

Loyola College in Maryland

**Financial Statements and Supplementary Schedule of
Expenditures of Federal Awards and Reports under
OMB Circular A-133**

May 31, 2006

Federal EIN #52-0591623

Loyola College in Maryland

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May 31, 2006

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Report of Independent Auditors

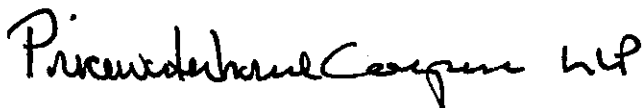
To the Board of Trustees
Loyola College in Maryland

In our opinion, the accompanying statements of financial position and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of Loyola College in Maryland (the "College") at May 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 17 to the financial statements, the College adopted Financial Accounting Standards Board ("FASB") Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, an interpretation of FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, in fiscal year 2006.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2006 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, for the year ended May 31, 2006. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") for the year ended May 31, 2006 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



September 22, 2006

FINANCIAL STATEMENTS

Loyola College in Maryland
Statements of Financial Position
May 31, 2006 and 2005

<i>(In thousands of dollars)</i>	2006	2005
Assets		
Cash and cash equivalents	\$ 39,393	\$ 23,658
Student tuition receivable, net	183	138
Contributions receivable, net	8,399	7,137
Prepaid expenses and other assets	5,746	2,505
Investments, at market	218,709	146,912
Notes receivable	47	49
Student loans receivable, net	1,867	2,004
Land, buildings and equipment, net	213,820	212,000
Interests in perpetual trusts held by others	10,783	10,357
Total assets	\$ 498,947	\$ 404,760
Liabilities and net assets		
Accounts payable and accrued liabilities	\$ 11,353	\$ 9,519
Deferred tuition and other refundable advances	7,513	7,419
Annuities payable	415	413
Bonds payable	150,085	83,905
Asset retirement obligation	2,315	-
Government grants refundable	2,808	2,787
Total liabilities	174,489	104,043
Net assets		
Unrestricted		
Designated for equipment and facilities	137,643	133,221
Designated for endowment	119,992	105,194
Undesignated	8,036	7,755
Total unrestricted net assets	265,671	246,170
Temporarily restricted	10,992	9,136
Permanently restricted	47,795	45,411
Total net assets	324,458	300,717
Total liabilities and net assets	\$ 498,947	\$ 404,760

The accompanying notes are an integral part of these financial statements.

Loyola College in Maryland
Statement of Activities
Year Ended May 31, 2006

<i>(In thousands of dollars)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and gains				
Tuition and fees, (net of tuition discounts of \$27,776)	\$ 90,870	\$ -	\$ -	\$ 90,870
Contributions	3,887	3,616	1,958	9,461
Government grants and contracts	6,896	-	-	6,896
Investment income on endowment	4,412	-	-	4,412
Other investment income	1,529	-	-	1,529
Net unrealized gains on investments	6,847	-	426	7,273
Net realized gains on investments	13,763	-	-	13,763
Sales and services of auxiliary enterprises	25,324	-	-	25,324
Other sources	4,249	-	-	4,249
Total revenues and gains	<u>157,777</u>	<u>3,616</u>	<u>2,384</u>	<u>163,777</u>
Net assets released from restrictions	<u>1,760</u>	<u>(1,760)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and reclassifications	<u>159,537</u>	<u>1,856</u>	<u>2,384</u>	<u>163,777</u>
Expenses				
Education and general				
Instruction	51,460	-	-	51,460
Research	754	-	-	754
Public service	1,485	-	-	1,485
Academic support	4,928	-	-	4,928
Institutional support	32,571	-	-	32,571
Student services	20,337	-	-	20,337
Fundraising	907	-	-	907
Library	2,942	-	-	2,942
Total education and general expenses	<u>115,384</u>	<u>-</u>	<u>-</u>	<u>115,384</u>
Auxiliary enterprises	<u>19,684</u>	<u>-</u>	<u>-</u>	<u>19,684</u>
Total expenses from operations	<u>135,068</u>	<u>-</u>	<u>-</u>	<u>135,068</u>
Change in net assets from operations before extinguishment of debt	24,469	1,856	2,384	28,709
Extinguishment of debt	<u>(3,161)</u>	<u>-</u>	<u>-</u>	<u>(3,161)</u>
Change in net assets from operations	21,308	1,856	2,384	25,548
Cumulative change of an accounting principle	<u>(1,807)</u>	<u>-</u>	<u>-</u>	<u>(1,807)</u>
Total change in net assets	19,501	1,856	2,384	23,741
Net assets at beginning of year	246,170	9,136	45,411	300,717
Net assets at end of year	<u>\$ 265,671</u>	<u>\$ 10,992</u>	<u>\$ 47,795</u>	<u>\$ 324,458</u>

The accompanying notes are an integral part of these financial statements.

