KPMG

LOYOLA UNIVERSITY MARYLAND, INC.

Financial Statements

May 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

LOYOLA UNIVERSITY MARYLAND, INC.

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Independent Auditors' Report

The Board of Trustees
Loyola University Maryland, Inc.:

We have audited the accompanying balance sheets of Loyola University Maryland, Inc. (the University) as of May 31, 2012 and 2011, 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, 2012 and 2011, 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

October 10, 2012

LOYOLA UNIVERSITY MARYLAND, INC.

Balance Sheets

May 31, 2012 and 2011

(Dollars in thousands)

Assets		**2012**	**2011**
Cash and cash equivalents	$	34,817	23,440
Student tuition receivables (net of allowance for doubtful accounts of $50 in 2012 and 2011)		1,637	1,548
Contributions receivable, net		2,983	3,589
Prepaid expenses and other assets		3,338	5,470
Investments		152,587	160,987
Deposits with bond trustees		833	1,002
Student loans receivable, net		5,884	4,592
Land, buildings, and equipment, net		319,350	321,005
Interest in perpetual trust		9,804	10,236
Total assets	$	531,233	531,869
Liabilities and Net Assets			
Accounts payable and accrued liabilities	$	14,278	12,459
Deferred tuition and refundable advances		7,130	7,087
Bonds payable		150,048	153,038
Other liabilities		10,921	8,162
U.S. government grants refundable		2,863	2,848
Total liabilities		185,240	183,594
Net assets:			
Unrestricted		261,327	264,521
Temporarily restricted		23,670	28,260
Permanently restricted		60,996	55,494
Total net assets		345,993	348,275
Total liabilities and net assets	$	531,233	531,869

See accompanying notes to financial statements.

LOYOLA UNIVERSITY MARYLAND, INC.

Statements of Activities

Year ended May 31, 2012
(with comparative totals for 2011)

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Totals 2012	Totals 2011
Operating revenues:					
Tuition and fees (net of tuition discounts of $55,226 in 2012 and $51,025 in 2011)	$ 127,045	—	—	127,045	119,734
Contributions	3,349	1,747	—	5,096	3,716
Government grants and contracts	7,424	—	—	7,424	8,692
Sales and services of auxiliary enterprises	34,854	—	—	34,854	34,424
Other sources	3,836	—	—	3,836	4,167
Investment income	25	—	—	25	438
Endowment income designated for current operations	5,005	1,898	—	6,903	6,392
Net assets released from restrictions	1,472	(1,472)	—	—	—
Total revenues	183,010	2,173	—	185,183	177,563
Operating expenses:					
Instruction	58,420	—	—	58,420	59,894
Research	1,377	—	—	1,377	1,538
Public service	2,137	—	—	2,137	2,095
Academic support	9,390	—	—	9,390	9,658
Institutional support	40,098	—	—	40,098	39,316
Student services	31,581	—	—	31,581	30,258
Fundraising	4,479	—	—	4,479	4,427
Library	3,018	—	—	3,018	2,942
Auxiliary enterprises	24,709	—	—	24,709	25,194
Total expenses	175,209	—	—	175,209	175,322
Change in net assets from operating activities	7,801	2,173	—	9,974	2,241
Nonoperating activities:					
Contributions	—	174	5,919	6,093	4,535
Investment return, net of endowment spending	(9,765)	(5,202)	(39)	(15,006)	18,214
Change in value of split interest agreements	196	(62)	(378)	(244)	1,573
Change in fair value of swap	(3,099)	—	—	(3,099)	(368)
Net assets released from restrictions	1,673	(1,673)	—	—	—
Change in net assets from nonoperating activities	(10,995)	(6,763)	5,502	(12,256)	23,954
Change in net assets	(3,194)	(4,590)	5,502	(2,282)	26,195
Net assets at beginning of year	264,521	28,260	55,494	348,275	322,080
Net assets at end of year	$ 261,327	23,670	60,996	345,993	348,275

See accompanying notes to financial statements.

LOYOLA UNIVERSITY MARYLAND, INC.

