LOYOLA UNIVERSITY MARYLAND, INC.

Financial Statements

May 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 200
30 North Third Street
PO Box 1190
Harrisburg, PA 17108-1190

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, 2010 and 2009, 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, 2010 and 2009, 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.

KPMG LLP

September 30, 2010

LOYOLA UNIVERSITY MARYLAND, INC.

Balance Sheets

May 31, 2010 and 2009

(Dollars in thousands)

Assets		**2010**	**2009**
Cash	$	21,146	23,750
Short-term investment		—	9,963
Student tuition receivables, net		1,224	1,268
Contributions receivable, net		4,087	5,149
Prepaid expenses and other assets		5,817	6,168
Investments		142,063	130,460
Deposits with bond trustees		946	949
Student loans receivable, net		3,728	2,821
Land, buildings and equipment, net		320,689	302,793
Interest in perpetual trust		8,770	8,048
Total assets	$	508,470	491,369
Liabilities and Net Assets			
Accounts payable and accrued liabilities	$	16,059	21,989
Deferred tuition and refundable advances		7,942	6,781
Bonds payable		155,928	158,701
Other liabilities		3,619	3,709
Government grants refundable		2,842	2,831
Total liabilities		186,390	194,011
Net assets:			
Unrestricted		251,255	232,803
Temporarily restricted		20,332	16,335
Permanently restricted		50,493	48,220
Total net assets		322,080	297,358
Total liabilities and net assets	$	508,470	491,369

See accompanying notes to financial statements.

LOYOLA UNIVERSITY MARYLAND, INC.

Statement of Activities

Year ended May 31, 2010
(with comparative totals for 2009)

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Totals 2010	Totals 2009
Operating revenues:					
Tuition and fees, (net of tuition discounts of $46,634 in 2010 and $42,959 in 2009)	$ 114,550	—	—	114,550	109,832
Contributions	3,675	412	—	4,087	4,396
Government grants and contracts	5,891	—	—	5,891	6,853
Sales and services of auxiliary enterprises	33,964	—	—	33,964	31,819
Other sources	4,577	—	—	4,577	4,598
Investment income	931	—	—	931	234
Endowment income designated for current operations	5,205	2,592	—	7,797	8,367
Net assets released from restrictions	2,976	(2,976)	—	—	—
Total revenues	171,769	28	—	171,797	166,099
Operating expenses:					
Instruction	57,543	—	—	57,543	56,947
Research	1,884	—	—	1,884	1,067
Public service	2,385	—	—	2,385	2,371
Academic support	9,482	—	—	9,482	10,914
Institutional support	40,226	—	—	40,226	37,616
Student services	28,471	—	—	28,471	29,696
Fundraising	716	—	—	716	696
Library	2,941	—	—	2,941	3,423
Auxiliary enterprises	22,759	—	—	22,759	23,446
Total expenses	166,407	—	—	166,407	166,176
Change in net assets from operating activities	5,362	28	—	5,390	(77)
Nonoperating activities:					
Contributions	—	1,841	1,541	3,382	603
Investment return, net of endowment spending	9,763	5,955	—	15,718	(54,061)
Change in value of split interest agreements	—	—	732	732	(3,207)
Change in fair value of swap	(500)	—	—	(500)	(2,888)
Net assets released from restrictions	3,827	(3,827)	—	—	—
Change in net assets from nonoperating activities	13,090	3,969	2,273	19,332	(59,553)
Change in net assets	18,452	3,997	2,273	24,722	(59,630)
Net assets at beginning of year	232,803	16,335	48,220	297,358	356,988
Net assets at end of year	$ 251,255	20,332	50,493	322,080	297,358

See accompanying notes to financial statements.

LOYOLA UNIVERSITY MARYLAND, INC.