Loyola College in Maryland
Statement of Activities
Year Ended May 31, 2005

<i>(In thousands of dollars)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and gains				
Tuition and fees, (net of tuition discounts of \$25,287)	\$ 85,482	\$ -	\$ -	\$ 85,482
Contributions	3,334	5,151	1,680	10,165
Government grants and contracts	6,709	-	-	6,709
Investment income on endowment	3,552	-	-	3,552
Other investment income	626	-	-	626
Net unrealized gains (losses) on investments	(2,388)	-	741	(1,647)
Net realized gains on investments	10,980	-	-	10,980
Sales and services of auxiliary enterprises	23,768	-	-	23,768
Other sources	4,144	-	-	4,144
Total revenues and gains	<u>136,207</u>	<u>5,151</u>	<u>2,421</u>	<u>143,779</u>
Net assets released from restrictions	<u>1,494</u>	<u>(1,494)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and reclassifications	<u>137,701</u>	<u>3,657</u>	<u>2,421</u>	<u>143,779</u>
Expenses				
Education and general				
Instruction	50,329	-	-	50,329
Research	1,079	-	-	1,079
Public service	1,502	-	-	1,502
Academic support	5,217	-	-	5,217
Institutional support	29,126	-	-	29,126
Student services	19,074	-	-	19,074
Fundraising	673	-	-	673
Library	2,875	-	-	2,875
Total education and general expenses	<u>109,875</u>	<u>-</u>	<u>-</u>	<u>109,875</u>
Auxiliary enterprises	<u>18,143</u>	<u>-</u>	<u>-</u>	<u>18,143</u>
Total expenses	<u>128,018</u>	<u>-</u>	<u>-</u>	<u>128,018</u>
Total change in net assets	9,683	3,657	2,421	15,761
Net assets at beginning of year	<u>236,487</u>	<u>5,479</u>	<u>42,990</u>	<u>284,956</u>
Net assets at end of year	<u>\$ 246,170</u>	<u>\$ 9,136</u>	<u>\$ 45,411</u>	<u>\$ 300,717</u>

The accompanying notes are an integral part of these financial statements.

Loyola College in Maryland
Statements of Cash Flows
Years Ended May 31, 2006 and 2005

(In thousands of dollars)

	2006	2005
Cash flows from operating activities		
Increase in net assets	\$ 23,741	\$ 15,761
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in accounting principle	1,807	-
Extinguishment of debt	3,161	-
Depreciation	6,901	6,784
Amortization and bond discounts	93	119
Amortization of issuance and insurance costs	70	-
Contributions restricted for long-term investment	(1,958)	(1,680)
Net realized and unrealized gains on investments	(20,592)	(8,592)
Change in actuarial liability	51	26
Decrease (increase) in cash-surrender value of investments	(18)	69
Decrease (increase) in student tuition receivable, net	(45)	3
(Increase) decrease in prepaid expenses and other assets	(469)	615
Increase in contribution receivables, net	(1,262)	(2,921)
Increase in interest in perpetual trust held by others	(426)	(741)
Increase (decrease) in accounts payable and accrued liabilities	2,604	(118)
Increase in deferred tuition and other refundable advances	94	495
Increase in government grants refundable	21	66
Net cash provided by operating activities	<u>13,773</u>	<u>9,886</u>
Cash flows from investing activities		
Purchase of property and equipment	(8,214)	(2,930)
Sales of investments	43,122	33,210
Purchase of investments	(96,403)	(35,639)
Repayment of notes receivable	2	143
Payments on student loans	520	448
Issuance of student loans	(383)	(388)
Net cash used in investing activities	<u>(61,356)</u>	<u>(5,156)</u>
Cash flows from financing activities		
Proceeds from contributions restricted for long-term investment	1,958	1,680
Proceeds from notes payable and long-term debt	109,640	-
Payments for issuance costs	(1,256)	-
Payments on notes payable and long-term debt	(46,975)	(1,615)
Payments under annuities	(49)	(49)
Net cash provided by financing activities	<u>63,318</u>	<u>16</u>
Net increase in cash and cash equivalents	15,735	4,746
Cash and cash equivalents at beginning of year	23,658	18,912
Cash and cash equivalents at end of year	<u>\$ 39,393</u>	<u>\$ 23,658</u>
Supplemental cash flow information		
Cash paid during the period for interest	<u>\$ 4,658</u>	<u>\$ 4,223</u>

The accompanying notes are an integral part of these financial statements

Loyola College in Maryland
Notes to Financial Statements
May 31, 2006 and 2005

1. Summary of Significant Accounting Policies

A. Basis of Financial Presentation

The accompanying financial statements of Loyola College in Maryland (the College) have been prepared on the accrual basis of accounting.

Certain amounts from the prior year have been reclassified to conform with the current year presentation.

B. Classification of Net Assets

The College's net assets have been grouped into the following three classes:

Unrestricted Net Assets - Unrestricted net assets generally result from revenues derived from providing services, receiving unrestricted contributions, unrealized and realized gains and losses, and receiving dividends and interest from investing in income-producing assets, less expenses incurred in providing services, raising contributions, and performing administrative functions.

Temporarily Restricted Net Assets - Temporarily restricted net assets generally result from contributions and other inflows of assets whose use by the College is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the College pursuant to those stipulations.

Permanently Restricted Net Assets - Permanently restricted net assets generally result from contributions and other inflows of assets whose use by the College is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the College.

C. Classification of Contributions

The College reports gifts of cash and other assets as restricted support and classified either as temporarily restricted or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished in subsequent reporting periods, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions for which donors have stipulated restrictions but which are met within the same reporting period are reported as unrestricted support.

The College reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the College reports expirations of donor restrictions as unrestricted when the donated or acquired long-lived assets are placed in service.

Unconditional promises to give with payments due in future periods are reported as temporarily restricted support. Amounts due are recorded at the net realizable discounted cash flow based on an average period of future payments.

Loyola College in Maryland
Notes to Financial Statements
May 31, 2006 and 2005

D. Concentration of Credit Risk

Financial instruments, which potentially subject the College to concentrations of credit risk consist primarily of cash, cash equivalents, and investments. The College maintains cash and cash equivalents and short and long-term investments with high quality institutions and has established guidelines relative to diversification and maturities that maintain safety and liquidity. As of May 31, 2006 and 2005, a majority of the balances were in excess of the Federal Deposit Insurance Corporation insurance limit. The College has not incurred any losses due to the credit risk on these instruments.