Statement of Activities

Year ended May 31, 2011

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	2011
Operating revenues:				
Tuition and fees (net of tuition discount of $51,025 in 2011)	$ 119,734	—	—	119,734
Contributions	3,111	605	—	3,716
Government grants and contracts	8,692	—	—	8,692
Sales and services of auxiliary enterprises	34,424	—	—	34,424
Other sources	4,167	—	—	4,167
Investment income	438	—	—	438
Endowment income designated for current operations	4,780	1,612	—	6,392
Net assets released from restrictions	1,626	(1,626)	—	—
Total revenues	176,972	591	—	177,563
Operating expenses:				
Instruction	59,894	—	—	59,894
Research	1,538	—	—	1,538
Public service	2,095	—	—	2,095
Academic support	9,658	—	—	9,658
Institutional support	39,316	—	—	39,316
Student services	30,258	—	—	30,258
Fundraising	4,427	—	—	4,427
Library	2,942	—	—	2,942
Auxiliary enterprises	25,194	—	—	25,194
Total expenses	175,322	—	—	175,322
Change in net assets from operating activities	1,650	591	—	2,241
Nonoperating activities:				
Contributions	—	1,071	3,464	4,535
Investment return, net of endowment spending	9,873	8,341	—	18,214
Change in value of split interest agreements	36	—	1,537	1,573
Change in fair value of swap	(368)	—	—	(368)
Net assets released from restrictions	2,075	(2,075)	—	—
Change in net assets from nonoperating activities	11,616	7,337	5,001	23,954
Change in net assets	13,266	7,928	5,001	26,195
Net assets at beginning of year	251,255	20,332	50,493	322,080
Net assets at end of year	$ 264,521	28,260	55,494	348,275

See accompanying notes to financial statements.

LOYOLA UNIVERSITY MARYLAND, INC.

Statements of Cash Flows

Years ended May 31, 2012 and 2011

(Dollars in thousands)

	2012	2011
Cash flows from operating activities:		
Change in net assets	$ (2,282)	26,195
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,447	10,858
Loss on sale of assets	3	127
Contributions restricted for long-term investment	(5,919)	(3,464)
Net realized and unrealized losses (gains) on investments	11,968	(23,642)
Change in fair value of interest rate swap	3,099	368
Change in assets and liabilities:		
Student tuition receivables, net	(89)	(324)
Prepaid expenses and other assets	1,616	(769)
Contributions receivable, net	606	498
Interest in perpetual trust	432	(1,466)
Accounts payable and accrued liabilities	1,818	295
Deferred tuition and refundable advances	43	(855)
Other liabilities	(208)	342
U.S. government grants refundable	15	6
Net cash provided by operating activities	21,549	8,169
Cash flows from investing activities:		
Purchase of land, buildings, and equipment	(8,709)	(11,214)
Sales of investments	15,116	37,232
Purchase of investments	(18,684)	(32,514)
Change in deposits with bond trustees	169	(56)
Issuance of student loans	(2,000)	(1,279)
Proceeds from payments on student loans receivable	708	416
Proceeds from repayment of notes receivable	533	1,068
Net cash used in investing activities	(12,867)	(6,347)
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	5,919	3,464
Payments for issuance costs	(61)	—
Payments on bonds and notes payable	(3,030)	(2,930)
Cash received from issuance of annuities	30	124
Payments under annuities	(163)	(186)
Net cash provided by financing activities	2,695	472
Net increase in cash and cash equivalents	11,377	2,294
Cash and cash equivalents at beginning of year	23,440	21,146
Cash and cash equivalents at end of year	$ 34,817	23,440
Supplemental cash flow information:		
Cash paid during the year for interest	$ 6,852	6,737

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 3,900 undergraduate and 2,200 graduate students. The students are from approximately 41 states and 64 countries and 83% 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 whose use is 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 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 result from contributions.

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

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

(c) Cash and Cash Equivalents

The University considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(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 is recorded at net asset value as provided by the fund managers or the general partners, unless the University plans to sell an investment in the near term at a value other than the net asset value as provided by the fund manager 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 a debt service sinking fund. This fund is 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 as beneficiary. The amount recorded on the Balance Sheets represents 21% of the entire portfolio of underlying assets of the trust.

(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) Valuation of Long-Lived Assets

Long-lived assets and certain identifiable intangibles to be held and used by an entity are required to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Also, in general, any long-lived assets and certain identifiable intangibles to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. The University periodically evaluates the recoverability of its long-lived assets including real estate and improvements and deferred costs, using objective methodologies. Such methodologies include evaluations based on cash flows generated by the underlying assets or other determinants of fair value. None of the University’s long-lived assets were considered to be impaired as of May 31, 2012 and 2011.

