Loyola Marymount University

Report and Financial Statements
May 31, 2009

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 of cash flows present fairly, in all material respects, the financial position of Loyola Marymount University (the "University") at May 31, 2009, 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, 2008 financial statements, and in our report dated October 1, 2008, 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.

As discussed in Note 1, the University adopted FASB Staff Position (FSP) No. 117-1 "Endowment of Not-For-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds", in the year ended May 31, 2009.

PricewaterhouseCoopers LLP

October 2, 2009

Loyola Marymount University
Statement of Financial Position
At May 31, 2009
(With Summarized Financial Information at May 31, 2008)
(In thousands)

	2009	2008
Assets		
Cash and cash equivalents	$ 14,469	$ 21,947
Accounts receivable		
Tuition & fees, less allowance for doubtful accounts of $1,080 (2009) and $521 (2008)	2,602	3,582
Other	8,940	7,701
Pledges receivable, net	22,702	30,695
Notes receivable, less allowance for doubtful accounts of $1,886 (2009) and $2,560 (2008)	35,261	33,179
Investments	326,815	450,121
Prepaid expenses, deferred charges and other assets	5,948	8,427
Plant properties, net of accumulated depreciation	507,309	451,231
Total assets	$ 924,046	$ 1,006,883
Liabilities and Net Assets		
Liabilities		
Accrued payroll expense	$ 10,276	$ 9,515
Accounts payable and accrued expenses	37,286	36,276
Accrued interest expense	24,356	22,101
Deferred revenue and deposits	11,579	13,010
Debt outstanding, net of unamortized discount of $445 (2009) and $464 (2008)	161,822	162,974
Loan funds returnable to donor	1,152	1,152
U.S. government grants refundable	11,090	11,166
Annuity liabilities and assets held for others	4,340	4,662
Total liabilities	261,901	260,856
Commitments and contingencies (Note 12)		
Net assets		
Unrestricted	435,345	582,937
Temporarily restricted	81,864	23,772
Permanently restricted	144,936	139,318
Total net assets	662,145	746,027
Total liabilities and net assets	$ 924,046	$ 1,006,883

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

Loyola Marymount University
Statement of Activities
For the Year Ended May 31, 2009
(With Summarized Financial Information for the Year Ended May 31, 2008)
(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total	2008 Total
Revenues, gains and other additions					
Tuition and fees	$ 267,975	$ –	$ –	$ 267,975	$ 252,714
Scholarships	(60,241)			(60,241)	(53,105)
Net tuition and fees	207,734			207,734	199,609
Investment returns designated for operations	8,570	5,116		13,686	16,439
Contributions and pledges	6,276	1,035		7,311	10,195
Grants	9,103			9,103	7,280
Auxiliary enterprise revenue	32,274			32,274	29,882
Other revenue	5,164			5,164	5,813
Net assets released from restrictions	6,866	(6,866)		–	–
Total operating revenues, gains, and other changes	275,987	(715)	–	275,272	269,218
Expenses					
Instruction	109,788			109,788	104,942
Research	3,514			3,514	2,947
Academic support	22,554			22,554	20,195
Library	11,082			11,082	10,030
Student services	44,941			44,941	44,201
Institutional support	49,679			49,679	46,643
Auxiliary enterprises	26,479			26,479	25,506
Total operating expenses	268,037	–	–	268,037	254,464
Increase in operating net assets	7,950	(715)	–	7,235	14,754
Non-operating revenues and expenses					
Contributions for non-operating purposes	400	95	4,772	5,267	11,694
Contributions for acquisition of capital assets	2,119	7,909		10,028	13,071
Investment returns after amounts designated for current operations	(65,849)	(36,591)	1,046	(101,394)	4,057
Early extinguishment of debt	(1,887)			(1,887)	–
Net unrealized losses on interest rate swap	(3,072)			(3,072)	(185)
Other non-operating expenses		(59)		(59)	–
Net assets released from restriction	629	(629)		–	–
Redesignations (Note 1)	(24,380)	24,580	(200)	–	–
Increase (decrease) in non-operating revenues and expenses	(92,040)	(4,695)	5,618	(91,117)	28,637
Effect of change in accounting principles (Notes 6 and 9)	(63,502)	63,502	–	–	620
(Decrease) increase in net assets	(147,592)	58,092	5,618	(83,882)	44,011
Net assets, beginning of year	582,937	23,772	139,318	746,027	702,016
Net assets, end of year	$ 435,345	$ 81,864	$ 144,936	$ 662,145	$ 746,027

