



"2007 FS and A-133"

LOYOLA COLLEGE IN MARYLAND

**Financial Statements and Supplementary
Information on Federal Awards Programs**

For the Year Ended May 31, 2007

(With Independent Auditors' Reports Thereon)

LOYOLA COLLEGE IN MARYLAND

Table of Contents

	Page
Financial Statements, Supplementary Information and Independent Auditors' Report Thereon	1
Balance Sheets	2
Statements of Activities	3
Statements of Cash Flows	5
Notes to Financial Statements	6
Schedule of Expenditures of Federal Awards	16
Notes to Schedule of Expenditures of Federal Awards	17
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19
Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	21
Schedule of Findings and Questioned Costs	23



KPMG LLP
111 South Calvert Street
Baltimore, MD 21202

Independent Auditors' Report

The Board of Trustees
Loyola College in Maryland:

We have audited the balance sheet of Loyola College in Maryland as of May 31, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the College as of and for the year ended May 31, 2006, were audited by other auditors whose report thereon dated September 22, 2006 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 College'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 audit provides 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 College in Maryland as of May 31, 2007, and the changes in its net assets and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 12, 2007, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our fiscal 2007 audit.

Our audit was performed for the purpose of forming an opinion on the 2007 basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended May 31, 2007 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 2007 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2007 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2007 basic financial statements taken as a whole.

KPMG LLP

October 12, 2007

LOYOLA COLLEGE IN MARYLAND

Balance Sheets

May 31, 2007 and 2006

(Dollars in thousands)

Assets	2007	2006
Cash and cash equivalents	\$ 45,544	39,393
Student tuition receivable, net	142	183
Contributions receivable, net	7,672	8,399
Prepaid expenses and other assets	4,115	5,793
Investments, at fair value	174,122	159,768
Deposits with bond trustees	39,819	58,941
Student loans receivable, net	2,043	1,867
Land, buildings and equipment, net	246,841	213,820
Interest in perpetual trust	12,259	10,783
Total assets	\$ 532,557	498,947
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 23,095	11,353
Deferred tuition and refundable advances	7,593	7,513
Bonds payable	149,231	150,085
Other liabilities	2,833	2,730
Government grants refundable	2,811	2,808
Total liabilities	185,563	174,489
Net assets:		
Unrestricted:		
Designated for equipment and facilities	145,891	137,643
Designated for endowment	131,860	119,992
Undesignated	8,067	8,036
Total unrestricted net assets	285,818	265,671
Temporarily restricted	10,132	10,992
Permanently restricted	51,044	47,795
Total net assets	346,994	324,458
Total liabilities and net assets	\$ 532,557	498,947

See accompanying notes to financial statements.

LOYOLA COLLEGE IN MARYLAND

Statement of Activities

Year ended May 31, 2007

(with comparative totals for 2006)

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>	
				<u>2007</u>	<u>2006</u>
Revenues:					
Tuition and fees, (net of tuition discounts of \$32,301 in 2007 and \$27,776 in 2006)	\$ 95,405	—	—	95,405	90,870
Contributions	6,233	2,716	1,773	10,722	9,461
Government grants and contracts	7,537	—	—	7,537	6,896
Investment income on endowment	3,228	—	—	3,228	4,412
Other investment income	4,495	—	—	4,495	1,529
Net realized and unrealized gains on investments	15,475	—	1,476	16,951	21,036
Sales and services of auxiliary enterprises	26,398	—	—	26,398	25,324
Other sources	5,130	—	—	5,130	4,249
Net assets released from restrictions	3,576	(3,576)	—	—	—
Total revenues	<u>167,477</u>	<u>(860)</u>	<u>3,249</u>	<u>169,866</u>	<u>163,777</u>
Expenses:					
Instruction	55,926	—	—	55,926	51,460
Research	955	—	—	955	754
Public service	1,711	—	—	1,711	1,485
Academic support	6,274	—	—	6,274	4,928
Institutional support	34,202	—	—	34,202	32,571
Student services	22,606	—	—	22,606	20,337
Fundraising	887	—	—	887	907
Library	3,046	—	—	3,046	2,942
Auxiliary enterprises	21,723	—	—	21,723	19,684
Total expenses	<u>147,330</u>	<u>—</u>	<u>—</u>	<u>147,330</u>	<u>135,068</u>
Change in net assets before extinguishment of debt	20,147	(860)	3,249	22,536	28,709
Extinguishment of debt	—	—	—	—	(3,161)
Change in net assets before cumulative effect of a change in accounting principle	20,147	(860)	3,249	22,536	25,548
Cumulative effect of a change in accounting principle	—	—	—	—	(1,807)
Change in net assets	20,147	(860)	3,249	22,536	23,741
Net assets at beginning of year	265,671	10,992	47,795	324,458	300,717
Net assets at end of year	<u>\$ 285,818</u>	<u>10,132</u>	<u>51,044</u>	<u>346,994</u>	<u>324,458</u>

