



LOYOLA UNIVERSITY MARYLAND, INC.

Financial Statements

May 31, 2009 and 2008

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 200
30 North Third Street
PO Box 1190
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Independent Auditors' Report

The Board of Trustees
Loyola University Maryland, Inc.:

We have audited the accompanying balance sheets of Loyola University Maryland, Inc. (the University) as of May 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Loyola University Maryland, Inc. as of May 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

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

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

KPMG LLP

October 7, 2009

LOYOLA UNIVERSITY MARYLAND, INC.

Balance Sheets

May 31, 2009 and 2008

(Dollars in thousands)

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

See accompanying notes to financial statements.

LOYOLA UNIVERSITY MARYLAND, INC.

Statement of Activities

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

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>	
				<u>2009</u>	<u>2008</u>
Operating revenues:					
Tuition and fees, (net of tuition discounts of \$42,959 in 2009 and \$35,604 in 2008)	\$ 109,832	—	—	109,832	103,608
Contributions	4,259	137	—	4,396	6,750
Government grants and contracts	6,853	—	—	6,853	10,622
Sales and services of auxiliary enterprises	31,819	—	—	31,819	28,731
Other sources	4,598	—	—	4,598	4,834
Investment income	234	—	—	234	1,345
Endowment income designated for current operations	6,252	2,115	—	8,367	7,788
Net assets released from restrictions	2,354	(2,354)	—	—	—
Total revenues	<u>166,201</u>	<u>(102)</u>	<u>—</u>	<u>166,099</u>	<u>163,678</u>
Operating expenses:					
Instruction	56,947	—	—	56,947	52,916
Research	1,067	—	—	1,067	1,455
Public service	2,371	—	—	2,371	1,911
Academic support	10,914	—	—	10,914	9,772
Institutional support	37,616	—	—	37,616	36,447
Student services	29,696	—	—	29,696	26,234
Fundraising	696	—	—	696	836
Library	3,423	—	—	3,423	3,201
Auxiliary enterprises	23,446	—	—	23,446	20,626
Total expenses	<u>166,176</u>	<u>—</u>	<u>—</u>	<u>166,176</u>	<u>153,398</u>
Change in net assets from operating activities	25	(102)	—	(77)	10,280
Nonoperating activities:					
Contributions	—	376	227	603	1,831
Investment return, net of endowment spending	(38,288)	(15,773)	—	(54,061)	786
Change in value of split interest agreements	27	725	(3,959)	(3,207)	(923)
Change in fair value of swap	(2,888)	—	—	(2,888)	(1,980)
Net assets released from restrictions	3,393	(3,393)	—	—	—
Change in net assets before reclassification	(37,731)	(18,167)	(3,732)	(59,630)	9,994
Reclassification due to change in state law (note 10)	(24,441)	24,441	—	—	—
Change in net assets	(62,172)	6,274	(3,732)	(59,630)	9,994
Net assets at beginning of year	294,975	10,061	51,952	356,988	346,994
Net assets at end of year	<u>\$ 232,803</u>	<u>16,335</u>	<u>48,220</u>	<u>297,358</u>	<u>356,988</u>

See accompanying notes to financial statements.

LOYOLA UNIVERSITY MARYLAND, INC.

Statement of Activities

Year ended May 31, 2008

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees (net of tuition discounts of \$35,604 in 2008)	\$ 103,608	—	—	103,608
Contributions	4,388	2,362	—	6,750
Government grants and contracts	10,622	—	—	10,622
Sales and services of auxiliary enterprises	28,731	—	—	28,731
Other sources	4,834	—	—	4,834
Investment income	1,345	—	—	1,345
Endowment income designated for current operations	7,749	39	—	7,788
Net assets released from restrictions	215	(215)	—	—
Total revenues	<u>161,492</u>	<u>2,186</u>	<u>—</u>	<u>163,678</u>
Expenses:				
Instruction	52,916	—	—	52,916
Research	1,455	—	—	1,455
Public service	1,911	—	—	1,911
Academic support	9,772	—	—	9,772
Institutional support	36,447	—	—	36,447
Student services	26,234	—	—	26,234
Fundraising	836	—	—	836
Library	3,201	—	—	3,201
Auxiliary enterprises	20,626	—	—	20,626
Total expenses	<u>153,398</u>	<u>—</u>	<u>—</u>	<u>153,398</u>
Change in net assets from operating activities	8,094	2,186	—	10,280
Nonoperating activities:				
Contributions	—	—	1,831	1,831
Investment return, net of endowment spending	825	(39)	—	786
Change in value of split interest agreements	—	—	(923)	(923)
Change in fair value of swap	(1,980)	—	—	(1,980)
Net assets released from restriction	2,218	(2,218)	—	—
Change in net assets	9,157	(71)	908	9,994
Net assets at beginning of year	<u>285,818</u>	<u>10,132</u>	<u>51,044</u>	<u>346,994</u>
Net assets at end of year	<u>\$ 294,975</u>	<u>10,061</u>	<u>51,952</u>	<u>356,988</u>

See accompanying notes to financial statements.

