Loyola Marymount University

Report and Financial Statements
For the Year Ended May 31, 2007

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

To the Board of Trustees of
Loyola Marymount University

In our opinion, the accompanying statement of financial position and the related statements of activities and changes in net assets, cash flows present fairly, in all material respects, the financial position of Loyola Marymount University (the "University") at May 31, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. 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 audit. The prior year summarized comparative information has been derived from the University's May 31, 2006 financial statements, and in our report dated September 22, 2006, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements 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 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 audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

September 20, 2007

Loyola Marymount University
Statement of Financial Position
At May 31, 2007
(With Summarized Financial Information at May 31, 2006)
(In thousands)

	2007	2006
Assets		
Cash and cash equivalents	$ 29,746	$ 19,178
Accounts receivable		
Tuition & fees, less allowance for doubtful accounts of $389 (2007) and $400 (2006)	2,403	707
Other	7,045	3,905
Pledges receivable, net	25,677	29,095
Notes receivable, less allowance for doubtful accounts of $2,377 (2007) and $2,182 (2006)	31,163	30,142
Investments	434,337	366,450
Prepaid expenses, deferred charges and other assets	8,571	7,446
Plant properties, net of accumulated depreciation	414,699	403,787
Total assets	$ 953,641	$ 860,710
Liabilities and Net Assets		
Liabilities		
Accrued payroll expense	$ 8,145	$ 6,983
Accounts payable and accrued expenses	27,062	23,897
Accrued interest expense	19,572	17,018
Deferred revenue and deposits	10,685	11,789
CEFA debt outstanding, net of unamortized discount of $484 (2007) and $503 (2006)	168,867	175,598
Loan funds returnable to donor	1,152	1,152
U.S. government grants refundable	11,346	11,513
Annuity liabilities and assets held for others	4,796	4,167
Total liabilities	251,625	252,117
Commitments and contingencies (Note 11)		
Net assets		
Unrestricted	551,082	456,962
Temporarily restricted	23,553	32,315
Permanently restricted	127,381	119,316
Total net assets	702,016	608,593
Total liabilities and net assets	$ 953,641	$ 860,710

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

Loyola Marymount University
Statement of Activities
For the Year Ended May 31, 2007
(With Summarized Financial Information For the Year Ended May 31, 2006)
(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total	2006 Total
Revenues, gains and other additions					
Tuition and fees	$ 237,815			$ 237,815	$ 217,630
Scholarships	(48,295)			(48,295)	(43,104)
Net tuition and fees	189,520			189,520	174,526
Investment return designated for operations	15,535			15,535	14,084
Contributions and pledges	7,753	$ 1,294		9,047	8,493
Grants	6,649			6,649	6,130
Auxiliary enterprise revenue	28,248			28,248	24,229
Other revenue	5,262			5,262	5,470
Net assets released from restrictions	895	(895)		–	–
Total operating revenues, gains, and other additions	253,862	399		254,261	232,932
Expenses					
Instruction and research	102,938			102,938	97,658
Academic support	7,995			7,995	7,286
Library	9,309			9,309	10,143
Student services	36,966			36,966	35,772
Institutional support	52,205			52,205	51,034
Auxiliary enterprises	28,304			28,304	21,413
Total operating expenses	237,717	–		237,717	223,306
Increase in operating net assets	16,145	399		16,544	9,626
Non-operating revenues and expenses					
Contributions for non-operating purposes	60	1,157	$ 7,471	8,688	10,416
Contributions for acquisition of capital assets	8,600	2,961	–	11,561	4,028
Investment gain after amounts designated for current operations	55,704	498	575	56,777	27,939
Net gain on interest rate swap agreement	596	–	–	596	576
Other non-operating expenses	(36)	(707)	–	(743)	(229)
Net assets released from restriction	13,076	(13,080)	4	–	–
Reclassifications	(25)	10	15	–	–
Increase (decrease) in non-operating revenues and expenses	77,975	(9,161)	8,065	76,879	42,730
Cumulative effect of change in accounting principle	–	–	–	–	(984)
Increase (decrease) in net assets	94,120	(8,762)	8,065	93,423	51,372
Net assets, beginning of year	456,962	32,315	119,316	608,593	557,221
Net assets, end of year	$ 551,082	$ 23,553	$ 127,381	$ 702,016	$ 608,593