See accompanying notes to financial statements.

LOYOLA COLLEGE IN MARYLAND

Statement of Activities

Year ended May 31, 2006

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues:				
Tuition and fees, (net of tuition discounts of \$27,776)	\$ 90,870	—	—	90,870
Contributions	3,887	3,616	1,958	9,461
Government grants and contracts	6,896	—	—	6,896
Investment income on endowment	4,412	—	—	4,412
Other investment income	1,529	—	—	1,529
Net realized and unrealized gains on investments	20,610	—	426	21,036
Sales and services of auxiliary enterprises	25,324	—	—	25,324
Other sources	4,249	—	—	4,249
Net assets released from restrictions	1,760	(1,760)	—	—
Total revenues	<u>159,537</u>	<u>1,856</u>	<u>2,384</u>	<u>163,777</u>
Expenses:				
Instruction	51,460	—	—	51,460
Research	754	—	—	754
Public service	1,485	—	—	1,485
Academic support	4,928	—	—	4,928
Institutional support	32,571	—	—	32,571
Student services	20,337	—	—	20,337
Fundraising	907	—	—	907
Library	2,942	—	—	2,942
Auxiliary enterprises	19,684	—	—	19,684
Total expenses	<u>135,068</u>	<u>—</u>	<u>—</u>	<u>135,068</u>
Change in net assets before extinguishment of debt	24,469	1,856	2,384	28,709
Extinguishment of debt	<u>(3,161)</u>	<u>—</u>	<u>—</u>	<u>(3,161)</u>
Change in net assets before cumulative effect of a change in accounting principle	21,308	1,856	2,384	25,548
Cumulative effect of a change of an accounting principle	<u>(1,807)</u>	<u>—</u>	<u>—</u>	<u>(1,807)</u>
Change in net assets	19,501	1,856	2,384	23,741
Net assets at beginning of year	246,170	9,136	45,411	300,717
Net assets at end of year	<u>\$ 265,671</u>	<u>10,992</u>	<u>47,795</u>	<u>324,458</u>

See accompanying notes to financial statements.

LOYOLA COLLEGE IN MARYLAND

Statements of Cash Flows

Years ended May 31, 2007 and 2006

(Dollars in thousands)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Increase in net assets	\$ 22,536	23,741
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Cumulative effect of a change in accounting principle	—	1,807
Extinguishment of debt	—	3,161
Depreciation and amortization	7,075	7,064
Contributions restricted for long-term investment	(1,773)	(1,958)
Net realized and unrealized gains on investments	(15,475)	(20,592)
Change in assets and liabilities:		
Student tuition receivable, net	41	(45)
Prepaid expenses and other assets	995	(487)
Contribution receivables, net	727	(1,262)
Interest in perpetual trust	(1,476)	(426)
Accounts payable and accrued liabilities	5,249	2,604
Deferred tuition and refundable advances	80	94
Government grants refundable and other liabilities	157	72
Net cash provided by operating activities	<u>18,136</u>	<u>13,773</u>
Cash flows from investing activities:		
Purchase of property and equipment	(33,494)	(8,214)
Sales of investments	28,191	37,638
Purchase of investments	(26,454)	(31,979)
Change in deposits with bond trustees	19,122	(58,940)
Issuance of student loans	(692)	(383)
Payments on student loans	517	520
Repayment of notes receivable	3	2
Net cash used in investing activities	<u>(12,807)</u>	<u>(61,356)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	1,773	1,958
Proceeds from notes payable and long-term debt	—	109,640
Payments for issuance costs	—	(1,256)
Payments on bonds and notes payable	(900)	(46,975)
Payments under annuities	(51)	(49)
Net cash provided by financing activities	<u>822</u>	<u>63,318</u>
Net increase in cash and cash equivalents	6,151	15,735
Cash and cash equivalents at beginning of year	<u>39,393</u>	<u>23,658</u>
Cash and cash equivalents at end of year	\$ <u>45,544</u>	\$ <u>39,393</u>
Supplemental cash flow information:		
Cash paid during the year for interest	\$ <u>6,765</u>	\$ <u>4,658</u>
Non-cash investing activities:		
Property and equipment additions included in accounts payable	\$ <u>6,497</u>	<u>—</u>

