



**LOYOLA UNIVERSITY MARYLAND, INC.**

Financial Statements

May 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

**LOYOLA UNIVERSITY MARYLAND, INC.**

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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, 2019 and 2018, 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, 2019 and 2018, 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.



*Emphasis of Matters*

As discussed in note 1 to the financial statements, Loyola University Maryland, Inc. adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-For-Profit Entities*, ASU 2014-09 (Topic 606), *Revenue from Contracts with Customers*, as amended, and ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* in the year ended May 31, 2019. Our opinion is not modified with respect to these matters.

KPMG LLP

Baltimore, Maryland  
October 24, 2019

**LOYOLA UNIVERSITY MARYLAND, INC.**

Balance Sheets

May 31, 2019 and 2018

(Dollars in thousands)

<b>Assets</b>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 32,730	31,723
Student tuition receivables (net of allowance for doubtful accounts of \$430 in 2019 and \$385 in 2018)	3,663	2,872
Contributions receivable, net	11,187	10,612
Prepaid expenses and other assets	3,427	5,137
Investments	297,312	284,315
Student loan receivables, net	2,833	3,476
Land, buildings, and equipment, net	309,654	314,223
Interest in perpetual trust	13,683	14,193
Total assets	\$ 674,489	666,551
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 28,878	17,578
Deferred tuition and refundable advances	6,461	6,282
Bonds payable, net	128,527	132,309
Other liabilities	5,443	5,887
U.S. government grants refundable	2,623	2,597
Total liabilities	171,932	164,653
Net assets:		
Without donor restrictions	350,262	351,281
With donor restrictions	152,295	150,617
Total net assets	502,557	501,898
Total liabilities and net assets	\$ 674,489	666,551

See accompanying notes to financial statements.

**LOYOLA UNIVERSITY MARYLAND, INC.**

Statements of Activities

Year ended May 31, 2019  
(with comparative totals for 2018)

(Dollars in thousands)

	Without donor restrictions	With donor restrictions	Totals	
			2019	2018
Operating revenues:				
Tuition and fees (net of tuition discounts of \$87,020 in 2019 and \$82,599 in 2018)	\$ 125,282	—	125,282	128,155
Auxiliary services	55,622	—	55,622	54,800
Contributions	3,614	565	4,179	5,623
Government grants and contracts	9,830	—	9,830	9,152
Other sources	3,802	—	3,802	6,098
Investment income	2,758	—	2,758	376
Endowment income designated for current operations	6,124	4,473	10,597	10,232
Net assets released from restrictions	5,014	(5,014)	—	—
Total revenues	<u>212,046</u>	<u>24</u>	<u>212,070</u>	<u>214,436</u>
Operating expenses:				
Instruction and research	72,147	—	72,147	73,449
Student services and public service	37,070	—	37,070	36,945
Academic support and library	17,893	—	17,893	17,552
Institutional support and fundraising	36,543	—	36,543	37,082
Auxiliary enterprises	39,232	—	39,232	38,421
Total expenses	<u>202,885</u>	<u>—</u>	<u>202,885</u>	<u>203,449</u>
Change in net assets from operating activities	<u>9,161</u>	<u>24</u>	<u>9,185</u>	<u>10,987</u>
Nonoperating activities:				
Contributions	—	8,100	8,100	8,687
Investment return, net of endowment spending	(3,724)	(3,750)	(7,474)	6,489
Change in value of split interest agreements	(17)	(462)	(479)	684
Change in fair value of swap	(243)	—	(243)	1,225
Voluntary faculty retirement incentive program	(8,430)	—	(8,430)	—
Net assets released from restrictions	2,234	(2,234)	—	—
Change in net assets from nonoperating activities	<u>(10,180)</u>	<u>1,654</u>	<u>(8,526)</u>	<u>17,085</u>
Change in net assets	<u>(1,019)</u>	<u>1,678</u>	<u>659</u>	<u>28,072</u>
Net assets at beginning of year	<u>351,281</u>	<u>150,617</u>	<u>501,898</u>	<u>473,826</u>
Net assets at end of year	<u>\$ 350,262</u>	<u>152,295</u>	<u>502,557</u>	<u>501,898</u>

See accompanying notes to financial statements.

