

**TO:** Municipal Securities Rulemaking Board (“MSRB”) and Other Interested Parties

**FROM:** Loyola University of Chicago (the “University”)

**DATE:** November 13, 2014

**RE:** Notice of Failure to Provide Certain 2008 Annual Financial Information as Required (this “Notice”)

In connection with the issuance of the Bonds (as defined in *Exhibit A* attached to this Notice) and pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934, as amended, the University entered into certain continuing disclosure undertakings (the “Continuing Disclosure Undertakings”) to, among other things, annually file the University’s audited financial statements and certain operating data with the four nationally recognized municipal securities information repositories (NRMSIRs) established to provide public access to such information prior to the effectiveness of the Electronic Municipal Market Access system (“EMMA”) of the MSRB on December 1, 2010. U.S. Bank National Association (the “Dissemination Agent”) was engaged as the University’s dissemination agent for making such filings on the University’s behalf in connection with the Continuing Disclosure Undertakings. As described further in this Notice, certain 2008 annual financial information was not filed as required pursuant to the Continuing Disclosure Undertakings.

The University timely provided all applicable audited financial statements and operating data for the University’s 2008 fiscal year (collectively, the “2008 Disclosure Information”) to the Dissemination Agent so that the Dissemination Agent could timely file, on the University’s behalf, the 2008 Disclosure Information. The 2008 Disclosure Information was not filed in its entirety. Operating data was not filed for the Bonds, and audited financial statements were filed with respect to the 1997C Bonds, the 2004A Bonds and the 2007 Bonds but not the 2003A Bonds and the 2003B Bonds (each as defined in *Exhibit A* attached to this Notice). Attached as *Exhibit B* to this Notice is the 2008 Disclosure Information in its entirety.

Since December 2010, the University has directly filed audited financial statements and operating data for University bonds issued since December 2010 via EMMA, in satisfaction of the University’s continuing disclosure obligations, and in that time, there have been no issues with such filings. While the University continues to use the Dissemination Agent for filings relating to the Bonds, the University has taken steps to confirm that future filings are made on a timely basis.

***This Notice is being provided by the University to the MSRB for information purposes only, and nothing contained herein should be construed as a solicitation of offers to purchase any bonds, including, without limitation, the Bonds.***

***This information is subject to change without notice. This Notice only speaks as of its date, the 2008 Disclosure Information only speak as of its date, and neither this Notice nor the 2008 Disclosure Information implies that there has been a change in any other information relating to the University or the Bonds with respect to which this Notice or the 2008 Disclosure Information is filed as described above. Nothing contained in this Notice or the 2008 Disclosure Information is, or should be construed as, a representation by the University that the information included in this Notice, the 2008 Disclosure Information or any previous filings constitutes all of the information that may be material to a current decision to invest in, hold or dispose of any of the Bonds or any other securities issued for the benefit of the University.***

**EXHIBIT A**

**BONDS**

As used in this Notice, “Bonds” means, collectively, the 1997C Bonds, the 2003A Bonds, the 2003B Bonds, the 2004A Bonds and the 2007 Bonds, each as defined below.

**Illinois Finance Authority Revenue Bonds, Loyola University of Chicago, Series 2007  
(the “2007 Bonds”)**

<u>Maturity (July 1)</u>	<u>CUSIP*</u>
2022	45200B2A5
2023	45200B2B3
2024	45200B2C1
2008	45200BY44
2009	45200BY51
2010	45200BY69
2011	45200BY77
2012	45200BY85
2013	45200BY93
2014	45200BZ27
2015	45200BZ35
2016	45200BZ43
2017	45200BZ50
2018	45200BZ68
2019	45200BZ76
2020	45200BZ84
2021	45200BZ92

**Illinois Finance Authority Revenue Bonds, Loyola University of Chicago, Series 2004A  
(the “2004A Bonds”)**

<u>Maturity (July 1)</u>	<u>CUSIP*</u>
2015	45200BHR2
2016	45200BHS0
2018	45200BHU5
2019	45200BHV3
2020	45200BHW1
2021	45200BHX9
2022	45200BHY7
2023	45200BHZA
2024	45200BJA7
2025	45200JB5

**Illinois Finance Authority (as successor to the Illinois Educational Facilities Authority) Revenue Bonds,  
Loyola University of Chicago, Series 2003A  
(the “2003A Bonds”)**

<u>Maturity (July 1)</u>	<u>CUSIP*</u>
2026	4520015X4

**Illinois Finance Authority (as successor to the Illinois Educational Facilities Authority) Revenue Bonds,  
Loyola University of Chicago, Series 2003B  
(the “2003B Bonds”)**

<u>Maturity (July 1)</u>	<u>CUSIP*</u>
2021	4520015Y2

**Illinois Finance Authority (as successor to the Illinois Educational Facilities Authority) Revenue Bonds,  
Loyola University of Chicago, Series 1997C  
(the “1997C Bonds”)**

<u>Maturity (July 1)</u>	<u>CUSIP*</u>
2005	452001UD0
2006	452001UE8
2007	452001UF5
2008	452001UG3
2009	452001UH1
2010	452001UJ7
2011	452001UK4
2012	452001UL2

\*Copyright 2014, American Bankers Association. CUSIP data herein are provided by CUSIP Global Services LLC, managed on behalf of the American Bankers Association by S&P Capital IQ. The CUSIP numbers listed are being provided solely for the convenience of the bondholders only at the time of this Notice and neither the University nor the issuer of the Bonds make any representation with respect to such numbers or undertakes any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity may be changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

**EXHIBIT B**

**2008 DISCLOSURE INFORMATION**

See attached.

2008

ANNUAL REPORT  
OF  
LOYOLA UNIVERSITY OF CHICAGO

*Prepared in compliance with the  
Continuing Disclosure Agreement  
dated as of June 1, 1996,  
in connection with the  
Illinois Finance Authority  
(as successor to the  
Illinois Educational Facilities Authority)  
(the "Authority")  
Commercial Paper Revenue Notes  
(Pooled Financing Program)*

and

*the Continuing Disclosure Agreement  
dated as of July 9, 1997,  
in connection with the Revenue Bonds Series 1997A-C  
(Loyola University of Chicago) of the Authority*

and

*the Continuing Disclosure Agreement  
dated as of July 16, 2003,  
in connection with the Revenue Bonds Series 2003A&B  
(Loyola University of Chicago) of the Authority*

and

*the Continuing Disclosure Agreement  
dated as of December 2, 2004,  
in connection with the Revenue Bonds Series 2004A  
(Loyola University of Chicago) of the Authority*

and

*the Continuing Disclosure Agreement  
dated as of April 12, 2007,  
in connection with the Revenue Bonds Series 2007  
(Loyola University of Chicago) of the Authority*

This Annual Report is prepared by Loyola University of Chicago, an Illinois not for profit corporation (the "University"), in compliance with (a) the Continuing Disclosure Agreement (the "2007 Continuing Disclosure Agreement") dated as of April 12, 2007, entered into in connection with the Revenue Bonds Series 2007 (Loyola University of Chicago) of the Illinois Finance Authority (as successor to the Illinois Educational Facilities Authority, the "Authority"); (b) the Continuing Disclosure Agreement (the "2004A Continuing Disclosure Agreement") dated as of December 2, 2004, entered into in connection with the Revenue Bonds Series 2004A (Loyola University of Chicago) of the Authority; (c) the Continuing Disclosure Agreement (the "2003 Continuing Disclosure Agreement") dated as of July 16, 2003, entered into in connection with the Revenue Bonds Series 2003A&B (Loyola University of Chicago) of the Authority; (d) the Continuing Disclosure Agreement (the "1997 Continuing Disclosure Agreement") dated as of July 9, 1997, entered into in connection with the Revenue Bonds Series 1997A-C (Loyola University of Chicago) (together with the Revenue Bonds Series 2007, Series 2004A, and Series 2003A&B, the "Bonds") of the Authority; and (e) the Continuing Disclosure Agreement dated as of June 1, 1996 (the "1996 Continuing Disclosure Agreement" and together with the 2007 Continuing Disclosure Agreement, the 2004A Continuing Disclosure Agreement, the 2003 Continuing Disclosure Agreement and the 1997 Continuing Disclosure Agreement, the "Continuing Disclosure Agreements") entered into in connection with the Authority's Commercial Paper Revenue Notes (Pooled Financing Program) (the "Commercial Paper Notes"). Capitalized terms used herein but not defined herein will have the meanings ascribed to them in Appendix A ("Appendix A") of the Authority's Official Statement relating to the Revenue Bonds Series 2007 dated March 28, 2007 (the "2007 Official Statement").

This document contains updated financial and operating data in those areas required to be updated by the Continuing Disclosure Agreements. **It is not intended to, and does not, represent a complete discussion of all the affairs of the University for the past fiscal year, or periods subsequent thereto, include further information that may be relevant, or attempt to update any information other than as required under the Continuing Disclosure Agreements.** In addition to this Annual Report, under the Continuing Disclosure Agreements the University is obligated to disclose separately the occurrence of certain "Material Events" or "Listed Events" as defined therein.

The University was founded in 1870 as St. Ignatius College. The founders were members of the Society of Jesus, an order of Roman Catholic priests devoted to education. The University is the third-largest independent institution of higher education in the State of Illinois on the basis of enrollment, with a total enrollment in excess of 15,600 full-time and part-time students on four campuses. The University is a coeducational institution offering undergraduate, graduate and professional degree-granting programs. See "Healthcare Affiliates" for certain information about operations which are included in the University's consolidated financial statements but which do not have any responsibility for payment of any of the long-term bonded indebtedness of the University, including the Bonds and the Commercial Paper Notes. Unless otherwise indicated, financial and statistical information provided herein comprises information of the University and the LU Affiliates (*i.e.*, "University Academic"), as shown under the columns labeled "University Academic" in the audited financial statements of the University, and excludes information relating to Loyola University Health System ("Health System").

#### **Enrollment; Tuition and Fees; Student Housing; Financial Aid**

The following table, based on Fall term registration, sets forth enrollments for the past four and current academic years, representing full-time and part-time students in degree-granting programs. A majority of these students are full-time students registered for the normal course load for the chosen field of study.

Academic Year	<u>Enrollment</u>		Total
	Graduate and Professional	Undergraduate	
2004-05	5,590	8,319	13,909
2005-06*	5,489	8,956	14,445
2006-07	5,469	9,725	15,194
2007-08	5,595	9,950	15,545
2008-09	5,546	10,124	15,670

\*Excludes 319 students from New Orleans schools (principally Loyola University of New Orleans) who attended the University in a transitional capacity while their own schools reconstructed in the wake of Hurricane Katrina.

Enrollment of freshmen at the University and the number of undergraduate student transfers for the academic years 2004-05 through 2008-09 are as follows:

**Freshman and Transfer Enrollment**

Academic Year	Freshman Enrollment	Undergraduate Transfers	Total New Enrollment
2004-05	1,787	614	2,401
2005-06	2,080	683	2,763
2006-07	2,134	736	2,870
2007-08	2,035	740	2,775
2008-09	2,176	615	2,791

The University expects enrollment to remain stable. Various factors will affect future enrollment, including the number of applications, number of transfer students, number of accepted students who enroll, academic qualifications of admitted students, admissions counseling effectiveness, financial assistance and general demographic trends. Although the University believes that such factors, in addition to its urban location and diversity of programs, indicate that a generally stable demand for its educational programs will continue, no assurance can be given regarding future enrollment levels.

The following table gives enrollment and other information regarding the student body for the five academic years ending 2008-09.

**Student Body Information**

	2004-05	2005-06	2006-07	2007-08	2008-09
Full-time Total Enrollment .....	11,189	12,296	12,783	13,364	13,561
Part-time Total Enrollment .....	2,720	2,468	2,411	2,181	2,109
Endowment per Full-time Student .....	\$18,865	\$19,785	\$22,755	\$26,805	\$26,430
Freshman (Completed) Applications .....	11,732	13,163	15,178	17,357	17,287
Freshman Acceptances .....	9,393	10,722	11,754	12,723	12,755
Freshman Enrollment	1,787	2,080	2,134	2,035	2,176
Acceptance Rate (Completed Applications)	80.1%	81.5%	77.4%	73.3%	73.8%
Matriculation Rate .....	19.0%	19.4%	18.2%	16.0%	17.1%
Average ACT Score.....	25.0	24.9	25.5	25.8	26.4
Average SAT Score* .....	1,168	1,171	1,157	1,168	1,178
Geographic Distribution (New Freshmen)					
-Chicago Metropolitan.....	53.5%	57.3%	57.2%	52.9%	49.3%
-State of Illinois .....	5.2%	4.1%	4.2%	5.8%	4.9%
-Out-of-State.....	41.3%	38.6%	38.6%	41.3%	45.8%

\* A new SAT test format introduced in fiscal year 2006 produced lower score trends nationwide.

**Tuition and Fees.** The University meets the costs of its educational programs primarily through tuition, fees, gifts and grants. Tuition is charged at different rates depending on the college or school in which the student is enrolled. The following table sets forth the publicly announced base tuition to be charged by the principal colleges and schools of the University in the 2008-09 academic year and the tuition charged in the preceding four academic years.