See accompanying notes to financial statements.

LOYOLA COLLEGE IN MARYLAND

Notes to Financial Statements

Year ended May 31, 2007 and 2006

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

(a) *Nature of Operations*

Loyola College in Maryland (the College or Loyola) is a private, nonprofit institution of higher education based in Baltimore, Maryland. The College provides education and training services to approximately 3,500 undergraduate and 2,600 graduate students. The students are from 34 states and 20 countries and 84% of undergraduate students live on campus during the academic year.

(b) *Summary of Significant Accounting Policies*

The financial statements of the College 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. Certain amounts for 2006 have been reclassified to conform to the presentation for 2007.

The net assets of the College 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. Unrestricted net assets generally result from revenues derived from providing services, receiving unrestricted contributions, unrealized and realized gains and losses, and dividends and interest received from investing in income-producing assets.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the College 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 College. Generally, the donors of these assets permit the College 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.

LOYOLA COLLEGE IN MARYLAND

Notes to Financial Statements

Year ended May 31, 2007 and 2006

(c) *Cash Equivalents*

The College considers temporary investments with an initial maturity of three months or less to be cash equivalents, except for those held by investment managers as part of their investment strategies. Cash equivalents are stated at cost, which approximates market value.

(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. 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 fair values, which are generally determined based on quoted market prices. The fair values of certain alternative equity and fixed income investments held through limited partnerships and hedge funds are estimated based upon information provided by the fund managers or the general partners. These estimated fair values, which are evaluated for reasonableness by the College, may differ from the values that would have been used had a ready market existed and the differences could be significant.

Investment income on endowment is reported net of management fees of \$577,000 in 2007 and \$542,000 in 2006. Other investment income represents interest and dividends from working capital accounts.

(f) *Deposits with Bond Trustees*

Deposits with bond trustees consist of debt service funds and the unexpended proceeds of certain debt. These funds are invested primarily in short-term, highly liquid securities and will be used for construction costs or payment of debt service.

(g) *Interest in Perpetual Trust*

Interest in perpetual trust represents resources neither in the possession nor under the control of the College, but held and administered by an outside fiscal agent, with the College deriving income from such funds. The fair value of the College's share of the assets is reflected in the balance sheet, and is generally based on quoted market values.

(h) *Land, Buildings and Equipment*

Land, buildings and equipment are stated at cost, if purchased or at estimated fair value at date of gift, if donated. Generally, the costs of maintenance and repairs are charged to expense when incurred, while major acquisitions, additions, renewals, and betterments are capitalized. Depreciation

LOYOLA COLLEGE IN MARYLAND

Notes to Financial Statements

Year ended May 31, 2007 and 2006

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:

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

(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 College 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 College.

(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

As an educational institution meeting the requirements of Section 501(c)(3) of the Internal Revenue Code, the College is exempt from taxes on income, as provided in Section 501(a), 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 2007 or 2006.

(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.

