LOYOLA UNIVERSITY

Independent Auditors' Report

The Board of Trustees
Loyola University Maryland, Inc.:

We have audited the accompanying balance sheets of Loyola University Maryland, Inc. (the University) as of May 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in notes 1(q) and 10, the University adopted Financial Accounting Standards Board Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, on June 1, 2008.

As described in notes 1(o) and 3, the University adopted Financial Accounting Standards Board Statement No. 157, *Fair Value Measurements*, on June 1, 2008.

KPMG LLP

October 7, 2009

LOYOLA UNIVERSITY MARYLAND, INC.

Balance Sheets

May 31, 2009 and 2008

(Dollars in thousands)

Assets		**2009**	**2008**
Cash	$	23,750	2,124
Short-term investment		9,963	47,878
Student tuition receivables, net		1,268	706
Contributions receivable, net		5,149	7,146
Prepaid expenses and other assets		6,168	2,662
Investments		130,460	178,297
Deposits with bond trustees		949	11,857
Student loans receivable, net		2,821	2,056
Land, buildings and equipment, net		302,793	282,404
Interest in perpetual trust		8,048	11,337
Total assets	$	491,369	546,467
Liabilities and Net Assets			
Accounts payable and accrued liabilities	$	21,989	16,616
Deferred tuition and refundable advances		6,781	7,207
Bonds payable		158,701	159,348
Other liabilities		3,709	3,481
Government grants refundable		2,831	2,827
Total liabilities		194,011	189,479
Net assets:			
Unrestricted		232,803	294,975
Temporarily restricted		16,335	10,061
Permanently restricted		48,220	51,952
Total net assets		297,358	356,988
Total liabilities and net assets	$	491,369	546,467

See accompanying notes to financial statements.

LOYOLA UNIVERSITY MARYLAND, INC.

Statement of Activities

Year ended May 31, 2009
(with comparative totals for 2008)

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Totals 2009	Totals 2008
Operating revenues:					
Tuition and fees, (net of tuition discounts of $42,959 in 2009 and $35,604 in 2008)	$ 109,832	—	—	109,832	103,608
Contributions	4,259	137	—	4,396	6,750
Government grants and contracts	6,853	—	—	6,853	10,622
Sales and services of auxiliary enterprises	31,819	—	—	31,819	28,731
Other sources	4,598	—	—	4,598	4,834
Investment income	234	—	—	234	1,345
Endowment income designated for current operations	6,252	2,115		8,367	7,788
Net assets released from restrictions	2,354	(2,354)	—	—	—
Total revenues	166,201	(102)	—	166,099	163,678
Operating expenses:					
Instruction	56,947	—	—	56,947	52,916
Research	1,067	—	—	1,067	1,455
Public service	2,371	—	—	2,371	1,911
Academic support	10,914	—	—	10,914	9,772
Institutional support	37,616	—	—	37,616	36,447
Student services	29,696	—	—	29,696	26,234
Fundraising	696	—	—	696	836
Library	3,423	—	—	3,423	3,201
Auxiliary enterprises	23,446	—	—	23,446	20,626
Total expenses	166,176	—	—	166,176	153,398
Change in net assets from operating activities	25	(102)	—	(77)	10,280
Nonoperating activities:					
Contributions	—	376	227	603	1,831
Investment return, net of endowment spending	(38,288)	(15,773)	—	(54,061)	786
Change in value of spl(15,-47 28.2 8.52 reWBT7.92 0 0 7.92 139.81uD(Net assets relea6.4(—	Y8-51/ts relea6.4(—	Y8-51/ts relea6.4t1,831)TJ86lea6.4t1,831)TJ-3G			

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:					
Tuition and fees (net of tuition discounts of $35,604 in 2008)	$	103,608	—	—	103,608
Contributions		4,388	2,362	—	6,750

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

(a) Nature of Operations

Loyola University Maryland, Inc. (the University or Loyola) is a private, nonprofit higher education institution located in Baltimore, Maryland. The University provides education and training services to approximately 3,700 undergraduate and 2,400 graduate students. The students are from approximately 40 states and 40 countries and 85% 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 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 generally result from contributions or investment return on restricted endowment funds.

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

Revenues are reported as increases in unrestricted net assets unless their use is limited due to donor-imposed restriction. 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 explicit 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) Short-Term Investment

Short-term investment includes assets invested in the Short Term Fund (STF). The STF is a fund that holds fixed-income securities, short-term U.S. Treasury securities, and other short-term investments and is currently being liquidated over time.

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(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

(i) 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 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.

(j) Federal Student Financial Aid Programs

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

(k) 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 2009 or 2008.

(l) 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.

The University has reclassified certain fiscal 2008 expenses to show comparability to fiscal 2009.

(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; and changes in the value of split-interest agreements, perpetual trusts held by others, and transactions of an unusual or infrequent nature.