	<b><u>Tuition</u></b>				
	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>
Undergraduate Schools.....	\$21,780	\$23,900	\$26,150	\$27,200	\$28,700
Graduate School .....	\$606/sem.hr	\$645/sem.hr	\$685/sem.hr.	\$710/ sem.hr.	\$750/ sem.hr.
Graduate School of Business .....	\$2,672/course	\$2,835/course	\$3,020/course	\$3,141/course	\$3,315/course
Graduate School of Social Work.....	\$587/sem.hr.	\$625/sem.hr.	\$685/sem.hr.	\$710/sem.hr	\$750/ sem.hr.
School of Law (Day Program)...	\$28,210	\$29,900	\$31,800	\$33,070	\$34,890
School of Medicine (MD Program).....	\$33,500	\$34,500	\$35,500	\$36,600	\$37,700

The University reserves the right to revise its charges from time to time, as determined by the Board of Trustees. Future economic and other conditions may affect the University's ability to increase its tuition and fees. Although the University has increased tuition in recent years and believes that it would be able to increase its tuition and fees without adversely affecting its future enrollment, there can be no assurance that it will be able to do so.

**Student Housing.** In Fall 2008, approximately 4,160 students occupied on-campus residences. There are currently 19 residential facilities at the Lake Shore Campus, and in 2006 the University opened its first student residence facility at its Water Tower Campus. For the current academic year, the standard double room and board fees, which include 19 meals per week, total \$10,490. Pursuant to the University's strategic housing plan, the University expects to continue to improve its residential facilities to accommodate demand and enhance the student experience.

**Financial Aid.** During the 2007-08 academic year, approximately 13,400 students of the University received approximately \$290 million in financial aid. The sources of these funds were: the State of Illinois (4%), federal programs (48%), University Funds which include scholarships and grants (34%) and direct awards to students from various sources (14%). Approximately 87% of the University's full-time students received some form of financial aid. Financial aid information for the 2008-09 academic year is not yet available. The following table presents total student financial aid by source.

<b><u>Academic Year</u></b>	<b><u>Total Student Financial Aid<sup>(1)</sup></u></b>				
	<b>Federal</b>	<b>Illinois</b>	<b>University</b>	<b>Other</b>	<b>Total</b>
2003-04.....	95,105	9,438	54,891	25,494	184,928
2004-05.....	104,174	9,733	68,468	31,940	214,315
2005-06.....	111,355	9,921	78,628	40,736	240,640
2006-07.....	121,889	13,059	90,582	43,403	268,933
2007-08.....	138,544	12,631	98,154	40,848	290,177

<sup>(1)</sup> The information in this table includes certain financial aid for Medical School students, which in University reporting prior to that contained in the 2007 Official Statement was not included when giving total student financial aid information. The amounts shown under "Other" include private loans from other than University or governmental sources that are disbursed through the University for students' accounts. In University reporting prior to that contained in the 2007 Official Statement, the University did not include this type of loan when providing total student financial aid information.

### **Gifts and Bequests**

The following table sets forth the amount of gifts and private bequests received by the University for the five fiscal years ended June 30, 2008. Amounts shown below are calculated based on generally accepted accounting principles as set forth in the University's audited financial statements and therefore reflect the amount accrued at the time a pledge is made. Actual cash payments may occur over several-year periods. A bequest is recognized when the cash is received.



<b>Fiscal Year Ended June 30</b>	<b>Gifts and Bequests (\$000's)</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
2004 .....	1,387	7,044	1,615	10,046
2005 .....	4,778	11,557	3,879	20,214
2006 .....	7,034	13,649	4,345	25,028
2007 .....	1,634	9,927	9,231	20,792
2008 .....	3,054	13,816	9,572	26,442

### Cash and Investments

The market value of the University's cash and investments (collectively, "Total Investments") at June 30, 2004 through 2008 and the total return on cash and investments for the fiscal years then ended are set forth in the table below. The University records investment results net of management fees.

<b>Fiscal Year Ended June 30</b>	<b>Market Value of Total Investments and Total Return (\$000's)</b>					<b>Total Return<sup>(4)</sup></b>
	<b>Real Assets<sup>(1)</sup></b>	<b>Cash and Cash Equivalents<sup>(2)</sup></b>	<b>Fixed Income</b>	<b>Equity<sup>(3)</sup></b>	<b>Total Investments</b>	
2004 .....	17,584	113,722	60,497	155,154	346,957	40,684
2005 .....	13,989	133,738	59,357	194,340	401,424	28,615
2006 .....	13,691	155,087	61,327	234,111	464,216	41,612
2007 .....	14,906	153,619	81,375	276,529	526,429	69,626
2008 .....	16,986	119,917	85,151	279,131	501,185	(16,121)

<sup>(1)</sup> Real Assets investments include private real estate funds and other investments expected to function as hedges against inflation.

<sup>(2)</sup> Includes amounts not included in Cash and Cash Equivalents on the balance sheet at fiscal year-end.

<sup>(3)</sup> Equity investments include marketable equities, private capital and marketable alternative investments.

<sup>(4)</sup> Total return on investments includes interest, dividends and realized and unrealized gains and losses on long-term investments and interest earned on cash and cash equivalents.

### Land, Buildings and Equipment

The following table sets forth the book value of the land, buildings and equipment of the University (net of depreciation) as of June 30 in the years 2004 through 2008. The actual replacement value of the University's physical plant, as determined for insurance purposes as of March 1, 2008, was approximately \$1.09 billion.

<b>Fiscal Year Ended June 30</b>	<b>Land, Buildings and Equipment - Net (\$000's)</b>
2004 .....	310,812
2005 .....	358,098
2006 .....	422,735
2007 .....	479,154
2008 .....	572,776

## Outstanding Indebtedness

The following table sets forth the total outstanding long-term indebtedness of the University as of June 30, 2008.

	<u>Year of Final Maturity <sup>(1)</sup></u>	<u>Interest Rates</u>	<u>Amount Outstanding (June 30, 2008) (\$000's)</u>
Installment Note, 6566-82 N. Sheridan .....	2009	9.00%	265
Installment Note, 6542-48 N. Sheridan .....	2015	9.50%	575
Authority Pool Loan <sup>(2)</sup> .....	2014	Variable	12,174
City of Chicago Loan .....	2012	0.00%	563
Series 1997C Taxable Bonds.....	2012	7.00%-7.12%	30,120
Medium-Term Notes .....	2017	7.52%	21,100
Series 2003A Bonds .....	2026	5.00%	28,155
Series 2003B Bonds.....	2021	5.60%	37,520
Series 2003C Bonds.....	2018	4.80%-5.30%	40,805
Series 2004A Bonds .....	2025	5.00%-5.25%	24,000
Series 2007 Bonds .....	2024	4.00%-5.00%	27,635
2008 Commercial Paper Program <sup>(3)</sup> .....	2038	Variable	80,000
Chase Line of Credit <sup>(4)</sup> .....	2009	Variable	25,000
Total <sup>(5)</sup> .....			<u>327,912</u>
Adjustment for unamortized bond premium/(discount) .....			<u>1,761</u>
Total indebtedness net of unamortized premium/(discount) .....			<u>329,673</u>

<sup>(1)</sup> Final maturities reflect calendar year information whereas the University's audited financial statements show fiscal year data.

<sup>(2)</sup> Relates to the Authority's tax-exempt commercial paper pool, which is treated as long-term indebtedness by the University. Approximately \$9.5 million of this debt matures on January 1, 2009, and the University currently anticipates paying off all of the \$12.174 million outstanding amount as of that date.

<sup>(3)</sup> The University's stand-alone commercial paper program has a final mandatory prepayment date of June 1, 2038 and is treated by the University as long-term indebtedness.

<sup>(4)</sup> On July 2, 2007, the University entered into a two-year Credit Agreement with JPMorgan Chase Bank, N.A., under which the University may borrow up to \$50 million on a revolving loan basis. Borrowings under the line of credit may bear interest at rates based on the Eurodollar, the Prime Rate, or other negotiated rates. The agreement, which expires on July 2, 2009, also permits the issuance of letters of credit, term loans, and leases, all within the \$50 million capacity. As of June 30, 2008, \$25 million was outstanding under this Credit Agreement.

<sup>(5)</sup> Amounts shown in the table do not include any indebtedness the University is authorized to issue under the Master Indenture, without the need to satisfy any incurrence test, to establish long-term revolving lines of credit with one or more banks in amounts not to exceed \$20 million outstanding at any time. During 2005 the University entered into an unsecured revolving bank line of credit with the Student Loan Corporation under which the University may borrow \$20 million related to the University's graduate and professional student loan program. There was no amount outstanding under this line of credit as of June 30, 2008, and this credit facility was terminated as of that date.

## Tests for the Incurrence of Additional Indebtedness

The Master Indenture requires that the University comply with one of two alternative tests as a condition precedent to the incurrence of Additional Indebtedness under the Master Indenture.

Under the first alternative, a capitalization test, the University must demonstrate that long-term debt, including any contemplated new debt, does not exceed 50% of total University capitalization (defined as the sum of indebtedness plus net assets). Under the second alternative, a debt service coverage test, the maximum annual long-term debt service on all long-term debt of the University, including the debt to be issued, may not exceed 10% of (a) the average of University operating revenues (as defined) for the two most recent fiscal years or (b), if the University elects, and the new debt is to finance capital improvements, the average of "adjusted revenues" (as defined) calculated by a consultant to include projected revenues from such capital improvements.

The following tables provide the actual capitalization and maximum annual debt service coverage of the University (excluding any affiliate) as of June 30, 2008. All calculations are as required under the Master Indenture.

	<b><u>Capitalization</u></b> <b>(\$000's)</b>
	<b><u>June 30, 2008</u></b>
Unrestricted Net Assets	431,555
Temporarily Restricted Net Assets	165,225
Permanently Restricted Net Assets	<u>110,463</u>
Total Net Assets	707,243
Indebtedness*	<u>369,673</u>
Indebtedness plus Net Assets*	<u>1,076,916</u>
Ratio (Not to exceed 50%)	34.3%

\*Includes \$25 million of unused debt capacity under the 2007 Credit Agreement with JPMorgan Chase and \$15 million of unused capacity under the 2008 Commercial Paper Program.

	<b><u>Maximum Annual Debt Service Coverage</u></b> <b>(\$000's)</b>
	<b><u>June 30, 2008</u></b>
Average University Revenues (fiscal year 2007 and 2008)	437,378
Maximum Annual Long-Term Debt Service Requirements	31,945
Ratio (Not to exceed 10%)	7.3%

So long as any of the Series 1997C Taxable Bonds or the Series 2004A Bonds are outstanding, the Master Indenture also provides that the University may not, without the consent of the respective bond insurer for those issues, issue Additional Indebtedness unless the University satisfies either of the following:

- if the University elects to satisfy the capitalization test described above, then it must also comply with either the maximum annual long-term debt service coverage test described above, or one of the following two tests:

- the maximum annual debt service coverage ratio of the University for the most recent fiscal year on all long-term debt, including the debt to be issued, must be not less than 1.20 to 1, or
- the debt service coverage ratio of the University for the most recent fiscal year on all long-term debt, but not the debt to be incurred, is not less than 1.20 to 1 and a consultant's report shows that taking the proposed debt into account, the projected debt service coverage ratio for the two years following the issuance (or, for a capital project, the two years following completion) is not less than 1.20 to 1. If the projected debt service coverage ratio is at least 1.30 to 1, the University may deliver an officer's certificate in lieu of a consultant's report;

or

- if the University elects to satisfy the maximum annual debt service coverage test described above, then it must also comply with either the capitalization test or the University's unrestricted net assets plus temporarily restricted net assets minus net investment in plant (as defined) must be at least 65% of all long-term debt, including the debt to be issued.

The requirements described immediately above may be waived or modified by the bond insurer at any time and are not for the benefit of the Authority or the holders of any bonds.

The maximum annual debt service coverage of the University at June 30, 2008 is 2.52 to 1 and the unrestricted plus temporarily restricted net assets minus investment in plant at that date is 100% of long-term debt, each calculated as required by the Master Indenture.

So long as (a) any Commercial Paper Notes remain outstanding under the Reimbursement Agreement dated as of June 1, 1996, as amended (the "1996 Reimbursement Agreement"), between the Northern Trust Company and the University; (b) the Credit Agreement dated July 2, 2007 between JPMorgan Chase Bank N.A. and the University remains in effect; or (c) any Commercial Paper Notes remain outstanding under the Reimbursement Agreement dated as of June 1, 2008 (the "2008 Reimbursement Agreement"), between JPMorgan Chase Bank N.A. and the University, the University is required to meet the same tests for the incurrence of Additional Indebtedness as those required under the Master Indenture, including those summarized in the third preceding paragraph.

## Annual Debt Service Requirements

The following table sets forth the annual amounts required for the payment of principal at maturity or by mandatory sinking fund redemption and for the payment of interest on the outstanding indebtedness of the University for each year ending June 30.