(m) Concentration of Credit Risk

Financial instruments, which potentially subject the College to concentrations of credit risk consist primarily of cash, cash equivalents, and investments. The College maintains cash and cash equivalents and short and long-term investments with high quality institutions and has established guidelines relative to diversification and maturities that maintain safety and liquidity. As of May 31, 2007 and 2006, a majority of the balances were in excess of the Federal Deposit Insurance Corporation insurance limit. The College has not incurred any losses due to the credit risk on these instruments.

LOYOLA COLLEGE IN MARYLAND

Notes to Financial Statements

Year ended May 31, 2007 and 2006

(n) Fair Values of Financial Instruments

Fair values of financial instruments, including debt (as interest rates are commensurate with prevailing market rates) approximate their carrying values in the financial statements.

(o) Conditional Asset Retirement Obligations

The College accounts for condition asset retirement obligations in accordance with FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). FIN 47 was adopted in fiscal 2006, and as a result the College recognized \$1,807,000 as the cumulative effect of a change in accounting principle in the 2006 statement of activities. The asset retirement obligation as of May 31, 2007 and 2006 was \$2,430,000 and \$2,315,000, and is included in other liabilities on the balance sheets.

(p) Derivative Financial Instruments (Interest Rate Swaps)

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

(2) Contributions Receivable

Contributions receivable, net, are summarized as follows as of May 31, 2007 and 2006 (in thousands):

	<u>2007</u>	<u>2006</u>
Within one year	\$ 2,729	3,425
One to five years	5,275	6,182
More than five years	<u>1,805</u>	<u>371</u>
Subtotal	9,809	9,978
Discount (interest rates ranging from 5.6% to 5.8%)	(1,389)	(1,137)
Allowance for doubtful accounts	<u>(748)</u>	<u>(442)</u>
	<u>\$ 7,672</u>	<u>8,399</u>

As of May 31, 2007, the College had also been informed of bequest intentions and certain other conditional promises to give of \$5,436,000. These conditional promises to give are not recognized as assets and, if they are received, will generally be restricted for specific purposes stipulated by the donors.

LOYOLA COLLEGE IN MARYLAND

Notes to Financial Statements

Year ended May 31, 2007 and 2006

(3) Investments

Investments are summarized as follows as of May 31, 2007 and 2006 (in thousands):

	2007		2006	
	Fair Value	Cost	Fair Value	Cost
Short-term investments	\$ 5,420	5,061	5,024	5,024
Fixed income securities	10,834	10,717	10,230	9,108
Bonds and notes	6,392	6,408	4,434	4,515
Common stocks and equity funds	72,342	51,050	59,798	46,636
Hedge funds	64,057	43,831	55,817	43,750
Alternative equity and fixed income investments	14,161	23,700	23,863	25,392
Other	916	916	602	602
	<u>\$ 174,122</u>	<u>141,683</u>	<u>159,768</u>	<u>135,027</u>

Investments are professionally managed by outside investment organizations subject to direction and oversight by a committee of the Board of Trustees. The Board 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.

In fiscal 2007, the College changed its accounting for collateralized debt obligations from a cost basis to fair value basis, to conform its investment valuation policies. As a result, the College recognized an unrealized loss of \$8,000,000 in fiscal 2007, which is included in the statement of activities. The College determined the adjustment was not significant to the financial statements taken as a whole.

LOYOLA COLLEGE IN MARYLAND

Notes to Financial Statements

Year ended May 31, 2007 and 2006

(4) Land, Buildings and Equipment

Land, buildings and equipment, net, as of May 31, 2007 and 2006 consist of the following (in thousands):

	2007	2006
Land and land improvements	\$ 12,159	11,974
Buildings	247,565	245,581
Equipment, furniture, fixtures and other	24,075	23,384
Investment in Loyola/Notre Dame Library	6,000	600
Construction in progress	39,995	10,221
	329,794	291,760
Accumulated depreciation	(82,953)	(77,940)
Land, buildings and equipment, net	\$ 246,841	213,820

The Loyola/Notre Dame Library, Inc. (the Library), a separate legal corporation, was formed in February 1968 for the mutual benefit of the College 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 College, three from Notre Dame, and six other members. The College 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 school's proportionate share of adjusted semester hours. The College incurred approximately \$3,046,000 and \$2,942,000 in joint and use costs for the Library during the years ended May 31, 2007 and 2006, respectively.