(n) Concentration of Credit Risk

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

(o) Fair Value Measurements

On June 1, 2008, the University adopted the provisions of FASB Statement No. 157, *Fair Value Measurements* (Statement 157), for fair value measurements of financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. Statement 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Statement 157 also establishes a framework for measurement of fair value and expands disclosures about fair value measurements (note 3).

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In conjunction with the implementation of SFAS No. 157, the University elected to early adopt the measurement provisions included in the amendment entitled *Fair Value Measurements and Disclosures: Investments in Certain Entities That Calculate Net Asset value per Share (or Its Equivalent*). These provisions apply to investments that do not have a readily determinable fair value and for which it is industry practice for the investee to calculate net asset value per share (or its equivalent), and to issue financial statements in which investment assets are valued at fair value on a recurring basis. For these investments, the amendment generally permits investor entities, as a practical expedient, to estimate fair value using the net asset value per share as reported by the investee. Investor entities should consider whether adjustment to the most recent net asset value per share is necessary if the net asset value per share obtained from the investee is not as of the reporting entity's measurement date or if the investee's investment assets are not valued at fair value on a recurring basis. As permitted by the amendment, the University elected to defer the adoption of its disclosure provisions until its fiscal year ending May 31, 2010.

(p) Derivative Financial Instruments

Derivative financial instruments (interest rate swaps) are measured at fair value and recognized in the balance sheets as assets or liabilities, with the change in fair value included in the statement of activities. The fair value of the derivatives is based upon values provided by third-party financial institutions.

(q) Uniform Prudent Management of Institutional Funds Act

On June 1, 2008, the University adopted the provisions FSP FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP No. 117-1). FSP No. 117-1 provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA. The state of Maryland enacted a version of UPMIFA in 2009. FSP No. 117-1 required reclassification of $24,441,000 of donor-restricted endowment funds from unrestricted net assets to temporarily restricted net assets until appropriated for expenditure by the University's Board of Trustees. The FSP also requires additional disclosures about endowments for all organizations (see note 10).

(r) Split-Interest Arrangements

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 statement of activities.

The University has $1,054,000 of future annuity payments included in accounts payable and accrued liabilities at May 31, 2009 based on the present value of the expected future cash outflow. In accordance with Maryland state law, the University has $1,350,000 of assets separately reserved for the annuity payments. This amount is included in cash at May 31, 2009.

(2) Contributions Receivable

Contributions receivable, net, are summarized as follows as of May 31, 2009 and 2008 (in thousands):

		2009	2008
Within one year	$	3,209	2,871
One to five years		2,227	4,061
More than five years		1,397	1,659
Subtotal		6,833	8,591
Discount (interest rates ranging from 2.4% to 3.2%)		(734)	(697)
Allowance for doubtful accounts		(950)	(748)
	$	5,149	7,146

As of May 31, 2009, the University had also been informed of bequest intentions and conditional promises to give aggregating $15,603,000 which have not been recognized as assets or revenues. If received, these gifts will generally be restricted for specific purposes stipulated by the donors.

(3) Fair Value Measurement

As discussed in note 1(o), the University adopted Statement 157 on June 1, 2008 for fair value measurements of financial assets and liabilities and for fair value measurements of nonfinancial items that are disclosed at fair value in the financial statements on a recurring basis. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date assuming the transaction occurs in the entity’s principle (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, short-term investments, student tuition receivables, prepaid expenses and other assets, accounts payable and accrued liabilities, deferred tuition and refundable advances, and other liabilities: The carrying amounts approximate fair value because of the short maturity of these instruments.
>
> Contributions receivable: The fair value is determined as the present value of future cash flows discounted at an interest rate that reflects the risks inherent in those cash flows. See notes 2 and 1(d).
>
> Investments and deposits with bond trustee: 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. Limited partnership interests are measured using the net asset value per share as provided by the investment manager multiplied by the University’s interest in the fund, which may differ from fair value. The carrying amount of money market funds approximates the fair value because of the short maturity of these investments.

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

Bonds payable: The fair value of the University's long-term debt is determined by discounting the future cash flows of each instrument at rates that reflect, among other things, market interest rates and the University's credit standing. In determining an appropriate spread to reflect its credit standing, the University considers interest rates currently offered to the University for similar debt instruments of comparable maturities by the University's bankers as well as other banks that regularly compete to provide financing to the University. The carrying value of the University's debt approximates fair value.

Statement 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quotes prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities.