(k) U.S. Government Grants Refundable

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.

(l) Fund-Raising Expenses

Direct fund-raising expenses for the years ended May 31, 2012 and 2011 were $4,242,000 and $4,133,000, respectively.

(m) 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 2012 or 2011.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the University and recognize a tax liability (or asset) if the University has taken an uncertain tax position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the University, and has concluded that as of May 31, 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The University is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

(n) 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.

(o) 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, including perpetual trusts held by others, and transactions of an unusual or infrequent nature.

(p) Concentration of Credit Risk

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

(q) 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 statements 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.

(r) Split-Interest Arrangements

The University's split-interest agreements are primarily annuity arrangements and interest in perpetual trust (as discussed in note 1(g)). 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 statements of activities.

The University has $802,000 and $1,281,000 of future annuity payments included in other liabilities at May 31, 2012 and 2011, respectively. In accordance with Maryland state law, the University has $2,243,000 and $2,006,000 of assets separately reserved for the annuity payments at May 31, 2012 and 2011, respectively. This amount is included in investments on the balance sheet.

(2) Contributions Receivable

Contributions receivable, net, are summarized as follows as of May 31, 2012 and 2011 (in thousands):

		2012	2011
Due within one year	$	1,399	2,247
One to five years		1,453	1,330
More than five years		808	956
		3,660	4,533
Less:			
Discount (interest rates ranging from 3.0% to 1.6%)		(175)	(386)
Allowance for doubtful accounts		(502)	(558)
	$	2,983	3,589

As of May 31, 2012, the University had bequest intentions and conditional promises to give aggregating $17.3 million, 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 principal (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:

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

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: 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 is 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, 2012 and 2011, the University had no plans or intentions to sell investments at amounts different from NAV.

Deposits with bond trustee: the fair value is determined using quoted market prices at the reporting date multiplied by the quantity held.

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 either the counterparty or 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 variable rate debt approximates fair value. The fair value of the University's fixed rate debt was $98.9 million at May 31, 2012.

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; quoted 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, 2012 (in thousands):

	Level 1	Level 2	Level 3	Total
Financial assets:				
Investments:				
Cash and money funds	$ 4,281	—	—	4,281
Fixed income funds:				
Core Bond Total Return Strategy	11,834	—	—	11,834
Global Government Bonds	3,767	—	—	3,767
Diversified Fixed Income Portfolio	8,325	—	—	8,325
U.S. Mortgage-Backed Securities	4,278	—	—	4,278
Other fixed income fund	1,234	—	—	1,234
Total fixed income funds	$ 29,438	—	—	29,438
Equity funds:				
Domestic	$ 36,749	—	—	36,749
International Developed	10,391	—	—	10,391
International Emerging Markets	8,762	—	—	8,762
Inflation Funds	—	3,857	—	3,857
Commodity related securities	2,102	—	—	2,102
Common stock	25	—	—	25
Total equity funds	58,029	3,857	—	61,886
Common collective trust funds	—	3,088	—	3,088
Hedge funds:				
Hedge Equity Fund of Funds	—	3,794	31,159	34,953
Absolute Return Fund of Funds	—	—	6,673	6,673
Total hedge funds	—	3,794	37,832	41,626
Private equity:				
Multi-Strategy Fund of Funds	—	—	7,035	7,035
Direct Private Debt and Equity	—	—	1,982	1,982
Real estate investments	—	—	2,061	2,061
Total private equity	—	—	11,078	11,078
Other	—	—	1,190	1,190
Deposits with bond trustee	—	833	—	833
Interest in perpetual trust	—	—	9,804	9,804
Total financial assets	$ 91,748	11,572	59,904	163,224
Financial liabilities:				
Interest rate swap	$ —	6,118	—	6,118

The following table presents assets and liabilities that are measured at fair value on a recurring basis as of May 31, 2011 (in thousands):