The College has been awarded a State grant of \$3,000,000 for the renovation of the Library. The grant is subject to matching conditions and will be recognized when those conditions are met in future periods.

LOYOLA COLLEGE IN MARYLAND

Notes to Financial Statements

Year ended May 31, 2007 and 2006

(5) Bonds Payable and Other Debt Matters

Bonds payable as of May 31, 2007 and 2006 consist of the following (in thousands):

	<u>2007</u>	<u>2006</u>
Maryland Health and Higher Education Facility Authority: Revenue Bonds (MHHEFA):		
Series 1996 B Variable Rate Demand Bonds, payable through October 2013	\$ 7,900	8,800
Series 1999:		
5.25% term bonds due October 2029	5,915	5,915
5.00% term bonds due October 2039	<u>27,440</u>	<u>27,440</u>
	33,355	33,355
Series 2006A:		
4.750% term bond due October 2033	10,400	10,400
5.000% term bond due October 2040	18,050	18,050
5.125% term bond due October 2045	<u>34,545</u>	<u>34,545</u>
	62,995	62,995
Series 2006 B bonds due October 2026	<u>46,150</u>	<u>46,150</u>
	150,400	151,300
Less discounts and premium, net	<u>(1,169)</u>	<u>(1,215)</u>
	\$ <u><u>149,231</u></u>	<u><u>150,085</u></u>

Effective November 1, 1996, the College entered into a loan agreement with MHHEFA to borrow \$14,900,000 from the proceeds of MHHEFA's Series 1996 B Revenue Bonds, with an original issue discount of \$37,000. The Series 1996 B Bonds require monthly interest payments at variable rates determined by the remarketing agent, as set forth in the agreement. The College 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 1996 B Bonds are subject to mandatory tender prior to any change in interest rate method, or at the option of the College. In addition, the College is required to make sinking fund payments on October 1 of each year.

Effective June 23, 1999, the College entered into a loan agreement with MHHEFA to borrow \$33,355,000 from the proceeds of MHHEFA's Series 1999 Revenue Bonds, with an original issue discount of \$2,053,000.

Effective January 4, 2006, the College entered into a loan agreement with MHHEFA to borrow \$62,995,000 from the proceeds of MHHEFA's Series 2006 A Revenue Bonds, with an original issue premium of \$655,728.

LOYOLA COLLEGE IN MARYLAND

Notes to Financial Statements

Year ended May 31, 2007 and 2006

Effective February 2, 2006, the College entered into a loan agreement with MHHEFA to borrow \$46,150,000 from the proceeds of MHHEFA's Series 2006 B Revenue Bonds, with an original issue discount of \$161,525.

In addition, 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 on October 1 annually.

The covenants of the Series 2006 A, 2006B, 1999, and 1996 B Bonds restrict the sale of assets and include other requirements as defined in the agreement. The College was in compliance with its covenants as of May 31, 2007.

Capitalized interest, net of interest income, totaled \$897,000 and \$426,000 for the years ended May 31, 2007 and 2006, respectively. Aggregate annual principal payments on the bonds over the next five fiscal years and thereafter are as follows (in thousands):

Year ending May 31:		
2008	\$	854
2009		954
2010		2,204
2011		2,304
2012		2,379
2013 and thereafter		141,705
Total	\$	<u>150,400</u>

Extinguishment of Debt

MHHEFA Series 1996A bonds were legally defeased on February 2, 2006. The College recognized a loss on the extinguishment of debt of \$3,161,000 in 2006.

Interest Rate Swap Arrangement

During 2006, the College entered into an interest rate swap agreement with a major financial institution to fix the interest rate on part of Series 2006 Bond Issue. 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 College 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 is the estimated amount the College would receive or pay to terminate the swap agreement as of May 31, taking into account current interest rates and the current credit worthiness of the swap counterparties. The fair value of the interest rate swap was an asset of \$1,474,000 and \$2,093,000 as of May 31, 2007 and 2006, respectively, and is included in prepaid expense and other assets on the balance sheets. The change in the fair value of the interest rate swap was \$619,000 (loss) in 2007 and \$2,093,000 (gain) in 2006.