The following table presents assets and liabilities that are measured at fair value on a recurring basis as of May 31, 2009 (in thousands):

	Level 1	Level 2	Level 3	Fair value as of May 31, 2009	Fair value as of May 31, 2008
Investments:					
Cash and money funds	$ 3,049	—	—	3,049	4,907
Fixed income funds	7,403	—	—	7,403	8,242
Common stock and equity funds	36,068	—	—	36,068	55,952
Hedge funds					

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, 2009 (in thousands):

Beginning balance June 1, 2008	$	120,534
Total gains and losses included in changes in net assets:		
Dividend and interest income		263
Net realized and unrealized losses		(27,526)
Purchases, sales, issuances, and settlements		(1,283)
Ending balance May 31, 2009	$	91,988

(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 (in thousands):

		2009	2008
Income from interest and dividends	$	1,874	3,564

(5) Land, Buildings, and Equipment

Land, buildings, and equipment, net, as of May 31, 2009 and 2008 consist of the following (in thousands):

		2009	2008
Land and land improvements	$	13,699	12,258
Buildings		296,032	289,810
Equipment, furniture, fixtures, and other		27,360	25,746
Investment in Loyola/Notre Dame Library		12,106	11,404
Construction in progress		51,733	33,357
		400,930	372,575
Accumulated depreciation		(98,137)	(90,171)
Land, buildings, and equipment, net	$	302,793	282,404

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 the College of Notre Dame of Maryland (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 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 the 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 $3,423,000 and $3,201,000 in joint and use costs for the Library during the rs. The Univers$s

(6)

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

The Series 1999, 2006A, and 2006B outstanding bonds are subject to redemption prior to maturity, at the principal amount thereof plus accrued interest to the redemption date, from mandatory sinking fund installments of interest on October 1 annually.

The covenants of the Series 1996B, 1999, 2006A, 2006B, and 2007 Revenue 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, 2009 and 2008.

Capitalized interest, net of interest income, totaled $1,544,000 and $2,018,000 for the years ended May 31, 2009 and 2008, respectively.

(a) Interest Rate Swap Arrangement

The University has an interest rate swap agreement with a major financial institution to fix the interest rate on part of the Series 2008 Bonds. The agreement effectively fixed the interest rate on a portion of the bond issue at 3.25% through October 1, 2026. The initial notional amount outstanding under the swap agreement is $46,165,000 and amortizes through October 2026. The University receives a floating rate based on 67% of LIBOR and pays at 3.25%. Settlement occurs monthly, and payments made or received under the swap agreement are recognized as an increase or decrease in the related interest expense.

The fair value of the interest rate swap was a liability of $3,394,000 and $506,000 as of May 31, 2009 and 2008, respectively and is included in accounts payable and accrued liabilities on the

(9) Permanently Restricted Net Assets

Permanently restricted net assets as of May 31, 2009 and 2008 are restricted to investment in perpetuity, the income from which is expendable to support operations as follows (in thousands):

		2009	2008
Financial aid	$	28,760	31,862
Instruction and research		18,293	18,255
General operations		1,167	1,835
Total	$	48,220	51,952

(10) Endowment

The University's endowment consists of approximately 180 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

Endowment net assets consist of the following as of May 31, 2009 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(4,159)	10,456	39,806	46,103
Board-designated endowment funds		76,502	—	—	76,502
Total endowed net assets	$	72,343	10,456	39,806	122,605

Endowment net assets consist of the following as of May 31, 2008 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	23,354	1,458	39,337	64,149
Board-designated endowment funds		110,610	—	—	110,610
Total endowed net assets	$	133,964	1,458	39,337	174,759

Changes in endowment net assets for the year ended May 31, 2009 are as follows (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 1, 2008	$	133,964	1,458	39,337	174,759
Net asset reclassification based on law change and adoption of FSP FAS 117-1		(24,441)	24,441	—	—
Endowment net assets after reclassification		109,523	25,899	39,337	174,759
Investment return		(31,140)	(13,658)	—	(44,798)
Contributions collected		212	330	469	1,011
Appropriation for expenditure		(6,252)	(2,115)	—	(8,367)
Endowment net assets, May 31, 2009	$	72,343	10,456	39,806	122,605

(Continued)

Changes in endowment net assets for the year ended May 31, 2008 are as follows (in thousands):

	Temporarily	Permanently

(11) Retirement Benefit Plans

The University participates in retirement annuity plans sponsored by the Teacher’s Insurance and Annuity Association and the College Retirement Equity Fund, and Fidelity Investments. Retirement benefits are provided for faculty, administrators, and hourly employees, through direct payments to these plans. For eligible employees, in 2009 and 2008, the University contributed to the plan an amount equal to 11% of the employee’s base salary. Contributions under these plans are fully vested in the employee and retirement payments are limited to the amount of the annuities. The University’s contributions were approximately $5,649,000 and $5,317,000 in 2009 and 2008, respectively.

(12) Commitments

(a) Leases

The University leases classroom facilities and office space in Columbia, Maryland under a noncancelable operating lease agreement expiring in 2016. The University also leases clinical, classroom, and office facilities in Baltimore, Maryland under a noncancelable operating lease agreement expiring in 2013. The leases contain cost escalation clauses providing for increases in rentals due to increased tax or operating costs over defined base period amounts. Rent expense for the years ended May 31, 2009 and 2008 was approximately $2,111,000 a9(9 3was)]e87s.1373 nde

(13) Subsequent Event – Line of Credit