)	—	—	—
Change in net assets from nonoperating activities	9,322	7,942	7,117	24,381	(13,968)
Change in net assets	19,177	9,223	7,117	35,517	769
Net assets at beginning of year	318,690	34,400	85,219	438,309	437,540
Net assets at end of year	$ 337,867	43,623	92,336	473,826	438,309

See accompanying notes to financial statements.

LOYOLA UNIVERSITY MARYLAND, INC.

Statement of Activities

Year ended May 31, 2016

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Totals 2016
Operating revenues:				
Tuition and fees (net of tuition discounts of $73,119 in 2016)	$ 133,104	—	—	133,104
Contributions	3,315	563	—	3,878
Government grants and contracts	10,029	—	—	10,029
Sales and services of auxiliary enterprises	52,971	—	—	52,971
Other sources	3,905	—	—	3,905
Investment income	112	—	—	112
Endowment income designated for current operations	6,117	3,572	—	9,689
Net assets released from restrictions	3,031	(3,031)	—	—
Total revenues	212,584	1,104	—	213,688
Operating expenses:				
Instruction	67,181	—	—	67,181
Research	1,261	—	—	1,261
Public service	1,748	—	—	1,748
Academic support	10,925	—	—	10,925
Institutional support	41,120	—	—	41,120
Student services	33,175	—	—	33,175
Fundraising	4,618	—	—	4,618
Library	3,385	—	—	3,385
Auxiliary enterprises	35,538	—	—	35,538
Total expenses	198,951	—	—	198,951
Change in net assets from operating activities	13,633	1,104	—	14,737
Nonoperating activities:				
Contributions	—	323	3,759	4,082
Investment return, net of endowment spending	(10,243)	(7,382)	20	(17,605)
Change in value of split interest agreements	(21)	232	(505)	(294)
Change in fair value of swap	(151)	—	—	(151)
Net assets released from restrictions	468	(468)	—	—
Change in net assets from nonoperating activities	(9,947)	(7,295)	3,274	(13,968)
Change in net assets	3,686	(6,191)	3,274	769
Net assets at beginning of year	315,004	40,591	81,945	437,540
Net assets at end of year	$ 318,690	34,400	85,219	438,309

See accompanying notes to financial statements.

LOYOLA UNIVERSITY MARYLAND, INC.

Statements of Cash Flows

Years ended May 31, 2017 and 2016

(Dollars in thousands)

		2017	2016
Cash flows from operating activities:			
Change in net assets	$	35,517	769
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		10,683	10,740
Loss on disposal of assets		367	—
Contributions restricted for long-term investment		(7,292)	(4,140)
Net realized and unrealized (gains) losses on investments		(22,582)	10,256
Change in fair value of interest rate swap		(1,110)	151
Change in assets and liabilities:			
Student tuition receivables, net		(144)	(530)
Contributions receivable, net		527	560
Prepaid expenses and other assets		1,856	(795)
Interest in perpetual trust		(1,184)	514
Accounts payable and accrued liabilities		2,129	2,212
Deferred tuition and refundable advances		(649)	(151)
Other liabilities		(243)	90
U.S. government grants refundable		(201)	(87)
Net cash provided by operating activities		17,674	19,589
Cash flows from investing activities:			
Purchase of land, buildings, and equipment		(9,160)	(19,055)
Sales of investments		55,846	41,033
Purchase of investments		(118,458)	(38,178)
Change in deposits with bond trustees		—	4
Issuance of student loans		(649)	(462)
Proceeds from payments on student loans receivable		1,125	1,203
Net cash used in investing activities		(71,296)	(15,455)
Cash flows from financing activities:			
Proceeds from contributions restricted for long-term investment		7,292	4,140
Payments on bonds payable		(3,190)	(3,225)
Payments under annuities		(23)	(128)
Net cash provided by financing activities		4,079	787
Net (decrease) increase in cash and cash equivalents		(49,543)	4,921
Cash and cash equivalents at beginning of year		71,715	66,794
Cash and cash equivalents at end of year	$	22,172	71,715
Supplemental cash flow information:			
Cash paid during the year for interest	$	5,914	6,029

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 4,100 undergraduate and 2,000 graduate students. The students are from approximately 39 states and 59 countries; 81% 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.

