Loyola Marymount University

Report and Financial Statements
May 31, 2010

Loyola Marymount University
Index
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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, 2010, 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, 2009 financial statements, and in our report dated October 1, 2009, 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

October 1, 2010

Loyola Marymount University
Statement of Financial Position
May 31, 2010

(in thousands)

	2010	2009
Assets		
Cash and cash equivalents	$ 27,642	$ 14,469
Accounts receivable		
Tuition & fees, less allowance for doubtful accounts of $1,588 in 2010 and $1,080 in 2009	7,868	2,602
Other	23,761	27,787
Pledges receivable, net	23,119	22,702
Notes receivable, less allowance for doubtful accounts of $1,863 in 2010 and $1,886 in 2009	38,311	35,261
Investments	371,832	326,815
Prepaid expenses, deferred charges and other assets	7,038	5,948
Plant properties, net	517,175	507,309
Total assets	$ 1,016,746	$ 942,893
Liabilities and net assets		
Liabilities		
Accrued payroll expense	$ 10,897	$ 10,276
Accounts payable and accrued expenses	34,090	37,286
Accrued interest expense	26,717	24,356
Deferred revenue and deposits	20,209	11,579
Debt outstanding, net of unamortized premium (discount) of $1,481 in 2010 and $(445) in 2009	181,023	161,822
Loan funds returnable to donor	1,152	1,152
U.S. government grants refundable	10,986	11,090
Annuity liabilities and assets held for others	4,378	4,340
Total liabilities	289,452	261,901
Commitments and contingencies		
Net assets		
Unrestricted	499,420	435,345
Temporarily restricted	73,440	100,711
Permanently restricted	154,434	144,936
Total net assets	727,294	680,992
Total liabilities and net assets	$ 1,016,746	$ 942,893

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

Loyola Marymount University
Statement of Activities
Year Ended May 31, 2010

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total
Revenues, gains and other additions					
Tuition and fees	$ 282,804	$ -	$ -	$ 282,804	$ 267,975
Scholarships	(68,788)			(68,788)	(60,241)
Net tuition and fees	214,016	-	-	214,016	207,734
Investment returns designated for operations	8,512	6,007		14,519	13,686
Contributions and pledges	5,829	1,235		7,064	7,311
Grants	8,687			8,687	9,103
Auxiliary enterprise revenue	33,152			33,152	32,274
Other revenue	5,738			5,738	5,164
Net assets released from restrictions	7,045	(7,045)		-	-
Total operating revenues, gains, and other changes	282,979	197	-	283,176	275,272
Expenses					
Instruction	112,435			112,435	109,788
Research	3,992			3,992	3,514
Academic support	23,946			23,946	22,554
Library	12,757			12,757	11,082
Student services	47,882			47,882	44,941
Institutional support	48,020			48,020	49,679
Auxiliary enterprises	26,219			26,219	26,479
Total operating expenses	275,251	-	-	275,251	268,037
Increase in operating net assets	7,728	197	-	7,925	7,235
Non-operating revenues and expenses					
Contributions for non-operating purposes	529	28	9,094	9,651	5,267
Contributions for acquisition of capital assets	6,552	1,308		7,860	10,028
Investment returns after amounts designated for current operations	14,528	11,318	82	25,928	(101,394)
Loss on early extinguishment of debt	(1,126)			(1,126)	(1,887)
Net realized and unrealized losses on interest rate swap	(1,362)			(1,362)	(3,072)
Other non-operating expenses	(2,514)	(60)		(2,574)	(59)
Net assets released from restriction	40,174	(40,174)		-	-
Donor redesignations	(434)	112	322	-	-
Increase (decrease) in non-operating revenues and expenses	56,347	(27,468)	9,498	38,377	(91,117)
Increase (decrease) in net assets	64,075	(27,271)	9,498	46,302	(83,882)
Net assets					
Beginning of year (Note 1)	435,345	100,711	144,936	680,992	764,874
End of year	$ 499,420	$ 73,440	$ 154,434	$ 727,294	$ 680,992

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

Loyola Marymount University
Statement of Cash Flows
Years Ended May 31, 2010

(in thousands)