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

Loyola Marymount University
Statement of Cash Flows
For the Year Ended May 31, 2009
(With Summarized Financial Information for the Year Ended May 31, 2008)
(In thousands)

	2009	2008
Cash flows from operating activities		
(Decrease) increase in net assets	$ (83,882)	$ 44,011
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	17,457	16,217
Net unrealized loss on interest rate swap agreement	3,072	185
Unrealized loss on investments	81,416	6,235
Loan receivable forgiveness	271	157
Cumulative effect of change in accounting principle	–	(620)
(Recovery of) provisions for doubtful notes receivable	(674)	183
Non-cash contributions to be used for current operations	–	(441)
Contributions to be used for fixed assets	(9,933)	(13,015)
Contributions to be used for long-term investment	(4,753)	(12,023)
Changes in assets and liabilities:		
Tuition and fees receivable from students, net	980	(1,179)
Accounts receivable, other	(1,075)	(290)
Pledges receivable, net	313	(1,878)
Prepaid expenses, deferred charges and other assets	2,279	(105)
Accounts payable and accrued expenses	(1,143)	8,104
Deferred student revenue and deposits	(1,431)	2,325
Annuity liabilities and assets held for others	(103)	92
Net cash provided by operating activities	2,794	47,958
Cash flows from investing activities		
Purchases of plant properties	(59,696)	(46,851)
Purchases of investments	(72,582)	(50,008)
Proceeds from sales and maturities of investments	105,857	29,742
Disbursements of loans to students	(5,489)	(6,275)
Repayments of loans by students	3,810	3,919
Net cash used in investing activities	(28,100)	(69,473)
Cash flows from financing activities		
Issuance of CEFA bonds payable	71,895	–
Repayment of CEFA bonds payable	(76,139)	(6,098)
U.S. government grants refundable, net	(76)	(180)
Contributions to be used for fixed assets	15,804	13,026
Contributions to be used for long-term investment	6,563	7,194
Cash payments made under split-interest agreements	(219)	(226)
Net cash provided by financing activities	17,828	13,716
Net decrease in cash and cash equivalents	(7,478)	(7,799)
Cash and cash equivalents, beginning of year	21,947	29,746
Cash and cash equivalents, end of year	$ 14,469	$ 21,947
Supplementary cash flow information		
Securities received as gifts	$ 345	$ 2,119
Interest paid	$ 7,269	$ 6,624

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

1. Summary of Significant Accounting Policies

Organization
Loyola Marymount University (the "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 and under corresponding sections of the California Revenue and Taxation 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 and with the AICPA Audit and Accounting Guide, "Not-for-Profit Organizations."

Net Assets
Under generally accepted accounting principles applicable to not-for-profit organizations, 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 quasi 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 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.

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, 2008 from which the summarized information was derived.

Use of Estimates
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, disclosure of 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.

1. Summary of Significant Accounting Policies (Continued)

Redesignations
Certain amounts previously received from donors have been transferred among net asset categories due to changes in donor designations. In addition, prior to fiscal year 2009, the University released from temporarily restricted net assets to unrestricted net assets $24,580,000 of gifts donated for the construction of long-lived assets as construction progressed. Under generally accepted accounting principles, gifts restricted for purposes of construction of long-lived assets should be released to unrestricted net assets when such assets are placed in service. As of May 31, 2008, these long-lived assets were not yet placed into service, and therefore the gifts designated for their construction should have remained classified as temporarily restricted net assets. Within the Statement of Activities for the year ended May 31, 2009, management has revised the presentation of certain net assets from unrestricted to temporarily restricted by re-designating $24,580,000 million received for the construction of long-lived assets as temporarily restricted net assets as the constructed assets are not yet placed into service

Disclosures about Fair Value of Financial Instruments
The estimated fair value amounts noted below and in subsequent notes 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.