Statement of Activities

Year ended May 31, 2009

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Totals 2009
Operating revenues:				
Tuition and fees, (net of tuition discounts of $42,959 in 2009)	$ 109,832	—	—	109,832
Contributions	4,259	137	—	4,396
Government grants and contracts	6,853	—	—	6,853
Sales and services of auxiliary enterprises	31,819	—	—	31,819
Other sources	4,598	—	—	4,598
Investment income	234	—	—	234
Endowment income designated for current operations	6,252	2,115		8,367
Net assets released from restrictions	2,354	(2,354)	—	—
Total revenues	166,201	(102)	—	166,099
Operating expenses:				
Instruction	56,947	—	—	56,947
Research	1,067	—	—	1,067
Public service	2,371	—	—	2,371
Academic support	10,914	—	—	10,914
Institutional support	37,616	—	—	37,616
Student services	29,696	—	—	29,696
Fundraising	696	—	—	696
Library	3,423	—	—	3,423
Auxiliary enterprises	23,446	—	—	23,446
Total expenses	166,176	—	—	166,176
Change in net assets from operating activities	25	(102)	—	(77)
Nonoperating activities:				
Contributions	—	376	227	603
Investment return, net of endowment spending	(38,288)	(15,773)	—	(54,061)
Change in value of split interest agreements	27	725	(3,959)	(3,207)
Change in fair value of swap	(2,888)	—	—	(2,888)
Net assets released from restrictions	3,393	(3,393)	—	—
Change in net assets from non-operating activities	(37,756)	(18,065)	(3,732)	(59,553)
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)
Net assets at beginning of year	294,975	10,061	51,952	356,988
Net assets at end of year	$ 232,803	16,335	48,220	297,358

See accompanying notes to financial statements.

LOYOLA UNIVERSITY MARYLAND, INC.

Statements of Cash Flows

Years ended May 31, 2010 and 2009

(Dollars in thousands)

		2010	2009
Cash flows from operating activities:			
Change in net assets	$	24,722	(59,630)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		8,650	9,099
Contributions and grants restricted for long-term investment		(1,541)	(227)
Net realized and unrealized (gains)/losses on investments		(22,900)	46,905
Change in fair value of interest rate swap		500	2,888
Change in operating assets and liabilities:			
Student tuition receivables, net		44	(562)
Prepaid expenses and other assets		(601)	(1,529)
Contribution receivables, net		1,062	1,997
Interest in perpetual trust		(722)	3,289
Accounts payable and accrued liabilities		(2,453)	(1,494)
Deferred tuition and refundable advances		1,184	(813)
Government grants refundable and other liabilities		1	137
Net cash provided by operating activities		7,946	60
Cash flows from investing activities:			
Purchase of property and equipment		(30,428)	(24,752)
Proceeds from sale of property and equipment		—	235
Sales of investments		43,370	6,642
Purchase of investments		(32,075)	(5,711)
Purchases and sales of short-term investment, net		9,963	37,915
Change in deposits with bond trustees		3	10,908
Issuance of student loans		(1,282)	(1,081)
Proceeds from payments on student loans		375	315
Issuance of notes receivable		—	(3,050)
Proceeds from repayment of notes receivable		1,058	529
Net cash (used in) provided by investing activities		(9,016)	21,950
Cash flows from financing activities:			
Proceeds from contributions and grants restricted for long-term investment		1,541	227
Proceeds from notes payable and long-term debt		9,800	46,370
Payments for issuance costs		(158)	(312)
Payments on bonds and notes payable		(12,615)	(47,150)
Cash received from issuance of annuities		40	625
Payments under annuities		(142)	(144)
Net cash used in financing activities		(1,534)	(384)
Net (decrease) increase in cash		(2,604)	21,626
Cash at beginning of year		23,750	2,124
Cash at end of year	$	21,146	23,750
Supplemental cash flow information:			
Cash paid during the year for interest	$	5,812	7,433
Noncash investing activities:			
Property and equipment additions included in accounts payable	$	—	3,979

See accompanying notes to financial statements.

(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 3,800 undergraduate and 2,300 graduate students. The students are from approximately 40 states and 30 countries and 84% 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.

The University has reclassed certain fiscal 2009 assets to show comparability to fiscal 2010.

(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 has been liquidated as of May 31, 2010.

(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. 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. These funds are invested primarily in short-term, highly liquid securities and will be used for 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.