	2010	2009
Cash flows from operating activities		
Increase (decrease) in net assets	$ 46,302	$ (83,882)
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities		
Depreciation and amortization	20,293	17,457
Net unrealized and realized loss on interest rate swap agreement	1,362	3,072
Unrealized (gain) loss on investments	(35,075)	81,416
Loan receivable forgiveness	660	271
Recovery of doubtful notes receivable	(23)	(674)
Contributions to be used for fixed assets	(7,860)	(9,933)
Contributions to be used for long-term investment	(9,622)	(4,753)
Actuarial change in trust liability	238	-
Changes in assets and liabilities:		
Tuition and fees receivable from students, net	(5,266)	980
Accounts receivable, other	2,031	(1,075)
Pledges receivable, net	940	313
Prepaid expenses, deferred charges and other assets	(1,309)	2,279
Accounts payable and accrued expenses	(3,611)	(1,143)
Deferred revenue and deposits	8,630	(1,431)
Annuity liabilities and assets held for others	23	(103)
Net cash provided by operating activities	17,713	2,794
Cash flows from investing activities		
Purchases of plant properties	(26,586)	(59,696)
Purchases of investments	(126,956)	(72,582)
Proceeds from sales and maturities of investments	119,009	105,857
Disbursements of loans to students	(7,523)	(5,489)
Repayments of loans by students	3,836	3,810
Net cash used in investing activities	(38,220)	(28,100)
Cash flows from financing activities		
Issuance of CEFA bonds payable	105,536	71,895
Repayment of CEFA bonds payable	(86,433)	(76,139)
Repayment of U.S. government grants refundable	(104)	(76)
Contributions to be used for fixed assets	8,709	15,804
Contributions to be used for long-term investment	7,416	6,563
Cash payments made under SWAP agreements	(1,221)	-
Cash payments made under split-interest agreements	(223)	(219)
Net cash provided by financing activities	33,680	17,828
Net increase (decrease) in cash and cash equivalents	13,173	(7,478)
Cash and cash equivalents		
Beginning of year	14,469	21,947
End of year	$ 27,642	$ 14,469
Supplementary cash flow information		
Securities received as gifts	$ 410	$ 345
Interest paid	$ 2,479	$ 7,269

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 the Code and under corresponding sections of the California Revenue and Taxation Code.

Basis of 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 pursuant to those stipulations 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, 2009 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.

Redesignations
Certain amounts previously received from donors have been transferred among net assets categories due to changes in donor designations.

Revision
The net assets balance at May 31, 2008 has been revised to record $18,847,000 related to gifts received in prior periods with a corresponding increase in Accounts receivable – Other. These gifts were given to the University in the form of a charitable remainder trust and other irrevocable planned gifts over a period of years dating back to 1964 and should have been recorded as contribution revenue in the periods in which they met the criteria for recognition under generally accepted accounting principles.

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 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.

Other accounts receivable include receivables from insurance policies and charitable remainder trusts where the University is named a beneficiary but is not the trustee. Present value of the estimated future cash flows from the trusts approximates the value of the underlying assets. Insurance policies are recorded at cash surrender value.

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).

Investments
Investments are stated at fair value (see Note 8). Unrealized and realized gains and losses on investments are reported as increases or decreases to unrestricted, temporarily restricted and permanently restricted net assets depending on donor restrictions, if any (see Note 9). Investment income includes rental income, interest income, royalties, dividends and other investment income, and is reported net of investment management fees (see Note 3). Real estate investments

received by gift or bequest are recorded at fair value on the date acquired. The majority of the University's investments are included in the Endowment Fund, which is a commingled fund composed of various types of investment assets, and largely pooled on a market value per unit basis. The total market value of the Endowment Fund at May 31, 2010 was $330,286,000.

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 and inflation, 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.

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 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 University in a manner consistent with the standard of prudence prescribed by Uniform Prudent Management of Institutional Funds Act "UPMIFA" and 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.

The total amount to be distributed to the University's operations each fiscal year is based on a target 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 additional spend. Distributions greater than 7.0% are not permitted. For the year ended May 31, 2010, the total distribution under the spending policy was $15,919,000 with an additional special board approved distribution of $1,632,000 for a total distribution of $17,551,000, or 5.3%. A portion of the endowment distribution was designated for operations, $14,366,000, and the remaining portion of $3,185,000 is recorded in Investment returns after amounts designated for current operations in the Statement of Activities. 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.