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.

Accounts and Notes Receivable
Student loans are generally funded by government and foundation grants for student financial aid, which the University administers, and are generally uncollateralized. Tuition and fees represent amounts due for current, past or future semesters for which students have registered; amounts collected in advance are deferred and recognized when earned. Management periodically reviews and assesses the collectability of such loans and receivables and provides an allowance when collection is doubtful. Historical bad debt experience has been consistent with management's expectations.

Student notes receivable 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. Determination of the fair value could not be made without incurring excessive costs.

Pledges Receivable
Unconditional promises to give ("pledges") are recorded as contribution revenue and as receivables. Pledge contributions are classified as temporarily restricted or permanently restricted based on time restrictions or donor-imposed stipulations. Pledges are discounted to present value using a discount rate commensurate with the risk involved. An allowance for uncollectible pledges is estimated by management based on such factors as prior collection history; type of contribution and the nature of the fundraising activity (see Note 2).

1. Summary of Significant Accounting Policies (Continued)

Investments

Investments are stated at fair value. Real estate investments received by gift or bequest are recorded at fair value on the date acquired. All gains and losses on investments are reported as increases or decreases to unrestricted or temporarily restricted net assets depending on donor restrictions, if any (see Note 9). Investment income is reported net of investment management fees (see Note 3).

The University commingles most of its endowment investments in a unitized pool (unit market value basis). The pool is comprised of bonds, stocks and other investments. The Board of Trustees determines the amount to be distributed for operational expenditures, which, for the year ended May 31, 2009, amounted to 4.9% of the average market value of the endowment pool at the three previous years' ended December 31. Any amounts remaining after the distributions are reinvested in the endowment pool and function as quasi-endowment.

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 2009 was $17,282,000.

Normal repair and maintenance expenses and minor equipment replacement costs are expensed as incurred. When items are retired or otherwise disposed of, the cost and accumulated depreciation and amortization are removed from the accounts, and any profit or loss on such retirements or disposal is recognized in the year of disposal. The University records conditional asset retirement obligations associated with the legally required removal and disposal of certain hazardous materials, primarily asbestos, present in its 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 is estimated using a probability weighted, discounted cash flow model. The present value of future estimated cash flows is calculated using a credit-adjusted, interest rate applicable to the University in order to determine the fair value of the conditional asset retirement obligations. As of May 31, 2009, $1,685,000 of conditional asset retirement obligations is included within accounts payable and accrued expenses in the Statement of Financial Position (see Note 5).

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. Management regularly reviews its investment policies with the University's investment managers who are also subject to periodic reviews 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.

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 or temporarily restricted net assets depending on the existence or absence of explicit donor restrictions or based on relevant laws and regulations (see Note 9).

Tuition, Fees and Scholarships
Student tuition and fees are recorded as revenues in the year in 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 10).

Contributions and Gifts
Unconditional promises to give are 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.

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

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 represent building occupancy costs, which are allocated to functional categories based upon square-footage occupancy or by specific identification. Square-footage occupancy is adjusted for changes due to new construction or space redistribution.

Fundraising Expense
Included in institutional support expense in the Statement of Activities for the year ended May 31, 2009 is approximately $9,298,000 of direct expenses related to fundraising.

Non-operating revenues and expenses
Non-operating revenue and expenses consist 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 derivative instruments, and other non-operating items.

Adoption of New Accounting Pronouncements
The State of California adopted the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"); therefore, effective June 1, 2008, the University adopted FASB Staff Position No. FAS 117-1, " Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" ("FSP FAS 117-1"). The standard provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA and expands disclosures about an organization's endowment (both donor-restricted and board-designated funds), whether or not the organization is subject to UPMIFA. As a result, upon adoption the University recorded an adjustment at June 1, 2008 by reclassifying $63,502,000 from unrestricted net assets to temporarily restricted net assets to reflect the effect of the change (see Note 9).