	Level 1	Level 2	Level 3	Total
Financial assets:				
Investments:				
Cash and money funds	$ 3,504	—	—	3,504
Fixed income funds:				
Core Bond Total Return Strategy	11,206	—	—	11,206
Global Government Bonds	3,994	—	—	3,994
Diversified Fixed Income Portfolio	8,153	—	—	8,153
U.S. Mortgage-Backed Securities	4,032	—	—	4,032
Other fixed income fund	562	—	—	562
Total fixed income funds	27,947	—	—	27,947
Equity funds:				
Domestic	37,153	—	—	37,153
International Developed	12,415	—	—	12,415
International Emerging Markets	10,451	—	—	10,451
Inflation Funds	—	4,707	—	4,707
Commodity related securities	2,563	—	—	2,563
Common stock	166	—	—	166
Total equity funds	62,748	4,707	—	67,455
Common collective trust funds	—	3,775	—	3,775
Hedge funds:				
Hedge Equity Fund of Funds	—	—	38,757	38,757
Absolute Return Fund of Funds	—	—	10,008	10,008
Total hedge funds	—	—	48,765	48,765
Private equity:				
Multi-Strategy Fund of Funds	$ —	—	7,272	7,272
Direct Private Debt and Equity	—	—	490	490
Real estate investments	—	—	506	506
Total private equity	$ —	—	8,268	8,268
Other	—	—	1,273	1,273
Deposits with bond trustee	—	1,002	—	1,002
Interest in perpetual trust	—	—	10,236	10,236
Total financial assets	$ 94,199	9,484	68,542	172,225
Financial liabilities:				
Interest rate swap	$ —	4,262	—	4,262

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, 2012 (in thousands):

		Hedge funds	Private equity	Other	Interest in perpetual trust	Total
Beginning balance, June 1, 2011	$	48,765	8,268	1,273	10,236	68,542
Total gains and loses included in changes in net assets:						
Dividend and interest income		24	18	—	—	42
Net realized and unrealized gains		(113)	(33)	(83)	(432)	(661)
Purchases and issuances		—	3,507	—	—	3,507
Sales and settlements		(10,844)	(682)	—	—	(11,526)
Ending balance, May 31, 2012	$	37,832	11,078	1,190	9,804	59,904

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, 2011 (in thousands):

		Hedge funds	Private equity	Other	Interest in perpetual trust	Total
Beginning balance, June 1, 2010	$	53,194	6,938	1,273	8,770	70,175
Total gains and loses included in changes in net assets:						
Dividend and interest income		—	—	—	—	—
Net realized and unrealized gains		5,601	592	—	1,466	7,659
Purchases and issuances		—	1,966	—	—	1,966
Sales and settlements		(10,030)	(1,228)	—	—	(11,258)
Ending balance, May 31, 2011	$	48,765	8,268	1,273	10,236	68,542

The University did not transfer any assets between levels during fiscal year 2012.

(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) for the years ended May 31, 2012 and 2011:

		2012	2011
Income from interest and dividends	$	4,330	1,780
Net realized and unrealized gain (loss) on investments		(11,968)	23,642
Investment fees		(440)	(378)
Total investment return	$	(8,078)	25,044

Investment return is included in the statements of activities as follows for the years ended May 31, 2012 and 2011:

		2012	2011
Operating	$	6,928	6,830
Nonoperating		(15,006)	18,214
	$	(8,078)	25,044

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 as of May 31, 2012:

Investment		Fair value	Remaining average life of the funds		Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Common collective trust funds	$	3,088	N/A	$	—	Monthly	10-30 days
Hedge funds:							
Long and short (a)		34,953	N/A		—	Various	30 – 105 days
Absolute return (b)		6,673	N/A		—	As Available	N/A
Private equity diversified (c)		11,078	7 months to 10 years		13,635	N/A	N/A
	$	55,792		$	13,635		

(a) This category includes investments in hedge funds and other funds of funds that invest in a variety of long and short funds where the underlying investments are primarily marketable securities. The frequency of redemption varies from monthly to multiyear lock-up, with a maximum of 3 years.

(b) This category includes investments in hedge funds and other funds of funds that invest in a variety of absolute return hedge funds.

(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 remaining life of the funds varying from 7 months, 15 months, 7 years, and 10 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 as of May 31, 2011:

Investment	Fair value	Remaining average life of the funds	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Common collective trust funds	$ 3,775	N/A	$ —	Monthly	30 Days
Hedge funds:					
Long and short (a)	38,757	N/A	—	Various	100 – 105 Days
Absolute return (b)	10,008	N/A	—	Various	Various
Private equity diversified (c)	8,268	7 months to 10 years	5,975	Not permitted	N/A
	$ 60,808		$ 5,975		

(a) This category includes investments in hedge funds and other funds of funds that invest in a variety of long and short funds where the underlying investments are primarily marketable securities. The frequency of redemption varies from annually to multiyear lock-up, with a maximum of 3 years.