(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 is recorded at net asset value 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 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) 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, 2017 and 2016.

(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.

The following estimated useful lives are used in calculating depreciation:

	Estimated useful life
Buildings	50 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.

(i) 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, 2017 and 2016.

(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) Fund-Raising Expenses

Direct fund-raising expenses for the years ended May 31, 2017 and 2016 were $4,857 and $4,359, 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 2017 or 2016.

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, 2017, there are no uncertain positions taken or expected to be taken that would require

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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 periodic inventories 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, 2017 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, 2017, approximately 32% of net pledges receivable were from two major donors. At May 31, 2016, approximately 36% 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 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.

(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.

(Continued)

(Dollars in thousands)

The University has $399 and $275 of future annuity payments included in other liabilities at May 31, 2017 and 2016, respectively. In accordance with Maryland State law, the University has $620 and $604 of assets separately reserved for the annuity payments at May 31, 2017 and 2016, 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, 2017 and 2016:

		2017	2016
Due within one year	$	4,787	3,193
One to five years		5,289	7,632
More than five years		161	250
		10,237	11,075
Less:			
Discount (interest rates ranging from 1.2% to 4.7%)		(404)	(682)
Allowance for doubtful accounts		(885)	(918)
	$	8,948	9,475

As of May 31, 2017, the University had bequest intentions and conditional promises to give aggregating $33,806, 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 Measurement

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 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 and U.S. government grants refundable administered by the University under federal government loan programs is not practical because the receivables can only be assigned to the U.S. 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, 2017 and 2016, the University had no plans or intentions to sell investments at amounts different from NAV. The inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessary an indication of the risks associated with those investments or a reflection of the liquidity of each fund's underlying assets or liabilities. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. The University has assessed the value provided by the external managers and believes the amounts reported represent a reasonable estimate of fair value.

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 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.

(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.

	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:					
Common stock	—	102	—	—	102
Domestic	—	33,602	—	—	33,602
International developed	19,017	22,343	—	—	41,360
International 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

(Dollars in thousands)

	NAV or equivalent	Level 1	Level 2	Level 3	Total
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

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
Total gains and losses included in changes in net assets:				
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

(Dollars in thousands)

The following table presents assets and liabilities that are measured at fair value on a recurring basis as of May 31, 2016. Certain investments that are measured at fair value using NAV as a practical expedient have not been categorized in the fair value hierarchy.

	NAV or equivalent	Level 1	Level 2	Level 3	Total
Financial assets:					
Investments:					
Cash and money market funds	$ —	1,820	—	—	1,820
Fixed income funds:					
Core bond total return	—	10,474	—	—	10,474
Global government bonds	—	6,511	—	—	6,511
Floating rate high income	—	6,770	—	—	6,770
Other fixed income fund	—	377	—	—	377
Total fixed income funds	—	24,132	—	—	24,132
Equity funds:					
Common stock	—	19	—	—	19
Domestic	—	32,428	—	—	32,428
International developed	—	33,130	—	—	33,130
International emerging markets	—	9,535	—	—	9,535
Total equity funds	—	75,112	—	—	75,112
Public global real estate securities	—	4,636	—	—	4,636
Hedge funds:					
Multi-strategy fund	10,908	—	—	—	10,908
Nonagency residential mortgage-backed securities	7,510	—	—	—	7,510
Long/short	29,068	—	—	—	29,068
Total hedge funds	47,486	—	—	—	47,486
Private equity:					
Multi-strategy fund of funds	7,154	—	—	—	7,154
Direct private debt and equity	12,242	—	—	4,308	16,550
Real estate investments	6,177	—	—	—	6,177
Venture capital fund of funds	8,033	—	—	—	8,033
Total private equity	33,606	—	—	4,308	37,914
Other	—	—	—	1,830	1,830
Total investments	81,092	105,700	—	6,138	192,930

(Continued)

(Dollars in thousands)