Effective June 1, 2008, the University adopted Statement of Financial Accounting Standards ("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 (see Note 8). The adoption of this standard had no impact on the University's consolidated results of operations, financial position or cash flows.

Effective June 1, 2008, the University adopted SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 extends the availability of the fair value option to a wide range of financial instruments – both assets and liabilities. An organization may irrevocably elect to apply the fair value option to eligible financial assets and liabilities acquired or issued subsequent to adoption of the standard. The University elected to not apply the fair value option to eligible financial assets and liabilities that are not currently being fair valued on a recurring basis. The adoption of this standard had no impact on LMU's consolidated results of operations, financial position or cash flows.

1. Summary of Significant Accounting Policies (Continued)

Adoption of New Accounting Pronouncements (Continued)
In May 2009, the FASB issued SFAS No. 165, "Subsequent Events." SFAS No. 165 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; the circumstances under which an entity should recognize these events or transactions; and the disclosures that an entity should make. LMU adopted SFAS No. 165, effective for fiscal year 2009. The adoption of this standard had no impact on LMU's consolidated results of operations, financial position or cash flows.

Upcoming Accounting Pronouncement
In March 2008, SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, was issued and is effective for fiscal years beginning after November 15, 2008. SFAS No. 161 requires enhanced disclosures on a University's derivative and hedging activities. Management does not expect the adoption of SFAS 161 to have a material impact on the University's financial statements.

2. Pledges Receivable

The University has undertaken various fundraising campaigns for operational, plant and endowment purposes. Pledges receivable are recorded at the present value of discounted future cash flows. Pledges are discounted at rates ranging from 3% to 5% per annum. At May 31, 2009, outstanding pledges in connection with these campaigns are reflected in the financial statements and are summarized below (in thousands):

Pledges expected to be collected are as follows at May 31, 2009:

In one year or less	$ 10,200
Between one and five years	15,694
Over five years	620
Total pledges receivable	26,514
Less: Allowance for uncollectible pledges	1,709
Discount to present value	2,103
Total pledges receivable, net	$ 22,702

Pledges receivable before allowance or discount at May 31, 2009 have the following designations (in thousands):

Endowment for academic programs and activities	$ 10,707
Endowment for scholarships	4,344
Plant properties	7,175
Departmental programs and activities	4,288
Total pledges receivable	$ 26,514

3. Investments

Investments consisted of the following at May 31, 2009, stated at fair value (in thousands):

Corporate bonds	$	10,777
Government bonds		13,839
Common stock		1,169
Mutual funds		63,358
Alternative investment funds		
Managed equity and fixed income		108,435
Private equity/venture capital		21,669
Hedge funds		64,335
Natural resource		30,849
Real estate		7,311
Real property and other		5,073
Total Investments	$	326,815

Included in the categories above are investments held in two charitable remainder trusts wherein the University is the trustee and has control over the assets. The aggregate balance of these two trusts at May 31, 2009 was $2,507,000.

The following schedule summarizes the investment return and its classification in the Statement of Activities for the year ended May 31, 2009. The amounts are as follows (in thousands):

Dividends, interest and rents	$	8,612
Net realized and unrealized losses		(95,001)
Management fees		(1,319)
Total loss on investments		(87,708)
Less: Investment returns designated for current operations		13,686
Investment returns after amounts designated for current operations	$	(101,394)

Included in the net realized and unrealized losses of $95,001,000 is $87,361,000 of net realized and unrealized losses related to the University's alternative investment funds, real property and other assets.

4. Plant Properties

At May 31, 2009, plant properties are as follows (in thousands):

	Westchester Campus	Law School Campus	Total	Fully Depreciated Assets
Land	$ 37,866	$ 3,265	$ 41,131	$ –
Buildings	305,033	58,318	363,351	–
Equipment	105,764	11,369	117,133	40,839
Library books	18,911	24,932	43,843	9,026
Computer software	13,518	2,748	16,266	12,506
Leasehold improvements	31,908	4,099	36,007	4,274
Building improvements	25,629	1,271	26,900	–
Construction-in-progress	73,763	398	74,161	–
Total cost	612,392	106,400	718,792	$ 66,645
Less accumulated depreciation	171,763	39,720	211,483	
Plant properties, net	$ 440,629	$ 66,680	$ 507,309	