LOYOLA COLLEGE IN MARYLAND

Notes to Financial Statements

Year ended May 31, 2007 and 2006

(6) Interest in Perpetual Trust

In June 1996, the College received a split interest agreement in the Marion I. & Henry J. Knott Scholarship Fund, Inc., an irrevocable perpetual trust held by Mercantile Safe Deposit and Trust Company. Under the terms of the agreement, as amended, the College currently receives 21% of interest income earned on the fund into perpetuity. The College is to use the interest income distributed from the fund for scholarships for students in undergraduate studies. The fair value of the College's share of the assets is reflected in the balance sheets.

The College received distributions from the scholarship fund of approximately \$260,000 in 2007 and 2006. The College recognized unrealized gains on interest in perpetual trust held by others of \$1,476,000 and \$426,000 in 2007 and 2006, respectively.

(7) Temporarily Restricted Net Assets

Temporarily restricted net assets as of May 31, 2007 and 2006 are available for the following purposes (in thousands):

	<u>2007</u>	<u>2006</u>
General operations	\$ 678	606
Buildings and equipment	3,066	3,214
Other, passage of time	6,388	7,172
Total	<u>\$ 10,132</u>	<u>10,992</u>

(8) Permanently Restricted Net Assets

Permanently restricted net assets as of May 31, 2007 and 2006 are restricted to investment in perpetuity, the income from which is expendable to support operations (in thousands):

	<u>2007</u>	<u>2006</u>
Financial aid	\$ 32,474	30,269
Instruction and research	17,236	16,463
General operations	1,334	1,063
Total	<u>\$ 51,044</u>	<u>47,795</u>

LOYOLA COLLEGE IN MARYLAND

Notes to Financial Statements

Year ended May 31, 2007 and 2006

(9) Retirement Benefit Plans

The College 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 2007 and 2006 the College 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 College's contributions were approximately \$5,050,000 and \$4,587,000 in 2007 and 2006, respectively.

(10) Commitments

Leases

The College leases classroom facilities and office space in Columbia, Maryland under a noncancelable operating lease agreement expiring in 2016. The College 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, 2007 and 2006 was approximately \$1,862,000 and \$1,519,000, respectively.

The aggregate annual minimum guaranteed rents to be paid to the expiration of the initial terms of these leases are as follows as of May 31, 2007 (in thousands):

Year ending May 31:		
2008	\$	1,764
2009		1,814
2010		1,867
2011		1,920
2012		1,975
Thereafter		7,634
Total	\$	<u>16,974</u>

Investments

As of May 31, 2007, commitments to fund investments in hedge funds or other limited partnerships aggregated \$2,409,000.

Other

The College is subject to various claims, litigation, and other assessments in connection with its operations. Management of the College does not expect the ultimate resolution of these actions to have a material adverse effect on the College's financial position.

LOYOLA COLLEGE IN MARYLAND
Schedule of Expenditures of Federal Awards
Year ended May 31, 2007