### Debt Service Schedule<sup>(1)</sup>

<u>Fiscal Year Ending June 30</u>	<u>2008 Commercial Paper<sup>(2)</sup></u>	<u>2007 Bonds</u>	<u>2004A Bonds</u>	<u>2003A-C Bonds</u>	<u>1997C Bonds</u>	<u>Authority Pool<sup>(2)</sup></u>	<u>All Other<sup>(3)</sup></u>	<u>Total</u>
2009	2,800,000	1,570,206	1,210,425	5,593,770	7,310,798	9,714,645	27,474,328	55,674,172
2010	2,800,000	1,565,806	1,210,425	5,593,770	7,280,618	1,564,038	1,974,328	21,988,985
2011	2,800,000	1,566,006	1,210,425	5,593,770	7,248,276	42,875	1,823,576	20,284,928
2012	2,800,000	1,565,806	1,210,425	5,593,770	7,211,980	42,875	1,823,576	20,248,432
2013	2,800,000	1,565,206	1,210,425	5,593,770	5,380,000	42,875	1,761,076	18,353,352
2014	2,800,000	1,569,006	1,210,425	12,053,090	-	1,246,438	1,698,576	20,577,535
2015	2,800,000	1,567,406	1,210,425	12,039,210	-	-	1,698,576	19,315,617
2016	2,800,000	1,563,906	3,133,850	12,014,990	-	-	1,596,043	21,108,789
2017	2,800,000	1,564,731	3,131,500	11,995,490	-	-	1,586,720	21,078,441
2018	2,800,000	1,564,881	991,500	4,120,490	-	-	21,139,668	30,616,539
2019	2,800,000	1,564,356	3,129,000	15,048,870	-	-	-	22,542,226
2020	2,800,000	1,563,156	3,125,750	14,657,510	-	-	-	22,146,416
2021	2,800,000	1,566,056	3,116,750	14,642,790	-	-	-	22,125,596
2022	2,800,000	1,563,281	3,111,500	14,622,750	-	-	-	22,097,531
2023	2,800,000	9,186,281	3,104,750	1,407,750	-	-	-	16,498,781
2024	2,800,000	14,630,531	3,101,000	1,407,750	-	-	-	21,939,281
2025	2,800,000	355,000	3,090,250	1,407,750	-	-	-	7,653,000
2026	2,800,000	-	1,505,000	14,446,500	-	-	-	18,751,500
2027	2,800,000	-	-	14,430,000	-	-	-	17,230,000
2028	2,800,000	-	-	-	-	-	-	2,800,000
2029	2,800,000	-	-	-	-	-	-	2,800,000
2030	2,800,000	-	-	-	-	-	-	2,800,000
2031	2,800,000	-	-	-	-	-	-	2,800,000
2032	2,800,000	-	-	-	-	-	-	2,800,000
2033	2,800,000	-	-	-	-	-	-	2,800,000
2034	2,800,000	-	-	-	-	-	-	2,800,000
2035	2,800,000	-	-	-	-	-	-	2,800,000
2036	2,800,000	-	-	-	-	-	-	2,800,000
2037	2,800,000	-	-	-	-	-	-	2,800,000
2038	82,800,000	-	-	-	-	-	-	82,800,000

- (1) Interest payments due on July 1 each year are included in the prior fiscal year's debt service requirements.
- (2) Assumes an average variable rate of 3.50% for outstanding variable rate indebtedness.
- (3) Includes \$21.1 million of 7.52% Fixed-Rate Medium-Term Notes with a final maturity in 2017; approximately \$840,000 of installment notes at rates ranging from 9.0% to 9.50% and maturing between 2009 and 2015; \$562,500 outstanding on an interest-free loan from the City of Chicago with a final installment payment in 2012; and \$25 million outstanding at June 30, 2008 on a revolving line of credit under an agreement with JPMorgan Chase Bank that expires July 2, 2009, at an assumed interest rate of 4% for six months.

## **Management's Discussion of Financial Results**

General. The University's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. See Note 3 of Notes to Consolidated Financial Statements for a summary of significant accounting policies. The following discussion relates to the audited financial statements of the University including the consolidated results of the University and any Affiliates other than Affiliates engaged in healthcare activities. See "Revenues and Expenses: Certain Financial Information" below.

Fiscal Year 2008 Compared to Fiscal Year 2007. Fiscal year 2008 recorded an operating surplus of \$37.7 million compared to the previous fiscal year's operating surplus of \$48.7 million. Net assets increased overall by \$4.4 million. For fiscal year 2008, investment return on the endowment portfolio was a negative 5.0%, compared to the fiscal year 2007 return of 19.5%. The fiscal year 2008 operating surplus is attributable primarily to an 8% increase in gross tuition revenues, \$3.1 million of unrestricted gifts and \$3.9 million of interest income.

Operating revenues increased 5.7% from \$424.0 million in fiscal year 2007 to \$448.0 million in fiscal year 2008, and operating expenses increased 9.4% from \$375.3 million in fiscal year 2007 to \$410.4 million in fiscal year 2008. The 8% increase in gross tuition revenues resulted from a combination of record enrollments and a tuition increase of approximately 4%. In fiscal year 2008, total enrollment reached 15,545, representing both full- and part-time students. In the fall of 2007 (fiscal year 2008), the University enrolled 2,775 new students as compared to 2,870 new students in the fall of 2006. The number of new students included 2,035 freshmen and 740 transfer students.

With a negative 5.0% return in fiscal year 2008, the market value of the University's endowment fund assets decreased to \$372.5 million at June 30, 2008 from \$373.2 million at June 30, 2007. Under the current policy of the Board of Trustees, the University limits its spending of endowment funds to 5.0% annually. For the last several years, actual spending has been less than 5.0% in an effort to grow the endowment. The effective spending rate was less than 3% for 2008 and 2007.

Unrestricted net assets increased \$14.1 million in fiscal year 2008 compared to an increase of \$81.7 million in fiscal year 2007. Temporarily restricted net assets decreased \$19.8 million in fiscal year 2008 compared to an increase of \$28.5 million in fiscal year 2007 due to investment performance. Permanently restricted net assets increased \$10.1 million in fiscal year 2008 compared to \$9.8 million in fiscal year 2007. Gifts, including direct operating gifts of \$3.1 million in fiscal year 2008 and \$1.6 million in fiscal year 2007, totaled \$26.4 million in fiscal year 2008 compared to \$20.8 million in fiscal year 2007.

The University had \$329.7 million in outstanding debt as of June 30, 2008 compared to \$263.2 million as of June 30, 2007. Debt service of \$18.1 million in fiscal 2008 was 4.4% of operating expenses. During fiscal year 2008, the University issued \$80.0 million of commercial paper through the Illinois Finance Authority. The proceeds were used to refund the Series 2004B bonds in the amount of \$34.8 million and provide funding for various capital projects in the amount of \$45.2 million. The University also entered into a two-year Credit Agreement with JPMorgan Chase Bank, N.A. under which it may borrow up to \$50 million on a revolving loan basis; as of June 30, 2008, \$25.0 million was outstanding under this agreement.

Fiscal year 2007 capital expenditures totaled \$138.9 million. Capital projects included the completion of the Information Commons building, several key strategic land acquisitions, building renovations, and plant upgrades. These expenditures were financed from operations, gifts, grants and debt.

Capital expenditures do not include, in accordance with University management policy, equipment purchases with a value of \$5,000 or less, which are expensed.

Fiscal Year 2007 Compared to Fiscal Year 2006. Fiscal year 2007 recorded an operating surplus of \$48.7 million compared to the previous fiscal year's operating surplus of \$43.1 million. Net assets increased overall by \$120.0 million. For fiscal year 2007, investment return on the endowment portfolio was 19.5%, compared to the fiscal year 2006 return of 13.7%. The fiscal year 2007 operating surplus consists primarily of a 13.7% increase in gross tuition revenues and \$7.6 million of interest income.

Operating revenues increased 6.7% from \$397.5 million in fiscal year 2006 to \$424.0 million in fiscal year 2007, and operating expenses increased 5.9% from \$354.4 million in fiscal year 2006 to \$375.3 million in fiscal year 2007. The 13.7% increase in gross tuition revenues resulted from a combination of record enrollments and a tuition increase of approximately 6.4%. In fiscal year 2007, total enrollment reached 15,194, representing both full and part-time students. In the fall of 2006 (fiscal year 2007), the University enrolled 2,870 new students as compared to 2,763 new students in the fall of 2005. This was the largest group of new students in the University's history and included 2,134 freshmen and 736 transfer students.

With a return of 19.5% in fiscal year 2007, the market value of the University's endowment fund assets increased to \$373.2 million at June 30, 2007 from \$305.7 million at June 30, 2006. Under the current policy of the Board of Trustees, the University limits its spending of endowment funds to 5.0% annually. For the last several years, actual spending has been less than 5.0% in an effort to grow the endowment. The effective spending rate was less than 3% for 2007 and 2006.

Unrestricted net assets increased \$81.7 million in fiscal year 2007 compared to an increase of \$79.6 million in fiscal year 2006. Temporarily restricted net assets increased \$28.5 million in fiscal year 2007 compared to an increase of \$19.4 million in fiscal year 2006 due to investment performance. Permanently restricted net assets increased \$9.8 million in fiscal year 2007 compared to \$4.2 million in fiscal year 2006. Gifts, including direct operating gifts of \$1.6 million in fiscal year 2007 and \$7.0 million in fiscal year 2006, totaled \$20.8 million in fiscal year 2007 compared to \$25.0 million in fiscal year 2006.

The University had \$263.2 million in outstanding debt as of June 30, 2007 compared to \$269.2 million as of June 30, 2006. Debt service of \$19.7 million in fiscal 2007 was 5.2% of operating expenses. During FY2007, the University refinanced its \$27.6 million Series 1997A Bonds, reducing the fixed interest rate from 5.7% to 4.88%.

Fiscal year 2007 capital expenditures totaled \$84.1 million. Capital projects included the completion of a new residence hall, construction of the new Information Commons building, plant upgrades, building renovations and strategic land acquisitions. These acquisitions were financed from operations, gifts and debt.

Capital expenditures do not include, in accordance with University management policy, equipment purchases with a value of \$5,000 or less, which are expensed.

### **Revenues and Expenses: Certain Financial Information**

Enclosed with this Annual Report are: Consolidated Statements of Financial Position as of June 30, 2008 and 2007; Consolidated Statements of Activities and Changes in Net Assets for the two years ended June 30, 2008 and 2007; Consolidated Statements of Cash Flows for the two years ended June 30, 2008 and 2007; Notes to Consolidated Financial Statements; and the independent auditors' report thereon.

The audited consolidated financial statements of the University referenced in the preceding paragraph include the results of the University, Loyola Management Company ("LMC"), Mundelein College ("Mundelein" and together with LMC, the "LU Affiliates"), and the Health System. **Only the University, however, is liable for Obligations incurred under the Master Indenture and under the Commercial Paper Notes. Neither the Health System, LUMC nor any other affiliate of the University is liable for any indebtedness of the University including any Obligation incurred by the University under the Master Indenture or is subject to any of its covenants.**

**Under the Master Indenture, except as otherwise expressly set forth, all financial tests or reports shall be based, at the University's option, but applied on a consistent basis with respect to a calculation made in a particular instance, on either (A) the unconsolidated financial statements of the University without regard to any Affiliate, as set forth in the unaudited consolidating schedules to the audited consolidated financial statements of the University, or (B) the audited financial statements of the University including the**

consolidated results of the University and any Affiliates other than Affiliates engaged in healthcare activities (such results being shown in the audit report under the columns labeled “University Academic”); provided, however, that the University shall not use statements under this clause (B) if any amount used in the calculation differs by more than 5% (higher or lower) from the amount that would be used if the University had elected to perform the calculation as set out in clause (A) of this sentence.

Except where otherwise indicated, the information in this Annual Report is presented including the results of the University and the LU Affiliates (i.e., “University Academic”).

Summary Unconsolidated University Financial Information: 2008 and 2007. The following tables present summary financial information of the University for the 2008 and 2007 fiscal years. The following financial information for fiscal years 2008 and 2007 is qualified in its entirety by reference to the audited financial statements of the University. See “Management’s Discussion of Financial Results” above.

**Selected Financial Information**  
(\$000’s)

	<b>Fiscal Year Ended June 30</b>	
	<b>2008</b>	<b>2007</b>
Operating Revenues.....	448,015	424,021
Operating Expenses .....	<u>410,357</u>	<u>375,332</u>
Results of Operations.....	37,658	48,689
Non-Operating Activities.....	<u>(23,561)</u>	<u>36,566</u>
Increase (Decrease) in Unrestricted Net Assets.....	14,097	81,682
Increase (Decrease) in Temporarily Restricted Net Assets .....	(19,839)	28,535
Increase (Decrease) in Permanently Restricted Net Assets .....	<u>10,115</u>	<u>9,809</u>
Increase (Decrease) in Net Assets .....	<u>4,373</u>	<u>120,026</u>
Debt Service Requirements	18,084	19,673
Capital Outlays .....	138,851	84,095

**Selected Financial Information**  
(\$000’s)

	<b>June 30, 2008</b>	<b>June 30, 2007</b>
Cash Equivalents and Short Term Investments .....	113,931	139,823
Endowment and Other Long-Term Investments.....	387,254	386,606
Land, Building and Equipment (net of depreciation) .....	572,776	479,154
Other Assets.....	<u>103,814</u>	<u>98,295</u>
Total Assets .....	<u>1,177,775</u>	<u>1,103,878</u>
Indebtedness .....	329,673	263,213
Other Liabilities.....	153,384	150,320
Net Assets.....	<u>694,718</u>	<u>690,345</u>
Total Liabilities and Net Assets.....	<u>1,177,775</u>	<u>1,103,878</u>



## Healthcare Affiliates

The healthcare operations of the University's affiliates are conducted through the Health System. The Health System controls Loyola University Medical Center ("LUMC"), Loyola University of Chicago Insurance Company, Ltd. ("LUCIC"), an off-shore captive insurance company that the University transferred to the Health System in 1997, and various other health care related entities. The Health System's total assets were approximately \$920.8 million as of June 30, 2008. Operating revenues were \$776.8 million and results of operations were a negative \$13.3 million for the fiscal year ended June 30, 2008. Outstanding indebtedness was \$369.0 million at that date.