5. Accounts Payable and Accrued Expenses

The following table sets forth major components of Accounts Payable and Accrued Expenses as of May 31, 2009:

Vendor accounts payable	$ 12,181
Accrued expenses	8,008
Installment payment due	4,511
Construction contract retainage	4,290
Postretirement benefits reserve	3,702
Workers' compensation self-insurance reserve	1,877
Asset retirement obligations	1,685
Other accrued expenses	1,032
	$ 37,286

6. Retirement and Other Postretirement Benefits

Effective January 1, 2009, the University selected Diversified Investment Advisors to be the sole record keeper and investment provider for contributions to the University's defined contribution retirement plan for eligible University employees. Prior to January 1, 2009 the eligible employees were permitted to elect to invest these funds through the Teachers Insurance and Annuity Association and College Retirement Equities Fund ("TIAA-CREF") – a national organization used to fund pension benefits for educational institutions – or through Fidelity Fund. Concurrent with the change of investment providers, the University adopted a new plan document which complies with the new IRS Regulations and effective January 1, 2009 provides for ROTH contributions, hardship and age 59 ½ withdrawals and plan loans. Under both the old and the new 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 $9,565,000 during the year ended May 31, 2009.

The University currently provides certain health care benefits for retired University employees. Employees 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, 2009, a net post retirement benefit liability of $3,702,000 is included in accounts payable and accrued expenses (see Note 5). The plan has no net assets at May 31, 2009 and for fiscal 2009 assumed a 6.80 % annual rate of increase in the per capita cost of postretirement medical benefits. SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, was implemented in 2008 which requires the University to record the plan's unfunded position on the Statement of Financial Position. The cumulative impact of adopting SFAS 158 was a reduction in the liability of $620,000 at May 31, 2008.

The following table sets forth the postretirement benefit plan's funded status and amounts recognized in the Statement of Activities for the year ended May 31, 2009 (in thousands):

Benefit obligation at beginning of year	$ 3,273
Service cost	228
Interest cost	210
Actuarial gain	(24)
Benefits paid	(119)
Change in unrestricted net asset	134
Benefit obligation at end of year	$ 3,702

The following benefit payments which reflect expected future service, as appropriate, are expected to be paid (in thousands):

Fiscal Year Ending May 31,	
2010	$ 259
2011	283
2012	236
2013	277
2014	319
2015-2019	2,120

7. Debt Outstanding

Debt outstanding is primarily comprised of 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.

In September 2008, the University entered into an unsecured short-term line of credit agreement for $71,025,000 with Bank of America for the purpose of providing capital to redeem its outstanding Auction Rate Securities, CEFA 2001B and CEFA 2004. The University then issued call notices for the redemption of all of its outstanding Auction Rate Securities. In December 2008, the University issued new CEFA Variable Rate Demand Revenue bonds ("VRDBs") Series 2008 in order to fully pay down the line of credit, and any bond issuance costs. The new bonds have an aggregate principal amount of $71,895,000, a weekly interest rate determined by the Remarketing Agent, and a maturity date of October 2035.

In December 2008, the University also entered into a Letter of Credit Reimbursement Agreement ("LOC") with Allied Irish Bank for a maximum amount of $72,816,000 to cover the CEFA Series 2008 principal outstanding and up to 39 days' accrued interest. The LOC has an annual fee of 65 basis points, paid quarterly, and terminates December 2011.

The University has an interest rate swap agreement that was originally obtained to manage its interest costs associated with the Series 2004 Bonds, which were refinanced with the 2008 CEFA VRDBs. The original intent of the swap remains in effect with the refinanced debt. 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% per annum. The notional amount of the swap agreement is $40,425,000 and the agreement expires in fiscal year 2035. This derivative instrument is recorded at current fair value.

The accrued unrealized loss of $4,093,000 associated with the agreement is included in the long-term debt in the Statement of Financial Position as of May 31, 2009. For fiscal year 2009 a loss of $3,072,000 is included within non-operating revenues and expenses in the Statement of Activities.