LOYOLA UNIVERSITY MARYLAND, INC.

Statements of Cash Flows

Years ended May 31, 2009 and 2008

(Dollars in thousands)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ (59,630)	9,994
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	9,099	7,501
Contributions and grants restricted for long-term investment	(227)	(4,581)
Net realized and unrealized losses/(gains) on investments	46,905	(7,019)
Change in fair value of interest rate swap	2,888	1,980
Change in operating assets and liabilities:		
Student tuition receivables, net	(562)	(564)
Prepaid expenses and other assets	(1,529)	(424)
Contribution receivables, net	1,997	526
Interest in perpetual trust	3,289	923
Accounts payable and accrued liabilities	(1,494)	(3,002)
Deferred tuition and refundable advances	(813)	(386)
Government grants refundable and other liabilities	137	216
Net cash provided by operating activities	<u>60</u>	<u>5,164</u>
Cash flows from investing activities:		
Purchase of property and equipment	(24,752)	(46,514)
Proceeds from sale of property and equipment	235	20
Sales of investments	6,642	63,663
Purchase of investments	(5,711)	(60,819)
Purchases and sales of short-term investment, net	37,915	(2,945)
Change in deposits with bond trustees	10,908	27,962
Issuance of student loans	(1,081)	(343)
Payments on student loans	315	329
Issuance of notes receivable	(3,050)	—
Repayment of notes receivable	529	—
Net cash provided by (used in) investing activities	<u>21,950</u>	<u>(18,647)</u>
Cash flows from financing activities:		
Proceeds from contributions and grants restricted for long-term investment	227	4,581
Proceeds from notes payable and long-term debt	46,370	10,970
Payments for issuance costs	(312)	(103)
Payments on bonds and notes payable	(47,150)	(900)
Cash received from issuance of annuities	625	507
Payments under annuities	(144)	(59)
Net cash (used in) provided by financing activities	<u>(384)</u>	<u>14,996</u>
Net increase in cash	21,626	1,513
Cash at beginning of year	<u>2,124</u>	<u>611</u>
Cash at end of year	\$ <u><u>23,750</u></u>	\$ <u><u>2,124</u></u>
Supplemental cash flow information:		
Cash paid during the year for interest	\$ 7,433	7,032
Noncash investing activities:		
Property and equipment additions included in accounts payable	\$ 3,979	3,020

See accompanying notes to financial statements.

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2009 and 2008

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

(a) *Nature of Operations*

Loyola University Maryland, Inc. (the University or Loyola) is a private, nonprofit higher education institution located in Baltimore, Maryland. The University provides education and training services to approximately 3,700 undergraduate and 2,400 graduate students. The students are from approximately 40 states and 40 countries and 85% of undergraduate students live on campus during the academic year.

(b) *Basis of Presentation*

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

The net assets of the University are classified into three groups based on the nature of the donor-imposed restriction, if any, as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the University and/or the passage of time. Temporarily restricted net assets generally result from contributions or investment return on restricted endowment funds.

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

Revenues are reported as increases in unrestricted net assets unless their use is limited due to donor-imposed restriction. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed into service.

Assets and liabilities are presented in the order of liquidity in the balance sheets except that investments may include short-term securities that are available for operations.

(c) *Short-Term Investment*

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

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2009 and 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 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 estimated fair values, which are generally determined based on quoted market prices. The carrying value of certain alternative equity and fixed income investments held through limited partnerships and hedge funds are recorded at net asset value as provided by the fund managers or the general partners, which may differ from fair value. These estimated values, which are evaluated for reasonableness by the University, may differ from the values that would have been used had a ready market existed and the differences could be significant.

(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) Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, if purchased or at estimated fair value at date of gift, if donated. Generally, the costs of maintenance and repairs are charged to expense when incurred, while major acquisitions, additions, renewals, and betterments are capitalized. Depreciation of buildings and equipment is computed using the straight-line method over the estimated useful lives of the related assets.

The following estimated useful lives are used in calculating depreciation:

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

(h) Interest in Perpetual Trust

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

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2009 and 2008

(i) Tuition and Fees

Tuition and fees are recorded as revenues during the year the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Student aid provided by the University for tuition and fees is reported as a reduction of such revenue. Student aid does not include payments made to students for services rendered to the University.