E. Cash and Cash Equivalents

The College considers temporary cash investments with a maturity of three months or less as cash and cash equivalents. Cash equivalents are stated at cost, which approximates market value. Cash equivalents as of May 31, 2006 and 2005 include bank balances of \$33,509,000 and \$22,792,000, respectively, invested in short-term accounts at The Common Fund and Smith Barney as well as bank balances of \$7,108,000 and \$1,293,000, respectively, invested in a collateralized overnight repurchase agreement with a bank.

F. Investments

Investments are reported at fair market value. Fair value is based on quoted prices for securities traded on public exchanges. Fair values for certain alternative equity and fixed income investments held through limited partnerships or hedge funds are estimated by the respective external investment managers if market values are not readily ascertainable. These valuations necessarily involve assumptions and estimation methods which are reviewed by the College. These assumptions and estimation methods are uncertain, and therefore the estimates could differ materially from actual results.

The fair value of certain funds of collateralized debt obligations are not readily determinable, therefore the funds are recorded at their original cost.

Investment income on endowment is reported net of management fees and other investment income is reported gross. The change in unrealized appreciation or depreciation of investments is reflected in the statements of activities. Realized gains and losses on sales of investments are computed on a specific identification basis and are recorded on the trade date of the transaction.

Investments may include some cash and cash equivalents held by investment managers for a specific purpose.

G. Interests in Perpetual Trusts Held by Others

Interests in perpetual trusts held by others represent resources neither in the possession nor under the control of the College, but held and administered by outside fiscal agents, with the College deriving income from such funds. The fair value of the College's share of the assets is reflected in the statement of financial position.

H. Endowments

The State of Maryland has adopted the Uniform Management of Institutional Funds Act. As a result, under Maryland law, unless the gift instrument specifically indicates the intent of the donor that net appreciation shall not be expended, the governing board may appropriate for expenditure, for uses and purposes for which an endowment fund is established, so much of the net appreciation, realized and unrealized, in the assets as is prudent. As of May 31,

Loyola College in Maryland
Notes to Financial Statements
May 31, 2006 and 2005

2006 and 2005, the College's total endowments were \$156,828,000 and \$140,045,000, respectively. These totals consist of annuity agreements of \$775,000 and \$781,000; board designations of \$119,041,000 and \$104,210,000; and permanently restricted endowment funds of \$37,012,000 and \$35,054,000, as of May 31, 2006 and 2005, respectively.

In accordance with Financial Accounting Standard (FAS) No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations," deficiencies of \$1,629,000 and \$2,044,000 for donor-restricted endowment funds have been recorded in unrestricted net assets for the years ended May 31, 2006 and 2005, respectively. These deficiencies are the result of declines in market values.

I. Endowment Income

The College distributes a fixed rate of return of five percent on the three-year trailing average market value of the endowment except for endowment income restricted to scholarships, which may be distributed in full. The College has an investment objective of achieving a minimum current annual income return (dividends and interest) of 5% so that endowment income distributed will not exceed income earned. The excess of income earned over endowment income distributed remains in the unrestricted net assets designated for endowment. The College distributes realized and unrealized gains and losses from investment transactions among the endowment funds based on the ratio of each balance to the total of all balances.

J. Tuition Revenue

Tuition revenue consists of all tuition revenue earned, net of all student discounts, funded and unfunded.

K. Deferred Tuition and Other Refundable Advances

Deferred tuition and other refundable advances represents cash received primarily for tuition, student deposits and student charges related to programs applicable to the next fiscal year.

L. Depreciation

Depreciation of buildings and equipment is computed using the straight-line method over the estimated useful lives of the related assets. When assets are sold, retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recognized in that period.

The following estimated useful lives are used in calculating depreciation:

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

Loyola College in Maryland
Notes to Financial Statements
May 31, 2006 and 2005

M. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Receivables are based on management's best estimate of the amounts expected to be collected. The amounts the College will ultimately realize could differ materially, in the near term, from the amounts assumed in arriving at the present value and allowance for doubtful accounts.

2. Disclosures About Fair Value of Financial Instruments

The fair value of cash and short-term investments, funds held by others and variable rate demand bonds payable in the aggregate approximate their respective carrying amounts. The fair value of short-term investments and sinking funds are based on the quoted market price of the underlying securities. The estimated fair value of the College's debt is determined based on quoted market prices for publicly traded issues and on the discounted future cash payments to be made for other issues. The discount rates used approximate current market rates for loans or groups of loans with similar maturities and credit quality. The estimated fair value of the College's long-term debt, including current maturities, approximates carrying value.

The estimated fair value of investments is based on quoted market prices, except for certain investments, principally hedge funds, limited partnership and similar interests, for which quoted market prices are not available. The estimated fair value of these investments is based on valuations provided by the external investments managers as of May 31. The College believes the carrying amount of its financial instruments is a reasonable estimate of fair value. Because the hedge fund and limited partnership investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

The fair values of certain collateralized debt obligations are not readily determinable on the open market, therefore the bonds are recorded at their original cost. At the end of fiscal years 2006 and 2005, the total value of bonds whose respective carrying values are recorded at cost is \$10,060,000.

Investment income on endowments is recorded net of related investment expenses on the Statement of Activities. Related investment expenses were \$542,000 and \$665,000 for the fiscal years ended May 31, 2006 and 2005.