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

Loyola Marymount University
Statement of Cash Flows
For the Year Ended May 31, 2007
(With Summarized Financial Information For the Year Ended May 31, 2006)
(In thousands)

	2007	2006
Cash flows from operating activities		
Increase in net assets	$ 93,423	$ 51,372
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation & amortization	14,801	12,943
Net gain on interest rate swap agreement	(596)	(576)
Unrealized gain on investments	(47,230)	(18,558)
Loan forgiveness	86	39
Cumulative effect of change in accounting principle	–	984
Provisions for doubtful notes receivable	195	210
Contributions to be used for fixed assets	(10,592)	(3,559)
Contributions to be used for long-term investment	(7,510)	(10,475)
Changes in assets and liabilities		
Tuition and fees receivable from students, net	(1,696)	37
Accounts receivable, other	(2,495)	234
Pledges receivable, net	(1,389)	(1,694)
Prepaid expenses, deferred charges and other assets	(1,380)	(579)
Accounts payable and accrued expenses	5,177	7,007
Deferred student revenue and deposits	(1,104)	2,115
Annuity liabilities and assets held for others	865	177
Net cash provided by operating activities	40,555	39,677
Cash flows from investing activities		
Purchases of plant properties	(23,736)	(29,773)
Purchases of investments	(267,625)	(316,221)
Proceeds from sales and maturities of investments	246,323	315,331
Disbursements of loans to students	(6,731)	(6,685)
Repayments of loans by students	5,429	5,696
Net cash used in investing activities	(46,340)	(31,652)
Cash flows from financing activities		
Repayment of CEFA bonds payable	(6,153)	(6,207)
U.S. government grants refundable, net	(167)	(122)
Contributions to be used for fixed assets	16,115	7,687
Contributions to be used for long-term investment	6,794	7,717
Cash payments made under split-interest agreements	(232)	(222)
Termination of split-interest agreements	(4)	(581)
Net cash provided by financing activities	16,353	8,272
Net increase in cash and cash equivalents	10,568	16,297
Cash and cash equivalents, beginning of year	19,178	2,881
Cash and cash equivalents, end of year	$ 29,746	$ 19,178
Supplementary cash flow information		
Interest paid (including amounts capitalized of $0 (2007) and $357 (2006))	$ 5,654	$ 5,468

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

1. Summary of Significant Accounting Policies

Organization

Loyola Marymount University ("University" or "LMU") is a coeducational institution offering undergraduate, graduate, and professional degrees, including programs leading to degrees in law and business. The University is a non-profit organization as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal income taxes on related income pursuant to Section 501(c)(3) of the Code.

Financial Statement Presentation

The financial statements of the University have been prepared on the accrual basis of accounting to conform to accounting principles generally accepted in the United States of America as applicable to non-profit educational institutions. The financial statements have been prepared in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 117, "Financial Statements of Not-for-Profit Organizations", under which net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein have been classified and are reported as follows:

- Unrestricted net assets – Net assets not subject to donor-imposed stipulations; donor-restricted contributions whose restrictions are met in the same reporting period; and endowment net assets designated by the Board of Trustees or management for specific purposes (known as quasi-endowment net assets).

- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the University and/or by the passage of time.

- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that the University maintain them in perpetuity. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and temporary investments purchased with an initial maturity of three months or less, excluding those held for long term investment. The carrying amount of cash and cash equivalents approximates fair value due to the short maturity of these financial instruments. In accordance with Federal regulations, cash received for Federal Family Education Loans is held in a separate bank account until credited to students' accounts.

1. Summary of Significant Accounting Policies (Continued)

Credit Concentration

Financial instruments that potentially subject the University to concentration of credit risk are cash, cash equivalents, investments, and receivables. The University's cash, cash equivalents, and investments are held by recognized financial institutions. The University requires its investment managers to follow the University's investment policy, and the investment managers are subject to periodic review by the University's Endowment Fund Investment Committee. The University's investments are comprised primarily of investment grade debt and equity securities. Concentration of credit risk for accounts receivable and student loans receivable is generally limited due to the dispersion of these loans over a wide debtor base. The University continually monitors its receivables and establishes valuation allowances as considered appropriate.