(b) This category includes investments in hedge funds and other funds of funds that invest in a variety of absolute return hedge funds.

(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 remaining life of the funds varying from 7 months, 27 months, 6 years, 8 years, and 10 years.

(5) Land, Buildings, and Equipment

Land, buildings, and equipment, net, as of May 31, 2012 and 2011 consist of the following (in thousands):

	2012	2011
Land and land improvements	$ 15,803	15,467
Buildings	382,824	370,224
Equipment, furniture, fixtures, software, and other	32,557	31,368
Investment in Loyola/Notre Dame Library	12,106	12,106
Construction in progress	3,508	8,961
	446,798	438,126
Accumulated depreciation	(127,448)	(117,121)
Land, buildings, and equipment, net	$ 319,350	321,005

Depreciation expense totaled $10,360,000 and $10,772,000 for the years ended May 31, 2012 and 2011, respectively.

The Loyola/Notre Dame Library, Inc. (the Library), a separate legal corporation, was formed in February 1968 for the mutual benefit of the University and the College of Notre Dame of Maryland (Notre Dame). The Library building is situated on six acres of land between the two campuses. The land and the building, including improvements, were contributed in equal shares by Loyola and Notre Dame and are the property of the Library. The Library has its own Board of Trustees consisting of twelve members: three from the University, three from Notre Dame, and six other members. The University and Notre Dame are required to financially support the Library's annual operations through payments of joint and use costs. Joint costs are equally shared and use costs are based on each institution's proportionate share of adjusted semester hours. The University incurred approximately $3,018,000 and $2,942,000 in joint and use costs for the Library during the years ended May 31, 2012 and 2011, respectively.

(6) Bonds Payable and Other Debt Matters

Bonds payable as of May 31, 2012 and 2011 consist of the following (in thousands):

		2012	2011
Maryland Health and Higher Education Facility Authority:			
Revenue bonds (MHHEFA):			
Series 1996B bonds, variable rate, due annually through October 2013 (0.17% and 0.17% as of May 31, 2012 and 2011, respectively)	$	2,800	3,900
Series 1999:			
5.25% term bonds due October 2029, principal beginning October 2027		5,915	5,915
5.00% term bonds due October 2039, principal beginning October 2030		27,440	27,440
		33,355	33,355
Series 2006A:			
4.750% term bond due October 2033, principal beginning October 2027		10,400	10,400
5.000% term bond due October 2040, principal beginning October 2034		18,050	18,050
5.125% term bond due October 2045, principal beginning October 2041		34,545	34,545
		62,995	62,995
Series 2007 bonds, variable rate, due annually through December 2023 (1.52% and 1.50% as of May 31, 2012 and 2011, respectively)		9,285	9,880
Series 2008 bonds, variable rate, due annually through October 2026 (0.24% and 0.16% as of May 31, 2012 and 2011, respectively)		42,510	43,845
		150,945	153,975
Less: discounts and premium, net		(897)	(937)
	$	150,048	153,038

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, 2012 and 2011, the University had letters of credit outstanding with banks in the amount of $42,918,000 and $44,265,000, 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 in installments through 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 2015. 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, 2012 and 2011.

Interest costs on long-term debt, net of amounts capitalized, were $6,813,949 and $6,865,904 in 2012 and 2011, respectively. No amounts were capitalized in 2012 and 2011.

(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 $6,118,000 and $4,262,000 as of May 31, 2012 and 2011, respectively, and is included in other liabilities on the balance sheets.

(b) Principal Repayment Schedule

Aggregate annual principal payments on the bonds over the next five fiscal years and, thereafter, are as follows (in thousands):

2013	$	3,125
2014		3,035
2015		3,205
2016		3,280
2017 and thereafter		138,300
	$	150,945

(c) Subsequent Financing

On June 7, 2012, MHHEFA issued a tax-exempt bond with a par value of $49,250,000 (Series 2012A Revenue Bonds) on behalf of the University. Approximately $33,748,000 of these proceeds were used to retire the Series 1999 Revenue Bonds. $9,285,000 of these proceeds were used to retire the Series 2007 Revenue Bonds. $10,000,000 of these proceeds were used to retire a portion of the Series 2008 Revenue Bonds. The remaining proceeds were used for debt issuance costs and to fund a swap termination fee. The Series 2012A Bonds bear interest at a fixed rate of 2% to 5% and are due in installments through October 2040.