Determination of the fair value of student loan notes receivable, which are primarily federally sponsored student loans with U.S. government mandated interest rates and repayment terms and subject to significant restrictions as to their transfer or disposition, could not be made without incurring excessive costs.

Loyola College in Maryland
Notes to Financial Statements
May 31, 2006 and 2005

A summary of investments held by the College is as follows (in thousands):

	May 31, 2006		As of May 31, 2005	
	Market	Cost	Market	Cost
Short-term investments	\$ 5,024	\$ 5,024	\$ 10,319	\$ 10,319
Fixed income investments	10,230	9,108	9,048	7,408
Bonds and notes	4,434	4,515	3,530	3,566
Common stocks	59,798	46,636	53,018	38,417
Hedge funds	55,817	43,750	48,471	41,500
Alternative investments	23,863	25,392	21,942	25,086
Repurchase agreements	58,941	58,941	-	-
Other	602	602	584	584
	<u>\$ 218,709</u>	<u>\$ 193,968</u>	<u>\$ 146,912</u>	<u>\$ 126,880</u>

3. Student Loans Receivable

As of May 31, 2006 and 2005, Perkins Loans receivable are stated net of an allowance for doubtful loans of approximately \$161,000. Uncollectible Perkins Loans are not charged off until approved for write-off or accepted for assignment by the Department of Education (ED). The College did not assign any loans to ED in 2006 or 2005.

4. Land, Buildings and Equipment

Land, buildings and equipment, at cost, are as follows (in thousands):

	As of	
	May 31, 2006	May 31, 2005
Land and land improvements	\$ 11,974	\$ 11,899
Buildings	245,581	242,899
Equipment, furniture, fixtures and other	23,384	20,421
Construction in process	10,821	8,252
Total	<u>291,760</u>	<u>283,471</u>
Less: Accumulated depreciation	<u>(77,940)</u>	<u>(71,471)</u>
Land, buildings and equipment, net	<u>\$ 213,820</u>	<u>\$ 212,000</u>

Loyola College in Maryland
Notes to Financial Statements
May 31, 2006 and 2005

5. Bonds Payable

Bonds payable are as follows (in thousands):

	As of	
	May 31, 2006	May 31, 2005
Maryland Health and Higher Education Facility Authority Revenue Bonds		
Series 1996A:		
5.5% term bonds due October 2016	\$ -	\$ 7,620
5.375% term bonds due October 2026	-	29,680
3.7%-5.375% serial bonds payable through October 2011	-	6,660
	-	43,960
Series 1996 B Variable Rate Demand Bonds, payable through October 2013	8,800	9,700
Series 1999:		
5.25% term bonds due October 2029	5,915	5,915
5.00% term bonds due October 2039	27,440	27,440
	33,355	33,355
Series 2006A:		
4.750% term bond due October 2033	10,400	-
5.000% term bond due October 2040	18,050	-
5.125% term bond due October 2045	34,545	-
	62,995	-
Series 2006 B bonds due October 2026	46,150	-
Less: Discount	(1,215)	(3,110)
Bonds Payable	\$ 150,085	\$ 83,905

Effective October 1, 1996, the College entered into a loan agreement with the Maryland Health and Higher Educational Facilities Authority (MHHEFA) to borrow \$49,810,000 from the proceeds of MHHEFA's Series 1996 Revenue Bonds. The original issue discount on the Series 1996 A Bonds was \$1,929,000. The primary purpose of the borrowing was to finance and refinance the costs of acquisition, construction, renovation and equipping of certain facilities and to refund the 1992 Variable Rate Demand Bonds outstanding.

Effective November 1, 1996, the College entered into another loan agreement with MHHEFA to borrow \$14,900,000 from the proceeds of MHHEFA's Series 1996 B Revenue Bonds. The original issue discount on the Series 1996 B Bonds was \$37,000. The Series 1996 B Bonds require monthly interest payments at variable rates determined by the remarketing agent, as set forth in the agreement. The College has the option to convert from a variable to a fixed rate of interest, and may change between fixed and variable rates over the term of the bonds, as defined and specified in the agreement. The Series 1996 B Bonds are subject to mandatory tender prior to any change in interest rate method, or at the option of the College. In addition, the College is required to make sinking fund payments on October 1 of each year. The primary purpose of the borrowing was to finance and refinance the costs of acquisition, construction, renovation and equipping of certain facilities. The

Loyola College in Maryland
Notes to Financial Statements
May 31, 2006 and 2005

proceeds of the Series 2006 B revenue bonds issued February 2, 2006 will be used to payoff the Series 1996A Bonds outstanding. See note 6 on extinguishment of debt.

Effective June 23, 1999, the College entered into a third loan agreement with MHHEFA to borrow \$33,355,000 from the proceeds of MHHEFA's Series 1999 Revenue Bonds. The original issue discount on the Series 1999 Bonds was \$2,053,000. The primary purpose of the borrowing was to finance and refinance the costs of acquisition, construction, renovation and equipping of certain facilities. In addition, the bonds are subject to redemption prior to maturity, at the principal amount thereof plus accrued interest to the redemption date, from mandatory sinking fund installments on October 1 annually.

Effective January 4, 2006, the College entered into a fourth loan agreement with MHHEFA to borrow \$62,995,000 from the proceeds of MHHEFA's Series 2006 A Revenue Bonds. The original issue premium on the Series 2006 Bonds was \$655,728. The primary purpose of the borrowing was to finance and refinance the costs of acquisition, construction, renovation and equipping of certain facilities. In addition, the bonds are subject to redemption prior to maturity, at the principal amount thereof plus accrued interest to the redemption date, from mandatory sinking fund installments on October 1 annually.