(j) Federal Student Financial Aid Programs

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

(k) Income Tax Status

The University is qualified as a not for profit organization under Section 501(c)(3) of the Internal Revenue Code, as amended. Accordingly, the University is not subject to income taxes except to the extent it has taxable income from activities that are not related to its exempt purpose. No provision for income taxes was required for fiscal 2009 or 2008.

(l) Functional Expenses

Costs related to the operation and maintenance of physical plant, including depreciation of plant assets and interest on related debt, are allocated to program and supporting activities based upon periodic inventories of facilities.

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

(m) Nonoperating Activities

Nonoperating activities reflect transactions of a long-term investment or capital nature, including contributions restricted for acquisitions of facilities and equipment; endowment contributions; endowment return in excess of, or less than, the University's spending policy; and changes in the value of split-interest agreements, perpetual trusts held by others, and transactions of an unusual or infrequent nature.

(n) Concentration of Credit Risk

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

(o) Fair Value Measurements

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

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2009 and 2008

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

(p) *Derivative Financial Instruments*

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

(q) *Uniform Prudent Management of Institutional Funds Act*

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

(r) *Split-Interest Arrangements*

The University's split-interest agreements are primarily annuity arrangements. Beneficiaries designated by the donor receive distributions from the University over their lives in accordance with the respective agreements. Liabilities under the split-interest agreements represent the present value of the estimated future distributions to beneficiaries over the terms of the agreements. Gains and losses associated with changes in the estimates of future distributions to beneficiaries are included in the statement of activities.

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

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2009 and 2008

(2) Contributions Receivable

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

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

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

(3) Fair Value Measurement

As discussed in note 1(o), the University adopted Statement 157 on June 1, 2008 for fair value measurements of financial assets and liabilities and for fair value measurements of nonfinancial items that are disclosed at fair value in the financial statements on a recurring basis. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date assuming the transaction occurs in the entity's principle (or most advantageous) market. Those fair value measurements maximize the use of observable inputs.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash, short-term investments, student tuition receivables, prepaid expenses and other assets, accounts payable and accrued liabilities, deferred tuition and refundable advances, and other liabilities: The carrying amounts approximate fair value because of the short maturity of these instruments.

Contributions receivable: The fair value is determined as the present value of future cash flows discounted at an interest rate that reflects the risks inherent in those cash flows. See notes 2 and 1(d).

Investments and deposits with bond trustee: The fair value of fixed income securities, common stock and equity mutual and other funds are determined using quoted market prices at the reporting date multiplied by the quantity on hand. Limited partnership interests are measured using the net asset value per share as provided by the investment manager multiplied by the University's interest in the fund, which may differ from fair value. The carrying amount of money market funds approximates the fair value because of the short maturity of these investments.

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2009 and 2008

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

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

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

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

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

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

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

	Level 1	Level 2	Level 3	Fair value as of May 31, 2009	Fair value as of May 31, 2008
Investments:					
Cash and money funds	\$ 3,049	—	—	3,049	4,907
Fixed income funds	7,403	—	—	7,403	8,242
Common stock and equity funds	36,068	—	—	36,068	55,952
Hedge funds	—	—	65,350 *	65,350	81,582
Alternative investments	—	—	17,320 *	17,320	27,004
Other	—	—	1,270	1,270	610
Deposits with bond trustee	—	949	—	949	11,857
Interest in perpetual trust	—	—	8,048	8,048	11,337
Total	<u>\$ 46,520</u>	<u>949</u>	<u>91,988</u>	<u>139,457</u>	<u>201,491</u>
Interest rate swap	<u>\$ —</u>	<u>3,393</u>	<u>—</u>	<u>3,393</u>	<u>506</u>

* As discussed in note 1(e), alternative investments are carried at net asset value, which may differ from fair value.

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The following table presents a reconciliation for all Level 3 assets measured at fair value on a recurring basis for the year ended May 31, 2009 (in thousands):

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

(4) Investments

Investments are professionally managed by outside investment organizations subject to direction and oversight by a committee of the Board of Trustees. The Board of Trustees has established investment policies and guidelines which cover asset allocation and performance objectives and impose various restrictions and limitations on the managers. These restrictions and limitations are specific to each asset classification and cover concentrations of market risk (at both the individual issuer and industry group levels), credit quality of fixed-income and short-term investments, and various other matters.

Investments are exposed to certain risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, changes in the value of investment securities could occur in the near term, and these changes could materially affect the amounts reported in the accompanying financial statements.