(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 2010 or 2009.

(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) 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) Derivative Financial Instruments

Derivative financial instruments (interest rate swap) 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 swap is determined using pricing models developed based on the LIBOR swap rate and other observable market data. The value is adjusted to reflect nonperformance risk of both the counterparty and the University.

(p) Uniform Prudent Management of Institutional Funds Act

On June 1, 2008, the University adopted the provisions of ASC 958-205, *Not-for-Profit Entities – Presentation of Financial Statements* (ASC 958-205) (originally issued under 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. ASC 958 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 ASC also requires additional disclosures about endowments for all organizations (see note 10).

(q) Split-Interest Arrangements

The University's split-interest agreements are primarily annuity arrangements and interest in perpetual trust (as discussed in footnote 1(h)). 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 $974,000 and $1,054,000 of future annuity payments included in accounts payable and accrued liabilities at May 31, 2010 and 2009, respectively. In accordance with Maryland state law, the University has $1,653,000 and $1,350,000 of assets separately reserved for the annuity payments at May 31, 2010 and 2009, respectively. This amount is included in cash.

(r) Recent Accounting Pronouncements

In September 2009, the FASB issued ASC 820 – Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share* (*or Its Equivalent)* (ASU No. 2009-12). The Update provides amendments to Subtopic 820-10, *Fair Value Measurements and Disclosure – Overall*, and permits, as a practical expedient, measuring the fair value of an investment that is within the scope of the Update on the basis of net asset value per share (or its equivalent) if the net asset value of the investment is calculated in a manner consistent with the measurement principles of ASC 946 as of the reporting entity's measurement date, including measurement of all or substantially all of the underlying investments of the investee in accordance with ASC 820. The amendments in this Update also require disclosures, by major category of investment, about the attributes of such investments, such as the nature of any restriction on the investor's ability to redeem its investments at the measurement date, any unfunded commitments, and the investment strategies. The amendments are effective for fiscal 2010. The University early adopted the measurement

provision in Fiscal 2009 and has since adopted the disclosure requirement in Fiscal 2010, as permitted by the ASU.

In January 2010, the FASB issued ASC 820 – Accounting Standards Update No. 2010-06, *Improving Disclosures about Fair Value Measurements,* (ASU No. 2010-06), which expands disclosures related to year-to-date activity within the respective levels of the fair value hierarchy. The University will adopt ASU No. 2010-06 in fiscal 2011. This adoption is not expected to have a significant impact on the University's financial statements.

(2) Contributions Receivable

Contributions receivable, net, are summarized as follows as of May 31, 2010 and 2009 (in thousands):

		2010	2009
Due within one year	$	2,539	3,209
One to five years		1,655	2,227
More than five years		1,090	1,397
		5,284	6,833
Discount (interest rates ranging from 3.4% to 2.4%)		(608)	(734)
Allowance for doubtful accounts		(589)	(950)
	$	4,087	5,149

As of May 31, 2010, the University had also been informed of bequest intentions and conditional promises to give aggregating $17,645,000 which have not been recognized as assets or revenues. If received, these gifts will generally be restricted for financial aid, general operations, buildings and equipment, and instruction and research as stipulated by the donors.

(3) Fair Value Measurement

The fair value of the University's financial instruments is determined based on the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date assuming the transaction occurs in the 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).

Interest in perpetual trust: The fair value is determined as the University's percentage interest in the year-end market value of the underlying securities.

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. The carrying amount of money market funds approximates the fair value because of the short maturity of these investments. The fair value of the University's interest in limited partnerships and hedge funds are generally reported at the net asset value (NAV) reported by the fund managers or general partners, which is used as a practical expedient to estimate the fair value of the University's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of May 31, 2010 and 2009, the University had no plans or intentions to sell investments at amounts different from NAV.

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 is 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.