Effective February 2, 2006, the College entered into a fifth loan agreement with MHHEFA to borrow \$46,150,000 from the proceeds of MHHEFA's Series 2006 B Revenue Bonds. The original issue discount on the Series 2006 B Bonds was \$161,525. The primary purpose of the borrowing was to finance and refinance the costs of acquisition, construction, renovation and equipping of certain facilities and to refund the Series 1996A Bonds outstanding.

In addition, the bonds are subject to redemption prior to maturity, at the principal amount thereof plus accrued interest to the redemption date, from mandatory sinking fund installments on October 1 annually.

The covenants of the 2006 A & B, 1996 A & B, and 1999 Bonds restrict the sale of assets and include other requirements as defined in the agreement.

Capitalized interest net of interest income totaled \$426,000 and \$0 for the years ended May 31, 2006 and 2005, respectively. Annual principal and interest payments on the bonds over the next five fiscal years and thereafter are as follows (in thousands):

	Principal net of discount	Discount	Interest*	Total
2007	\$ 854	\$ 46	\$ 5,462	\$ 6,362
2008	854	46	6,682	7,582
2009	954	46	6,629	7,629
2010	2,204	46	6,589	8,839
2011	2,304	46	6,509	8,859
2012 and thereafter	142,915	985	147,612	291,512
	<u>\$ 150,085</u>	<u>\$ 1,215</u>	<u>\$ 179,483</u>	<u>\$ 330,783</u>

* Includes estimated interest on the variable rate Series 1996 B Bonds, assuming an average annual rate of 3.25%

Loyola College in Maryland
Notes to Financial Statements
May 31, 2006 and 2005

6. Extinguishment of Debt

The 1996A bonds were defeased on February 2, 2006. The proceeds of the 2006 B bond issue are being held in escrow. Principal and interest owed on the series 1996 A bonds will be paid October 1, 2006. The College recognized a realized cost of extinguishment of debt in the amount of \$3,160,630 for year end May 31, 2006. The loss includes prepaid interest and other costs associated with the cost of extinguishment of debt.

7. Interest Rate Swap Arrangement

During 2006, the College entered into an interest rate swap agreement with a major financial institution to fix the interest rate on part of a bond issue commencing in the spring of 2006. The agreement effectively fixes the interest rate on a portion of the planned bond issue at 3.25% through October 1, 2026. The initial notional amount outstanding under the swap agreement will be \$46,165,000 and amortizes through October 2026. The College will receive a floating rate based on 67% of LIBOR and will make payments at 3.25% beginning in November 2006. Settlement will occur monthly, and any payments made or received under the swap agreement will be recognized as an increase or decrease in the related interest expense.

The College holds this derivative financial instrument for the purpose of hedging the cost of capital. The derivative is held only for the purpose of hedging such risk, not for speculation.

The liquidation value of the interest rate swap is the estimated amount the College would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counterparties. At May 31, 2006, the fair value of the interest rate swap was an asset of \$2,093,000 and is included in prepaid expense on the 2006 Statement of Financial Position. During 2006, the College recognized a net unrealized gain of \$2,093,000 from the change in the fair value of the interest rate swap agreement.

8. Retirement Benefit Plans

The College participates in retirement annuity plans sponsored by the Teacher's Insurance and Annuity Association and the College Retirement Equity Fund and Fidelity Investments. Retirement benefits are provided for faculty, administrators and hourly employees, through direct payments to these plans. For eligible employees, the College contributed an amount equal to eleven percent of the employee's base salary to the plan in 2006 and 2005. Contributions under these plans are fully vested in the employee and retirement payments are limited to the amount of the annuities. Charges for the College's contributions were approximately \$4,587,000 and \$4,436,000 for the years ended May 31, 2006 and 2005, respectively.

9. Income Tax Status

Under the provisions of Section 501(c)(3) of the Internal Revenue Code, the College is exempt from federal and state taxes on income except for taxes on unrelated business income, if any. Since the College had no material unrelated business income during the years ended May 31, 2006 and 2005, no provision for income taxes has been made.

Loyola College in Maryland
Notes to Financial Statements
May 31, 2006 and 2005

10. Commitments

Leases:

The College leases classroom facilities and office space in Columbia, MD under a noncancelable operating lease agreement expiring in 2016. The College also leases clinical, classroom and office facilities in Baltimore City, MD 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. Rental expense for the years ended May 31, 2006 and 2005 and was approximately \$1,519,000 and \$1,437,000, respectively.

The following is a schedule by years of future minimum rental payments (in thousands) required under operating leases that have an initial or remaining noncancelable lease term in excess of one year as of May 31, 2006:

Year Ending May 31,	
2007	\$ 1,714
2008	1,764
2009	1,814
2010	1,866
2011	1,920
Thereafter	9,610
Total	<u>\$ 18,688</u>

Other Commitments:

The College has committed to make capital contributions of \$5,000,000 to ABS Capital Partners II, L.P., \$5,000,000 to ABS Capital Partners III, L.P. and \$5,000,000 to ABS Capital Partners IV, L.P. as a limited partner. The College has a remaining commitment of \$641,000 to ABS Capital Partners II, L.P., \$1,121,000 to ABS Capital Partners III, L.P. and \$801,000 to ABS Capital Partners IV, L.P. at May 31, 2006.

A substantial number of the College's contracts and grants are with departments or agencies of the United States Government and are subject to audit by government auditors.

11. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes (in thousands):

	May 31, 2006	As of May 31, 2005
General operations	\$ 606	\$ 518
Buildings and equipment	3,214	2,717
Other, passage of time	7,172	5,901
Total	<u>\$ 10,992</u>	<u>\$ 9,136</u>

Loyola College in Maryland
Notes to Financial Statements
May 31, 2006 and 2005

12. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support (in thousands):

	As of	
	May 31, 2006	May 31, 2005
Financial aid	\$ 30,269	\$ 27,912
General operations	1,063	1,032
Instruction and research	16,463	16,467
Total	<u>\$ 47,795</u>	<u>\$ 45,411</u>

13. Net Assets Released from Restrictions

Net assets were released from donor restrictions when expenses were incurred to satisfy the restricted purposes or by occurrence of other events as specified by donors or with the passage of time. During the years ended May 31, 2006 and 2005, \$1,760,000 and \$1,494,000, respectively, were released from restrictions due to the passage of time or fulfillment of donor restrictions.

14. Contributions Receivable, Conditional Promises to Give, and Intentions

As of May 31, 2006 and 2005, contributors to the College have unconditionally promised to give \$8,399,000 and \$7,137,000, respectively.

The promised contributions are due as follows (in thousands):

	As of	
	May 31, 2006	May 31, 2005
Within one year	\$ 3,425	\$ 3,101
One to five years	6,182	5,454
More than five years	371	554
Subtotal	<u>9,978</u>	<u>9,109</u>
Less: Present value component	(1,137)	(1,435)
Less: Allow for doubtful accounts	<u>(442)</u>	<u>(537)</u>
Total contributions receivable	<u>\$ 8,399</u>	<u>\$ 7,137</u>

In addition, contributors to the College have intentions to give approximately \$5,572,000 and \$6,431,000 as of May 31, 2006 and 2005, respectively. These intentions relate primarily to bequests which, at the contributor's discretion, may be changed and/or amended. As a result, these amounts are not included as promised contributions and have not been recognized as revenue.

Loyola College in Maryland
Notes to Financial Statements
May 31, 2006 and 2005

15. Interests in Perpetual Trusts Held by Others

In June 1996, the College received a split interest agreement in the Marion I. & Henry J. Knott Scholarship Fund, Inc., an irrevocable perpetual trust held by Mercantile Safe Deposit and Trust Company. Under the terms of the agreement, the College received 10.5% of interest income earned on the fund until payments of one million dollars were made to the separate funds of each of the named Baltimore Archdiocese Hospitals, at which time the College was to receive 21% of interest income earned on the fund into perpetuity. During fiscal year 2004, the College became aware that this clause was met, and recognized approximately \$4,808,000 as permanently restricted contribution revenue for the additional assets received. The College is to use the interest income distributed from the fund for tuition scholarship funds for students in the freshman through senior years, specifically excluding graduate studies of any kind.

All assets of the perpetual trust are recorded by the College at fair market value. The College received interest income from the scholarship fund of approximately \$260,000 during fiscal years 2006 and 2005. The College recognized gains on interests in perpetual trusts held by others of \$426,000 and \$741,000 during fiscal years 2006 and 2005.

16. Loyola/Notre Dame Library

The Loyola/Notre Dame Library, Inc. (the Library), a separate legal corporation, was formed in February 1968 for the mutual benefit of the College and the College of Notre Dame of Maryland (Notre Dame). The Library building is situated on six acres of land between the two college campuses. The land and the building, including improvements, were contributed in equal shares by the two colleges and are the property of the Library. The Library has its own Board of Trustees, consisting of twelve members, three from the College, three from Notre Dame, and six other members. The College and Notre Dame are required to financially support the Library's annual operations through the payments of joint and use costs. Joint costs are equally shared by the two colleges, and use costs are based on each college's proportionate share of adjusted semester hours. The College incurred approximately \$2,941,000 and \$2,875,000 in joint and use costs for the Library during the years ended May 31, 2006 and 2005, respectively.

17. New Authoritative Pronouncement

In 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47), which is effective for Loyola College as of and for the year ended May 31, 2006. FIN 47 was issued to provide clarity surrounding the recognition of conditional asset retirement obligations, as referred to in FASB Statement No. 143, "Accounting for Asset Retirement Obligations". FIN 47 defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation, does not defer recognition of a liability. The obligation to perform the asset retirement activity is unconditional, and accordingly, a liability should be recognized. FIN 47 also provides guidance with respect to the criteria to be used to determine whether sufficient information exists to reasonably estimate the fair value of an asset retirement obligation. Based the guidance in FIN 47, management of the College determined that sufficient information was available to reasonably estimate the fair value of known asset retirement obligations.

Loyola College in Maryland
Notes to Financial Statements
May 31, 2006 and 2005

FIN 47 requires the initial application of the interpretation to be recognized as a cumulative effect of a change in accounting principle. Specifically, FIN 47 requires the recognition, as a cumulative effect, the cumulative accretion and accumulated depreciation for the time period from the date the liability would have been recognized had the provisions of the interpretation been in effect when the liability was incurred to the date of adoption of this Interpretation. The liability incurred date is presumed to be the date upon which the legal requirement to perform the asset retirement activity was enacted.