**LOYOLA UNIVERSITY MARYLAND, INC.**

Statement of Activities

Year ended May 31, 2018

(Dollars in thousands)

	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Operating revenues:			
Tuition and fees (net of tuition discounts of \$82,599 in 2018)	\$ 128,155	—	128,155
Auxiliary services	54,800	—	54,800
Contributions	3,980	1,643	5,623
Government grants and contracts	9,152	—	9,152
Other sources	6,098	—	6,098
Investment income	376	—	376
Endowment income designated for current operations	6,099	4,133	10,232
Net assets released from restrictions	3,589	(3,589)	—
Total revenues	212,249	2,187	214,436
Operating expenses:			
Instruction and research	73,449	—	73,449
Student services and public service	36,945	—	36,945
Academic support and library	17,552	—	17,552
Institutional support and fundraising	37,082	—	37,082
Auxiliary enterprises	38,421	—	38,421
Total expenses	203,449	—	203,449
Change in net assets from operating activities	8,800	2,187	10,987
Nonoperating activities:			
Contributions	—	8,687	8,687
Investment return, net of endowment spending	3,341	3,148	6,489
Change in value of split interest agreements	2	682	684
Change in fair value of swap	1,225	—	1,225
Net assets released from restrictions	46	(46)	—
Change in net assets from nonoperating activities	4,614	12,471	17,085
Change in net assets	13,414	14,658	28,072
Net assets at beginning of year	337,867	135,959	473,826
Net assets at end of year	\$ 351,281	150,617	501,898

See accompanying notes to financial statements.

**LOYOLA UNIVERSITY MARYLAND, INC.**

Statements of Cash Flows

Years ended May 31, 2019 and 2018

(Dollars in thousands)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 659	28,072
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,846	11,090
Gift of property	(1,700)	—
Loss on disposal of assets	18	—
Contributions restricted for long-term investment	(4,230)	(6,636)
Net realized and unrealized gains on investments	(537)	(13,911)
Change in fair value of interest rate swap	243	(1,225)
Change in assets and liabilities:		
Student tuition receivables, net	(791)	144
Contributions receivable, net	(575)	(1,664)
Prepaid expenses and other assets	1,710	(2,116)
Interest in perpetual trust	510	(656)
Accounts payable and accrued liabilities	11,300	(3,655)
Deferred tuition and refundable advances	179	657
Other liabilities	(687)	8
U.S. government grants refundable	26	(5)
Net cash provided by operating activities	<u>16,971</u>	<u>10,103</u>
Cash flows from investing activities:		
Purchase of land, buildings, and equipment	(6,537)	(12,346)
Sales of investments	63,374	85,342
Purchase of investments	(74,103)	(77,570)
Issuance of student loans	(221)	(253)
Proceeds from payments on student loans receivable	864	1,049
Net cash used in investing activities	<u>(16,623)</u>	<u>(3,778)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	4,230	6,636
Payments on bonds payable	(3,540)	(3,380)
Payments under annuities	(31)	(30)
Net cash provided by financing activities	<u>659</u>	<u>3,226</u>
Net increase in cash and cash equivalents	1,007	9,551
Cash and cash equivalents at beginning of year	<u>31,723</u>	<u>22,172</u>
Cash and cash equivalents at end of year	\$ <u>32,730</u>	\$ <u>31,723</u>
Supplemental cash flow information:		
Cash paid during the year for interest	\$ 5,504	5,662
Noncash gift of property	1,700	—

See accompanying notes to financial statements.



**LOYOLA UNIVERSITY MARYLAND, INC.**

Notes to Financial Statements

May 31, 2019 and 2018

(Dollars in thousands)

**(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 1,800 graduate students. The students are from approximately 40 states and 60 countries; 82% of undergraduate students live on campus during the academic year.