**On January 25, 2008, Gottlieb Health Resources, Inc. ("GHR"), an Illinois not-for-profit corporation, and Health System entered into a Membership Substitution Agreement. Under the terms of the Membership Substitution Agreement, on July 1, 2008, Health System became the sole member of GHR, and Health System was substituted for GHR as the sole member of Gottlieb Memorial Hospital, an Illinois not-for-profit corporation. Additionally, Gottlieb Memorial Hospital was substituted for GHR as the sole member of two other Gottlieb related entities. Neither GHR nor any of its subsidiaries is liable for any indebtedness of the University including any Obligation incurred by the University under the Master Indenture or is subject to any of its covenants.**

Under the LUMC Affiliation Agreement, LUMC is obligated to provide annual payments to the University for the Medical School. The annual payments for the Medical School include (1) payments received by LUMC from third parties for direct graduate medical education reimbursement, (2) a portion of the salaries and benefits of certain Medical School faculty who also provide administrative or clinical services to LUMC, (3) support to the Medical School comprised of 2% of net patient revenues of the Hospital, (4) up to \$2,000,000 for capital support of the Medical School and (5) such other support equal to the operating deficit (as defined in the LUMC Affiliation Agreement) of the Medical School; provided that the total amount of such annual payments shall not exceed LUMC's operating surplus (as defined in the LUMC Affiliation Agreement). LUMC also is obligated to transfer to the University 20% of such operating surplus after giving effect to the support for the Medical School. In any year in which the operating margin (as defined in the LUMC Affiliation Agreement) of LUMC exceeds 10%, LUMC is obligated to transfer to the University 30% of the amount of its operating surplus that exceeds the 10% operating margin. Prior to the transfer to LUMC, healthcare operations represented a significant portion of overall University excess of revenue over expenses and, as part of University consolidated results and through the operation of the LUMC Affiliation Agreement, is expected to continue to have a significant impact on University operating results. Total payments paid to the University by LUMC under the LUMC Affiliation Agreement during the five fiscal years ended June 30, 2008 are shown in the following table. Of such total payments, the amounts shown below under "Salary Expense" reflect amounts paid by LUMC to the University to compensate the University for salary and benefit expense attributable to work performed for LUMC related activities (which expenses the University would not incur absent the LUMC Affiliation Agreement).

<b>Fiscal Year</b>	<b>Total LUMC Payments</b>	<b>Salary Expense</b>
<b><u>June 30</u></b>		
		<b>(\$000's)</b>
2004 .....	28,510	10,211
2005 .....	33,201	11,181
2006 .....	32,838	10,153
2007 .....	31,879	10,302
2008 .....	37,174	11,868

Other than as set forth in the preceding paragraph, LUMC has no obligation to make any payments to the University, including under the Master Indenture. Neither the Health System nor any other affiliate of the Health System other than LUMC has any obligation, pursuant to any affiliation agreement or otherwise, to make any payment to the University. The LUMC Affiliation Agreement does not have a termination date and may be amended by the University and LUMC at any time without the consent of any third party.

LOYOLA UNIVERSITY CHICAGO

**Consolidated Financial Statements  
and Independent Auditors' Report**

*Years Ended June 30, 2008 and 2007*



*Preparing people to lead extraordinary lives*

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
Loyola University of Chicago  
Chicago, Illinois

We have audited the accompanying consolidated statements of financial position of Loyola University of Chicago ("LUC") as of June 30, 2008 and 2007, and the related consolidated statements of activities and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of LUC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LUC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the consolidated financial position of LUC as of June 30, 2008 and 2007, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the consolidated financial statements, LUC adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, during the year ended June 30, 2007.

Our audit was conducted for the purpose of forming an opinion on the basic 2008 consolidated financial statements taken as a whole. The supplemental consolidating information for 2008 for University Academic and LUHS on pages 2-4 is presented for the purpose of additional analysis of the basic 2008 consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities, and is not a required part of the basic 2008 consolidated financial statements. This supplemental consolidating information is the responsibility of LUC's management. Such information has been subjected to the auditing procedures applied in our audit of the basic 2008 consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2008 consolidated financial statements taken as a whole.

*Deloitte & Touche LLP*

October 24, 2008

**LOYOLA UNIVERSITY OF CHICAGO**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**YEARS ENDED JUNE 30, 2008 AND 2007**  
**(\$000s)**

	Consolidating Information			2008 Consolidated Total	2007 Consolidated Total
	University Academic	LUHS	Eliminating Entries		
<b>ASSETS</b>					
CASH AND CASH EQUIVALENTS	\$ 59,308	\$ 24,824	\$ -	\$ 84,132	\$ 50,696
SHORT-TERM INVESTMENTS	54,623	36,570		91,193	147,311
INTERFUND BALANCES	12,039		(12,039)		
RECEIVABLES	55,422	147,676		203,098	227,374
OTHER ASSETS	18,390	76,968		95,358	122,275
ENDOWMENT AND OTHER LONG-TERM INVESTMENTS	387,254	208,640		595,894	589,043
ASSETS HELD IN TRUST BY OTHERS	8,779	16,777		25,556	75,590
INTEREST HELD IN PERPETUAL TRUST	9,184			9,184	9,604
LAND, BUILDINGS AND EQUIPMENT - NET	572,776	409,351		982,127	826,989
<b>TOTAL ASSETS</b>	<u>\$ 1,177,775</u>	<u>\$ 920,806</u>	<u>\$ (12,039)</u>	<u>\$ 2,086,542</u>	<u>\$ 2,048,882</u>
<b>LIABILITIES AND NET ASSETS</b>					
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 81,416	\$ 103,542	\$ -	\$ 184,958	\$ 168,823
DEFERRED INCOME	24,992			24,992	27,106
UNEXPENDED GRANTS	18,482			18,482	17,193
REFUNDABLE ADVANCES - LOANS	17,342			17,342	17,090
INDEBTEDNESS	329,673	368,974		698,647	638,840
SELF-INSURANCE		142,859		142,859	141,939
INTERFUND BALANCES		12,039	(12,039)		
OTHER LIABILITIES	11,152	54,262		65,414	82,015
<b>TOTAL LIABILITIES</b>	<u>483,057</u>	<u>681,676</u>	<u>(12,039)</u>	<u>1,152,694</u>	<u>1,093,006</u>
<b>NET ASSETS:</b>					
Unrestricted	419,030	219,539		638,569	648,947
Temporarily restricted	165,225	13,008		178,233	200,072
Permanently restricted	110,463	6,583		117,046	106,857
<b>TOTAL NET ASSETS</b>	<u>694,718</u>	<u>239,130</u>		<u>933,848</u>	<u>955,876</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 1,177,775</u>	<u>\$ 920,806</u>	<u>\$ (12,039)</u>	<u>\$ 2,086,542</u>	<u>\$ 2,048,882</u>

See notes to consolidated financial statements

**LOYOLA UNIVERSITY OF CHICAGO**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2008 AND 2007**  
**(\$000s)**

	Consolidating Information			2008	2007
	University Academic	LUHS	Eliminating Entries	Consolidated Total	Consolidated Total
<b>OPERATING REVENUES:</b>					
Tuition and fees, net of scholarships \$101,107 (2008) and \$91,605 (2007)	\$ 260,483	\$ -	\$ -	\$ 260,483	\$ 243,221
Grants and contracts for sponsored projects	51,497	4,986	(2,005)	54,478	55,393
Academic support	49,198		(23,271)	25,927	29,678
Gifts	3,054	1,886		4,940	4,399
Interest income	3,884			3,884	7,638
Investment income designated for operations	2,825	12,346		15,171	22,030
Other	14,811	31,295		46,106	50,837
Auxiliary services	41,684			41,684	37,733
Net patient service revenues		696,535		696,535	676,413
Research and education net assets for operations	5,190			5,190	2,426
Hospital Access Improvement Program		26,315		26,315	52,629
Net assets released from restrictions	15,389	3,483		18,872	14,655
<b>Total operating revenues</b>	<b>448,015</b>	<b>776,846</b>	<b>(25,276)</b>	<b>1,199,585</b>	<b>1,197,052</b>
<b>OPERATING EXPENSES:</b>					
Salaries and wages	197,515	309,836		507,351	470,231
Fringe benefits	47,861	68,182		116,043	106,058
Non-salary operating expenses	109,574	307,428	(25,211)	391,791	352,839
Insurance	1,973	29,066		31,039	45,513
Depreciation and amortization	31,616	34,482		66,098	59,045
Interest	12,583	10,678		23,261	26,911
Utilities	9,235	12,570		21,805	19,534
Illinois Healthcare and Family Services Assessment		17,911		17,911	35,823
<b>Total operating expenses</b>	<b>410,357</b>	<b>790,153</b>	<b>(25,211)</b>	<b>1,175,299</b>	<b>1,115,954</b>
<b>RESULTS OF OPERATIONS</b>	<b>37,658</b>	<b>(13,307)</b>	<b>(65)</b>	<b>24,286</b>	<b>81,098</b>
<b>NON-OPERATING ACTIVITIES:</b>					
Investment income (loss) net of amounts designated for operations	(11,506)	(20,407)		(31,913)	26,502
Other	401	(7,046)	65	(6,580)	18,812
Minimum pension liability adjustment					(9,402)
Cost of early extinguishment of debt	(973)			(973)	(9,999)
Retirement plan related change other than net periodic retirement plan expense	(13,944)	16,285		2,341	
Transfer of net assets	7,651			7,651	9,442
Research and education net assets for operations	(5,190)			(5,190)	(2,426)
<b>Total non-operating activities</b>	<b>(23,561)</b>	<b>(11,168)</b>	<b>65</b>	<b>(34,664)</b>	<b>32,929</b>
Cumulative effect of changes in accounting for pension and postretirement plan obligations					(47,079)
<b>Increase (decrease) in unrestricted net assets</b>	<b>14,097</b>	<b>(24,475)</b>		<b>(10,378)</b>	<b>66,948</b>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:</b>					
Gifts	13,816	1,300		15,116	20,669
Investment income (loss)	(11,433)	183		(11,250)	40,984
Change in annuity value	(111)			(111)	(105)
Other	1,642			1,642	979
Transfer of net assets	(8,364)			(8,364)	(8,702)
Net assets released from restrictions	(15,389)	(3,483)		(18,872)	(14,655)
<b>Increase (decrease) in temporarily restricted net assets</b>	<b>(19,839)</b>	<b>(2,000)</b>		<b>(21,839)</b>	<b>39,170</b>
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:</b>					
Gifts	9,572	74		9,646	9,355
Change in value of perpetual trust	(160)			(160)	1,347
Other	(10)			(10)	(29)
Transfer of net assets	713			713	(740)
<b>Increase in permanently restricted net assets</b>	<b>10,115</b>	<b>74</b>		<b>10,189</b>	<b>9,933</b>
<b>Increase (decrease) in net assets</b>	<b>4,373</b>	<b>(26,401)</b>		<b>(22,028)</b>	<b>116,051</b>
Net assets at beginning of year	690,345	265,531		955,876	839,825
<b>Net assets at end of year</b>	<b>\$ 694,718</b>	<b>\$ 239,130</b>	<b>\$ -</b>	<b>\$ 933,848</b>	<b>\$ 955,876</b>

