KPMG

LOYOLA COLLEGE IN MARYLAND

Financial Statements and Supplementary
Information on Federal Awards Programs

For the Year Ended May 31, 2008

(With Independent Auditors' Reports Thereon)

LOYOLA COLLEGE IN MARYLAND

Table of Contents

	Page
Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	5
Notes to Financial Statements	6
Schedule of Expenditures of Federal Awards	17
Notes to Schedule of Expenditures of Federal Awards	18
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*	20
Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	22
Schedule of Findings and Questioned Costs	24

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

Independent Auditors' Report

The Board of Trustees
Loyola College in Maryland:

We have audited the accompanying statements of financial position of Loyola College in Maryland as of May 31, 2008 and 2007, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits 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 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 College in Maryland as of May 31, 2008 and 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 2, 2008, 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 audits.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended May 31, 2008 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2008 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2008 basic financial statements taken as a whole.

KPMG LLP

October 2, 2008, except for
note 11, which is as of
October 20, 2008

(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 higher education institution located in Baltimore, Maryland. The College provides education and training services to approximately 3,600 undergraduate and 2,500 graduate students. The students are from 36 states and 32 countries and 82% of undergraduate students live on campus during the academic year.

(b) Basis of Presentation

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 2007 have been reclassified to conform to the presentation for 2008.

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.

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

Statements of Financial Position

May 31, 2008 and 2007

(Dollars in thousands)

Assets		**2008**	**2007**
Cash	$	2,124	611
Short-term investment		47,878	44,933
Student tuition receivables, net		706	142
Contributions receivable, net		7,146	7,672
Prepaid expenses and other assets		2,662	4,115
Investments, at fair value		178,297	174,122
Deposits with bond trustees		11,857	39,819
Student loans receivable, net		2,056	2,043
Land, buildings and equipment, net		282,404	246,841
Interest in perpetual trust		11,337	12,259
Total assets	$	546,467	532,557
Liabilities and Net Assets			
Accounts payable and accrued liabilities	$	16,616	23,095
Deferred tuition and refundable advances		7,207	7,593
Bonds payable		159,348	149,231
Other liabilities		3,481	2,833
Government grants refundable		2,827	2,811
Total liabilities		189,479	185,563
Net assets:			
Unrestricted:			
Net investment in equipment and facilities		153,606	145,891
Designated for endowment		133,725	131,860
Undesignated		7,644	8,067
Total unrestricted net assets		294,975	285,818
Temporarily restricted		10,061	10,132
Permanently restricted		51,952	51,044
Total net assets		356,988	346,994
Total liabilities and net assets	$	546,467	532,557

See accompanying notes to financial statements.

LOYOLA COLLEGE IN MARYLAND

Statement of Activities

Year ended May 31, 2008

(with comparative totals for 2007)

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Totals 2008	Totals 2007
Revenues:					
Tuition and fees, (net of tuition discounts of $35,604 in 2008 and $32,301 in 2007)	$ 103,608	—	—	103,608	95,405
Contributions	4,388	2,362	1,831	8,581	10,722
Government grants and contracts	10,622	—	—	10,622	7,537
Investment income	2,919	—	—	2,919	6,825
Net realized and unrealized gains (losses) on investments	5,020	—	(923)	4,097	16,951
Sales and services of auxiliary enterprises	28,731	—	—	28,731	26,398
Other sources	4,834	—	—	4,834	5,130
Net assets released from restrictions	2,433	(2,433)	—	—	—
Total revenues	162,555	(71)	908	163,392	168,968
Expenses:					
Instruction	57,788	—	—	57,788	55,796
Research	945	—	—	945	955
Public service	2,009	—	—	2,009	1,711
Academic support	7,182	—	—	7,182	6,231
Institutional support	36,039	—	—	36,039	34,199
Student services	23,764	—	—	23,764	22,147
Fundraising	923	—	—	923	887
Library	3,201	—	—	3,201	3,046
Auxiliary enterprises	21,547	—	—	21,547	21,460
Total expenses	153,398	—	—	153,398	146,432
Change in net assets	9,157	(71)	908	9,994	22,536
Net assets at beginning of year	285,818	10,132	51,044	346,994	324,458
Net assets at end of year	$ 294,975	10,061	51,952	356,988	346,994

See accompanying notes to financial statements.