**(b) Basis of Presentation**

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

The net assets of the University are classified into two classes based on the existence of donor-imposed restriction, if any, as follows:

*Net Assets Without Donor Restrictions* – Net assets that are not subject to donor-imposed stipulations.

*Net Assets With Donor Restrictions* – Net assets that are subject to donor restrictions that expire through the passage of time or can be fulfilled or removed by actions pursuant to those restrictions.

Revenues are reported as increases in net assets without donor restrictions unless their use is limited due to donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by donor stipulations or by law. Expirations of 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 releases from net assets with donor restrictions to net assets without donor restrictions. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are 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) 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

## LOYOLA UNIVERSITY MARYLAND, INC.

### Notes to Financial Statements

May 31, 2019 and 2018

(Dollars in thousands)

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, 2019, and 2018, the University had no plans or intentions to sell such investments.

Dividend income is recognized on the ex-dividend date. Noncash dividends are recorded at the fair value of the securities received. Interest income and expenses are recorded net of management fees on an accrual basis.

#### **(e) 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, 2019 and 2018.

#### **(f) 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.

#### **(g) 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, 2019 and 2018.

#### **(h) Interest in Perpetual Trust and Split Interest Agreements**

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.

The University's split-interest agreements are primarily annuity arrangements. 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.

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(Dollars in thousands)

The University has \$372 and \$386 of future annuity payments included in other liabilities at May 31, 2019 and 2018, respectively. In accordance with Maryland State law, the University has \$598 and \$616 of assets separately reserved for the annuity payments at May 31, 2019 and 2018, respectively. This amount is included in investments on the balance sheets.

**(i) 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. Such funds are ultimately refundable to the U.S. government.

**(j) Revenue Recognition – Contracts with Customers and Accounts Receivable**

In May 2014, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), which, along with related amendments, replaces existing revenue recognition requirements. The core principle of Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration it expects to be entitled in exchange. In addition, Topic 606 requires disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The University adopted Topic 606 effective June 1, 2018, using the modified retrospective transition. There was no significant impact upon transition.

Revenue from student education, and residence and dining services (auxiliary services) is reflected net of reductions from student aid (tuition discounts) and is recognized as the services are provided over the academic year, which generally aligns with the University's fiscal year. Aid in excess of a student's tuition and fees, if any, is reflected as a reduction of auxiliary services revenues. Disbursements made directly to students for living or other costs are reported as an expense. Payments for student services are generally received prior to the commencement of each academic term and are reported as deferred tuition to the extent services will be rendered in the following fiscal year. Student aid does not include payments made to students for services rendered to the University.

The composition of student tuition and fees revenue was as follows for the years ended May 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Undergraduate	\$ 185,904	184,127
Graduate and other	26,398	26,627
Tuition discounts	<u>(87,020)</u>	<u>(82,599)</u>
	<u>\$ 125,282</u>	<u>128,155</u>

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(Dollars in thousands)

Auxiliary services revenue consisted of the following for the years ended May 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Residence and dining services, net of student aid	\$ 52,745	51,987
Athletics	1,416	1,407
Other	1,461	1,406
	<u>\$ 55,622</u>	<u>54,800</u>

Other sources revenue includes revenues from parking, student events, and other miscellaneous activities. Such revenues are recognized when goods or services are provided to customers.

Student tuition receivables are invoiced based upon contractual terms with students. The University maintains allowances for doubtful accounts to reflect management's best estimate of probable losses inherent in receivable balances. Management determines the allowances for doubtful accounts based on known troubled accounts, historical experience, and other currently available evidence.

**(k) Revenue Recognition – Contributions, including Government Grants and Contracts**

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The FASB issued this ASU to reduce diversity in reporting by clarifying (1) whether transactions should be accounted for as contributions or as exchange transactions subject to other guidance and (2) whether a contribution is conditional. The University adopted ASU 2018-08 effective June 1, 2018 and there was no significant impact.

Contributions, including unconditional promises to give, are recognized as revenues based upon any donor-imposed restrictions, on the date of the donors' commitment or gift. 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.