Plant Properties

Plant assets, which are purchased or constructed, are stated at cost; assets acquired by gift or bequest are stated at fair value at the date of acquisition. The University uses the straight-line method for the computation of depreciation of long-lived assets according to the following schedule of useful lives:

Asset	Life
Buildings	60 years
Equipment	5-20 years
Library Books	20 years
Computer software	5 years
Improvements	20 years

The University uses a half year convention for all assets except new construction of buildings for which depreciation continues to begin from the date they are placed in service. Depreciation expense for fiscal year 2007 was $14,528,000.

Normal repair and maintenance expenses and minor equipment replacement costs are expensed as incurred.

The University has recorded conditional asset retirement obligations associated with the legally required removal and disposal of certain hazardous materials, primarily asbestos, present in our facilities. When an asset retirement obligation is identified, the university records the fair value of the obligation as a liability. The fair value of the obligation is also capitalized as property, plant and equipment and then amortized over the estimated useful life of the associated asset. The fair value of the conditional asset retirement obligations were estimated using a probability weighted, discounted cash flow model. The present value of future estimated cash flows was calculated using the credit adjusted, risk free rate applicable to the university in order to determine the fair value of the conditional asset retirement obligations. As of May 31, 2007, $1,677,000 of conditional asset retirement obligations are included within accounts payable and other accrued expenses in the Statement of Financial Position.

State of California Energy Conservation Assistance Loans

Included in accounts payable and accrued expenses in the Statement of Financial Position is a loan balance due to the State of California of $1,314,000 for two Energy Conservation Assistance loans. Interest expense for the fiscal year ended May 31, 2007 was $55,000.

1. Summary of Significant Accounting Policies (Continued)

Revenue and Expense Recognition

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law.

Tuition, Fees and Scholarships

Student tuition and fees are recorded as revenues in the year during which the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenues. Scholarships are reported in the statement of activities as a reduction of tuition and fees (see Note 8).

Contributions

Contributions are accounted for in accordance with the provisions of SFAS 116, "Accounting for Contributions Received and Contributions Made" which requires that unconditional promises to give (pledges) be recorded as receivables and revenues in the year received. For financial reporting purposes, the University distinguishes between contributions of unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Contributions, on which donors have imposed restrictions that limit the use of the donated assets, are reported as restricted. When such donor-imposed restrictions are met in subsequent reporting periods, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Contributed assets that are subject to perpetual donor restrictions and from which only the current income may be used are classified as permanently restricted net assets. Contributed assets for which donors have not stipulated restrictions, as well as contributions on which donors have placed restrictions which are met within the same reporting period, are reported as unrestricted support.

Unconditional promises to give on which payments are receivable in future periods are reported as temporarily restricted. Gifts of land, buildings and equipment are reported as unrestricted 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 restricted. Absent explicit donor stipulation, the University reports expirations of donor restrictions on long-lived assets when the donated or acquired long-lived asset is placed in service or when construction begins.

Grants and Contracts

Revenues from grants and contracts are reported as increases in unrestricted net assets, as allowable expenditures under such agreements are incurred.

Fundraising Expense

Included in institutional support expense in the Statement of Activities for the year ended May 31, 2007 is approximately $10,049,000 of direct expenses related to fundraising.

Non-operating (expense) income

Non-operating (expense) income consists of amounts which, due to their nature, are not considered by management as part of operations. Specific items include investment results, market value adjustment on hedge agreement, and other non-operating items.

1. Summary of Significant Accounting Policies (Continued)

Functional Classifications

The financial statements present expenses by functional classification in accordance with the overall mission of the University and industry standards. Each functional classification includes direct expenses related to the provision of a part of the University's mission, as well as allocated costs such as depreciation, interest expense and plant operating costs. Depreciation expense is allocated based upon square footage occupancy of University facilities. Interest expense on external debt is allocated to the functional categories which have benefited from the proceeds of the external debt. Plant operations and maintenance represents building occupancy costs, which are allocated to functional categories based upon square footage occupancy or by specific identification.

Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total, but not by net asset category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended May 31, 2006 from which the summarized information was derived. Certain reclassifications have been made to the 2006 financial statements in order to conform to the 2007 presentation.

Upcoming Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosure about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The University is currently evaluating the impact the adoption of SFAS No. 157 will have on the University's financial statements.

At its June 2006 meeting, the EITF Task Force affirmed and the FASB ratified that compensation associated with a sabbatical leave or other similar benefit arrangements should be accrued over the requisite service period. EITF Issue No. 06-2 is effective for fiscal years beginning after December 15, 2006. The University is currently evaluating the impact the adoption of EITF Issue No. 06-2 will have on the University's financial statements.