Investment return is summarized as follows (in thousands):

	<u>2009</u>	<u>2008</u>
Income from interest and dividends	\$ 1,874	3,564
Net realized and unrealized losses on investments	(46,905)	7,019
Investment fees	<u>(429)</u>	<u>(664)</u>
Total investment return	\$ <u>(45,460)</u>	<u>9,919</u>

Investment return is included in the statement of activities as follows:

	<u>2009</u>	<u>2008</u>
Operating	\$ 8,601	9,133
Nonoperating	<u>(54,061)</u>	<u>786</u>
	\$ <u>(45,460)</u>	<u>9,919</u>

As of May 31, 2009, commitments to fund investments in limited partnerships aggregated \$3,552,000.

LOYOLA UNIVERSITY MARYLAND, INC.

Notes to Financial Statements

May 31, 2009 and 2008

(5) Land, Buildings, and Equipment

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

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

The Loyola/Notre Dame Library, Inc. (the Library), a separate legal corporation, was formed in February 1968 for the mutual benefit of the University and the College of Notre Dame of Maryland (Notre Dame). The Library building is situated on six acres of land between the two campuses. The land and the building, including improvements, were contributed in equal shares by Loyola and Notre Dame and are the property of the Library. The Library has its own board of trustees, consisting of twelve members, three from the University, three from Notre Dame, and six other members. The University and Notre Dame are required to financially support the Library's annual operations through the payments of joint and use costs. Joint costs are equally shared and use costs are based on each institution's proportionate share of adjusted semester hours. The University incurred approximately \$3,423,000 and \$3,201,000 in joint and use costs for the Library during the years ended May 31, 2009 and 2008, respectively.

The University has a receivable from the College of Notre Dame of \$2,646,000 included in prepaid expenses and other assets at May 31, 2009.

In fiscal 2008, the University recognized a state grant of approximately \$2,750,000 for the renovation of the Library. There were no related grants received in fiscal 2009.

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(6) Bonds Payable and Other Debt Matters

Bonds payable as of May 31, 2009 and 2008 consist of the following (in thousands):

	<u>2009</u>	<u>2008</u>
Maryland Health and Higher Education Facility Authority:		
Revenue bonds (MHHEFA):		
Series 1996B bonds, variable rate, due October 2013 (0.38% and 1.61% as of May 31, 2009 and 2008, respectively)	\$ 6,000	7,000
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
	<u>33,355</u>	<u>33,355</u>
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
	<u>62,995</u>	<u>62,995</u>
Series 2006B bonds, variable rate, due October 2026 (3.64% as of May 31, 2008)	—	46,150
Series 2007 bonds, variable rate, due December 2023 (2.75% and 1.67% as of May 31, 2009 and 2008, respectively)	1,200	11,000
Term debt obligation, variable rate, due December 2014 (5.25% as of May 31, 2009)	9,800	—
Series 2008 bonds, variable rate, due October 2026 (0.30% as of May 31, 2009, principal beginning October 2009)	46,370	—
	159,720	160,500
Less discounts and premium, net	<u>(1,019)</u>	<u>(1,152)</u>
	<u>\$ 158,701</u>	<u>159,348</u>

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

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

The covenants of the Series 1996B, 1999, 2006A, 2006B, and 2007 Revenue Bonds restrict the sale of assets and include other requirements as defined in the agreement. The University was in compliance with its covenants as of May 31, 2009 and 2008.

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

(a) Interest Rate Swap Arrangement

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

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

(b) Bond Transactions

On September 17, 2008, MHHEFA issued tax-exempt bonds of \$46,370,000 (Series 2008 Revenue Bonds) on behalf of the University. 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 were used for debt issuance costs. The Series 2008 Revenue Bonds bear interest at variable rates determined by the remarketing agent and are due in installments through October 2026.

In May 2009, the letter of credit bank that was the liquidity provider for the Series 2007 Bonds was downgraded and, as a result, the remarketing of the bonds failed. The Letter of Credit issued as part of the bond issue was called and \$9.8 million of the bonds were held by the letter of credit bank pursuant to a term reimbursement obligation to the letter of credit bank at 2% over the base rate that matured at the expiration of the letter of credit in 2014. In August 2009, Loyola executed a First Supplemental Indenture and Agreement and requested a mandatory tender of the then outstanding bonds. The tendered bonds were converted from a weekly variable interest rate to a monthly LIBOR

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based floating rate plus a margin based on the credit rating of the University. The letter of credit was terminated and the bonds were purchased by a new financial institution which will hold the bonds as bank-qualified bonds. The bonds are subject to mandatory redemption at the request of the University. The final maturity of the bonds is December 1, 2023.