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, 2010 (in thousands):

		Level 1	Level 2	Level 3	Total
Financial Assets					
Investments:					
Cash and money funds	$	6,764	—	—	6,764
Fixed income funds		22,064	—	—	22,064
Common stock and equity funds		39,579	—	—	39,579
Common collective trust funds		—	8,651	—	8,651
Hedge funds:					
Long and short		—	—	37,572	37,572
Absolute return		—	—	15,622	15,622
Global Agribusiness		—	3,600	—	3,600
Total hedge funds		—	3,600	53,194	56,794
Private equity:					
Diversified		—	—	6,938	6,938
Total private equity		—	—	6,938	6,938
Other		—	—	1,273	1,273
Deposits with bond trustee		—	946	—	946
Interest in perpetual trust		—	—	8,770	8,770
Total Financial Assets	$	68,407	13,197	70,175	151,779
Financial Liabilities					
Interest rate swap	$	—	3,894	—	3,894
Total Financial Liabilities	$	—	3,894	—	3,894

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	Total
Financial Assets					
Investments:					
Cash and money funds	$	3,049	—	—	3,049
Fixed income funds		7,403	—	—	7,403
Common stock and equity funds		36,068	—	—	36,068
Common collective trust funds		—	7,023	5,059	12,082
Hedge funds					
Long and short		—	—	33,549	33,549
Absolute return		—	—	25,304	25,304
Global Agribusiness		—	3,331	—	3,331
Total hedge funds		—	3,331	58,853	62,184
Private equity:					
Diversified		—	—	5,800	5,800
Commodities		—	2,557	—	2,557
Total private equity		—	2,557	5,800	8,357
Other		—	—	1,317	1,317
Deposits with bond trustee		—	949	—	949
Interest in perpetual trust		—	—	8,048	8,048
Total Financial Assets	$	46,520	13,860	79,077	139,457
Financial Liabilities					
Interest rate swap	$	—	3,394	—	3,394
Total Financial Liabilities	$	—	3,394	—	3,394

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, 2010 (in thousands):

		Common collective trust funds	Hedge funds	Private equity	Other	Interest in perpetual trust	Total
Beginning balance June 1, 2009	$	5,059	58,853	5,800	1,317	8,048	79,077
Total gains and loses included in changes in net assets:							
Dividend and interest income		102	—	—	—	—	102
Net realized and unrealized gains		802	6,405	946	(44)	831	8,940
Purchases, sales, issuances, and settlements		(5,963)	(12,064)	192	—	(109)	(17,944)
Ending balance May 31, 2010	$	—	53,194	6,938	1,273	8,770	70,175

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):

		Common collective trust funds	Hedge funds	Private equity	Other	Interest in perpetual trust	Total
Beginning balance June 1, 2008	$	8,453	74,142	5,504	1,213	11,338	100,650
Total gains and loses included in changes in net assets:							
Dividend and interest income		149	—	—	—	—	149
Net realized and unrealized gains		(3,543)	(14,530)	30	(471)	(3,030)	(21,544)
Purchases, sales, issuances, and settlements		—	(759)	266	575	(260)	(178)
Ending balance May 31, 2009	$	5,059	58,853	5,800	1,317	8,048	79,077

(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):

		2010	2009
Income from interest and dividends	$	2,015	1,874
Net realized and unrealized gain (loss) on investments		22,900	(46,905)
Investment fees		(469)	(429)
Total investment return	$	24,446	(45,460)

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

		2010	2009
Operating	$	8,728	8,601
Nonoperating		15,718	(54,061)
	$	24,446	(45,460)

The table below summarizes investments for which net asset value has been used to determine fair value and for which there is no readily determinable fair value, as well as certain attributes related to such investments at May 31, 2010:

Investment	Fair value	Remaining average life of the funds	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Common collective trust funds	$ 8,651	N/A	$ —	Monthly	10 – 30 Days
Hedge funds:					
Long and short (a)	37,572	N/A	—	Various	100 – 105 Days
Absolute return (b)	15,622	N/A	—	Various	Various
Global Agribusiness	3,600	N/A	—	Monthly	10 Days
Private equity diversified (c)	6,938	6 months to 7 years	2,229	N/A	N/A
	$ 72,383		$ 2,229		

(a) This category includes investments in hedge funds and other funds of funds that that invest in a variety of long and short funds. The frequency redemption varies from annually to multi-year lock-up, with a maximum of 3 years.