As a result of implementing of FIN 47, Loyola College recognized \$1,807,000 as the cumulative effect of a change in accounting principle in the Statement of Activities. The asset retirement obligation as of May 31, 2006, is \$2,315,000 and is a non-current liability on the Statement of Financial Position. In addition, the College capitalized \$1,062,000 of asset retirement costs with an accumulated depreciation balance of \$699,000. The fiscal year 2006 accretion and depreciation expense for the ARO is \$98,058 and \$47,302 respectively.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Loyola College in Maryland
Schedule of Expenditures of Federal Awards
May 31, 2006

<u>FEDERAL GRANTOR/PROGRAM OR CLUSTER TITLE</u>	<u>CFDA NUMBER</u>	<u>PASS THROUGH OR CONTRACT ID NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>MAJOR PROGRAMS</u>			
<u>STUDENT FINANCIAL AID CLUSTER</u>			
<u>U.S. DEPARTMENT OF EDUCATION</u>			
FSEOG PROGRAM	84.007		\$ 305,454
FWS PROGRAM	84.033		507,083
FEDERAL PELL GRANT PROGRAM	84.063		658,438
TOTAL U.S. DEPARTMENT OF EDUCATION			1,470,975
TOTAL STUDENT FINANCIAL AID CLUSTER			1,470,975
TOTAL MAJOR PROGRAMS			1,470,975
<u>NON-MAJOR PROGRAMS</u>			
<u>RESEARCH AND DEVELOPMENT CLUSTER</u>			
<u>NATIONAL SCIENCE FOUNDATION</u>			
DEVELOPMENT OF A FIELD INSTRUMENT FOR MULTIPLEXED IDENTIFICATION	47.041		8,060
RUI: AMORPHOUS PROGRAM SLICING	47.070		39,138
WOMEN AND MINORITIES IN COMPUTER SCIENCE	47.070		6,509
FORMS IN MANY VARIABLES OVER LOCAL FIELDS	47.049		15,640
SYNTHESIS AND OPTICAL SPECTROSCOPY OF THULIUM SENSITIZED POTASSIUM LEAD CHLORIDE LASER MATERIALS	47.041		14,922
SUBTOTAL DIRECT PROGRAMS			84,269
<u>PASS-THROUGH PROGRAMS FROM:</u>			
UNIVERSITY OF MARYLAND, BALTIMORE COUNTY			
ENHANCING SCIENCE AND TECHNOLOGY EXPLORATION AND MENTORING	47.076	#ESI-0422703	7,841
STEM TALENT EXPANSION PROGRAM	47.076	DUE-0230148	8,250
ADVANCE INSTITUTIONAL TRANSFORMATION AWARD	47.075	SBE-0244880	4,650
ENGINEERING THROUGH MATHEMATICS	47.041	# EEC-0212101	3,987
COMMUNITY COLLEGE OF BALITMORE COUNTY - ESSEX			
MARYLAND CENTER FOR MANUFACTURING EDUCATIONAL EXCELLENCE	47.076	#0302754	4,569
ENGINEERING INQUIRY - BASED LEARNING MODULES FOR TECH EDUCATION	47.076	#ESI-0352504	17,208
UNIVERSITY OF CALIFORNIA, DAVIS			
GLOBAL PRICES AND INCOMES 1200-1950 FIRST STAGE	47.075	#0433358	7,007
SUBTOTAL PASS-THROUGH PROGRAMS			53,512
TOTAL NATIONAL SCIENCE FOUNDATION			137,781

The accompanying notes are an integral part of this schedule.

Loyola College in Maryland
Schedule of Expenditures of Federal Awards
May 31, 2006

<u>FEDERAL GRANTOR/PROGRAM OR CLUSTER TITLE</u>	<u>CFDA NUMBER</u>	<u>PASS THROUGH OR CONTRACT ID NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF STATE</u>			
DEAF WORKFORCE EDUCATION FOR UKRAINE	19	2-ECAAS-03-GR-226(CS)	108,759
TOTAL U.S. DEPARTMENT OF STATE			108,759
<u>U.S. DEPT OF HEALTH AND HUMAN SERVICES</u>			
HURRICANE KATRINA RELIEF	93.776		49,349
APPLY NOVEL STATISTICAL MODELS TO ANALYZE LONGITUDINAL BLSA DATA	93.866		38,899
SUBTOTAL DIRECT PROGRAM			88,248
PASS-THROUGH PROGRAMS FROM:			
COLUMBIA UNIVERSITY			
CENTERS FOR DISEASE CONTROL - WORLD TRADE CENTER EVACUATION STUDY	93.283	#ASPH52133-22122	(6,581)
MARYLAND DEPARTMENT OF EDUCATION			
CHILD CARE TRAINING AND TECH ASSISTANCE/PROJECT PROMISE	93.575	G-050IMDCCDF	72,438
SUBTOTAL PASS-THROUGH PROGRAMS			65,857
TOTAL U.S. DEPT OF HEALTH AND HUMAN SERVICES			154,105
<u>NATIONAL SECURITY AGENCY</u>			
IPA AGREEMENT - MATHEMATICAL SCIENCE	99		14,950
TOTAL NATIONAL SECURITY AGENCY			14,950
TOTAL RESEARCH AND DEVELOPMENT CLUSTER			415,595
<u>OTHER</u>			
<u>U.S. DEPARTMENT OF DEFENSE</u>			
ROTC SCHOLARSHIP PROGRAM	12		487,345
TOTAL U.S. DEPARTMENT OF DEFENSE			487,345
<u>U.S. DEPARTMENT OF EDUCATION</u>			
PASS-THROUGH PROGRAMS FROM:			
MARYLAND STATE DEPARTMENT OF EDUCATION			
MASTERS DEGREE PROGRAM IN SPEECH-LANGUAGE PATHOLOGY	84.027	500724, 500722, 600158	298,627
TOTAL U.S. DEPARTMENT OF EDUCATION			298,627
<u>U.S. DEPARTMENT OF DEFENSE</u>			
VETERANS ADMINISTRATION	12		58,429
NATIONAL SERVICE TRUST	12		47,214
ROBERT BYRD SCHOLARSHIP	12		15,000
TOTAL U.S. DEPARTMENT OF DEFENSE			120,643

The accompanying notes are an integral part of this schedule.