	Federal CFDA number	Pass-through agency	Federal award expenditures
Student Financial Assistance Cluster:			
U.S. Department of Education:			
Federal Pell Grants	84.063		\$ 765,300
Federal Work-Study	84.033		496,634
Federal Supplemental Educational Opportunity Grants	84.007		304,115
Academic Competitiveness Grant	84.375		109,625
National Science and Math	84.376		44,000
Total Student Financial Assistance			<u>1,719,674</u>
Research and Development Cluster:			
National Science Foundation:			
Direct awards:			
RUI: Amorphous Program Slicing	47.070		59,149
Women and Minorities in Computer Science	47.070		4,917
Forms in Many Variables over Local Fields	47.049		3,702
Synthesis and Optical Spectroscopy of Thilium Sensitized Potassium Lead Chloride	47.041		17,343
Loyola College in Maryland Computer Science, Engineering and Mathematics	47.076		78,687
Subtotal direct awards			<u>163,798</u>
Pass-through awards:			
Engineering Inquiry-Based Learning Modules for Tech Education	47.076	University of Maryland, Baltimore County University of California-Davis	63,479
Global Prices and Income	47.075		15,727
Subtotal pass-through awards			<u>79,206</u>
Total National Science Foundation			<u>243,004</u>
Department of State:			
Deaf Workforce Education for Ukraine	19.000		27,761
Department of Health and Human Services:			
Apply Novel Statistical Models to Analyze Longitudinal BLSA Data	93.866		76,748
Total Research and Development Cluster			<u>347,513</u>
Other Programs:			
Department of Education:			
Masters Degree Program in Speech-Language Pathology	84.027	Maryland State Department of Education	194,143
Office of Special Ed and Rehab Services-Special Ed State Personnel Development	84.323	Maryland State Department of Education	21,440
BCBSC-BCPSS-Math and Science Partnership Title II Part B	84.366	Maryland State Department of Education	157,838
Total Department of Education			<u>373,421</u>
Department of Defense:			
ROTC Scholarship Program	12.000		585,225
Veterans Administration	12.000		63,565
National Service Trust	12.000		26,700
Robert Byrd Scholarship	12.000		17,250
Total Department of Defense			<u>692,740</u>
Department of Health and Human Services:			
Pass-through awards:			
Child Care Training and Tech Assistance/Project Promise	93.575	Maryland State Department of Education	157,885
National Institute of Science and Technology:			
FY2006 Summer Undergraduate Research Fellowship			
Program MEL & ITL	11.609		10,240
IPA Agreement-NIST	11.612		23,163
Total National Institute of Science and Technology			<u>33,403</u>
Total Federal Award Expenditures			<u>\$ 3,324,636</u>

See notes to schedule of expenditures of federal awards.

LOYOLA COLLEGE IN MARYLAND

Notes to Schedule of Expenditures of Federal Awards

Year ended May 31, 2007

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) summarizes the expenditures of Loyola College in Maryland (the College) under programs of the federal government for the year ended May 31, 2007.

For purposes of the Schedule, federal awards include all grants, contracts, and similar agreements entered into directly between the College and agencies and departments of the federal government and all subawards made to the College by nonfederal organizations pursuant to federal grants, contracts, and similar agreements. The awards are classified into program categories in accordance with the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

Expenditures for federal student financial aid programs are recognized as incurred and include Federal Pell program grants to students, loan disbursements under the Federal Perkins, Federal Stafford (Stafford) Loan and Parent Loans for Undergraduate Students (PLUS) loan programs, the federal share of students' Federal Supplemental Educational Opportunity Grant program grants, and Federal Work-Study program earnings, and administrative cost allowances, where applicable. Loans made under the Federal Stafford and PLUS loan programs are disbursed by banks, which are independent of the College.

(2) Indirect Costs

The College operates under predetermined fixed indirect cost rates. The indirect cost rate effective at the grant award date is effective throughout the grant period. The predetermined fixed indirect cost rate for grants awarded in fiscal 2007 is 50.7%.

(3) Federal Student Loan Program

The Federal Perkins Loan Program (Perkins) is administered directly by the College and balances and transactions relating to the program are included in the College's financial statements. The balance of loans outstanding as of May 31, 2007 and funds advanced by the College to eligible students during the year ended May 31, 2007 under the program are summarized as follows:

Federal Perkins Loans receivable as of May 31, 2006	\$ 2,028,697
Additional funds advanced to students (not included in the Schedule)	692,125
Collections	(508,421)
Cancelations	(8,954)
Federal Perkins Loans receivable as of May 31, 2007	<u>\$ 2,203,447</u>

(4) Federal Family Education Loan Program

During the year ended May 31, 2007, the College processed \$30,035,293 of new loans under the Federal Family Education Loan Program (CFDA #84.032, which includes Federal Stafford Student Loans and Federal Parents' Loans for Undergraduate Students (PLUS)). These loans are not included in the accompanying schedule of expenditures of federal awards.

LOYOLA COLLEGE IN MARYLAND

Notes to Schedule of Expenditures of Federal Awards

Year ended May 31, 2007

The College is responsible only for the performance of certain administrative duties with respect to the Federal Family Education Loan program and, accordingly, these loans are not included in its basic financial statements and it is not practical to determine the balance of loans outstanding to students and former students of the College under this program as of May 31, 2007.