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 to the extent there are no temporary funds. The aggregate portion of the endowment that is underwater at May 31, 2010 was $2,997,000 or 1.0% of the investment pool. This situation is a result of unfavorable market fluctuations that occurred after the investment of newly established endowments.

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 begins from the date they are placed in service. Depreciation expense for fiscal year 2010 was $20,116,000.

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, 2010, $1,613,000 of conditional asset retirement obligations is included within accounts payable and accrued expenses in the Statement of Financial Position (see Note 5).

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 composed 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 Recognition
The University's revenue recognition policies are as follows:

- Tuition and 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 revenue. Scholarships are reported in the Statement of Activities as a reduction of tuition and fees and are recognized in the same manner as described for student tuition and fees (see Note 10).

- Contributions and Gifts – Pledges 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.

  Pledges 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.

- Auxiliary enterprises – Revenues from supporting services, such as dining facilities, student housing, child care center, and bookstores are recorded at the time of delivery of a product or service. Amounts received in advance of delivery of products or services are recorded as deferred revenue.

Expenses

Expenses are reported as decreases in unrestricted net assets. In the Statement of Activities expenses are presented 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.

Included in institutional support expense in the Statement of Activities for the year ended May 31, 2010 is approximately $9,260,000 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 (exclusive of amounts distributed per the spending policy which is included in Investment returns designated for operations), market value adjustment on derivative instruments, and other non-operating items.

Adoption of New Accounting Guidance

During the year ended May 31, 2010, the University adopted the Codification of United States Generally Accepted Accounting Principles ("U.S. GAAP"), promulgated by the Financial Accounting Standards Board ("FASB"). The Codification is now the sole source of authoritative non-governmental U.S. GAAP. The Codification does not change U.S. GAAP, but affects the way organizations reference U.S. GAAP. Adoption of the Codification had no material impact on the University's financial statements.

The FASB issued authoritative guidance that sets forth the period subsequent to the Statement of Financial Position 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. The University adopted this guidance effective for fiscal year 2009. The University also adopted revised disclosure requirements prescribed by an accounting standards update issued in 2010. The adoption had no impact on the University's financial statements.

The FASB issued an accounting standards update that provides additional guidance on how companies should measure the fair value of certain alternative investments such as hedge funds, private equity funds, venture capital funds and funds of funds. This update is designed to address concerns regarding how to appropriately adjust the Net Asset Value ("NAV") of these investments to reflect specific attributes, including redemption restrictions and capital commitments. If the investee's underlying investments are measured at fair value at the investor's measurement date, this update allows investors to use NAV to estimate the fair value unless it is probable the investment will be sold at something other than NAV. If not calculated as of the reporting entity's measurement date, the NAV must be adjusted for significant market events. This update provides guidance on fair value hierarchy classification and also requires enhanced disclosures. The University adopted this guidance during the year ended May 31, 2010. The adoption did not impact valuation of the University's investments.

The FASB issued an accounting standards update that provides for new disclosure requirements related to fair value measurements. New requirements include the separate disclosure of significant transfers in and out of Levels 1 and 2 and the reasons for the transfers. In addition, the Level 3 reconciliation of fair value measurements using significant unobservable inputs should include gross rather than net information about purchases, sales, issuances and settlements. The update clarified existing disclosure requirements for the level of disaggregation and inputs and valuations techniques. This guidance is effective January 1, 2010 except for the requirement to provide gross Level 3 activity which will be effective January 1, 2011. The University adopted this guidance during the year ended May 31, 2010. Since the guidance affects disclosures only, the adoption did not have a material impact on the University's financial statements.

The FASB issued authoritative guidance requiring additional postretirement benefit plan asset disclosures by employers about the major categories of assets, the inputs and valuation techniques used to measure fair value, the level within the fair value hierarchy, the effect of using significant unobservable inputs (Level 3) and significant concentrations of risk. The University adopted this guidance effective May 31, 2010. This guidance did not impact the University's financial statements or disclosures as the University's postretirement benefit plan does not have assets.