LOYOLA COLLEGE IN MARYLAND

Statement of Activities

Year ended May 31, 2007

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:				
Tuition and fees, (net of tuition discounts of $32,301 in 2007)	$ 95,405	—	—	95,405
Contributions	6,233	2,716	1,773	10,722
Government grants and contracts	7,537	—	—	7,537
Investment income	6,825	—	—	6,825
Net realized and unrealized gains on investments	15,475	—	1,476	16,951
Sales and services of auxiliary enterprises	26,398	—	—	26,398
Other sources	5,130	—	—	5,130
Net assets released from restrictions	3,576	(3,576)	—	—
Total revenues	166,579	(860)	3,249	168,968
Expenses:				
Instruction	55,796	—	—	55,796
Research	955	—	—	955
Public service	1,711	—	—	1,711
Academic support	6,231	—	—	6,231
Institutional support	34,199	—	—	34,199
Student services	22,147	—	—	22,147
Fundraising	887	—	—	887
Library	3,046	—	—	3,046
Auxiliary enterprises	21,460	—	—	21,460
Total expenses	146,432	—	—	146,432
Change in net assets	20,147	(860)	3,249	22,536
Net assets at beginning of year	265,671	10,992	47,795	324,458
Net assets at end of year	$ 285,818	10,132	51,044	346,994

See accompanying notes to financial statements.

LOYOLA COLLEGE IN MARYLAND

Statements of Cash Flows

Years ended May 31, 2008 and 2007

(Dollars in thousands)

		2008	2007
Cash flows from operating activities:			
Change in net assets	$	9,994	22,536
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		7,501	7,075
Contributions and grants restricted for long-term investment		(4,581)	(1,773)
Net realized and unrealized gains on investments		(7,019)	(16,094)
Change in fair value of interest rate swap		1,980	619
Change in assets and liabilities:			
Student tuition receivables, net		(564)	41
Prepaid expenses and other assets		(424)	995
Contribution receivables, net		526	727
Interest in perpetual trust		923	(1,476)
Accounts payable and accrued liabilities		(3,002)	5,249
Deferred tuition and refundable advances		(386)	80
Government grants refundable and other liabilities		216	157
Net cash provided by operating activities		5,164	18,136
Cash flows from investing activities:			
Purchase of property and equipment		(46,514)	(33,494)
Proceeds from sale of property and equipment		20	—
Sales of investments		63,663	28,191
Purchase of investments		(60,819)	(26,454)
Purchases and sales of short-term investment, net		(2,945)	(11,424)
Change in deposits with bond trustees		27,962	19,122
Issuance of student loans		(343)	(692)
Payments on student loans		329	517
Repayment of notes receivable		—	3
Net cash used in investing activities		(18,647)	(24,231)
Cash flows from financing activities:			
Proceeds from contributions and grants restricted for long-term investment		4,581	1,773
Proceeds from notes payable and long-term debt		10,970	—
Payments for issuance costs		(103)	—
Payments on bonds and notes payable		(900)	(900)
Cash received from issuance of annuities		507	—
Payments under annuities		(59)	(51)
Net cash provided by financing activities		14,996	822
Net increase (decrease) in cash		1,513	(5,273)
Cash at beginning of year		611	5,884
Cash at end of year	$	2,124	611
Supplemental cash flow information:			
Cash paid during the year for interest	$	7,032	7,681
Non-cash investing activites:			
Property and equipment additions included in accounts payable	$	3,020	6,497

See accompanying notes to financial statements.

(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, highly liquid investments. The STF is expected to generate a return approximating the three-month U.S. Treasury bill rate. The College utilizes the STF to fund daily cash needs. The College reclassified its May 31, 2007 balance from cash and cash equivalents to conform with its presentation for 2008.

(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 risk-free 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 is reported net of management fees of $664,000 in 2008 and $577,000 in 2007.

(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 sheets, 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 of buildings and equipment is computed using the straight-line method over the estimated useful lives of the related assets.

(Continued)

The following estimated useful lives are used in calculating depreciation:

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

(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

The College is qualified as a not for profit organization under Section 501(c)(3) of the Internal Revenue Code, as amended. Accordingly, the College 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 2008 or 2007.

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement 109* (FIN 48). FIN 48 addresses the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a threshold of more-likely-than-not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. FIN 48 also provides guidance on measurement, classification, interest and penalties, and financial statement disclosures. FIN 48 was effective for the College on July 1, 2007, and had no significant impact on the College's financial statements.

(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, 2008 and 2007, a majority of the balances were in excess of the Federal Deposit Insurance Corporation insurance limit.

(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) 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 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.

(p) Recently Issued Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. This statement does not require any new fair value measures. SFAS No. 157 will be effective for the College in fiscal year 2009. The College is currently evaluating the impact of SFAS No. 157 on its financial statements.