	NAV or equivalent	Level 1	Level 2	Level 3	Total
Other financial assets:					
Interest in perpetual trust	$ —	—	—	12,353	12,353
Total financial assets	$ 81,092	105,700	—	18,491	205,283
Financial liabilities:					
Interest rate swap	$ —	—	4,208	—	4,208

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, 2016:

	Private equity	Other	Interest in perpetual trust	Total
Beginning balance, June 1, 2015	$ 4,297	1,805	12,867	18,969
Total gains and losses included in changes in net assets:				
Net realized and unrealized gains	(242)	25	(514)	(731)
Purchases and issuances	360	—	—	360
Sales and settlements	(107)	—	—	(107)
Ending balance, May 31, 2016	$ 4,308	1,830	12,353	18,491

(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.

(Dollars in thousands)

Investment return is summarized as follows for the years ended May 31, 2017 and 2016:

		2017	2016
Income from interest and dividends	$	3,566	3,332
Net realized and unrealized gain on investments		22,582	(10,256)
Investment fees		(1,314)	(880)
Total investment return	$	24,834	(7,804)

Investment return is included in the statements of activities as follows for the years ended May 31, 2017 and 2016:

		2017	2016
Operating	$	10,063	9,801
Nonoperating		14,771	(17,605)
	$	24,834	(7,804)

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, 2017:

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

(Dollars in thousands)

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, 2016:

Investment	Fair value	Remaining average life of the funds	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Hedge funds:					
Multi-strategy (d)	$ 10,908	N/A	$ —	Various	2–60 days
Nonagency residential mortgage-backed securities (e)	7,510	N/A	—	Quarterly	60 days
Long/short (f)	29,068	N/A	—	Various	30–105 days
Private equity diversified (g)	33,606	0 to 15 years	16,627	N/A	N/A
	$ 81,092		$ 16,627		

(a) This category includes 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) This category includes investments in equity and equity equivalent instruments outside the United States and specifically in emerging markets. The frequency of redemptions are monthly.

(c) This category includes 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. The frequency of redemptions are monthly.

(d) This category includes 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.

(e) 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.

(f) 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 three years.

(Continued)

(Dollars in thousands)

(g) 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 receiving redemptions as funds are available to 14 years as of May 31, 2017. 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, 2017 and 2016 consist of the following:

		2017	2016
Land and land improvements	$	20,087	20,029
Buildings		419,002	409,667
Equipment, furniture, fixtures, software, and other		38,673	38,140
Investment in Loyola/Notre Dame Library		12,106	12,106
Construction in progress		1,790	3,042
		491,658	482,984
Less accumulated depreciation		(178,449)	(167,644)
	$	313,209	315,340

Depreciation expense totaled $10,924 and $10,982 for the years ended May 31, 2017 and 2016, 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 $3,855 and $3,385 in joint and use costs for the Library during the years ended May 31, 2017 and 2016, respectively.

(Dollars in thousands)

(6) Bonds Payable and Other Debt Matters

Bonds payable, net as of May 31, 2017 and 2016 consist of the following:

		2017	2016
Maryland Health and Higher Education Facility Authority (MHHEFA) revenue bonds:			
Series 2012A:			
3.00–5.00% serial due October 2032, principal beginning October 2012	$	24,110	27,130
4.00–5.00% term due October 2039, principal beginning October 2033		19,225	19,225
		43,335	46,355
Series 2012B variable rate:			
Due annually through October 2026 (1.73% and 1.36% as of May 31, 2017 and 2016, respectively)		26,170	26,340
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
		129,870	133,060
Unamortized bond premium and debt issuance costs		6,061	6,303
	$	135,931	139,363

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.

On June 7, 2012, MHHEFA issued a tax-exempt bond with a par value of $49,250 (Series 2012A) on behalf of the University. Approximately $33,748 of these proceeds was used to retire the Series 1999 bonds ($33,355 for principal, approximately $393 for interest); $9,285 was used to retire the Series 2007 bonds; $10,000 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 (Series 2012B bonds) on behalf of the University. Approximately $32,510 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.