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 3.0% to 5.0% per annum. At May 31, 2010, outstanding pledges in connection with these campaigns are reflected in the financial statements and are summarized below:

Pledges expected to be collected are as follows at May 31, 2010 (*in thousands)*:

In one year or less	$	9,600
Between one and five years		16,460
Over five years		558
Total pledges receivable		26,618
Less: Allowance for uncollectible pledges		(1,439)
Discount to present value		(2,060)
Total pledges receivable, net	$	23,119

Pledges receivable before allowance or discount at May 31, 2010 have the following designations (*in thousands)*:

Endowment for academic programs and activities	$	8,515
Endowment for scholarships		8,999
Plant properties		5,922
Departmental programs and activities		3,182
Total pledges receivable	$	26,618

3. Investments

Investments consisted of the following at May 31, 2010, stated at fair value (*in thousands)*:

Corporate bonds	$ 10,259
Government bonds	10,777
Common stock	1,324
Mutual funds	93,495
Commingled funds	113,845
Alternative investment funds	
Private equity/venture capital	24,017
Hedge funds	73,065
Natural resources	33,656
Real estate	6,350
Distressed	390
Real property and other	4,654
	$ 371,832

The investment goal of the University is to maintain or grow its investments so as to increase financial support to operations and further enhance the educational mission. In order to achieve this, and also mitigate market risk, the University diversifies its investments among various financial instruments and asset categories, and uses multiple investment strategies. As a general practice, virtually all the financial assets of the University are managed by external investment management firms ultimately selected by the University. The University maintains agreements with each of the external investment managers, which provide for compensation in the form of management fees. Most of these managers charge fees directly to fund NAV on a regular basis, and therefore, the majority of management fees are included in unrealized gains and losses in the Statement of Activities.

Approximately 62% of the University's investments are invested (directly or indirectly) in publicly traded equities, which are listed on national exchanges, quoted on NASDAQ, or in the over-the-counter market; treasury and agency bonds of the U.S. government; and primarily investment grade corporate bonds for which an active trading market exists. Net realized and unrealized gains and losses on investments are reflected in the Statement of Activities and changes in net assets.

The University's alternative investment funds consist of private equity, venture capital, natural resources, distressed debt, real estate, and absolute return hedge funds. These are largely fund-of-funds and are held in partnership or trust format. Approximately 38% of the University's investments as of May 31, 2010 were invested with various limited partnerships that invest (directly or indirectly) in the securities of companies that are not immediately liquid, such as venture capital and buyout firms, and in real estate limited partnerships that have investments in various types of properties.

Included in common stock and mutual funds above are investments held in three charitable remainder trusts wherein the University is the trustee and has control over the assets. The aggregate balance of these three assets held in trust at May 31, 2010 was $3,120,000. Also included in mutual funds above is $24,188,000 of 2010A CEFA project bond funds, invested in accordance with bond guidelines.

The following schedule summarizes the investment return and its classification in the Statement of Activities for the year ended May 31, 2010. The amounts are as follows (*in thousands)*:

Unrealized and realized gains	$ 35,075
Interest income, dividends, royalties and rents	6,470
Management fees and other investment related expenses	(1,098)
Total gain on investments	40,447
Less: Investments designated for current operations	(14,519)
Investment returns after amounts designated for current operations	$ 25,928

Investment securities are exposed to various risks, such as changes in interest rates or credit ratings and market fluctuations. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that the University's investments and total net assets balance could fluctuate materially.

4. Plant Properties

At May 31, 2010, plant properties are as follows (*in thousands)*:

	Westchester Campus	Law School Campus	Total	Fully Depreciated Assets
Land	$ 44,431	$ 3,265	$ 47,696	$ -
Buildings	361,193	58,318	419,511	177
Equipment	118,193	11,588	129,781	49,248
Library books	21,579	26,918	48,497	10,064
Computer software	14,029	2,755	16,784	12,506
Leasehold improvements	35,317	4,099	39,416	4,274
Building improvements	28,385	1,832	30,217	-
Construction-in-progress	16,523	350	16,873	-
Total cost	639,650	109,125	748,775	$ 76,269
Less: Accumulated depreciation	188,664	42,936	231,600	
Plant properties, net	$ 450,986	$ 66,189	$ 517,175	

5. Accounts Payable and Accrued Expenses

The following table sets forth major components of Accounts Payable and Accrued Expenses as of May 31, 2010 (*in thousands)*:

Vendor accounts payable	$ 11,673
Postretirement benefits liability	6,097
Accrued vacation expense	6,037
Installment payment due (Note 12)	4,828
Workers' compensation self-insurance liabilities	2,178
Asset retirement obligations	1,613
Accrued expenses	1,117
Lease purchase options	547
	$ 34,090

6. Retirement and Other Postretirement Benefits

The University contributes to a retirement plan on behalf of eligible University employees. Under the 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 $10,652,000 during the year ended May 31, 2010.