In August 2008, the FASB issued FASB Staff Position No.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 Uniform Prudent Management Institutional Funds Act of 2006 (UPMIFA). The State of Maryland has not enacted a version of UPMIFA. The FSP also requires additional disclosures about endowments (both donor-restricted funds and board-designated funds) for all organizations, including those that are not yet subject to an enacted version of UPMIFA. The endowment disclosure provisions of FSP No. 117-1 are effective for the College for fiscal 2009.

(2) Contributions Receivable

Contributions receivable, net, are summarized as follows as of May 31, 2008 and 2007 (in thousands):

		2008	2007
Within one year	$	2,871	2,729
One to five years		4,061	5,275
More than five years		1,659	1,805
Subtotal		8,591	9,809
Discount (interest rates ranging from 3.2% to 5.6%)		(697)	(1,389)
Allowance for doubtful accounts		(748)	(748)
	$	7,146	7,672

As of May 31, 2008, the College had also been informed of bequest intentions and conditional promises to give aggregating $15,801,000, 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) Investments

Investments are summarized as follows as of May 31, 2008 and 2007 (in thousands):

		2008	2007
Cash and money funds	$	4,907	5,420
Fixed income securities		—	10,834
Bonds and notes		8,242	6,392
Common stocks and equity funds		75,127	74,409
Hedge funds		81,582	61,990
Alternative equity and fixed income investments		7,829	14,161
Other		610	916
	$	178,297	174,122

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.

In fiscal 2007, the College recognized an unrealized loss of $8,000,000 as a result of conforming its investment valuation policies for its collateralized debt obligations from cost to fair market value.

As of May 31, 2008 and 2007, assets of the endowment funds, including cash and cash equivalents and investments, were $174,758,000 and $170,426,000, respectively.

(4) Land, Buildings and Equipment

Land, buildings and equipment, net, as of May 31, 2008 and 2007 consist of the following (in thousands):

		2008	2007
Land and land improvements	$	12,258	12,159
Buildings		289,810	247,565
Equipment, furniture, fixtures and other		25,746	24,075
Investment in Loyola/Notre Dame Library		11,404	6,000
Construction in progress		33,357	39,995
		372,575	329,794
Accumulated depreciation		(90,171)	(82,953)
Land, buildings and equipment, net	$	282,404	246,841

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 institution's proportionate share of adjusted semester hours. The College incurred approximately $3,201,000 and $3,046,000 in joint and use costs for the Library during the years ended May 31, 2008 and 2007, respectively.

In fiscal 2008, the College recognized a state grant of approximately $2,750,000 for the renovation of the Library.

(5) Bonds Payable and Other Debt Matters

Bonds payable as of May 31, 2008 and 2007 consist of the following (in thousands):

Maryland Health and Higher Education Facility Authority: Revenue Bonds (MHHEFA):		2008	2007
Series 1996B Variable Rate Demand Bonds, payable through October 2013	$	7,000	7,900
Series 1999:			
5.25% term bonds due October 2029, principal beginning October, 2027		5,915	5,915
5.00% term bonds due October 2039, principal beginning October, 2030		27,440	27,440
		33,355	33,355
Series 2006A:			
4.750% term bond due October 2033, principal beginning October, 2027		10,400	10,400
5.000% term bond due October 2040, principal beginning October, 2034		18,050	18,050
5.125% term bond due October 2045, principal beginning October, 2041		34,545	34,545
		62,995	62,995
Series 2006B bonds, variable rate, due October 2026 (3.64% and 3.70% as of May 31, 2008 and 2007, respectively)		46,150	46,150
Series 2007 bonds, variable rate, due December 2023 (1.67% as of May 31, 2008), principal beginning December 1, 2007		11,000	—
		160,500	150,400
Less discounts and premium, net		(1,152)	(1,169)
	$	159,348	149,231

The College has the following outstanding borrowings under loan agreements with MHHEFA:

- Series 1996B Revenue Bonds, $14,900,000, with an original discount of $37,000, interest payable monthly.
- Series 1999 Revenue Bonds, $33,355,000, with an original issue discount of $2,053,000, interest payable annually.
- Series 2006A Revenue Bonds, $62,995,000, with an original issue premium of $655,728, interest payable semi-annually.

- Series 2006B Revenue Bonds, $46,150,000, with an original issue discount of $161,525, interest payable semi-annually.
- Series 2007 Revenue Bonds, $11,000,000, with an original discount of $30,250, interest payable monthly.

The Series 1996B 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 1996B 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.

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 College was in compliance with its covenants as of May 31, 2008.