For the year ended May 31, 2007, administrative expenses incurred by the College were \$34,606 and are not included in the Schedule.



KPMG LLP
111 South Calvert Street
Baltimore, MD 21202

**Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

The Board of Trustees
Loyola College in Maryland:

We have audited the financial statements of Loyola College in Maryland as of and for the year ended May 31, 2007, and have issued our report thereon dated October 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express such an opinion.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2007-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the College in a separate letter dated October 12, 2007.

The College's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the College's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees and management of the College, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 12, 2007



KPMG LLP
111 South Calvert Street
Baltimore, MD 21202

**Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control over Compliance in Accordance with
OMB Circular A-133**

The Board of Trustees
Loyola College in Maryland:

Compliance

We have audited the compliance of Loyola College in Maryland (the College) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended May 31, 2007, except the requirements discussed in the second paragraph of this report. The College's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We did not audit the College's compliance with requirements governing contact with borrowers and billing and collection procedures in accordance with the requirements of the Student Financial Assistance Cluster: Federal Perkins Loan Program as described in the Compliance Supplement. Those requirements govern functions performed by Affiliated Computer Services, Inc., Education Services (ACS). Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. ACS's compliance with the requirements governing functions that it performs for the College for the year ended June 30, 2007 was examined by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' examination of ACS's compliance with such requirements.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the College's compliance with those requirements.

In our opinion, the College complied, in all material respects, with the requirements referred to in the first paragraph above that are applicable to its major federal program for the year ended May 31, 2007.



Internal Control over Compliance

The management of the College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express such an opinion.

Requirements governing maintaining contact with borrowers and billing and collection procedures in the Student Financial Assistance Cluster: Federal Perkins Loan Program as described in the Compliance Supplement are performed by ACS. Internal control over compliance relating to such functions for the year ended June 30, 2007 was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' testing of ACS's internal control over compliance related to such functions.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the College's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Trustees and management of the College, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 26, 2008

LOYOLA COLLEGE IN MARYLAND

Schedule of Findings and Questioned Costs

Year ended May 31, 2007

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

• Material weaknesses identified? No

• Significant deficiencies identified? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

• Material weaknesses identified? No

• Significant deficiencies identified? No

Type of auditors' report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes

Identification of major programs: Student Financial Assistance cluster

CFDA Numbers:

Federal Perkins Loan Program 84.003

Federal Supplemental Educational Opportunity Grants 84.007

Federal Family Education Loan Program 84.032

Federal Work Study Program 84.033

Federal Pell Grants 84.063

Academic Competitiveness Grants 84.375

National Science and Math Grants 84.376

Dollar threshold used to distinguish between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee? Yes

LOYOLA COLLEGE IN MARYLAND

Schedule of Findings and Questioned Costs

Year ended May 31, 2007

Section II – Findings and Questioned Costs Related to Financial Statements

Finding 2007-01

Area

Internal Control over Financial Reporting

Criteria

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.

Condition

During our audit of the financial statements, we identified a deficiency over the review and approval of accounting policies for financial reporting, principally as it related to certain non-marketable investments. We noted that the College's investment in certain collateralized debt obligations was carried on a cost basis; while all of its other investments were carried at fair value. This treatment is inconsistent with Financial Accounting Standards Board Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*.

Cause

The College did not review its accounting policies periodically to ensure consistency with generally accepted accounting principles.

Questioned costs

There are no questioned costs related to this finding.

Recommendations

We recommend that management strengthen the College's processes and controls to help ensure that the selection and application of accounting principles are in conformity with generally accepted accounting principles.

Views of Responsible Officials

The College's management will strengthen the procedures and controls over its accounting policies with periodic reviews to help ensure they remain consistent with generally accepted accounting principles.

LOYOLA COLLEGE IN MARYLAND
Schedule of Findings and Questioned Costs
Year ended May 31, 2007

Section III – Federal Award Findings and Questioned Costs

There are no findings to report.