State grant revenue is provided by the State of Maryland to support the general operations of the University. Funds are to be spent in accordance with applicable law and revenue is recognized ratably over the fiscal year as the funds are received and expended.

The University conducts sponsored program activity with various sponsors, including agencies and departments of the federal government, local government entities, and foundations. Such grants and contracts revenue are recognized as the related qualifying expenses are incurred.

**(l) 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

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(Dollars in thousands)

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 2019 or 2018.

Management has analyzed the tax positions taken by the University, and has concluded that as of May 31, 2019, 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.

**(m) 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 infrequent nature. During the year ended May 31, 2019, the University entered into agreements with several faculty members under a voluntary faculty retirement incentive program; the associated costs are included in nonoperating activities.

**(n) 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, 2019 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. Approximately 57% and 44% of net pledges receivable were from three major donors at May 31, 2019 and 2018, respectively.

**(o) 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.

**(p) New Accounting Pronouncements**

In March 2017, FASB ASU 2016-14, *Not-for-Profit Entities (NFP's) (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. The ASU is effective for, and has been adopted, fiscal year 2019 including the required reclassification of the 2018 activities. ASU 2016-14 reduces the number of net assets classes from three to two, increases disclosure regarding liquidity (Note 11), and requires expenses to be reported by their natural and functional classifications in one location (Note 10).

With respect to the net asset classes, net assets without donor restrictions were previously reported as of May 31, 2018 as unrestricted net assets (\$351,281) and net assets with donor restrictions were

**LOYOLA UNIVERSITY MARYLAND, INC.**

Notes to Financial Statements

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(Dollars in thousands)

previously reported as temporarily restricted (\$52,092) and permanently restricted (\$98,525) net assets as of May 31, 2018.

In February 2016, FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU is effective for fiscal year 2020 and will require lessees to report most leases as assets and liabilities on the balance sheet, while lessor accounting will remain substantially unchanged. The ASU requires a modified retrospective transition approach for existing leases, whereby the new rules will be applied to the earliest year presented. The University is currently working on the implementation of this ASU (see Note 13a for the disclosure of lease commitments).

**(2) Contributions Receivable**

Contributions receivable, net, are summarized as follows as of May 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Due within one year	\$ 3,815	4,484
One to five years	7,972	6,961
More than five years	<u>1,385</u>	<u>942</u>
	13,172	12,387
Less:		
Discount (interest rates ranging from 1.2% to 4.7%)	(986)	(725)
Allowance for doubtful accounts	<u>(999)</u>	<u>(1,050)</u>
	<u>\$ 11,187</u>	<u>10,612</u>

As of May 31, 2019, the University had bequest intentions and conditional promises to give aggregating \$34,001, 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.

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(Dollars in thousands)

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:

*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 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.

*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 tables present assets and liabilities that are measured at fair value on a recurring basis as of May 31, 2019 and 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 sheets.

**LOYOLA UNIVERSITY MARYLAND, INC.**

Notes to Financial Statements

May 31, 2019 and 2018

(Dollars in thousands)

	<b>2019</b>				
	<b>NAV or equivalent</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets:					
Investments:					
Cash and money market funds	\$ —	73,054	—	—	73,054
Fixed income funds:					
Core bond total return	—	11,461	—	—	11,461
Floating rate high income	—	6,751	—	—	6,751
Other fixed income fund	—	345	—	—	345
Total fixed income funds	—	18,557	—	—	18,557
Equity funds:					
Domestic	—	36,951	—	—	36,951
International developed	28,345	22,180	—	—	50,525
Emerging markets	9,170	5,844	—	—	15,014
Total equity funds	37,515	64,975	—	—	102,490
Public global real estate securities	7,303	—	—	—	7,303
Hedge funds:					
Multi-strategy	11,217	—	—	—	11,217
Nonagency residential mortgage-backed securities	9,322	—	—	—	9,322
Long/short	29,689	—	—	—	29,689
Total hedge funds	50,228	—	—	—	50,228
Private equity:					
Multi-strategy fund of funds	1,159	—	—	—	1,159
Direct private debt and equity	16,519	—	—	5,481	22,000
Real estate	4,370	—	—	—	4,370
Venture capital fund of funds	14,523	—	—	—	14,523
Total private equity	36,571	—	—	5,481	42,052
Real estate	—	—	—	2,855	2,855
Other	—	—	—	773	773
Total investments	131,617	156,586	—	9,109	297,312
Other financial assets:					
Interest in perpetual trust	—	—	—	13,683	13,683
Total financial assets	\$ 131,617	156,586	—	22,792	310,995
Financial liabilities:					
Interest rate swap	\$ —	—	2,116	—	2,116