(b) This category includes investments in hedge funds and other funds of funds that that invest in a variety of absolute return hedge funds. Redemptions have been suspended in one fund comprised of $15.1M of the balance, as it is in the process of winding down and is in orderly liquidation.

(c) This category includes investments in private equity funds that invest in diversified growth companies through various industries that mainly operate within the U.S., with the average life of the funds varying from 6 months, 12 months, 15 months, and 7 years.

The table below summarizes investments for which net asset value has been used to determine fair value and for which there is no readily determinable fair value, as well as certain attributes related to such investments at May 31, 2009:

Investment	Fair value	Remaining average life of the funds	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Common collective trust funds	$ 12,082	N/A	$ —	Monthly	2 – 30 Days
Hedge funds:					
Long and short (a)	33,549	N/A	—	Various	100 – 105 Days
Absolute return (b)	25,304	N/A	—	Various	Various
Global Agribusiness	3,331	N/A	—	Monthly	10 Days
Private equity:		18 months			
Diversified (c)	5,800	to 8 years	3,552	N/A	N/A
Commodities	2,557	N/A	—	Monthly	10 Days
	$ 82,623		$ 3,552		

(a) This category includes investments in hedge funds and other funds of funds that that invest in a variety of long and short funds. The frequency redemption varies from annually to multi-year lock-up, with a maximum of 3 years.

(b) This category includes investments in hedge funds and other funds of funds that that invest in a variety of absolute return hedge funds. Redemptions have been suspended in one fund comprised of $19.5M of the balance, as it is in the process of winding down and is in orderly liquidation.

(c) This category includes investments in private equity funds that invest in diversified growth companies through various industries that mainly operate within the U.S., with the average life of the funds varying from 18 months, 27 months, 2 years and 8 years.

(5) Land, Buildings, and Equipment

Land, buildings, and equipment, net, as of May 31, 2010 and 2009 consist of the following (in thousands):

		2010	2009
Land and land improvements	$	15,103	13,699
Buildings		368,240	296,032
Equipment, furniture, fixtures, and other		29,707	27,360
Investment in Loyola/Notre Dame Library		12,106	12,106
Construction in progress		2,223	51,733
		427,379	400,930
Accumulated depreciation		(106,690)	(98,137)
Land, buildings, and equipment, net	$	320,689	302,793

The Loyola/Notre Dame Library, Inc. (the Library), a separate legal corporation, was formed in February 1968 for the mutual benefit of the University and the College of Notre Dame of Maryland (Notre Dame). The Library building is situated on six acres of land between the two campuses. The land and the building, including improvements, were contributed in equal shares by Loyola and Notre Dame are the property of the Library. The Library has its own board of trustees consisting of twelve members: and 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 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 $2,941,000 and $3,423,000 in joint and use costs for the Library during the years ended May 31, 2010 and 2009, respectively.

The University has a receivable from the College of Notre Dame of $1,588,000 included in prepaid expenses and other assets at May 31, 2010.

(6) Bonds Payable and Other Debt Matters

Bonds payable as of May 31, 2010 and 2009 consist of the following (in thousands):

		2010	2009
Maryland Health and Higher Education Facility Authority:			
Revenue bonds (MHHEFA):			
Series 1996B bonds, variable rate, due October 2013 (0.28% and 0.38% as of May 31, 2010 and 2009, respectively)	$	5,000	6,000
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
		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 2007 bonds, variable rate, due December 2023 (1.54% and 2.75% as of May 31, 2010 and 2009, respectively)	$	10,450	1,200
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 (0.27% and 0.30% as of May 31, 2010 and 2009, respectively, principal beginning October 2009)		45,105	46,370
		156,905	159,720
Less discounts and premium, net		(977)	(1,019)
	$	155,928	158,701

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.