Included in total debt outstanding is a loan balance due to the State of California of $910,000 for two Energy Conservation Assistance loans. The annual interest rates on the two loans are 4.0% and 3.0%, with maturity dates of 2013 and 2012, respectively.

Borrowings under CEFA agreements at May 31, 2009 are as follows (in thousands):

Series	Fiscal Year Maturity Dates	Interest Rates	Principal Outstanding
1997	2010 – 2023	4.70% – 5.00%	$ 11,190
1999	2010 – 2010	5.30% – 5.40%	2,369
2001A	2010 – 2040	4.00% – 5.83%	71,809
2008	2010 – 2035	Variable	71,895
			157,263
	Less: unamortized discount		445
	Net CEFA loan and revenue bonds		$ 156,818

7. Debt Outstanding (Continued)

Total debt outstanding at May 31, 2009 is as follows (in thousands):

CEFA loans and revenue bonds	$ 157,263
Unrealized loss on swap agreement	4,093
Other debt	911
Unamortized discount on CEFA borrowings	(445)
Total debt outstanding	$ 161,822

Future principal payment requirements for the debt outstanding are as follows (in thousands):

Fiscal Year Ending May 31,	CEFA	Other Debt
2010	$ 5,974	$ 212
2011	7,630	219
2012	7,980	227
2013	8,295	161
2014	8,685	92
Thereafter	118,699	–
Totals	$ 157,263	$ 911

Under certain circumstances, the CEFA Series 2008 VRBDs could fail to be remarked, requiring the University to repurchase the outstanding bonds totaling approximately $71,895,000. In case of such a circumstance the University would draw on its LOC.

Interest expense on debt outstanding for fiscal year 2009 was approximately $9,524,000.

The estimated fair value of the University's CEFA bonds payable is $166,642,000 at May 31, 2009. This fair value was estimated based upon the discounted amount of future cash outflows using the relevant yield curve at May 31, 2009 for similar AA-rated debt of the same remaining maturities. The estimated fair value of Other Debt is $955,000 at May 31, 2009.

8. Fair Value Measurements

Effective June 1, 2008, the University adopted Statement of Financial Accounting Standard No. 157, "Fair Value Measurements" ("SFAS 157"). In accordance with SFAS 157, fair value is defined as the price the University would receive to sell an asset or pay a liability in an orderly transaction between the market participants at the reporting date. SFAS 157 also establishes a three-level hierarchy for presenting valuations, based on the transparency of inputs used to value investments and other relevant assets. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Valuation inputs may be observable or unobservable, and refer to the assumptions that a market participant would consider significant to value an asset or liability. The determination of "observable" requires judgment by the University. In general, the University considers observable inputs to be data that are readily available, regularly updated, reliable, and verifiable. Unobservable inputs may be used when observable inputs are not readily available or current. In this situation, one or more valuation techniques may be used including the market approach (inputs based on recent market transactions or comparables) or the income approach (discounted cash flow).

The three levels of the fair value hierarchy under SFAS 157 are as follows:

- Level 1 – Quoted prices available in active markets for identical investments.
- Level 2 – Quoted prices in active markets for similar investments; quoted prices for identical investments in markets that are inactive; and prices based on observable inputs other than an unadjusted quoted price.
- Level 3 – Prices based on significant unobservable inputs.

The following table summarizes the valuations of the University's investments and other relevant assets as of May 31, 2009, based on their placement within the fair-value hierarchy (in thousands):

	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Unobservable Inputs Level 3	Total
Asset at Fair Value				
Investments				
Corporate bonds	$ –	$ 10,185	$ 592	$ 10,777
Government bonds		12,036	1,803	13,839
Common stock	1,169			1,169
Mutual funds	63,358			63,358
Alternative investment funds		133,615	98,984	232,599
Real property & other			5,073	5,073
Other Assets			2,712	2,712
Total Assets	$ 64,527	$ 155,836	$ 109,164	$ 329,527
Liabilities at Fair Value				
Derivative Contracts/Swap	$ –	$ 4,093	$ –	$ 4,093
Total Liabilities	$ –	$ 4,093	$ –	$ 4,093

8. Fair Value Measurements (Continued)

Level 1 generally includes the University's investments in mutual funds and common stock that are regularly traded in active markets where quoted prices may be easily obtained.