**LOYOLA UNIVERSITY OF CHICAGO**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2008 AND 2007**  
**(\$000s)**

	Consolidating Information		2008 Consolidated Total	2007 Consolidated Total
	University Academic	LUHS		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Increase (decrease) in net assets	\$ 4,373	\$ (26,401)	\$ (22,028)	\$ 116,051
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:				
Depreciation and amortization	31,616	34,482	66,098	59,045
Cost of early extinguishment of debt	973		973	9,999
Cumulative effect of changes in accounting for pension and postretirement plan obligations				47,079
Retirement plan related change other than net periodic retirement plan expense	13,944	(16,285)	(2,341)	
Provision for retirement costs	(2,145)	10,889	8,744	9,007
Minimum pension liability adjustment				9,402
Change in unrealized (gain) loss on investments	36,714	20,407	57,121	(31,001)
Contributions restricted for long-term investment	(9,357)		(9,357)	
Other	8,842	6,981	15,823	(9,788)
Changes in assets and liabilities:				
Receivables	(1,776)	30,245	28,469	(45,034)
Other assets	(1,148)	11,297	10,149	(45,774)
Accounts payable and accrued expenses	(2,050)	5,715	3,665	13,917
Deferred income and unexpended grants	1,537		1,537	5,172
Self-insurance	(135)	1,055	920	11,084
Interest held in perpetual trust	420		420	(1,140)
Refundable advances - loans	252		252	230
Other liabilities	727	(9,615)	(8,888)	2,341
Interfund balances	(1,165)	1,165		
Net cash provided by operating activities	<u>81,622</u>	<u>69,935</u>	<u>151,557</u>	<u>150,590</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sale of investments	295,999	101,435	397,434	414,488
Purchase of investments	(274,921)	(130,919)	(405,840)	(447,348)
Proceeds on disposal of property	4,700		4,700	
Purchase of property	(138,851)	(91,651)	(230,502)	(134,066)
Student loans issued	(45,114)		(45,114)	(41,286)
Student loans sold and collected	44,340		44,340	41,296
Net cash used by investing activities	<u>(113,847)</u>	<u>(121,135)</u>	<u>(234,982)</u>	<u>(166,916)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Contributions restricted for long-term investment	9,357		9,357	
Issuance of new debt	105,000		105,000	264,125
Issuance costs	(504)		(504)	(2,225)
Payment of line of credit				(24,000)
Advance refunding and repayment of debt	(34,800)		(34,800)	(154,385)
Retirement of debt	(5,501)	(6,725)	(12,226)	(13,655)
Deposit of bond proceeds with trustee	(8,779)		(8,779)	(149,039)
Withdrawal of trustee bond funds for construction		58,813	58,813	84,545
Net cash provided by financing activities	<u>64,773</u>	<u>52,088</u>	<u>116,861</u>	<u>5,366</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>32,548</b>	<b>888</b>	<b>33,436</b>	<b>(10,960)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>26,760</u>	<u>23,936</u>	<u>50,696</u>	<u>61,656</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 59,308</u>	<u>\$ 24,824</u>	<u>\$ 84,132</u>	<u>\$ 50,696</u>

See notes to consolidated financial statements

# LOYOLA UNIVERSITY OF CHICAGO

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2008 AND 2007

### (1) Overview of Loyola University of Chicago

Loyola University of Chicago (LUC) is a private, coeducational, not-for-profit institution of higher education, research and health care founded in 1870 by the Society of Jesus (Jesuits). The University patron saint and namesake is St. Ignatius Loyola (1491-1556), the founder of the Society of Jesus, which today is the largest religious order in the Roman Catholic Church. The LUC consolidated financial statements are comprised of Higher Education, Loyola Management Company (LMC), Mundelein College (Mundelein) (collectively, University Academic), and Loyola University Health System (LUHS) (see Note 4). University Academic operates on four campuses providing educational services to approximately fifteen thousand students primarily in undergraduate, graduate, and professional degree programs. LUC performs research, training, and other services under grants and contracts with government agencies and other sponsoring organizations. Mundelein and LMC exist to provide limited services for the benefit of LUC. LUHS is a wholly-owned subsidiary corporation of Loyola University of Chicago with an integrated health care delivery system providing a full continuum of health care services and competencies in primary care and tertiary care medicine.

### (2) Tax Status

LUC, Mundelein, and LUHS are exempt from income taxes under section 501(c)(3) of the U.S. Internal Revenue Code (IRC) and LMC is exempt from income taxes under section 501(c)(2) of the IRC, except with regard to unrelated business income, which is taxed at corporate income tax rates. Loyola University of Chicago Insurance Company Ltd. (LUCIC), a wholly-owned subsidiary of LUHS, is a for-profit Cayman Islands insurance company.

### (3) Summary of Significant Accounting Policies

#### Basis of Presentation

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). These principles require management to make estimates and judgments affecting the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses in the reporting period. Actual results could differ from these estimates. Inter-company balances and transactions have been eliminated. These transactions are reflected in the eliminating entries column of the consolidated financial statements. Net assets, revenues, and investment income or loss are classified based on the existence or absence of donor-imposed restrictions, as follows:

**Permanently Restricted** - Net assets subject to donor-imposed restrictions requiring that the assets be retained permanently and invested. Restrictions permit the use of some or all of the income earned on the invested assets for specific purposes.

**Temporarily Restricted** - Net assets with donor-imposed restrictions expiring with the passage of time, the occurrence of an event, or the fulfillment of certain conditions. When donor-imposed restrictions are met, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions.

**Unrestricted** - Net assets not subject to donor-imposed stipulations.

## **Operations**

Revenues received and expenses incurred in conducting the programs and services are presented in the consolidated financial statements as operating activities. Non-operating results include investment income or loss, change in pension liability, gains or losses on the sale or disposal of property, non-recurring items and net change to the research and education assets.

Contributions, including unconditional promises to give (pledges), are recognized as revenue in the period received and reported at present value. The gifts are reported as either temporarily or permanently restricted if they are received with donor stipulations limiting their use. The expiration or fulfillment of donor-imposed restrictions on contributions is recognized in the period in which the restriction expires or the restrictions are fulfilled and are shown as net assets released from restrictions in operating revenue.

Certain unrestricted net assets are designated by management for specific purposes or uses under various internal agreements.

Tuition and fee revenue is reported in the fiscal year in which it is earned, including pro-rata adjustments for terms crossing over fiscal years. Grant and contract revenue is recognized when the expenses are incurred. Academic support and auxiliary service revenues are recognized when earned as unrestricted net assets.

## **Cash and Cash Equivalents**

Cash and cash equivalents are liquid investments having original maturities at the time of purchase of three months or less, excluding certain instruments held in the endowment pending reinvestment or which are on deposit with a trustee. Cash and cash equivalents represent short-term and highly liquid investments that convert readily to cash and carry little interest rate risk.

## **Short-Term Investments**

Short-term investments are comprised of investments in securities or funds whose maturity, duration and sector exposures extend beyond the characteristics of cash and cash equivalents and money market investments. Such funds generally are priced and funds are available on a daily basis.

## **Assets Held in Trust by Others**

Assets held in trust are bond-trustee held assets to be used for future capital expenditures.

## **Investments**

Investments are recorded at fair market value. The fair value of investments in publicly-traded equity securities is based on quoted market prices. The fair value of fixed income securities may be valued based on yields currently available on comparable securities of issuers with similar credit ratings, dealer-supplied prices or by discounting future principal and interest payments at prevailing interest rates. The value of holdings of commingled funds not having a readily determined market value for fund units is based on the funds' net asset value as supplied by the investment manager. Estimates of fair value provided by general partners or investment managers are reviewed by management.

Investments in private investment funds are recorded at estimated fair value based on the LUC share of the fund's fair value or number of units outstanding. A private investment fund's fair value is typically based on estimated asset values as of valuation dates that precede the LUC fiscal year end by up to 180 days and are adjusted for cash flows that occur between the valuation date and year end. These funds allocate gains, losses and expenses to partners based on their respective ownership percentages or the number of units held. Management reviews reports and financial statements and communicates regularly with fund managers to maintain oversight of their valuation processes and estimates.

Investment income is recorded on the accrual basis and purchases and sales of investment securities are recorded on a trade-date basis.



## **Derivative Financial Instruments**

University Academic uses derivative financial instruments in the management of its investment portfolio and may use derivative financial instruments to hedge interest rate risk or otherwise modify the characteristics of its debt portfolio. LUHS may use derivative financial instruments to offset interest rate risk or to otherwise modify the characteristics of its debt portfolio. All derivative financial instruments are marked to market and recorded at fair value. Gains and losses realized on derivative financial instruments used for purposes of investments are recorded in investment income.

## **Interest Held in Perpetual Trust**

LUC is the beneficiary of funds held in trust. LUC does not control or have possession of these funds, but receives income from the trust in support of University Academic's Stritch School of Medicine (SSOM). Funds are recognized at the estimated fair value of future cash flows, which is estimated to equal the fair market value of the trust assets.

## **Land, Buildings and Equipment**

Land, buildings and equipment are recorded at cost. Depreciation is calculated on a straight-line method using the following useful lives: building shell, 40-50 years; building improvements, 10-25 years; and equipment, 4-20 years. LUC uses the component method of capitalization. Management continually reviews its long-lived assets for evidence of potential impairment. Management determined that no impairment exists as of June 30, 2008.

## **Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, (FIN 48) *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* effective for fiscal years beginning after December 15, 2006. As of July 1, 2007, LUC adopted FIN 48 which clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. The interpretation prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of tax positions taken or expected to be taken in an income tax return. The adoption of FIN 48 had no impact on LUC's consolidated financial statements.

During the year ended June 30, 2007, LUC adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)*. SFAS No. 158 requires the recognition of the funded status of a benefit plan – measured as the difference between the fair value of plan assets and the benefit obligation – in its statement of financial position and the measurement date for plan assets and benefit obligations to be the fiscal year end date. See the impact of the adoption of SFAS 158 in Notes 10 and 11.

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. This statement clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability. SFAS No. 157 applies whenever other standards require assets or liabilities to be measured at fair value. This statement is effective in fiscal years beginning after November 15, 2007. LUC is assessing the impact, if any, of the implementation of SFAS No. 157 on the consolidated financial statements.

In February 2007, FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment to FASB Statement No. 115*. SFAS No. 159 provides for an irrevocable option to carry the majority of assets and liabilities at fair value, with changes in fair value recorded in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Management of LUC is assessing the impact of SFAS No. 159 and has not yet determined whether or not it will elect to carry any additional assets and liabilities at fair value.

In August 2008, FASB issued the final FASB Staff Position (FSP) No. 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*. The FSP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The FSP also improves disclosures about an organization's endowment funds, whether or not the organization is subject to UPMIFA. The UPMIFA was introduced to the House Rules Committee in Illinois in 2008, but has not yet been enacted. FSP 117-1 is effective for fiscal years

beginning after December 15, 2008. LUC is assessing the impact of FSP 117-1 on their consolidated financial statements.

#### **(4) Loyola University Health System**

##### **Organization**

LUHS is a regional integrated health care delivery system providing a full continuum of health care services and competencies in primary care and tertiary care medicine. LUHS provides services to patients in various settings, including a tertiary care hospital, home care and hospice services, outpatient service facilities, immediate care facilities and primary care practice sites.

LUC is the sole corporate member of LUHS, and LUHS is the sole corporate member of Loyola University Medical Center (LUMC) and LUCIC. LUMC is an Illinois not-for-profit corporation exempt from federal income taxes as an organization described in Section 501(c)(3) of the IRC.

##### **Basis of Presentation**

LUHS maintains its accounts and prepares stand-alone audited financial statements in conformity with accounting principles generally accepted in the United States of America or recommended in the Audit and Accounting Guide (Health Care Organizations) published by the American Institute of Certified Public Accountants.

##### **Agreements with LUC**

*Affiliation and Operating Agreement* - LUC and LUMC are participants in an Affiliation and Operating Agreement which provides for financial, operating, and shared services relationships between the organizations. Under this agreement LUMC makes payments to LUC for the following: reimbursements received by LUMC for direct medical education; a portion of the salaries and benefits of the Stritch School of Medicine (SSOM) faculty who provide health management services to LUMC; general support to University Academic; and capital support to SSOM. These amounts totaled \$37.2 million for 2008 and \$31.9 million for 2007.

*Shared Services* - Certain service departments in LUC and LUMC provide services to both entities. Examples of such shared services include portions of Information Services, Human Resources, Development, and Housekeeping. The Affiliation and Operating Agreement defines allocation methodologies to be used to allocate costs for these services. These methodologies were consistently applied in 2008 and 2007.

*Facilities Leases* - In October 1995 LUC and LUMC entered into ten-year lease agreements to lease certain facilities space from each other and to pay prevailing competitive rates for use of the facilities. The lease terms have been extended on an annual basis. LUMC's rental of LUC facilities exceeds LUC's rental of LUMC facilities, and LUC agreed to forgive the annual rent differential. As required by the Affiliation and Operating Agreement, the amount forgiven under these leases was \$1.7 million in 2008 and \$2.1 million in 2007. These lease amounts are not reflected in the consolidated statements of activities and changes in net assets.

*1997 Debt Refinancing Agreement* - As part of the 1995 transfer of health care operations to LUMC, LUC and LUMC entered into certain Affiliate Guaranties related to LUC's then-outstanding bonds. In 1997, LUC and LUHS refinanced substantially all of LUC's and LUHS's debt in order to release LUMC from the restrictions of the Affiliate Guaranties and to separate LUC's credit from LUHS's credit. LUC, LUMC and LUHS entered into the 1997 Debt Refinancing Agreement which provides that LUMC and LUHS will pay LUC for any costs and expenses associated with refunding or defeasing LUC debt affected by the refinancing, including any ongoing increases in debt service resulting from the transaction or receive credit to the extent the variable interest rates produce effectively lower debt service. Because much of the refinanced debt originally paid variable rates of interest, the amounts payable between LUC and LUMC prior to 2003 have varied each year. As of June 30, 2003 LUMC and LUC agreed to discontinue payments under the debt service provisions, but other provisions of the agreement remain in place.

## Net Patient Service Revenues

LUMC has agreements with third-party payers that provide for payments to LUMC at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, per diem payments, discounted charges, and reimbursed costs. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. LUHS recorded \$1.2 million and \$5.5 million in favorable Medicare prior year settlements for the years ended June 30, 2008 and 2007, respectively.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity continues with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services. Management believes that LUMC is in compliance with current laws and regulations.

In addition to the agreements with third-party payers, LUMC is dedicated to providing high-quality care to the community it serves. Patients who cannot afford to pay may receive charity care as described below. Consistent with LUMC's charitable mission, patients without health insurance are provided a discount from established rates.