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, 2010, a net post retirement benefit liability of $6,097,000 is included in accounts payable and accrued expenses (see Note 5). The Statement of Activities includes the net periodic benefit costs, net of benefits paid, which is allocated among the functional expense classifications. The change in net assets is recorded in other non-operating expenses in the Statement of Activities. The University's postretirement benefits are funded on a pay-as-you-go basis; therefore the plan has no assets.

The following table sets forth the postretirement benefit plan's unfunded status as of May 31, 2010 and amounts recognized in the Statement of Activities for the year ended May 31, 2010 (in thousands):

Benefit obligation at beginning of year	$ 3,702
Net periodic benefit costs	527
Benefits paid	(104)
Change in unrestricted net asset	1,972
Benefit obligation at end of year	$ 6,097

Significant increases in both accumulated postretirement benefit obligation and actuarial loss of $1,972,000 for the year ended May 31, 2010 are a result of a decrease in the discount rate to 5.35% and increases in health care cost trend rates.

Components of net periodic benefit costs for the year ended May 31, 2010 are as follows (*in thousands)*:

Service cost	$	270
Interest cost		254
Amortization of prior service cost		46
Amortization of gains		(43)
Net periodic benefit cost	$	527

A one-percentage-point change in assumed healthcare cost trend rates would have the following effects (*in thousands)*:

		Increase		Decrease
Effect on accumulated postretirement benefit obligation	$	548	$	(474)
Effect on service and interest cost components		49		(42)

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

Fiscal Year Ending May 31,		
2011	$	361
2012		436
2013		415
2014		448
2015		469
2016-2019		2,976

7. Debt Outstanding

Total Debt outstanding is primarily composed of loans and revenue bonds payable resulting from borrowings issued through the California Educational Facilities Authority ("CEFA") in the form of either direct uncollateralized revenue bonds, or uncollaterialized secured pooled facilities loan programs. Also included is a loan balance due to the State of California for two Energy Conservation Assistance loans, and the fair market value of the University's interest rate swap. The University maintains all long term debt at historical cost on the Statement of Financial Position, with the exception of the interest rate swap which is maintained at fair market value. Total Debt outstanding at May 31, 2010 is as follows (*in thousands)*:

Principal outstanding-CEFA borrowings	$	174,609
Interest rate swap fair market value		4,235
Energy conservation loans - State of California		698
Unamortized premium and discount on CEFA borrowings, net		1,481
Total debt outstanding	$	181,023

In March 2010, the University issued two new CEFA bonds; the Series 2010A Revenue Bond ("2101A Revenue Bond" or "Series 2010A") and the Series 2010B Variable Rate Refunding Revenue Bond ("2010B Bond" or "Series 2010B"). The CEFA Series 2010A Revenue Bond was issued at par of $65,185,000 plus a premium of $1,851,000 for a total issuance of $67,036,000. In addition to refinancing the1997 CEFA Bonds and a portion of the 2008 Variable Rate Demand Revenue Bonds, the proceeds are being used to finance the repurposing, improvement, renovation, and construction of certain educational facilities in the University's campus and to pay issuance costs. The 2010A Revenue Bond is payable solely from the revenues of the University and is unsecured. It is composed of serial bonds that have various maturity dates ranging from 2011 to 2040, with various fixed interest rates from 2.0% to 5.13% per annum.

The CEFA Series 2010B Variable Rate Refunding Revenue Bond was issued at par value of $38,500,000. The Bond proceeds were used to refund the remaining portion of the 2008 Variable Rate Demand Revenue Bonds and pay issuance costs. The 2010B Bond is payable solely from the revenues of the University, is unsecured, has an interest rate of Securities Industry and Financial Markets Association ("SIFMA") Index plus 0.80% per annum and matures in October 2015.