On June 26, 2012, MHHEFA issued a tax-exempt bond with a par value of $32,595,000 (Series 2012B Revenue Bonds). Approximately $32,510,000 of these proceeds were used to retire the remaining Series 2008 Revenue Bonds outstanding at May 31, 2012. The remaining proceeds were used to fund debt issuance costs. The Series 2012B Revenue Bonds bear interest at variable rates determined by the remarketing agent, are due in installments through October 2027.

(d) Principal Repayment Schedule (Due to Subsequent Financing)

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

2013	$	2,455
2014		3,150
2015		3,120
2016		3,225
2017 and thereafter		135,690
	$	147,640

(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 $118,000 and $76,000 in 2012 and 2011, respectively. The change in value of the University’s interest in the perpetual trust is recorded as change in value of split interest agreements on the statements of activities and was $(432,000) and $1,466,000 in 2012 and 2011, respectively.

(8) Temporarily Restricted Net Assets

Temporarily restricted net assets as of May 31, 2012 and 2011 are restricted for the following purposes (in thousands):

		2012	2011
General operations (purpose restricted)	$	6,501	4,981
Buildings and equipment		274	301
Cumulative gains on permanent endowment funds		15,095	20,297
Other, passage of time		1,800	2,681
Total	$	23,670	28,260

(9) Permanently Restricted Net Assets

Permanently restricted net assets as of May 31, 2012 and 2011 are restricted to investment in perpetuity, the income from which is expendable to support operations as follows (in thousands):

		2012	2011
Financial aid	$	34,526	33,165
Instruction and research		24,981	21,626
General operations		1,489	703
Total	$	60,996	55,494

(10) Endowment

The University's endowment consists of approximately 185 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, its interest in the perpetual trust, and charitable gift annuities 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, 2012 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (1,374)	15,095	49,730	63,451
Board-designated endowment funds	92,670	—	—	92,670
Total endowed net assets	$ 91,296	15,095	49,730	156,121

Endowment net assets consist of the following as of May 31, 2011 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (1,013)	20,297	44,581	63,865
Board-designated endowment funds	102,066	—	—	102,066
Total endowed net assets	$ 101,053	20,297	44,581	165,931

(Continued)

Changes in endowment net assets for the year ended May 31, 2012 are as follows (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 1, 2011	$	101,053	20,297	44,581	165,931
Investment return		(5,386)	(2,670)	—	(8,056)
Contributions collected		—	—	5,149	5,149
Appropriation for expenditure		(4,371)	(2,532)	—	(6,903)
Endowment net assets, May 31, 2012	$	91,296	15,095	49,730	156,121

Changes in endowment net assets for the year ended May 31, 2011 are as follows (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 1, 2010	$	80,897	15,792	41,206	137,895
Investment return		16,621	6,117	—	22,738
Contributions collected		—	—	3,303	3,303
Change in value of permanently restricted gift annuities		—	—	72	72
Appropriation for expenditure		(4,780)	(1,612)	—	(6,392)
Other changes:					
Transfers to create (remove) board-designated endowment funds		8,315	—	—	8,315
Endowment net assets, May 31, 2011	$	101,053	20,297	44,581	165,931

(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 $1,374,000 and $1,013,000 as of May 31, 2012 and 2011, 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 $6,217,000 and $6,010,000 in 2012 and 2011, respectively.

(12) Commitments and Contingencies

(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 parking spaces in Baltimore, Maryland under a noncancelable operating lease agreement expiring 2017. The University also leases clinical, classroom, and office facilities in Baltimore, Maryland, under a noncancelable operating lease agreement expiring in 2024. 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, 2012 and 2011 was approximately $2,292,000 and $2,225,000, respectively.

(Continued)

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, 2012 (in thousands):

Year ending May 31:		
2013	$	2,093
2014		2,270
2015		2,345
2016		2,243
2017		453
Thereafter		2,510
	$	11,914

(b) Other

The University is subject to various claims, litigation, and other assessments in the normal course of its operations and liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. 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 such as construction services and banking services. These transactions totaled $5,737,000 in fiscal year 2012. All related party activity is conducted in accordance with the University's normal policies and procedures.

(14) Subsequent Events

The University has evaluated subsequent events from the balance sheet date through October 10, 2012, the date at which the financial statements were available to be issued, and determined that other than the subsequent financing described in footnote 6(c), there are no items to disclose.