In 2008, management concluded that additional reserves were needed in 2008 for (1) proper valuation of certain pre-conversion accounts receivable as actual receivable collections were below expected collection levels and (2) to recognize changes in estimates related to a significant managed care contract. As a result, LUHS recorded an additional \$29 million in net uncollectible accounts receivable. The \$29 million is reflected as a \$16 million reduction in net patient services revenues and a \$13 million increase in the provision for bad debts.

In 2008 and 2007, LUHS recorded \$26.3 million and \$52.6 million, respectively, of Hospital Access Improvement payments from the Illinois Healthcare and Family Services program. LUHS recorded expenses of \$17.9 million and \$35.8 million of assessments relating to this program in 2008 and 2007, respectively. These transactions are reflected in separate lines within the consolidated statements of activities and changes in net assets. The net unpaid portion of this program is \$0 and \$8.4 million at June 30, 2008 and 2007, respectively, and is reflected within receivables in the consolidated statements of financial position.

It is an inherent part of LUMC's mission to provide necessary medical care free of charge, or at a discount, to individuals without insurance or other means of paying for such care. As the amounts determined to qualify as charity care are not pursued for collection, they are not reported as patient service revenues. LUMC also incurs losses related to the unreimbursed costs of providing services to Medicaid patients. The charges foregone associated with the provision of charity care and unreimbursed cost of Medicaid patients for fiscal years 2008 and 2007 are as follows:

(in thousands of dollars)	<u>2008</u>	<u>2007</u>
Charges foregone for charity purposes	\$ <u>26,700</u>	\$ <u>23,137</u>
Excess cost over reimbursement for Medicaid patients:		
Excess cost before Hospital Access Improvement payments	\$ 40,929	\$ 37,603
Hospital Access Improvement payments – net of assessments	( <u>8,404</u> )	( <u>16,806</u> )
Excess cost over reimbursement for Medicaid patients	\$ <u>32,525</u>	\$ <u>20,797</u>

## (5) Investments

### University Academic

Investment policy is established by the Board of Trustees and operating guidelines are established by the Investment Policy Committee of the Board of Trustees. The investment strategy employs a diversified asset allocation and maintains, within general parameters, exposure to equity, fixed income, real estate, and private equity markets. All investments are managed by external investment managers and held in custody by third-party financial institutions.

The fair value of investments at June 30, 2008 and 2007 was:

(in thousands of dollars)	<u>2008</u>	<u>2007</u>
Marketable equity investments	\$224,345	\$232,020
Private equity investments	42,053	32,672
Fixed income investments	85,151	81,375
Real assets	29,719	26,744
Cash pending investment	<u>5,986</u>	<u>13,795</u>
Total investments	<u>\$387,254</u>	<u>\$386,606</u>

Fair values of financial instruments approximate their carrying values in the consolidated financial statements except for indebtedness for which fair value information is provided in Note 8. University Academic is obligated to make future capital contributions in private investment funds in the maximum amount of \$27.3 million over the next several years, subject to investment period modifications provided for in limited partnership agreements.

### Alternative Investments – University Academic

Alternative investments are less liquid than University Academic's other investments and are generally accessed via limited partnerships, limited liability corporations, and off-shore investment funds. There is generally no readily determined market value for alternative investments, though certain funds may invest in securities for which there is a public or over-the-counter market. These investments are subject to varying degrees of liquidity restrictions. The following table summarizes these investments by investment strategy at June 30, 2008 and 2007:

(in thousands of dollars)

<u>Alternative investment strategy</u>	<u>2008</u>	<u>2007</u>	<u>Asset Class</u>	<u>Liquidity</u>
Private equity - fund of funds	\$30,645	\$28,766	Private equity	No contractual liquidity
Private equity - direct	11,408	3,905	Private equity	No contractual liquidity
Private real estate	16,986	14,906	Real estate	Varies
Fixed income - credit	10,755	11,141	Fixed income	Subject to liquidity restrictions
Long-short equity - fund of funds	<u>1,478</u>	<u>9,470</u>	Marketable equity	Subject to liquidity restrictions
Total	<u>\$71,272</u>	<u>\$68,188</u>		

### Derivative Financial Instruments – University Academic

University Academic uses derivative financial instruments in the management of its investment portfolio to invest liquid cash, increase or decrease capital market exposures and to hedge the risk of a decline in value of certain equity securities. Futures are not used for tactical investment decisions or to speculate on the future direction of markets. Futures contracts are exchange traded, subject to daily mark-to-market settlement of gain and loss positions and do not create portfolio leverage. Futures contracts are subject to the same market risk as those funds invested directly in positions held by investment managers. The use of futures contracts on equity and bond markets during 2008 and 2007 generated a \$6.8 million loss and a \$3.3 million gain, respectively. Realized gains and losses from derivative financial instruments are included in investment income.

Investments in derivative financial instruments are classified as trading activity, not as hedges. As of June 30, 2008 and 2007, the investment portfolio held futures contracts with a notional value of \$29.7 million and \$25.3 million, respectively. The fair value of all futures contracts held at June 30, 2008 and 2007 is zero, as gains and losses are

recognized and settled in cash on a daily basis. The net impact of the futures held at June 30, 2008 is to reduce the proportion of cash in the endowment portfolio by 7.9% while increasing equity assets by 7.9%.

At June 30, 2008, five option positions were held in the investment portfolio with a fair value of (\$86) thousand, offsetting underlying stock positions of \$1.2 million. At June 30, 2007, eight option positions were held in the investment portfolio with a fair value of (\$380) thousand, offsetting underlying stock positions of \$2.7 million. Realized gains on exercised or expired options were \$465 thousand in 2008 and \$281 thousand in 2007.

### Investment Return – University Academic

Investment return, net of management fees, for the years ended June 30, 2008 and 2007 was:

(in thousands of dollars)	<u>2008</u>	<u>2007</u>
Interest and dividend income (net of fees)	\$ 8,850	\$ 6,278
Net realized gains	7,750	31,330
Net unrealized gains (losses)	<u>(36,714)</u>	<u>24,316</u>
Total net return on investment	<u>\$ (20,114)</u>	<u>\$ 61,924</u>

Interest income on cash and cash equivalents of \$3.9 million in 2008 and \$7.6 million in 2007 is not included in the investment return.

### Endowment – University Academic

The endowment fund consists of approximately 500 individual funds established for a variety of purposes supporting University Academic operations. Endowment fund balances, including funds functioning as endowment (quasi-endowment), are classified and reported as unrestricted, temporarily restricted or permanently restricted net assets in accordance with donor specifications. While funds functioning as endowment (quasi-endowment) are not subject to permanent restrictions, approval by the Board of Trustees is required to spend the principal of these funds.

The following table provides a summary of the change in the fair value of the endowment investment portfolio for the years ended June 30, 2008 and 2007:

(in thousands of dollars)	<u>2008</u>	<u>2007</u>
Beginning of year endowment value	\$ 373,211	\$ 305,664
Gifts and transfers:		
Contributions (excluding pledges)	11,028	8,125
Transfers	<u>17,692</u>	<u>7,116</u>
Total gifts and transfers	28,720	15,241
Investment income (loss):		
Interest and dividend income (net of fees)	8,484	5,926
Net realized gains	6,822	30,652
Net unrealized gains (losses)	<u>( 34,897)</u>	<u>23,783</u>
Total investment income (loss)	<u>( 19,591)</u>	<u>60,361</u>
Income distributed for operating purposes:		
Scholarships	<u>( 3,072)</u>	<u>( 2,652)</u>
Endowed chairs	<u>( 2,650)</u>	<u>( 2,141)</u>
Research	<u>( 964)</u>	<u>( 711)</u>
Other	<u>( 3,128)</u>	<u>( 2,551)</u>
Total income distributed for operating purposes	<u>( 9,814)</u>	<u>( 8,055)</u>
End of year endowment value	<u>\$ 372,526</u>	<u>\$ 373,211</u>

Endowment net assets at June 30 are classified as follows:

(in thousands of dollars)	<u>2008</u>	<u>2007</u>
Unrestricted	\$ 151,480	\$ 144,525
Temporarily restricted	125,183	143,153
Permanently restricted	<u>95,863</u>	<u>85,533</u>
Total endowment net assets	<u>\$ 372,526</u>	<u>\$ 373,211</u>

University Academic uses a total return linked spending policy designed to preserve the value of the endowment in real terms (i.e. after inflation) and to generate a predictable stream of income to support spending. Endowment spending can consist of interest, dividends or accumulated capital gains, and the proportion of each varies from year to year as a result of the emphasis on total return. The primary benefit of a total return linked spending policy is to separate the spending decision from short-term investment results. Therefore, a long-term investment strategy can be established independently of spending needs. Current endowment spending policy caps the spending rate at 5.0%. The following table illustrates the endowment's total return (net of investment management fees) and effective spending rates for the past five fiscal years:

<u>Fiscal Year</u>	<u>Endowment Total Return</u>	<u>Effective Spending Rate</u>
2008	(5.0)%	2.6%
2007	19.5%	2.6%
2006	13.7%	2.9%
2005	10.6%	2.2%
2004	20.5%	3.2%

## LUHS

Effective June 30, 2008, LUHS designated its unrestricted investments as trading securities. As a result of this designation, approximately \$4.3 million of cumulative net unrealized loss on the trading portfolio as of June 30, 2008, was recognized as non-operating activity in the consolidated statements of activities and changes in net assets.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated statements of financial position. The real estate investment is valued at cost and represents land not used in current operations. Investment income or loss (including realized gains and losses on investments, interest and dividends, and other-than-temporary investment declines) is included in results from operations in the consolidated statements of activities and changes in net assets unless the income or loss is restricted by donor or law.

Gains and losses are calculated using the average cost method. LUHS recognized a net loss on impaired investments of \$4.3 million for the year ended June 30, 2007 related to investments whose fair value was significantly less than cost. LUHS recorded unrealized (losses) gains on investments of (\$20.4) million and \$6.7 million in 2008 and 2007, respectively.

Investments include \$117.2 million and \$111.5 million at June 30, 2008 and 2007, respectively, held by LUCIC for the payment of general and professional liability claims, including \$34.4 million and \$32.7 million reported as short-term investments at June 30, 2008 and 2007, respectively.

The fair value of investments, which includes less than \$1 million in a private equity investment, at June 30, 2008 and 2007 was:

(in thousands of dollars)	<u>2008</u>	<u>2007</u>
Marketable equity investments	\$ 79,972	\$ 79,149
Fixed income investments	120,593	115,219
Real estate	<u>8,075</u>	<u>8,069</u>
Total investments	\$ <u>208,640</u>	\$ <u>202,437</u>

Investment return for the years ended June 30, 2008 and 2007 was:

(in thousands of dollars)	<u>2008</u>	<u>2007</u>
Interest and dividend income	\$ 10,629	\$ 10,323
Net realized gains	1,900	10,584
Net unrealized gains (losses)	<u>(20,407)</u>	<u>6,685</u>
Total investment income (loss)	\$ <u>(7,878)</u>	\$ <u>27,592</u>

## (6) Notes and Accounts Receivable

Notes and accounts receivable at June 30, 2008 and 2007 consisted of:

(in thousands of dollars)	<u>2008</u>			<u>2007</u>
	<u>University Academic</u>	<u>LUHS</u>	<u>Total</u>	
Student loan notes (less allowance for doubtful accounts of \$1,583 (2008) and \$1,522 (2007))	\$21,842	\$ -	\$ 21,842	\$ 19,615
Contributions (less discount of \$8,855 (2008) and \$10,793 (2007) and allowance for doubtful accounts of \$910 (2008) and \$889 (2007))	9,422	7,205	16,627	18,464
Health care (less allowance for doubtful accounts of \$15,480 (2008) and \$17,509 (2007))		140,471	140,471	167,418
Student receivables (less allowance for doubtful accounts of \$4,484 (2008) and \$3,011 (2007))	10,376		10,376	10,497
Grant receivables (less allowance for doubtful accounts of \$84 (2008) and \$9 (2007))	6,107		6,107	2,685
Other (less allowance for doubtful accounts of \$230 (2008) and \$370 (2007))	<u>7,675</u>		<u>7,675</u>	<u>8,695</u>
Total notes and accounts receivable	<u>\$55,422</u>	<u>\$147,676</u>	<u>\$203,098</u>	<u>\$227,374</u>

Contributions receivable at June 30, 2008 and 2007 are due in the following periods:

(in thousands of dollars)	<u>2008</u>			<u>2007</u>
	<u>University Academic</u>	<u>LUHS</u>	<u>Total</u>	
In one year or less	\$ 1,488	\$ 3,432	\$ 4,920	\$ 4,357
Between one year and five years	4,390	4,130	8,520	12,044
More than five years	12,952		12,952	13,745
Discount \$8,855 (2008) and \$10,793 (2007) and allowance for doubtful accounts of \$910 (2008) and \$889 (2007)	<u>(9,408)</u>	<u>(357)</u>	<u>(9,765)</u>	<u>(11,682)</u>
Total contributions receivable	\$ <u>9,422</u>	\$ <u>7,205</u>	\$ <u>16,627</u>	\$ <u>18,464</u>

**(7) Land, Buildings and Equipment**

Components of land, buildings, equipment, and library books at June 30, 2008 and 2007 were:

(in thousands of dollars)

	2008			2007
	University Academic	LUHS	Total	
Land	\$ 120,853	\$ 8,105	\$ 128,958	\$ 86,571
Buildings	673,764	440,695	1,114,459	962,444
Equipment	57,683	231,328	289,011	238,216
Library books and art	20,777		20,777	20,615
Construction in progress	<u>34,046</u>	<u>24,695</u>	<u>58,741</u>	<u>99,179</u>
Total	907,123	704,823	1,611,946	1,407,025
Accumulated depreciation	<u>(334,347)</u>	<u>(295,472)</u>	<u>(629,819)</u>	<u>(580,036)</u>
Land, buildings, and equipment – net	\$ <u>572,776</u>	\$ <u>409,351</u>	\$ <u>982,127</u>	\$ <u>826,989</u>

As of June 30, 2008, University Academic and LUHS have commitments of \$15 million and \$14 million, respectively, related to various capital projects.