2. Disclosures about Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value. The estimated fair value amounts have been determined by using available market information and appropriate valuation methods. Fair value estimates are made at a specific point in time and may require considerable judgment. Accordingly, the estimates presented are not necessarily reflective of the amounts that could be realized in current market transactions.

Notes Receivable

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

2. Disclosures about Fair Value of Financial Instruments (Continued)

Debt Outstanding
The carrying value of the University's bonds payable is recorded at unamortized principal of $168,515,000 (see Note 7). The estimated fair value of the University's bonds payable was $190,814,000 at May 31, 2007. This fair value was estimated based upon the discounted amount of future cash outflows using the rates offered to the University for debt of the same remaining maturities.

3. Investments

Investments consisted of the following at May 31, 2007, stated at fair value except for certain mineral investments and real estate, which are stated at cost (in thousands):

Cash and cash equivalents	$ 11,542
Short-term investments	486
Equity securities	117,808
Bonds	
U.S. Government	41,192
Corporate	30,836
International	15,902
International securities	104,428
Real estate	20,582
Venture capital	14,530
Hedge funds	75,942
Mineral, oil and gas	455
Other	634
Total investments	$ 434,337

The following schedule summarizes the investment return and its classification in the Statement of Activities for the year ended May 31, 2007. The amounts are as follows (in thousands):

Dividends, interest and rents	$ 9,242
Net gains	64,435
Management fees	(1,365)
Total gain on investments	72,312
Less: Investment return designated for current operations	15,535
Investment gains after amounts designated for current operations	$ 56,777

At September 20, 2007, the University has open commitments to invest approximately $33,596,000 with alternative investment managers.

Included in the net gains of $64,435,000 is $18,297,000 of gains from investments other than debt or equity.

4. Pledges Receivable

The University has undertaken various fundraising campaigns for operational, plant and endowment purposes. The receivables are recorded net of the discount for future cash flows. Pledges are discounted at rates ranging from 3% to 5%. At May 31, 2007, outstanding pledges in connection with these campaigns are reflected in the financial statements and are summarized below (in thousands):

Pledges expected to be collected:

In one year or less	$ 8,845
Between one and five years	19,771
Over five years	1,016
Total pledges receivable	29,632
Less: Allowance for uncollectible pledges	1,933
Discount to present value	2,022
Total pledges receivable, net	$ 25,677

Pledges receivable before allowance or discount at May 31, 2007 have the following designations (in thousands):

Endowment for academic programs and activities	$ 10,003
Endowment for scholarships	2,588
Plant properties	13,357
Departmental programs and activities	3,684
Total pledges receivable	$ 29,632

5. Plant Properties

At May 31, 2007, plant properties are as follows (in thousands):

	Westchester Campus	Law School Campus	Total
Land	$ 37,866	$ 3,265	$ 41,131
Buildings	293,345	58,318	351,663
Equipment	92,626	9,046	101,672
Library books	14,240	20,945	35,185
Computer software	12,782	2,611	15,393
Improvements other than buildings	36,131	4,552	40,683
Construction-in-progress	6,794	475	7,269
Total cost	493,784	99,212	592,996
Accumulated depreciation	(144,489)	(33,808)	(178,297)
Plant properties, net	$ 349,295	$ 65,404	$ 414,699

6. Retirement and Other Post Retirement Benefits

The University contributes to a retirement plan on behalf of eligible University employees. The employees may elect to invest these funds through the Teachers Insurance and Annuity Association ("TIAA") and College Retirement Equities Fund ("CREF") – a national organization used to fund pension benefits for educational institutions – or through Fidelity Fund. Under this defined contribution plan, the University and plan participants make contributions to purchase individual annuities or to participate in a variety of mutual funds. Benefits commence upon retirement and pre-retirement survivor death benefits are provided. Amounts expensed for the University's share of these costs were approximately $8,635,000 during the year ended May 31, 2007.

The University currently provides certain health care benefits for retired University employees. Employees will become eligible for those benefits if they reach retirement while employed by the University and are at least 65 with 10 years of service. As of May 31, 2007, a net post retirement benefit liability of $3,638,000 is included in accounts payable and accrued expenses. The plan has no net assets at May 31, 2007 and for fiscal 2007 assumed a 6.10% annual rate of increase in the per capita cost of postretirement medical benefits. The service cost for fiscal 2007 was approximately $138,000.