(c) 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):

2010	\$	2,815
2011		2,930
2012		3,030
2013		3,125
2014		3,035
2015 and thereafter		144,785
	\$	<u>159,720</u>

(7) Interest in Perpetual Trust

In June 1996, the University received a split interest agreement in the Marion I. & Henry J. Knott Scholarship Fund, Inc., an irrevocable perpetual trust. Under the terms of the agreement, as amended, the University currently receives 21% of investment income earned on the trust into perpetuity. The University is to use the income distributed from the trust for scholarships for students in undergraduate studies.

The University received distributions from the scholarship trust of approximately \$260,000 and \$273,000 in 2009 and 2008, respectively. The change in value of the University's interest in perpetual trust held by others is recorded as change in value of split interest agreements on the Statement of Activities and was \$(3,289,000) and \$(923,000) in 2009 and 2008, respectively.

(8) Temporarily Restricted Net Assets

Temporarily restricted net assets as of May 31, 2009 and 2008 are available for the following purposes (in thousands):

	<u>2009</u>	<u>2008</u>
General operations (time restricted)	\$ 1,796	700
Buildings and equipment	1,252	3,222
Cummulative gains on permanent endowment funds	8,668	—
Other, passage of time	4,619	6,139
Total	<u>\$ 16,335</u>	<u>10,061</u>

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(9) Permanently Restricted Net Assets

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

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

(10) Endowment

The University's endowment consists of approximately 180 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The University does not include pledges receivable and its interest in the perpetual trust as part of its endowment.

(a) Interpretation of Relevant Law

The Board of Trustees has interpreted UPMIFA as requiring that donor-restricted endowment funds be managed with the long-term objective of at least maintaining the real value (after inflation) of the funds. The University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the directions of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Trustees in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purposes of the University and the donor-restricted endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and the appreciation of investments;
6. The other resources of the University; and
7. The investment policies of the University.

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

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

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

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

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

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

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 1, 2007	\$ 140,043	502	37,910	178,455
Investment return	1,530	24	—	1,554
Contributions collected	140	971	1,427	2,538
Appropriation for expenditure	(7,749)	(39)	—	(7,788)
Endowment net assets, May 31, 2008	<u>\$ 133,964</u>	<u>1,458</u>	<u>39,337</u>	<u>174,759</u>

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the original value of the fund. Deficiencies of this nature that are reported in unrestricted net assets were \$4,159,000 and \$1,087,000 as of May 31, 2009 and 2008, respectively. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

(c) Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under the investment policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark composed of S&P 500 and Barclays Capital Aggregate Bond indexes while assuming a moderate level of investment risk. The University expects its endowment funds, over three to five years, to provide an average annual real rate of return of at least 5%. Actual returns in any given year may vary from this amount.

(d) Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places emphasis on investments in equities, bonds and absolute return strategies in a ratio to achieve its long-term return objectives within prudent risk constraints.

(e) Spending Policy and How the Investment Objectives Relate to Spending Policy

The University has a policy of appropriating for a maximum distribution each year of up to 5% of its endowment funds' average fair value using the prior three years through the fiscal year-end preceding the fiscal year in which the distribution is planned. In establishing these policies, the University considered the expected return on its endowment.

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(11) Retirement Benefit Plans

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

(12) Commitments

(a) Leases

The University leases classroom facilities and office space in Columbia, Maryland under a noncancelable operating lease agreement expiring in 2016. The University also leases clinical, classroom, and office facilities in Baltimore, Maryland under a noncancelable operating lease agreement expiring in 2013. The leases contain cost escalation clauses providing for increases in rentals due to increased tax or operating costs over defined base period amounts. Rent expense for the years ended May 31, 2009 and 2008 was approximately \$2,111,000 and \$1,997,000, 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, 2009 (in thousands):

Year ending May 31:		
2010	\$	1,867
2011		1,920
2012		1,975
2013		2,033
2014		1,893
Thereafter		3,709
	\$	<u>13,397</u>

(b) Letters of Credit

As of May 31, 2009, the University had letters of credit outstanding with banks in the amount of \$48,028,000, as required by certain bond agreements.

(c) Other

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

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(13) Subsequent Event – Line of Credit

On July 1, 2009, the University executed a \$20,000,000 line of credit with a financial institution. The line of credit will be used, if necessary, for working capital and interim construction financing and will remain open until July 1, 2010, unless extended.

(14) Related Party Activity

Several members of the Board of Trustees are employed by firms performing services to the University. These transactions include banking and construction services. All related party activity is conducted at arm's length.