As of June 30, 2008 and 2007, University Academic included \$735 thousand and \$394 thousand of capitalized asset retirement costs, net of accumulated depreciation, within buildings, and \$9.5 million and \$8.8 million, respectively, of conditional asset retirement obligations within other liabilities in the consolidated statements of financial position.

As of June 30, 2008 and 2007, LUHS included \$193 thousand and \$219 thousand of capitalized asset retirement costs, net of accumulated depreciation, within buildings, and \$644 thousand and \$607 thousand, respectively, of conditional asset retirement obligations within other liabilities in the consolidated statements of financial position.

**(8) Indebtedness**

Notes and bonds payable as of June 30, 2008 and 2007 are shown below:

(in thousands of dollars)

	Final Maturity	Interest Rate	2008	Interest Rate	2007
<b>University Academic</b>					
Fixed rate:					
Illinois Finance Authority (IFA)					
(formerly Illinois Educational Facilities Authority (IEFA)):					
Series 1997C taxable bonds	2013	7.00-7.12%	\$ 30,120	6.95-7.12%	\$ 35,325
Series 2003A bonds	2027	5.00%	28,155	5.00%	28,155
Series 2003B bonds	2022	5.60%	37,520	5.60%	37,520
Series 2004A bonds	2026	5.00-5.25%	24,000	5.00-5.25%	24,000
Series 2007 bonds	2025	4.00-5.00%	27,635	4.00-5.00%	27,635
Series 2003C direct obligation bonds	2019	4.80-5.30%	40,805	4.80-5.30%	40,805
Medium-term notes	2018	7.52%	21,100	7.52%	21,100
Mortgage notes:					
6566-82 N. Sheridan Road	2010	9.00%	265	9.00%	382
6542-48 N. Sheridan Road	2016	9.50%	575	9.50%	629
City of Chicago Loan	2013	0.00%	<u>563</u>	0.00%	<u>688</u>
Total fixed rate			<u>\$210,738</u>		<u>\$216,239</u>



(in thousands of dollars)	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>2008</u>	<u>Interest Rate</u>	<u>2007</u>
<b>University Academic</b>					
Variable rate: *					
IFA Series 2004B bonds	2035			3.80%	\$ 34,800
IEFA commercial paper pool	2014	1.65%	\$ 12,174	3.73%	12,174
IFA 2008 commercial paper	2038	1.70%	80,000		
Chase line of credit	2010	3.12%	<u>25,000</u>		
Total variable rate			<u>\$117,174</u>		<u>\$ 46,974</u>
Total University Academic indebtedness			<u>\$327,912</u>		<u>\$263,213</u>
Adjustment for unamortized bond premium/(discount)			<u>\$ 1,761</u>		<u>\$ 1,880</u>
Total University Academic indebtedness net of unamortized premium/(discount)			<u>\$329,673</u>		<u>\$265,093</u>

\* Interest rates shown in the variable rate section of this chart represent the weighted average outstanding interest rate at June 30.

During the year ended June 30, 2008, University Academic entered into the following debt-related transactions:

University Academic entered into a two-year unsecured bank line of credit with JPMorgan Chase Bank, N.A., under which it may borrow up to \$50 million on a revolving loan basis. Borrowings under the line of credit may bear interest at rates based on the Eurodollar, the Prime Rate, or other negotiated rates. The agreement, which expires on July 2, 2009, also permits the issuance of letters of credit, term loans, and leases, all within the \$50 million capacity. As of June 30, 2008, \$25 million was outstanding on the line of credit. Interest paid on the line of credit was \$153 thousand for the year ended June 30, 2008.

University Academic issued \$80 million of unsecured commercial paper through the Illinois Finance Authority backed by a direct-pay letter of credit from JPMorgan Chase Bank, N.A. A portion of the proceeds of this issuance refunded the Series 2004B bonds in the amount of \$34.8 million, resulting in a \$973 thousand cost of early extinguishment of debt. This refunding was undertaken in order to exit the auction rate securities market and reduce interest costs. Prior to this refinancing, the 2004B bonds bore interest rates at or above 5.0%; subsequent refinancing of this debt has produced interest rates averaging 1.7% as of June 30, 2008.

During the year ended June 30, 2007, in order to reduce interest expense from 5.7% to an all-in cost of approximately 4.74% and generate approximately \$2.6 million of present value savings, University Academic refinanced its Series 1997A bonds and terminated its sole interest rate swap, resulting in a \$1.9 million cost of early extinguishment of debt.

During 2005, University Academic entered into an unsecured bank line of credit under which it may borrow up to \$20.0 million related to the University's graduate and professional student loan program. Loans issued to students and subsequently sold to a financial institution without recourse to the University totaled \$40.0 million and \$35.2 million for the years ended June 30, 2008 and 2007, respectively. Borrowings under this line of credit bear interest at the commercial paper rate plus .40% (2.73% at June 30, 2008 and 5.26% at June 30, 2007). Interest paid on University Academic's line of credit was \$164 thousand and \$200 thousand for the years ended June 30, 2008 and 2007, respectively. As of June 30, 2008 and 2007, there were no principal amounts outstanding under this line of credit. As of June 30, 2008, the credit facility was terminated.

(in thousands of dollars)	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>2008</u>	<u>Interest Rate</u>	<u>2007</u>
<b>LUHS</b>					
Long-Term debt:					
Fixed rate:					
Illinois Health Facilities Authority (IHFA):					
Series 2001A bonds	2011	5.75%	\$ 10,680	5.75%	\$ 13,000
Series 1997A bonds	2024	5.00%-6.00%	<u>110,865</u>	5.00%-6.00%	<u>114,690</u>
Total fixed rate			<u>\$121,545</u>		<u>\$127,690</u>

(in thousands of dollars)	<u>Final</u> <u>Maturity</u>	<u>Interest</u> <u>Rate</u>	<u>2008</u>	<u>Interest</u> <u>Rate</u>	<u>2007</u>
<b>LUHS</b>					
Variable rate:					
Illinois Health Facilities Authority (IHFA):					
Series 2006A bonds	2035	1.54%	\$ 85,145	3.74%	\$ 85,145
Series 2006B bonds	2041	1.54%	75,000	3.74%	75,000
Series 2006C bonds	2041	1.48%	75,000	3.77%	75,000
Series 1997B bonds	2024	5.00%-8.75%	<u>12,965</u>	3.73%	<u>13,545</u>
Total variable rate			<u>\$ 248,110</u>		<u>\$ 248,690</u>
Total LUHS indebtedness			<u>\$ 369,655</u>		<u>\$ 376,380</u>
Adjustment for unamortized bond premium/(discount)			\$( <u>681</u> )		\$( <u>753</u> )
Total LUHS indebtedness net of unamortized premium/(discount)			<u>\$ 368,974</u>		<u>\$ 375,627</u>

In June 2008, the bond insurer for the 1997B bonds was down-graded. As a result \$10.1 million of the total bonds outstanding were tendered and have not yet been re-marketed. If the bonds are not resold or refinanced, LUHS will be obligated to repay the principal to its liquidity agent in quarterly installments over the next four years, with interest at the prime bank rate, currently 5.0%.

During the year ended June 30, 2007, LUHS restructured its debt. The restructuring included the repayment of its taxable Series 1997C bonds, the advance refunding of a portion of the Series 2001A bonds and the issuance of Series 2006A, 2006B and 2006C bonds. The new debt is secured by a separate Initial Credit Facility for each of the Series 2006 bonds. In addition, two new swap agreements were entered into as described below. As part of the refinancing, LUHS incurred a loss in the amount of \$8.1 million which is recorded as a cost of early extinguishment of debt in the consolidated statements of activities and changes in net assets.

LUHS maintains an unsecured bank line of credit of \$20 million at a LIBOR-based interest rate (LIBOR plus 40 basis points) payable monthly. As of June 30, 2008 and 2007, there were no principal amounts outstanding on the line of credit. Interest paid on LUHS's line of credit was \$154 thousand and \$1.8 million for the years ended June 30, 2008 and 2007, respectively.

In 2008 and 2007, University Academic recorded capitalized interest of \$1.0 million and \$452 thousand, respectively, and LUHS recorded capitalized interest of \$1.1 million and \$816 thousand, respectively. Bond discounts, premiums, and costs incurred in connection with the issuance of bonds are deferred and amortized over the life of the related indebtedness.

### **Debt Covenants**

Some debt agreements require University Academic and LUHS to maintain sinking or reserve funds, and some require the maintenance of financial ratios or impose other restrictions. Both University Academic and LUHS are in compliance with all debt covenants as of June 30, 2008.

### **Repayments and Classification**

Total scheduled maturities for the next five fiscal years are:

(in thousands of dollars)	Fiscal <u>Year</u>	University <u>Academic</u>	<u>LUHS</u>	<u>Total</u>
	2009	\$ 15,566	\$ 9,385	\$ 24,951
	2010	8,019	10,155	18,174
	2011	6,822	9,845	16,667
	2012	7,289	11,370	18,659
	2013	5,795	7,910	13,705
	Thereafter	<u>284,421</u>	<u>320,990</u>	<u>605,411</u>
		<u>\$327,912</u>	<u>\$369,655</u>	<u>\$697,567</u>

### Disclosure of Fair Value of Long-term Debt

The fair value of the outstanding debt as of June 30, 2008 and 2007 was:

(in thousands of dollars)	<u>2008</u>		<u>2007</u>	
	Fair <u>Value</u>	Carrying <u>Value</u>	Fair <u>Value</u>	Carrying <u>Value</u>
University Academic	\$326,828	\$329,673	\$263,190	\$265,093
LUHS	372,378	368,974	379,925	375,627

The fair value of long-term debt is determined based on discounted cash flows or market prices for comparable borrowings as of June 30, 2008 and 2007.

Interest paid for the years ended June 30, 2008 and 2007 was:

(in thousands of dollars)	<u>2008</u>			
	University <u>Academic</u>	<u>LUHS</u>	<u>Total</u>	<u>2007</u>
Interest paid	\$13,742	\$14,311	\$28,053	\$32,621

### Interest Rate Swaps

From time to time, University Academic enters into interest rate swap agreements to modify the interest rate characteristics of its outstanding debt from floating to a fixed-rate or vice versa. These agreements involve the exchange of floating and fixed-rate interest payments over the life of the agreement without an exchange of the underlying principal amount. The differential to be paid or received is recognized as an adjustment to interest expense related to the debt. The related amount payable to or receivable from counterparties is included in other liabilities or assets.

As of June 30, 2008 and 2007, University Academic had no interest rate swaps outstanding.

LUHS entered into interest rate swap agreements in September and December 2006 and in May 2003. The May 2003 floating rate agreement has a rate equal to 63.00% of the one-month LIBOR plus .705%, extends over a twenty-year period, and has a notional amount of \$125.0 million. The September 2006 floating rate agreement has a rate equal to 61.70% of the ten-year ISDA plus .40%, extends over a twenty-year period, and has a notional amount of \$100 million. The December 2006 floating rate agreement has a rate equal to 61.80% of the one-month LIBOR plus .31%, extends over a twenty-eight year period, and has a notional amount of \$85 million. The net amounts received under the interest rate swap agreements reduced interest expense by \$609 thousand in 2008 and by \$913 thousand in 2007.

The fair value of the swap agreements at June 30, 2008, representing an unrealized loss of \$962 thousand, is recorded as a component of other liabilities in the consolidated statements of financial position. The fair value of the swap agreements at June 30, 2007, representing an unrealized gain of \$6.0 million, is recorded as a component of other assets in the consolidated statements of financial position. LUHS recorded the net mark-to-market fair value adjustment of the swaps as a loss of \$7.0 million and a gain of \$7.2 million for the years ended June 30, 2008 and 2007, respectively, as a component of the non-operating activities section of the consolidated statements of activities and changes in net assets. The May 2003 and September 2006 swap agreements do not qualify for hedge accounting. The December 2006 swap agreement is a hedge for the Series 2006A bonds resulting in the swap of variable rate debt to a fixed rate. LUHS has elected to not apply hedge accounting to this agreement.

## **(9) Self Insurance**

### **University Academic**

University Academic maintains risk retention programs for certain professional and general liability risks and certain employee benefits.