(Continued)

On October 30, 2014, MHHEFA issued a tax-exempt bond with a par value of $60,365 (Series 2014 bonds) on behalf of the University, to advance refund the Series 2006A bonds and to pay costs of issuance of the Series 2014 bonds. The advance refunding of the Series 2006A bonds resulted in an accounting net loss of $2,745, which includes the write-off of associated unamortized premium and bond issue costs.

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, 2017 and 2016.

Interest expense and net amortization of bond premium and debt issuance costs were $5,608 and $5,770 in 2017 and 2016, respectively. Interest expense was $5,850 and $6,012 in 2017 and 2016, respectively. No amounts were capitalized in 2017 and 2016.

(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, 2017 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 $3,098 and $4,208 as of May 31, 2017 and 2016, 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, 2017 and $17,000 as of May 31, 2016. This line of credit will be used, if necessary, for working capital and will remain open until January 31, 2018, unless extended. No portion of the line was utilized during fiscal years 2017 or 2016. The balance as of May 31, 2017 and 2016 was $0.

(Continued)

(Dollars in thousands)

(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 as follows:

2018	$	3,380
2019		3,540
2020		3,700
2021		3,875
2022		4,020
Thereafter		111,355
	$	129,870

(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 $479 and $501 in 2017 and 2016, 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 $1,184 and $514 in 2017 and 2016, respectively.

(8) Temporarily Restricted Net Assets

Temporarily restricted net assets as of May 31, 2017 and 2016 are restricted for the following purposes:

		2017	2016
General operations (purpose restricted)	$	10,905	10,076
Buildings and equipment		964	241
Cumulative gains on permanent endowment funds		30,027	23,068
Other, passage of time		1,727	1,015
Total	$	43,623	34,400

(Dollars in thousands)

(9) Permanently Restricted Net Assets

Permanently restricted net assets as of May 31, 2017 and 2016 are restricted to investment in perpetuity, the income from which is expendable to support operations as follows:

		2017	2016
Financial aid	$	51,558	46,204
Instruction and research		33,865	30,944
General operations		6,913	8,071
Total	$	92,336	85,219

(10) Endowment

The University's endowment consists of approximately 277 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;

(Dollars in thousands)

6. The other resources of the University; and
7. The investment policies of the University.

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

Endowment net assets consist of the following as of May 31, 2016:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(399)	23,068	64,820	87,489
Board-designated endowment funds		105,317	—	—	105,317
	$	104,918	23,068	64,820	192,806

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

(Dollars in thousands)

Changes in endowment net assets for the year ended May 31, 2016 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 1, 2015	$	115,164	30,430	60,660	206,254
Investment return		(4,836)	(3,083)	—	(7,919)
Contributions collected		—	—	4,140	4,140
Change in donor designation		—	—	20	20
Appropriation for expenditure		(5,410)	(4,279)	—	(9,689)
Endowment net assets, May 31, 2016	$	104,918	23,068	64,820	192,806

(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 $0 and $399 as of May 31, 2017 and 2016, 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.

(Dollars in thousands)

(11) 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, 2017 and 2016. 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 $6,491 and $6,342 in 2017 and 2016, 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 2021. The University leases several apartments in Baltimore for student housing and University related academic uses under a noncancelable operating lease agreement expiring in 2018. In addition, the University leases clinical, classroom, and office facilities in Baltimore under a noncancelable operating lease agreement expiring in 2024. The University also leases printing equipment under noncancelable operating lease agreements with varying expirations expiring in 2018-2021. 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, 2017 and 2016 was approximately $3,061 and $2,995, respectively.

The aggregate annual minimum lease payments to be paid through the expiration of the initial terms of these leases as of May 31, 2017 are as follows:

2018	$	2,552
2019		2,567
2020		2,548
2021		926
2022		424
Thereafter		468
	$	9,485

(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 organizations that provide services to the University. Fees to companies that employ related parties totaled $28 in fiscal year 2017. All related party activity is conducted in accordance with the University's normal policies and procedures.

(14) Subsequent Events

The University has evaluated subsequent events from the balance sheet date through October 17, 2017, the date at which the financial statements were issued, and determined that there are no items to disclose.