Loyola College in Maryland
Schedule of Expenditures of Federal Awards
May 31, 2006

<u>FEDERAL GRANTOR/PROGRAM OR CLUSTER TITLE</u>	<u>CFDA NUMBER</u>	<u>PASS THROUGH OR CONTRACT ID NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>NATIONAL SCIENCE FOUNDATION</u>			
MARYLAND DEPARTMENT OF HUMAN RESOURCES LOYOLA COLLEGE IN MARYLAND COMPUTER SCIENCE, ENGINEERING AND MATHEMATICAL SCIENCES SCHOLARSHIPS	47.076		68,750
TOTAL NATIONAL SCIENCE FOUNDATION			68,750
<u>NATIONAL INSTITUTE OF SCIENCE AND TECHNOLOGY</u>			
SUMMER UNDERGRADUATE RESEARCH FELLOWSHIP	12		3,600
TOTAL NATIONAL INSTITUTE OF SCIENCE AND TECHNOLOGY			3,600
TOTAL NON-MAJOR PROGRAMS			1,394,560
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,865,535

The accompanying notes are an integral part of this schedule.

Loyola College in Maryland
Notes to Schedule of Expenditures of Federal Awards
May 31, 2006

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") summarizes the federal expenditures of Loyola College in Maryland (the "College") and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

2. Indirect Costs

The College operates under predetermined fixed indirect cost rates. The indirect cost rate effective at the grant award date is effective throughout the grant period. The predetermined fixed indirect cost rate for grants awarded prior to May 31, 2005 was 53%. The predetermined fixed indirect cost rate for grants awarded between June 1, 2005 and May 31, 2008 is 50.7%.

3. Federal Family Education Loan Program

During the year ended May 31, 2006, the College processed the following amount of new loans under the Federal Family Education Loan Program (which includes Federal Stafford Loans and Federal Direct Parents' Loans for Undergraduate students):

	CFDA Number	Amount Awarded
Federal Direct Lending	84.032	\$30,014,976

4. Federal Perkins Loan

The Federal Perkins loan program is administered directly by the College and balances and transactions relating to these programs are included in the College's basic financial statements. The balance of loans outstanding as of May 31, 2006 and funds advanced by the College to eligible students during the year ended May 31, 2006 under the program can be summarized as follows:

Federal Perkins Loans receivable, as of May 31, 2005	\$ 2,165,455
Add: Funds received from the federal government and advanced to students	-
Additional funds advanced to students	383,325
Less: Collections	512,480
Cancelations	7,603
Federal Perkins Loans receivable, as of May 31, 2006	<u>\$ 2,028,697</u>

For the year ended May 31, 2006, the administrative expenses incurred by the College were \$19,166.

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

To the Board of Trustees
Loyola College in Maryland

We have audited the financial statements of Loyola College in Maryland (the "College") as of and for the year ended May 31, 2006, and have issued our report thereon dated September 22, 2006 which includes an explanatory paragraph related to the adoption of Financial Accounting Standards Board ("FASB") Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, an interpretation of FASB Statement No. 143, *Accounting for Asset Retirement Obligations*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted other matters involving the internal control over financial reporting, which we have reported to management of the College in a separate letter dated September 22, 2006.

This report is intended solely for the information and use of the College's audit committee, management and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

PriceWaterhouseCoopers LLP

September 22, 2006

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Suite 2100
Baltimore MD 21201-2304
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**Report of Independent Auditors on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133**

To the Board of Trustees
Loyola College in Maryland

Compliance

We have audited the compliance of Loyola College in Maryland (the "College") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended May 31, 2006, except as described in the second paragraph of this report. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We did not audit the College's student financial assistance compliance with functions of billing, collection and due diligence specified by the Federal Perkins Loan and the Federal Family Education Loan Programs as described in the *OMB Circular A-133 Compliance Supplement*. Compliance with these requirements was audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the College's compliance with those requirements, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended May 31, 2006.

Internal Control over Compliance

The management of the College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, except as noted in the following paragraph, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We did not consider internal control over compliance with functions of billing, collection and due diligence specified by the Federal Perkins Loan and the Federal Family Education Loan Programs as described in the *OMB Circular A-133 Compliance Supplement*. Internal control over these compliance requirements was considered by the other auditors referred to above; and our report, insofar as it relates to the College's internal control over those compliance requirements, is based solely upon the report of the other auditors.

Our consideration and the other auditors' consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. Also, the report of the other auditors noted no matters involving the internal control structure over compliance and its operation that they considered to be material weaknesses.

This report is intended solely for the information and use of the College's audit committee, management and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Price Waterhouse Coopers LLP

October 5, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Loyola College in Maryland
Independent Auditor's Schedule of Findings and Questioned Costs
Year Ended May 31, 2006

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	None Reported
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA/Numbers</u>
Student Financial Aid Cluster	various

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

Loyola College in Maryland
Schedule of Findings and Questioned Costs
Year Ended May 31, 2006

Section II - Financial Statement Findings

No matters were noted.

Section III - Federal Award Findings and Questioned Costs

No matters were noted.

SUMMARY OF STATUS OF PRIOR YEAR FINDINGS

Loyola College in Maryland
Summary of Status of Prior Year Findings
Year Ended May 31, 2006

There are no findings from prior years to update.