Level 2 generally includes the University's investments in debt securities and certain unlisted equity funds that offer a high degree of liquidity and transparency. Debt security prices are obtained from pricing services, or from brokers. Non-listed equity funds that consistently transact on a daily, weekly, or monthly basis are valued at reported net asset value ("NAV"). Level 2 investments may also be priced using model-based valuation techniques where all assumptions are observable. This includes the University's interest rate swap which is valued via discounted cash flow analysis taking into account contractual terms and the current yield curve.

Level 3 generally includes the University's alternative investments, which consist of hedge funds, private equity funds, real estate funds, and other fund of funds. These investments do not typically transact on a regular basis, nor do they have readily determinable fair values. Therefore, the University relies heavily on investment manager-reported valuations, usually in the form NAV. Level 3 also includes the University's oil and gas interests, and real property. Oil and gas interests are valued by discounting future expected royalty revenues, while real property is valued based on a number of different approaches including third party appraisals, market comps, and discounted future rental revenues. Finally, Level 3 includes the University's perpetual trusts and life insurance policies, which are valued at the present value of the future distributions expected to be received over the term of the agreement.

The University performed due diligence around all reported NAVs to ensure that the values are accurate and appropriate. For each investment, due diligence efforts included analysis of funds' audited financial statements, review of valuation policies and procedures, and review of other investment attributes including redemption terms and restrictions. As a result of these efforts, the University concluded that no further adjustments to reported NAVs were necessary.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. In addition, while the University believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table sets forth a reconciliation of beginning and ending balances, separately for each major category of assets for financial instruments designated as Level 3 (in thousands):

	Beginning Balance June 1, 2008	Realized Gains and (Losses)	Unrealized Gains and (Losses)	Net Purchases and (Sales)	Transfers Into Level 3	Ending Balance May 31, 2009
Corporate Bonds	$ –	$ –	$ –	$ –	$ 592	$ 592
Government Bonds			270	1,533		1,803
Alternative Investment Funds	103,986	513	(14,433)	7,825	1,093	98,984
Real Estate and Other	1,769	(15)	3,590	(271)		5,073
Other Assets	2,847		(76)	(60)		2,712
Total Assets	$ 108,602	$ 498	$ (10,649)	$ 9,027	$ 1,685	$ 109,164

All net realized and unrealized gains (losses) in the table above are reflected in the accompanying Statement of Activities.

9. 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, 2009 are available for the following purposes (in thousands):

Buildings and equipment	$ 39,930
Endowment	28,001
Pledges	9,951
Annuity trust agreements	3,982
Total temporarily restricted net assets	$ 81,864

Permanently restricted net assets consist of the following at May 31, 2009 (in thousands):

Investment in perpetuity, the income from which is expendable to support educational activity	$ 103,266
Donor-restricted loan funds	28,919
Permanently restricted pledges	12,751
Total permanently restricted net assets	$ 144,936

The Board of Trustees of the University has interpreted the "Uniform Prudent Management of Institutional Funds Act" ("UPMIFA") as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, 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 direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portions 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 University 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 endowment funds: (1) the duration and preservation of the fund; (2) the mission 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) other resources of the University; and (7) the investment policies of the University. UPMIFA defines a prudent distribution to be 7% or less.

9. Net Assets (Continued)

The University had the following endowment activities during the year ended May 31, 2009 delineated by net asset class and donor-restricted versus Board-designated funds.