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	<b>2018</b>				
	<b>NAV or equivalent</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
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
Public global real estate securities	6,689	—	—	—	6,689
Hedge funds:					
Multi-strategy	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	5,668	—	—	—	5,668
Venture capital fund of funds	10,321	—	—	—	10,321
Total private equity	34,091	—	—	5,761	39,852
Real estate	—	—	—	1,155	1,155
Other	—	—	—	737	737
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

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The following table presents a reconciliation for all Level 3 assets measured at fair value on a recurring basis for the years ended May 31, 2019 and 2018:

	<b>Private equity</b>	<b>Other</b>	<b>Interest in perpetual trust</b>	<b>Total</b>
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	<u>(247)</u>	<u>—</u>	<u>—</u>	<u>(247)</u>
Ending balance, May 31, 2018	5,761	1,892	14,193	21,846
Net realized and unrealized gains (losses)	2	36	(510)	(472)
Contribution	—	1,700	—	1,700
Sales and settlements	<u>(282)</u>	<u>—</u>	<u>—</u>	<u>(282)</u>
Ending balance, May 31, 2019	\$ <u>5,481</u>	<u>3,628</u>	<u>13,683</u>	<u>22,792</u>

**(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, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Income from interest and dividends	\$ 6,723	4,514
Net realized and unrealized gains on investments	537	13,911
Investment fees	<u>(1,379)</u>	<u>(1,328)</u>
Total investment return	\$ <u>5,881</u>	<u>17,097</u>

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Investment return is included in the statements of activities as follows for the years ended May 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Operating	\$ 13,355	10,608
Nonoperating	<u>(7,474)</u>	<u>6,489</u>
	<u>\$ 5,881</u>	<u>17,097</u>

The table below summarizes investments for which NAV as a practical expedient has been used to estimate fair value as of May 31, 2019 and 2018:

<u>Investment</u>	<u>Fair value</u>		<u>Remaining average life of the funds</u>	<u>Unfunded commitments as of May 31, 2019</u>	<u>Unfunded commitments as of May 31, 2018</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
	<u>2019</u>	<u>2018</u>					
Equity funds:							
International developed (a)	\$ 28,345	29,529	N/A	\$ —	—	Various	3–10 days
Emerging markets (b)	9,170	10,342	N/A	—	—	Monthly	7 days
Public global real estate securities (c)	7,303	6,689	N/A	—	—	Monthly	15 days
Hedge funds:							
Multi-strategy (d)	11,217	11,016	N/A	—	—	Various	30–60 days
Nonagency residential mortgage-backed securities (e)	9,322	9,129	N/A	—	—	Quarterly	60 days
Long/short (f)	29,689	34,364	N/A	—	—	Various	30–105 days
Private equity diversified (g)	36,571	34,091	0 to 15 years	32,585	30,816	N/A	N/A
	<u>\$ 131,617</u>	<u>135,160</u>		<u>\$ 32,585</u>	<u>30,816</u>		

- (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

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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) 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 15 years as of May 31, 2019. 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, 2019 and 2018 consist of the following:

	<u>Useful Lives</u>	<u>2019</u>	<u>2018</u>
Land and land improvements	0-10 years	\$ 26,989	20,087
Buildings	50 years	428,668	426,053
Equipment, furniture, software, and other	5-7 years	40,195	39,813
Investment in Loyola/Notre Dame Library	50 years	12,106	12,106
Construction in progress	n/a	2,051	5,945
		<u>510,009</u>	<u>504,004</u>
Less accumulated depreciation		<u>(200,355)</u>	<u>(189,781)</u>
		<u>\$ 309,654</u>	<u>314,223</u>

Depreciation expense totaled \$11,088 and \$11,332 for the years ended May 31, 2019 and 2018, 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

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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 \$4,041 and \$4,180 in joint and use costs for the Library during the years ended May 31, 2019 and 2018, respectively.