At May 31, 2010 the University held one derivative instrument in the form of an interest rate swap which serves to mitigate interest rate risk and cap interest expense. The interest rate swap agreement was not entered into for trading or speculative purposes, and currently qualifies as an effective cash flow hedge on the Series 2010B variable rate bond interest expense. Under the terms of the agreement, the University pays a fixed rate of 3.575% on a declining notional amount which was $38,500,000 at May 31, 2010. There are no collateral requirements or contingent features, and the agreement expires in fiscal year 2035. Entering into interest rate swaps involves varying degrees of risk, including the possibility that the counterparty to the swap may default on its obligation to perform, and that there may be unfavorable changes in interest rates and market values. Further, the value of the swap will decrease should interest rates decrease.

Included in the Statement of Activities under Loss on early extinguishment of debt is $1,126,000 of charges related to deferred costs associated with the repayment of the CEFA Series 1997 and Series 2008 Bonds. As part of the early extinguishment of debt, the University also terminated its Letter of Credit Reimbursement Agreement.

Total borrowings under CEFA agreements at May 31, 2010 are as follows (*in thousands*):

Series	Fiscal Year Maturity Dates	Type of Bond	Interest Rates	Principal Outstanding
2001A	2011 - 2025	Current interest bonds	4.20% - 5.00%	$ 30,690
2001A	2015 - 2040	Capital appreciation bonds	5.22% - 5.83%	40,234
2010A	2011 - 2041	Revenue bonds	2.00% - 5.13%	65,185
2010B	2011 - 2016	Variable refunding revenue bonds	SIFMA + 0.80%	38,500
		Total principal outstanding		174,609
		Unamortized premium on Series 2010A		1,792
		Unamortized discount on Series 2001A		(311)
		Net carrying value of CEFA Bonds		$ 176,090

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

	CEFA	Other Debt
2011	$ 7,845	$ 219
2012	8,360	227
2013	8,645	161
2014	9,020	91
2015	7,249	-
Thereafter	133,490	-
	$ 174,609	$ 698

Total interest expense on debt outstanding for fiscal year 2010 was $6,463,000.

The estimated fair value of the University's long term debt bonds outstanding at May 31, 2010 was $162,680,000. Not all of the University's individual serial bonds trade at or near fiscal year end and thus market prices may be stale. Therefore, fair market value was calculated by discounting future cash outflows using the relevant yield curve at May 31, 2010 for similar rated debt of the same remaining maturities. Estimated fair market values as of May 31, 2010 are as follows (*in thousands)*:

	Principal	Fair Market Value	Price per $100
Series 2001A Current interest bonds	$ 30,690	$ 33,104	108
Series 2001A Capital appreciation bonds	40,234	22,422	56
Series 2010A Revenue bonds	65,185	67,933	104
Series 2010B Variable refunding revenue bonds	38,500	38,500	100
California energy loans	698	721	103
	$ 175,307	$ 162,680	

8. Fair Value Measurements

Certain University assets and liabilities are measured and reported in the financial statements at fair value on a recurring basis. The fair value hierarchy of valuation techniques is utilized to determine such fair value. The three levels of the fair value hierarchy 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.

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 table below sets forth the University's assets and liabilities which are fair values on a recurring basis with their associated categorization into Levels 1, 2 and 3 at May 31, 2010 *(in thousands)*:

	Level 1	Level 2	Level 3	Total
Asset classification				
Debt securities				
Corporate bonds	$ -	$ 10,259	$ -	$ 10,259
Government bonds		10,777		10,777
Equity securities				
Common stock	1,324	-	-	1,324
Mutual funds	93,495	-	-	93,495
Commingled funds				
Fixed income	-	16,571	-	16,571
U.S. Equity	-	34,552	-	34,552
International Equity	-	62,722	-	62,722
Alternative investment funds				
Hedge funds	-	-	73,065	73,065
Private equity/venture capital	-	-	24,017	24,017
Natural resources	-	26,969	6,687	33,656
Real estate	-	5,120	1,230	6,350
Distressed/credit	-	-	390	390
Real property	-	-	2,647	2,647
Oil & Gas interests	-	-	2,007	2,007
Total investment	94,819	166,970	110,043	371,832
Other assets: Split/beneficial interest	-	1,647	-	1,647
Total Assets	$ 94,819	$ 168,617	$ 110,043	$ 373,479
Derivative contracts: Interest rate swap	$ -	$ 4,235	$ -	$ 4,235
Total Liabilty	$ -	$ 4,235	$ -	$ 4,235