Capitalized interest, net of interest income, totaled $2,018,000 and $897,000 for the years ended May 31, 2008 and 2007, respectively.

Interest Rate Swap Arrangement

The College has an interest rate swap agreement with a major financial institution to fix the interest rate on part of Series 2006 Revenue 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 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 a liability of $506,000 and an asset of $1,474,000 as of May 31, 2008 and 2007, respectively. The change in the fair value of the interest rate swap was a loss of $1,980,000 in 2008 and a loss of $619,000 in 2007 and is included in net realized and unrealized gains (losses) on investments in the statement of activities.

Subsequent Financing

On September 17, 2008, MHHEFA issued tax-exempt bond of $46,370,000 (Series 2008 Revenue Bonds) on behalf of the College. Approximately $46,150,000 of these proceeds were used to retire the Series 2006B Revenue Bonds outstanding as of May 31, 2008. The remaining proceeds will be used for debt issuance costs. The Series 2008 Revenue Bonds bear interest at variable rates determined by the remarketing agent, are due in installments through October 2026.

Principal Repayment Schedule

Aggregate annual principal payments on the bonds, adjusted for subsequent financing described above, over the next five fiscal years and thereafter are as follows (in thousands):

2009	$	2,265
2010		2,810
2011		3,005
2012		2,805
2013		3,005
2014 and thereafter		146,830
	$	160,720

(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 $273,000 and $260,000 in 2008 and 2007, respectively. The College recognized unrealized gains (losses) on interest in perpetual trust held by others of $(923,000) and $1,476,000 in 2008 and 2007, respectively.

(7) Temporarily Restricted Net Assets

Temporarily restricted net assets as of May 31, 2008 and 2007 are available for the following purposes (in thousands):

		2008	2007
General operations (time restricted)	$	700	678
Buildings and equipment		3,222	3,066
Other, passage of time		6,139	6,388
Total	$	10,061	10,132

(8) Permanently Restricted Net Assets

Permanently restricted net assets as of May 31, 2008 and 2007 are restricted to investment in perpetuity, the income from which is expendable to support operations as follows (in thousands):

		2008	2007
Financial aid	$	31,862	32,474
Instruction and research		18,255	17,236
General operations		1,835	1,334
Total	$	51,952	51,044

(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 2008 and 2007 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 $5,317,000 and $5,050,000 in 2008 and 2007, 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, 2008 and 2007 was approximately $1,997,000 and $1,862,000, 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, 2008 (in thousands):

Year ending May 31:		
2009	$	1,814
2010		1,867
2011		1,920
2012		1,975
2013		2,033
Thereafter		5,602
Total	$	15,211

Investments

As of May 31, 2008, commitments to fund investments in hedge funds or other limited partnerships aggregated $5,552,000.

Letters of Credit

As of May 31, 2008, the College had letters of credit outstanding with a bank in the amount of $11,120,000, as required by certain bond agreements.

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.

(11) Other Subsequent Events

Short Term Fund

The College received notice on September 29, 2008 from the Trustee of the STF of its decision to initiate the termination of the STF, to establish procedures for an orderly liquidation and distribution of the fund's assets, and to resign their role as Trustee. As permitted, the College has already withdrawn $18,100,000 through October 2, 2008. Further additional withdrawals are limited to $16,897,000 through December 31, 2008. The College's position in the STF will not affect its financial obligations, for it believes it has ample resources to meet all near- and long-term obligations.

Line of Credit

In October 2008, the College executed a $20,000,000 line of credit with a financial institution. The line of credit will be used, if necessary, for working capital purposes, and will remain open until there are 12 consecutive months of inactivity. Borrowings will be secured and availability under the line of credit is determined periodically based upon the amount of eligible securities, cash, and other investments of the College, as defined in the agreement.