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

Bonds payable, net as of May 31, 2019 and 2018 consist of the following:

	2019	2018
Maryland Health and Higher Education Facility Authority (MHHEFA) revenue bonds:		
Series 2012A:		
3.00–5.00% serial due October 2032, principal beginning October 2012	\$ 17,190	20,730
4.00–5.00% term due October 2039, principal beginning October 2033	19,225	19,225
	36,415	39,955
Series 2012B variable rate:		
Due annually through October 2026 (2.75% and 2.33% as of May 31, 2019 and 2018, 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
	122,950	126,490
Unamortized bond premium and debt issuance costs	5,577	5,819
	\$ 128,527	132,309

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, 2019 and 2018.

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Interest expense and net amortization of bond premium and debt issuance costs were \$5,235 and \$5,431 in 2019 and 2018, respectively. Interest expense was \$5,478 and \$5,673 in 2019 and 2018, respectively. No amounts were capitalized in 2019 and 2018.

**(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, 2019 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 \$2,116 and \$1,873 as of May 31, 2019 and 2018, 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, 2019 and 2018. This line of credit will be used, if necessary, for working capital and will remain open until January 31, 2020, unless extended. No portion of the line was utilized during fiscal years 2019 or 2018 and there were no outstanding amounts as of May 31, 2019 and 2018.

**(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: \$3,700 in 2020, \$3,875 in 2021, \$4,020 in 2022, \$4,165 in 2023, \$4,300 in 2024, and \$102,890 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 \$418 and \$397 in 2019 and 2018, 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 \$(510) and \$656 in 2019 and 2018, respectively.

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**(8) Net Assets**

Net assets are comprised of the following as of May 31, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
<b>Without donor restrictions</b>		
Board designated endowments	\$ 112,427	116,429
Other funds	237,835	234,852
<b>Total without donor restrictions</b>	<b>350,262</b>	<b>351,281</b>
<b>With donor restrictions</b>		
Donor restricted endowments:		
Financial aid	58,818	57,265
Instruction and research	53,302	54,372
General operations	83	86
Financial aid restricted	13,683	14,192
General operations	19,648	17,812
Buildings and equipment	3,465	3,666
Other, passage of time	3,296	3,224
<b>Total with donor restrictions</b>	<b>152,295</b>	<b>150,617</b>
<b>Total</b>	<b>\$ 502,557</b>	<b>501,898</b>

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

**(9) Endowment**

The University's endowment consists of approximately 300 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 donor restricted endowment 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 includes the net endowment return on investments that have not been 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: duration and

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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, 2019:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds			
Original gifts	\$ —	82,778	82,778
Accumulated gains	—	29,425	29,425
Board-designated endowment funds	<u>112,427</u>	<u>—</u>	<u>112,427</u>
	\$ <u>112,427</u>	<u>112,203</u>	<u>224,630</u>

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

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds			
Original gifts	\$ —	78,548	78,548
Accumulated gains	—	33,174	33,174
Board-designated endowment funds	<u>116,429</u>	<u>—</u>	<u>116,429</u>
	\$ <u>116,429</u>	<u>111,722</u>	<u>228,151</u>

Changes in endowment net assets for the years ended May 31, 2019 and 2018 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, June 1, 2017	\$ 112,927	101,939	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	<u>(5,378)</u>	<u>(4,854)</u>	<u>(10,232)</u>
Endowment net assets, May 31, 2018	116,429	111,722	228,151
Investment return	1,406	1,440	2,846
Contributions collected	—	4,230	4,230
Appropriation for expenditure	<u>(5,408)</u>	<u>(5,189)</u>	<u>(10,597)</u>
Endowment net assets, May 31, 2019	\$ <u>112,427</u>	<u>112,203</u>	<u>224,630</u>



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**(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 were \$68 and \$0 as of May 31, 2019 and 2018, respectively.