As of May 31, 2010 and 2009, the University had letters of credit outstanding with banks in the amount of $45,538,000 and $48,028,000, respectively, as required by certain bond agreements. Should the University be required to access the letter of credit liquidity facilities securing the Series 2008 variable rate bonds due to an inability to remarket the bonds, the University would be required to repay such draws at the expiration of the letter of credit. This letter of credit is intended to protect the University in those potential situations when variable debt markets are unavailable for re-marketing in the short-term, by bridging the market event. The letter of credit provides for debt re-payment funding during these situations, while the University seeks replacement financing in the bond market. The letter of credit is set to expire in September 2011. The University expects to renew the letter of credit at such time.

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, 2010 and 2009.

Capitalized interest, net of interest income, totaled $995,000 and $1,544,000 for the years ended May 31, 2010 and 2009, 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 $3,894,000 and $3,394,000 as of May 31, 2010 and 2009, respectively and is included in accounts payable and accrued liabilities on the statement of financial position.

(b) Bond Transactions

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 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 over the next five fiscal years and thereafter are as follows (in thousands):

2011	$	2,930
2012		3,030
2013		3,125
2014		3,035
2015		3,205
2016 and thereafter		141,580
	$	156,905

(7) Interest in Perpetual Trust

In June 1996, the University received an interest 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 $109,000 and $260,000 in 2010 and 2009, 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 $722,000 and $(3,289,000) in 2010 and 2009, respectively.

(8) Temporarily Restricted Net Assets

Temporarily restricted net assets as of May 31, 2010 and 2009 are restricted for the following purposes (in thousands):

		2010	2009
General operations (time restricted)	$	2,051	1,796
Buildings and equipment		349	1,252
Cumulative gains on permanent endowment funds		14,624	8,668
Other, passage of time		3,308	4,619
Total	$	20,332	16,335

(9) Permanently Restricted Net Assets

Permanently restricted net assets as of May 31, 2010 and 2009 are restricted to investment in perpetuity, the income from which is expendable to support operations as follows (in thousands):

		2010	2009
Financial aid	$	29,957	28,760
Instruction and research		19,335	18,293
General operations		1,201	1,167
Total	$	50,493	48,220

(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.

Endowment net assets consist of the following as of May 31, 2010 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(1,774)	16,479	41,206	55,911
Board-designated endowment funds		82,815	—	—	82,815
Total endowed net assets	$	81,041	16,479	41,206	138,726

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

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

Changes in endowment net assets for the year ended May 31, 2010 are as follows (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 1, 2009	$	72,343	10,456	39,806	122,605
Investment return		13,694	8,547	—	22,241
Contributions collected		209	68	1,400	1,677
Appropriation for expenditure		(5,205)	(2,592)	—	(7,797)
Endowment net assets, May 31, 2010	$	81,041	16,479	41,206	138,726

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

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

(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 are reported in unrestricted net assets and were $1,774,000 and $4,159,000 as of May 31, 2010 and 2009, 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.

(11) Retirement Benefit Plans

Retirement benefits are provided for faculty, administrators, and hourly employees, through direct payments to the retirement annuity plans. The University contributes an amount equal to 11% of the eligible employees' base salary. Contributions under these plans are fully vested and retirement payments are limited to the amount of the annuities. The University's contributions were approximately $5,840,000 and $5,649,000 in 2010 and 2009, 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, 2010 and 2009 was approximately $2,104,000 and $2,111,000, respectively.

The aggregate annual minimum lease payments to be paid through the expiration of the initial terms of these leases are as follows as of May 31, 2010 (in thousands):

Year ending May 31:		
2011	$	1,920
2012		1,975
2013		2,033
2014		1,893
2015		1,910
Thereafter		1,799
	$	11,530

(b) 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.

(13) 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, which totaled $24,546,000 in FY 2010 for construction services. All related party activity is conducted in accordance with the University's normal policies and procedures.

(14) Subsequent Events

On July 1, 2010, the University executed a $35,000,000 line of credit with a financial institution. The line of credit will be used, if necessary, for working capital and will remain open until June 30, 2011, unless extended.

The University evaluated subsequent events through September 30, 2010, the date the financial statements were issued.