Endowment net asset composition by type of fund as of May 31, 2009 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ –	$ 28,001	$ 116,017	$ 144,018
Board-designated endowment funds	190,410			190,410
Total endowment funds	$ 190,410	$ 28,001	$ 116,017	$ 334,428

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 307,758	$ –	$ 111,445	$ 419,203
Investment return				
Investment income	2,527	2,235		4,762
Net depreciation (realized and unrealized)	(62,112)	(32,597)		(94,709)
Total investment losses	(59,585)	(30,362)	–	(89,947)
Contributions	400		4,772	5,172
Appropriation of endowment assets for expenditure	5,139	(5,139)		–
Donor redesignation	200		(200)	–
Effect of change in accounting principle from adoption of FSP FAS 117-1	(63,502)	63,502		–
Endowment net assets, end of year	$ 190,410	$ 28,001	$ 116,017	$ 334,428

9. Net Assets (Continued)

The portions of perpetual endowment funds that are required to be retained permanently and/or temporarily either by explicit donor stipulation or by UPMIFA as enacted by the State of California are as follows (in thousands):

Permanently restricted net assets

Scholarship support	$ 52,971
Chair support	40,054
Program support	20,988
Awards	719
Plant	1,285
Total	$ 116,017

Temporarily restricted net assets

Scholarship support	$ 11,485
Chair support	7,124
Program support	6,356
Awards	991
Plant	2,045
	$ 28,001

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (thus creating "underwater" endowment funds). The aggregate underwater amount, if any, is classified as a reduction of unrestricted net assets. The aggregate underwater value at May 31, 2009 was $5,825,000 or 2.0% of the investment pool. This situation is a result of unfavorable market fluctuations that occurred after the investment of newly established endowments.

Investment Objectives

The University has adopted endowment investment and spending policies in an attempt to preserve and enhance the real purchasing power of the endowment, provide a relatively stable and constant return sufficient to meet a portion of the spending needs of the University, and increase the endowment through unspent income and gains, appreciated value, gifts and other appropriate sources. Thus, the University's overall return objective is to garner an average annual real total return of at least 5.0% per year, net of management fees, over the long-term (rolling ten year periods). The return objective may be difficult to achieve in any single year during the ten-year period, but is expected to be attainable over a series of ten-year periods.

Strategies Employed for Achieving Investment Objectives

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

9. Net Assets (Continued)

Endowment Spending Allocation

The total amount to be distributed each fiscal year is based on a maximum spending rate of 5.0% of the average of the market values at the end of the three prior calendar years. Amounts higher than 5.0% yet less than 7.0% are approved by the Trustees. For the year ended May 31, 2009, the total distribution under the spending policy was $15,135,000 with an additional special distribution of $1,262,000 for a total distribution of $16,397,000, or 4.9%. Any amounts remaining after the distributions are reinvested in the endowment pool as Board-designated endowment funds. Over the long term, this spending policy is expected to enable the University to fulfill its stated investment objectives described above.

10. Scholarships

Scholarships, reported in the Statement of Activities as a reduction of tuition and fees, were funded in fiscal year 2009 from the following revenue sources (in thousands):

University tuition and fees	$ 52,143
Endowment distribution	3,971
Donor contributions for current use	2,880
Government grants	1,247
Total scholarships	$ 60,241

11. 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 3.6% of the University's full and part-time faculty and administrative staff. During the year ended May 31, 2009, the University paid these religious communities approximately $4,319,000 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. In addition, the University has approximately $10,421,000 of endowment funds invested in mutual funds that are managed by an investment management company in which one the University's Trustees has significant influence. This investment was fully disclosed to, and approved by, the full Board of Trustees. Also, one of the University's Trustees is a senior executive with the University's primary banking relationship. This relationship was fully disclosed to, and approved by, the full Board of Trustees.

12. 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 at May 31, 2009.

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.

The University has a final payment due on December 1, 2010 for the sum of $5,000,000 to complete the purchase of University Hall. The remaining commitment has been recorded, net of discount, and is included in accounts payable and accrued expenses on the Statement of Financial Position. At May 31, 2009, the University has open commitments to invest approximately $28,456,000 with alternative investment managers.

13. Subsequent Events

In accordance with Statement of Financial Accounting Standards No. 165 Subsequent Events, management has evaluated subsequent events through October 2, 2009 and determined that there are no subsequent events that would require the University to recognize as of May 31, 2009. In additional, there are no subsequent events of a nature that would require additional disclosure.