7. Debt Outstanding

Debt outstanding is primarily comprised of CEFA loans and revenue bonds payable resulting from borrowings issued through the California Educational Facilities Authority ("CEFA") in the form of either uncollateralized secured pooled facilities loan programs or direct uncollateralized revenue bonds.

The University has an interest rate swap agreement to manage its interest costs associated with the Series 2004 Bonds. The interest rate swap agreement was not entered into for trading or speculative purposes. Under the terms of the agreement, the University pays a fixed rate of 3.575%. The notional amount of the Swap agreement is $44,100,000 and the agreement expires in fiscal year 2035. The University accounts for the agreement under the terms of Financial Accounting Standards Board Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. The accrued unrealized loss associated with the agreement of $836,000 is included in long-term debt in the Statement of Financial Position as of May 31, 2007. For fiscal year 2007 a gain of $596,000 is included within non-operating revenue and expenses in the Statement of Activities.

7. Debt Outstanding (Continued)

Borrowings under CEFA agreements at May 31, 2007 are as follows (in thousands):

Series	Fiscal Year Maturity Dates	Interest Rates	Principal Outstanding
1997	2007 – 2023	4.60% – 5.00%	$ 12,815
1999	2007 – 2010	5.20% – 5.40%	7,136
2001A	2007 – 2040	3.80% – 5.83%	73,864
2001B	2011 – 2028	Auction Rate	30,600
2004	2007 – 2035	Auction Rate	44,100
			168,515
	Less: unamortized discount		(484)
	Net CEFA loan and revenue bonds		$ 168,031

Future principal payment requirements for the CEFA obligations are as follows (in thousands):

Fiscal Year Ending May 31,	
2008	$ 6,098
2009	6,024
2010	5,949
2011	7,560
2012	7,910
Thereafter	134,974
Totals	$ 168,515

Total debt outstanding at May 31, 2007 is as follows (in thousands):

CEFA borrowings	$ 168,515
Unrealized loss on swap agreement	836
Unamortized discount on CEFA borrowings	(484)
Total debt outstanding	$ 168,867

Interest expense for fiscal year 2007 was approximately $8,154,000.

8. Scholarships

Scholarships, reported in the statement of activities as a reduction of tuition and fees, were funded in fiscal year 2007 from the following revenue sources (in thousands):

University tuition and fees	$ 40,910
Endowment distribution	3,892
Donor contributions for current use	2,462
Government grants	1,031
Total scholarships	$ 48,295

9. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets for annuity trust agreements, buildings and equipment, and for scholarship and academic support represent funds previously collected but not yet expended or released from their restrictions.

Temporarily restricted net assets at May 31, 2007 are available for the following purposes (in thousands):

Annuity trust agreements	$ 4,980
Buildings and equipment	3,513
Temporarily restricted pledges	15,060
Total temporarily restricted net assets	$ 23,553

Permanently restricted net assets consist of the following at May 31, 2007 (in thousands):

Investment in perpetuity, the income from which is expendable to support educational activity	$ 89,695
Donor-restricted loan funds	27,068
Permanently restricted pledges	10,618
Total permanently restricted net assets	$ 127,381

At May 31, 2007, the fair market values of all donor-restricted endowments are the same as or greater than the historical cost.

10. Related Parties

The members of the Society of Jesus, the Religious of the Sacred Heart of Mary, and the Sisters of St. Joseph of Orange constitute approximately 2.8% of the University's full and part-time faculty and administrative staff. During the year ended May 31, 2007, the University paid these religious communities approximately $3,460,000 for their services. This compensation is included in instruction and research, institutional support and student services expenses in the statement of activities. Some members of these communities live in housing provided by the University for a nominal rent.

11. Commitments and Contingencies

The University is a defendant in various legal actions incident to the conduct of its operations. The University's management does not expect that liabilities, if any, related to these legal actions would have a material effect on the University's financial position.

Amounts are received and expended by the University under federal contracts and are subject to audit by governmental agencies. These awards are subject to audit and final acceptance by federal granting agencies. The amount of expenditures that may be disallowed by the grantors, if any, cannot be determined at this time, although the University expects such amounts, if any, to be immaterial.