**(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) Expenses**

The natural and functional classification of operating expenses for the year ended May 31, 2019 and 2018 are as follows:

	2019						
	Compensation and benefits	Materials, supplies, and professional development	Professional services and marketing	Plant operations and maintenance	Interest and depreciation	Other	Total
Instruction and research	\$ 53,163	7,334	3,429	4,448	2,295	1,478	72,147
Student services and public service	19,469	3,647	3,166	3,311	5,401	2,076	37,070
Academic support and library	8,050	1,114	4,910	2,057	1,477	285	17,893
Institutional support and fundraising	19,997	3,335	5,124	4,428	927	2,732	36,543
Auxiliary enterprises	8,840	643	17,009	4,608	6,548	1,584	39,232
Total expenses	\$ 109,519	16,073	33,638	18,852	16,648	8,155	202,885

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	2018						
	Compensation and benefits	Materials, supplies, and professional development	Professional services and marketing	Plant operations and maintenance	Interest and depreciation	Other	Total
Instruction and research	\$ 54,100	7,177	3,182	4,700	2,367	1,923	73,449
Student services and public service	18,942	3,543	3,093	3,504	5,585	2,278	36,945
Academic support and library	7,378	1,070	4,946	2,173	1,524	461	17,552
Institutional support and fundraising	19,617	3,679	4,813	4,562	943	3,468	37,082
Auxiliary enterprises	9,183	599	16,113	4,256	6,704	1,566	38,421
Total expenses	\$ 109,220	16,068	32,147	19,195	17,123	9,696	203,449

In fiscal year 2019, the expense associated with the voluntary faculty retirement incentive program was \$8,430 and is considered instruction and research function.

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.

Direct fundraising expenses for the years ended May 31, 2019 and 2018 were \$5,287 and \$4,945, respectively.

**(11) Availability of Financial Assets for General Expenditures**

Resources available to the University to fund general expenditures, such as operating expenses, interest and principal payments on debt, and internally funded capital construction, have seasonal variations related to the timing of tuition billings, receipt of gifts and pledge payments, and transfers from the endowment. The University actively manages its resources, utilizing a combination of short, medium, and long-term operating investment strategies, to align its cash inflows with anticipated outflows, in accordance with policies approved by the Board of Trustees. As further described in Note 6, the University may draw upon a revolving line of credit to manage cash flows.

As of May 31, 2019, and 2018, existing financial assets and liquidity resources available within one year were as follows:

	<u>2019</u>	<u>2018</u>
<b>Financial assets available for general expenditure within one year</b>		
Cash and cash equivalents	\$ 32,730	31,723
Operating investments	71,851	55,295
<b>Liquidity resources</b>		
Revolving line of credit	<u>12,000</u>	<u>12,000</u>
Total	\$ <u><u>116,581</u></u>	<u><u>99,018</u></u>

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Additionally, the University has \$112,427 in board-designated endowment, of which approximately \$90,000 can be liquidated within one year, however, no liquidation is anticipated. The fiscal year 2020 spending from the endowment is estimated to be \$10,978.

**(12) 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, 2019 and 2018. 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 \$6,326 and \$6,433 in 2019 and 2018, respectively.

**(13) 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, 2019 and 2018 was approximately \$3,037 and \$2,942, respectively.

The aggregate annual minimum lease payments to be paid through the expiration of the initial terms of these leases as of May 31, 2019 are as follows: \$2,639 in 2020, \$1,095 in 2021, \$725 in 2022, \$562 in 2023, and \$37 in 2024.

**(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.

**(14) 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 \$1,581 and \$530 in fiscal years 2019 and 2018, respectively. All related party activity is conducted in accordance with the University's normal policies and procedures.

**(15) Subsequent Events**

The University has evaluated subsequent events from the balance sheet date through October 24, 2019, the date at which the financial statements were issued, and determined that there are no adjustments or disclosures required.