LOYOLA COLLEGE IN MARYLAND

Schedule of Expenditures of Federal Awards

Year ended May 31, 2008

	Federal CFDA number	Pass-through agency	Federal award expenditures
Student Financial Assistance Cluster:			
U.S. Department of Education:			
Federal Pell Grants	84.063		$ 877,244
Federal Work-Study	84.033		515,955
Federal Supplemental Educational Opportunity Grants	84.007		287,854
Academic Competitiveness Grant	84.375		105,900
National Science and Math	84.376		40,000
Total Student Financial Assistance			1,826,953
Research and Development Cluster:			
National Science Foundation:			
Direct awards:			
RUI: Amorphous Program Slicing	47.070		2,111
Women and Minorities in Computer Science	47.070		20,638
Synthesis and Optical Spectroscopy of Thilium Sensitized Potassium Lead Chloride	47.041		15,695
Loyola College in Maryland Computer Science, Engineering and Mathematics	47.076		19,560
Subtotal direct awards			58,004
Pass-through awards:			
Engineering Inquiry-Based Learning Modules for Tech Education	47.076	University of Maryland, Baltimore County	36,012
Global Prices and Income	47.075	University of California-Davis	15,368
Subtotal pass-through awards			51,380
Total National Science Foundation			109,384
Department of Health and Human Services:			
Apply Novel Statistical Models to Analyze Longitudinal BLSA Data	93.866		12,145
Total Research and Development Cluster			121,529
Other Programs:			
Department of Education:			
Masters Degree Program in Speech-Language Pathology	84.027	Maryland State Department of Education	168,518
BCBSC-BCPSS-Math and Science Partnership Title II Part B	84.366	Maryland State Department of Education	82,651
Total Department of Education			251,169
Department of Defense:			
ROTC Scholarship Program	12.000		851,520
Veterans Administration	12.000		9,833
National Service Trust	12.000		37,698
Robert Byrd Scholarship	12.000		10,500
Comparative Analysis of Fire Intensity between Different Airframes	12.000	University of Florida	24,494
US Army Studies on Crystal Plasticity	12.431		5,000
Total Department of Defense			939,045
Department of Health and Human Services:			
Pass-through awards:			
Center for Disease Control and Prevention	93.262	Columbia University	13,611
Child Care Training and Tech Assistance/Project Promise	93.575	Maryland State Department of Education	146,307
Total Department of Health and Human Services			159,918
National Institute of Science and Technology:			
Summer Undergraduate Research Fellowship Program MEL & ITL	11.609		11,359
IPA Agreement-NIST	11.612		25,907
Total National Institute of Science and Technology			37,266
Total Federal Award Expenditures			$ 3,335,880

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, 2008

(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, 2008.

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.

For the year ended May 31, 2008, administrative expenses incurred by the College were $74,526 and are included in the Schedule.

(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 2008 is 50.7%.

(3) Federal Perkins 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, 2008 and funds advanced by the College to eligible students during the year ended May 31, 2008 under the program are summarized as follows:

Federal Perkins Loans receivable as of May 31, 2007	$	2,203,447
Additional funds advanced to students (not included in the Schedule)		342,170
Collections		(329,071)
Federal Perkins Loans receivable as of May 31, 2008	$	2,216,546

(Continued)

(4) Federal Family Education Loan Program

During the year ended May 31, 2008, the College processed $31,937,069 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.

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, 2008.

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

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, 2008, and have issued our report thereon dated October 2, 2008, except for note 11 which is as of October 20, 2008. 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.

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.

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 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

KPMG

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*.

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 2, 2008

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

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* (the Compliance Supplement) that are applicable to its major federal programs for the year ended May 31, 2008, except the requirements discussed in the second paragraph of this report. The College's major federal programs are 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 programs 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). We also did not audit the College's compliance with requirements governing processing of Federal Family Education loans as a lender with the requirements of the Student Financial Aid Cluster as described in the Compliance Supplement. Those requirements govern functions that are performed by Sallie Mae Lender Servicing (Sallie Mae). 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 and Sallie Mae's compliance with the requirements governing functions that they perform for the College were 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' examinations of ACS's or Sallie Mae'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 programs for the year ended May 31, 2008.

KPMG

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 Federal Perkins Loan Program as described in the Compliance Supplement are performed by ACS. Requirements governing processing of Federal Family Education Loans as a lender as described in the Compliance Supplement are performed by Sallie Mae. Internal control over compliance relating to such functions 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 or Sallie Mae'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

December 18, 2008

LOYOLA COLLEGE IN MARYLAND

Schedule of Findings and Questioned Costs

Year ended May 31, 2008

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	None Reported
• Significant deficiencies identified?	None Reported
Noncompliance material to financial statements noted?	None Reported

Federal Awards

Internal control over major programs:	
• Material weaknesses identified?	None Reported
• Significant deficiencies identified?	None Reported
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?	None
Identification of major programs:	Student Financial Assistance cluster (including CFDA 84.032 FFEL-Lenders) Reserve Officers Training Corps Scholarship Program

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
Reserve Officers Training Corps Scholarship Program	12.000

Dollar threshold used to distinguish between Type A and Type B programs	$300,000
Auditee qualified as low-risk auditee?	Yes

Section II – Findings and Questioned Costs Related to Financial Statements

There are no findings to report.

Section III – Federal Award Findings and Questioned Costs

There are no findings to report.