Level 1 – Include 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 – Include the University's investments in debt securities and certain non-listed equity funds that offer a high degree of transparency and liquidity. Debt security prices are obtained from pricing services, or from brokers. Non-listed equity funds that have redemption terms of 90 days or less and consistently transact on a daily, weekly, or monthly basis are valued at manager-reported

NAV. Level 2 investments may also be priced using model-based valuation techniques where all assumptions are observable, or by utilizing observable inputs from contractual agreements. These investments include the University's interest rate swap which is valued via discounted cash flow analysis taking into account contractual terms and the current yield curve. These investments also include those maintained as part of split interest agreements where the University is not the Trustee but is named as the beneficiary. These assets include life insurance policies that are recorded at cash surrender value, and charitable remainder trusts that are recorded at present value of expected proceeds net of any annual distributions.

Commingled funds are discretional investments invested mostly in equity and bond portfolios. These funds invest primarily for stock appreciation (i.e. long only). The underlying investments are public securities and the funds are held in partnership or trust format. One of the University's Level 2 commingled equity funds converted to a publicly traded mutual fund in fiscal 2010 and was thus recategorized as Level 1.

Level 3 – Include the University's alternative investments, which consist of hedge funds, private equity/venture capital funds, real estate funds, natural resource funds, and distressed debt 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 of NAV. In certain cases, where NAV was reported on a three month lag, the University adjusted fair market value to reflect funding and any relevant market changes between the reported date and fiscal year end. 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 comparables, tax assessor values, and discounted future rental revenues.

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 different estimates 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	Realized Gains (Losses)	Change in Unrealized Gains (Losses)	Net Purchases	Net Transfer	Ending Balance
Corporate bonds	$ 592	$ (253)	$ -	$ (339)	$ -	$ -
Government bonds	1,803	-	(270)	(1,533)	-	-
Alternative investments						
Hedge funds: Absolute return	64,335	-	8,730	-	-	73,065
Commingled funds	5,907	52	804	(1,151)	(5,612)	-
Private equity/venture capital	21,904	-	(182)	2,295	-	24,017
Real estate	1,564	-	(406)	72	-	1,230
Distressed debt	-	-	115	275	-	390
Natural resources	5,510	-	(358)	1,535	-	6,687
Oil and Gas interests	2,070	(68)	5	-	-	2,007
Real property	2,768	-	(121)	-	-	2,647
Other assets	2,712	-	(1,065)	-	(1,647)	-
Total assets	$ 109,165	$ (269)	$ 7,252	$ 1,154	$ (7,259)	$ 110,043

Transfers in and out of Level 3 are recognized at the end of the fiscal year. Funds are transferred from Level 3 to Level 2 when it is determined that pricing inputs are determinable and liquidity terms are under 90 days.

The amount included in the Statement of Activities for the period which is attributable to the change in unrealized gains and losses related to assets still held at the reporting date is $8,583,000. A total of $8,955,000 is recorded in Non-operating investment returns, and a loss of $372,000 is included in Investment returns designated for operations.

The University uses the NAV to determine the fair value of all the underlying investments which (a) may not have a readily determinable fair value and (b) prepare financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments in other investment companies (in limited partnership or trust format) by major category (*in thousands)*:

	Strategy	NAV in Funds	# of Funds	Remaining Life	Unfunded Commitments	Redemption Terms and Restrictions
Commingled Funds	Global, long only equities and bonds in LP/Trust format.	$ 113,845	7	N/A	N/A	Ranges from daily to monthly redemptions with 1 to 30 day notice.
Hedge Funds	Absolute return employing long/short, convertible arbitrage, event driven, distressed strategies.	$ 73,065	3	N/A	N/A	Ranges from quarterly to annual redemptions with 65 to 100 days notice. Up to 10% holdback on full redemptions. One fund has 20% gate at pool level.
Private Equity	Venture and buyout in U.S. and International.	$ 24,017	11	2 to 9 years	$ 15,155	No ability to redeem due to structure.
Natural Resources	Diversified inflation hedge strategy including public and private natural resource equities, TIPS, commodities.	$ 33,656	5	0 to 10 years	$ 7,798	Two funds have daily to monthly redemptions with 1 to 7 days notice; other three offer no ability to redeem.
Real Estate	Public REIT fund-of-fund and private real estate equity.	$ 6,349	2	0 to 2 years	$ 440	One fund has monthly redemption with 15 days notice, one fund offers no ability to redeem.
Distressed Debt	Opportunistic including distressed bonds and bank debt.	$ 390	2	10 to 12 years	$ 9,725	No ability to redeem due to structure.

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, 2010 are available for the following purposes (*in thousands)*:

Buildings and equipment	$	1,967
Endowment		41,802
Pledges		8,161
Annuity trust agreements		21,510
	$	73,440

Permanently restricted net assets consist of the following at May 31, 2010 (*in thousands)*:

Investment in perpetuity, the income from which is expendable to support educational activity	$	110,476
Donor-restricted loan funds		29,001
Permanently restricted pledges		14,957
	$	154,434

The University had the following endowment activities during the year ended May 31, 2010 delineated by net asset class and donor-restricted versus Board-designated funds.

Endowment net asset composition by type of fund as of May 31, 2010 (*in thousands)*:

	Unrestricted	Temporarily Restricted	Permanent Restricted	Total
Donor restricted endowment funds	$ -	$ 41,802	$ 125,433	$ 167,235
Board designated endowment funds	209,271	-	-	209,271
Total endowment funds	$ 209,271	$ 41,802	$ 125,433	$ 376,506

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

	Unrestricted	Temporarily Restricted	Permanent Restricted	Total
Endowment net assets, beginning of year	$ 190,410	$ 28,001	$ 116,017	$ 334,428
Total Investment gains/losses	20,157	18,558	-	38,715
Contributions	529	-	9,094	9,623
Appropriation of Endowment for Expenditure	(1,391)	(4,869)	-	(6,260)
Donor redesignation	(434)	112	322	-
Endowment net assets, end of year	$ 209,271	$ 41,802	$ 125,433	$ 376,506

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)*:

Temporarily restricted net assets		
Scholarship support	$	16,200
Chair support		10,955
Program support		8,235
Awards		1,370
Plant		2,045
Total before underwater endowment funds		38,805
Underwater endowment funds		2,997
Total temporarily restricted net assets	$	41,802

Permanently restricted net assets		
Scholarship support	$	56,312
Chair support		39,467
Program support		27,384
Awards		964
Plant		1,306
Total permanently restricted net assets	$	125,433

10. Scholarships

Scholarships, reported in the Statement of Activities as a reduction of tuition and fees, were funded in fiscal year 2010 from the following revenue sources (*in thousands)*:

University tuition and fees	$	59,127
Endowment distribution		4,638
Donor contributions for current use		2,786
Government grants		2,237
Total scholarships	$	68,788

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 3.01% of the University's full and part-time faculty and administrative staff. During the year ended May 31, 2010, the University paid these religious communities approximately $3,718,000 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 $9,767,000 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.

12. Commitments and Contingencies

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.

The University is committed under certain construction and services contracts in the amount of $21,433,000 as of May 31, 2010.

At May 31, 2010, the University has open commitments to invest approximately $33,118,000 with alternative investment managers.

The University's workers' compensation carrier requires that the University maintain an unsecured letter of credit for claims that fall below the deductible amount. At May 31, 2010, the amount of the letter or credit facility was $1,575,000. The letter of credit was not used during the year ended May 31, 2010, and therefore no liability was recorded in the Statement of Financial Position.

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, 2010.

13. Subsequent Events

On June 1, 2010, the University entered into an agreement with its primary bank for a $20,000,000 revolving line of credit to provide additional resource for working capital needs. The line is uncollateralized and is available to the University until May 30, 2011. The University incurs a commitment fee on unused balances and interest on borrowed balances, payable quarterly and monthly, respectively.

Management has evaluated subsequent events through October 1, 2010, the date financials were issued. Other than the transaction described in the preceding paragraph, there are no other events that require adjustment or additional disclosure in these financial statements.