Under a risk retention program designed to provide general and professional liability protection to University Academic and patient liability protection to participating faculty, University Academic has responsibility for pre-1995 exposure. The risk retention program is supplemented by commercial excess umbrella protection on an occurrence basis through 1986, and thereafter on a combined claims-made and occurrence basis. The reserve for risk retention is the estimated value of claims and claims adjustment expense which will be settled in the future. Management determined that a reserve is not necessary as of June 30, 2008.

### **LUHS**

LUMC purchases claims-made insurance coverage from LUCIC for primary and patient general liability claims, as well as excess liability claims. The accounts and results of operations of LUCIC are included in the accompanying consolidated financial statements. Estimated claims are discounted using a rate of 6.25% and 6.5% at June 30, 2008 and 2007, respectively. The amounts of the discounts were \$25.6 million in 2008 and \$33.6 million in 2007. Self-insurance liabilities are estimated at the actuarially determined level, including an estimate of incurred but not reported claims. Reinsurance recoveries receivable of \$10.5 million and \$16.9 million were recorded as a component of other assets at June 30, 2008 and 2007, respectively.

Expenses related to general and professional liability were \$29.0 million and \$42.6 million for 2008 and 2007, respectively. This includes primary and patient general liability and medical malpractice liability insurance provided to Loyola University Physician Foundation (LUPF) and its physicians (see Note 14). LUPF expenses related to general liability and medical malpractice liability insurance were \$14.2 million and \$17.0 million for 2008 and 2007, respectively.

## **(10) Retirement Plans**

Substantially all personnel participate in either a defined contribution retirement plan or a defined benefit plan (LUERP). University Academic froze pension benefits in LUERP effective March 31, 2004 for all but a grandfathered group of "ameliorated" participants. This group is allowed to continue to earn additional Adjusted Benefit Credited Service accruals for a period of up to five years. The LUERP plan is governed by ERISA. Effective April 1, 2004, University Academic established a new defined contribution plan. University Academic's expense under this plan was \$14.8 million and \$13.7 million for 2008 and 2007, respectively.

LUMC froze pension benefits in LUERP effective March 31, 2004 for all participants. All LUMC participants will continue to earn pension benefits after March 31, 2004 in a new defined benefit plan, the Loyola University Medical Center Employees' Retirement Plan (LUMC-ERP), which is similar in design to LUERP and provides coverage effective April 1, 2004. The primary differences between LUMC-ERP and LUERP include removal of the unlimited lump sum optional form of payment, an increase in the retirement age from 65 to Social Security Normal Retirement Age, an increase in the hour requirement for participation and service accrual from 500 to 1,000. LUMC-ERP was granted Church Plan status by the IRS and is not governed by ERISA. LUMC expects to contribute a minimum of \$14.0 million to LUMC-ERP in 2009.

At June 30, 2007, University Academic recorded a reduction in unrestricted net assets of \$12.5 million due to the implementation of SFAS 158 which requires all previously unrecognized actuarial gains and losses to be reflected in the statement of financial position. The unrecognized loss not reflected in the periodic pension expense included an actuarial loss of \$12.5 million. In addition, University Academic adopted in June 2007 the change in the measurement date of plan assets. As a result of this early adoption there was an increase in unrestricted net assets of \$5.2 million. As of June 30, 2008, (\$11.2) million of pension-related changes other than net periodic pension cost was recognized as non-operating activity in the consolidated statements of activities and changes in net assets.

As of June 30, 2007, LUHS recorded an additional pension liability of \$63.2 million. This adjustment was required as a result of the implementation of SFAS 158 which requires all previously unrecognized actuarial gains and losses to be reflected in the statement of financial position. The unrecognized losses not reflected in periodic pension expense included \$59.2 million for unrecognized actuarial losses and \$4 million for unrecognized prior service costs. In addition, LUHS adopted the change in the measurement date of plan assets. As a result of this early adoption there was a decrease in unrestricted net assets of \$3.5 million. As of June 30, 2008, \$19.0 million of pension-related changes other than net periodic pension cost was recognized as non-operating activity in the consolidated statements of activities and changes in net assets.

For LUHS, the LUERP plan has a projected benefit obligation of \$134.6 million and \$157.8 million and a fair value of plan assets of \$151.9 million and \$159.7 million as of June 30, 2008 and 2007, respectively. The LUMC-ERP plan has a projected benefit obligation of \$90.5 million and \$81.7 million, and a fair value of plan assets of \$40.6 million and \$28 million as of June 30, 2008 and 2007, respectively.

Summary information for the defined benefit pension plans follows:

(in thousands of dollars)

	2008			2007
	University Academic	Combined LUMC Plans	Total	
<b>Change in projected benefit obligation</b>				
Projected benefit obligation, beginning of year	\$ 75,314	\$ 245,680	\$ 320,994	\$ 277,792
Plan amendment		501	501	1,878
Service cost	435	12,113	12,548	15,303
Interest cost	4,482	14,343	18,825	21,287
Benefits paid	( 7,094)	( 9,142)	( 16,236)	( 24,843)
Actuarial gain (loss)	<u>2,552</u>	<u>( 36,471)</u>	<u>( 33,919)</u>	<u>29,577</u>
Projected benefit obligation, end of year	<u>\$ 75,689</u>	<u>\$ 227,024</u>	<u>\$ 302,713</u>	<u>\$ 320,994</u>
<b>Change in plan assets</b>				
Fair value of plan assets, beginning of year	\$ 94,178	\$ 191,737	\$ 285,915	\$ 256,454
Actual return on plan assets	( 1,011)	( 3,186)	( 4,197)	39,977
Company contributions		13,034	13,034	14,327
Benefits paid	( 7,094)	( 9,142)	( 16,236)	( 24,843)
Fair value of plan assets, end of year	<u>\$ 86,073</u>	<u>\$ 192,443</u>	<u>\$ 278,516</u>	<u>\$ 285,915</u>
<b>Funded status</b>				
Funded status of the plan	<u>\$ 10,384</u>	<u>\$ ( 34,581)</u>	<u>\$ ( 24,197)</u>	<u>\$ ( 35,079)</u>
<b>Amounts included in the statement of financial position</b>				
Other assets	\$ 10,384	\$	\$ 10,384	\$ 18,864
Current liabilities		( 107)	( 107)	( 141)
Pension and postretirement obligation		( 34,474)	( 34,474)	( 53,802)
Funded status	<u>\$ 10,384</u>	<u>\$ ( 34,581)</u>	<u>\$ ( 24,197)</u>	<u>\$ ( 35,079)</u>
<b>Amounts not yet recognized in net period pension cost and included in unrestricted net assets</b>				
Actuarial loss	\$ 19,120	\$ 40,320	\$ 59,440	\$ 67,050
Prior service cost		<u>3,838</u>	<u>3,838</u>	<u>4,020</u>
Total	<u>\$ 19,120</u>	<u>\$ 44,158</u>	<u>\$ 63,278</u>	<u>\$ 71,070</u>
<b>Weighted average assumptions</b>				
Discount rate - benefit obligations	6.26%	7.11%		5.93%-6.06%
Discount rate - pension expense	6.26%	6.35%		6.09%-6.23%
Rate of compensation increase	n/a	3.50%		3.00%
Expected long-term return on assets	7.80%	7.80%		8.50%
<b>Components of net pension expense</b>				
Service cost	\$ 436	\$ 11,846	\$ 12,282	\$ 12,176
Interest cost	4,482	14,328	18,810	16,636
Expected return on plan assets	( 7,689)	( 16,350)	( 24,039)	( 21,464)
Net amortization and referral	<u>12</u>	<u>2,554</u>	<u>2,566</u>	<u>2,283</u>
Net periodic pension cost	<u>\$ ( 2,759)</u>	<u>\$ 12,378</u>	<u>\$ 9,619</u>	<u>\$ 9,631</u>

The defined benefit plan asset allocation at the June 30 measurement date was as follows:

	2008		2007	
	University Academic	Combined LUMC Plans	University Academic	Combined LUMC Plans
Cash	1%	1%	1%	1%
Equity securities	43%	47%	48%	48%
Fixed income securities	33%	34%	30%	31%
Private investments	15%	12%	14%	13%
Other, including real estate	8%	6%	7%	7%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

LUERP assets are held in trust by an external trustee. The trust portfolio is managed in accordance with the policies established by the LUERP Retirement Allowance Committee. Management developed the estimate of the expected long-term rate of return on plan assets based upon this mix and the expected rates of return for the various investment strategies employed.

Expected future benefit payments for the years ended June 30 are as follows:

(in thousands of dollars)	Fiscal Year	University Academic	Combined LUMC Plans	Total
	2009	\$ 7,979	\$14,316	\$ 22,295
	2010	6,860	14,580	21,440
	2011	6,666	14,922	21,588
	2012	6,683	15,546	22,229
	2013	6,544	16,434	22,978
	2014-2018	29,192	96,767	125,959

LUMC employees who are covered by LUERP and/or LUMC-ERP are eligible to participate in the Loyola Retirement Matched Savings Plan. LUMC matches one-half of employees' voluntary contributions to a maximum of 2% of compensation. LUMC's expense for 2008 and 2007 was \$3.1 million and \$3.0 million, respectively.

In fiscal year 2007 LUHS adopted a restoration plan to provide to named executives additional, nonqualified pension benefits. The plan provides for periodic contributions. LUHS's expense under this plan was \$590 thousand and \$314 thousand for 2008 and 2007, respectively.

In fiscal year 2008 LUHS adopted a Supplemental Employee Retirement plan to provide named executives additional, nonqualified pension benefits. The plan provides for periodic contributions. LUHS's expense under this plan was \$329 thousand for 2008.

LUHS offers an incentive plan to certain physicians and employees. Under the terms of this plan LUHS will match up to \$35 thousand per annum for salary that is deferred under this plan. LUHS's expense for 2008 and 2007 was \$669 thousand and \$766 thousand, respectively.

In addition, all employed physicians who work 1,000 or more hours are eligible to participate in a defined contribution plan. The plan provides for periodic contributions based on the salary of the employees. LUMC's expense under the provisions of the plan for 2008 and 2007 was \$1.7 million and \$1.4 million, respectively.

#### (11) Other Postretirement Benefits

University Academic has a defined benefit retiree health plan covering eligible employees upon their retirement. Health benefits are provided subject to various cost-sharing features and are not prefunded.

LUMC participates in the defined benefit retiree health plans of Loyola University of Chicago covering eligible employees upon their retirement and provides postretirement benefits (primarily health benefits) other than pensions. Health benefits are provided subject to various cost-sharing features and are not prefunded. Effective January 1, 2001,

LUMC discontinued its contributions to the cost of retiree health coverage for certain future retirees. LUMC expects to contribute \$272 thousand for covered retirees in 2009.

During the year ended June 30, 2007, University Academic implemented the provisions of SFAS 158. As a result, University Academic recognized an unrealized actuarial gain of \$3.6 million. In addition, University Academic adopted in June 2007 the change in measurement date of the accumulated postretirement benefit obligation provision of SFAS 158 recorded in the consolidated statements of activities and changes in net assets. As a result of this early adoption there was an increase in unrestricted net assets of \$51 thousand. These items are included in the cumulative effect of changes in accounting for pension and postretirement plan obligations line of the consolidated statements of activities and changes in net assets. As of June 30, 2008, (\$2.7) million of retirement plan related changes other than net periodic retirement plan expense was recognized as non-operating activity in the consolidated statements of activities and changes in net assets.

During the year ended June 30, 2007, LUHS implemented the provisions of SFAS No. 158. As a result, LUHS recognized an unrealized actuarial gain of \$3.9 million in the cumulative effect of changes in accounting for pension and postretirement plan obligations line in the consolidated statements of activities and changes in net assets. As of June 30, 2008, (\$2.7) million of retirement plan related changes other than net periodic retirement plan expense was recognized as non-operating activity in the consolidated statements of activities and changes in net assets.

Defined benefit retiree health plan costs included in the consolidated statements of activities and changes in net assets for University Academic and LUHS for the years ended June 30, 2008 and 2007 were:

(in thousands of dollars)	2008			
	University Academic	LUHS	Total	2007
<b>Change in benefit obligation</b>				
Benefit obligation, beginning of year	\$ 26,961	\$ 3,532	\$ 30,493	\$ 32,774
Service cost	1,513	75	1,588	1,940
Interest cost	1,618	213	1,831	2,372
Participant contributions	1,342	390	1,732	2,445
Benefits paid	( 2,059)	( 677)	( 2,736)	( 4,343)
Actuarial gain (loss)	<u>187</u>	<u>914</u>	<u>1,101</u>	<u>( 4,695)</u>
Benefit obligation, end of year	<u>\$ 29,562</u>	<u>\$ 4,447</u>	<u>\$ 34,009</u>	<u>\$ 30,493</u>
<b>Change in plan assets</b>				
Fair value of plan assets, beginning of year	\$ -	\$ -	\$ -	\$ -
Employer contributions	717	287	1,004	1,898
Participant contributions	1,342	390	1,732	2,445
Benefits paid	( 2,059)	( 677)	( 2,736)	( 4,343)
Fair value of plan assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Funded status</b>				
Funded status of plan	<u>\$ 29,562</u>	<u>\$ 4,447</u>	<u>\$ 34,009</u>	<u>\$ 30,493</u>
<b>Amounts not yet recognized in net period benefit cost and included in unrestricted net assets</b>				
Actuarial loss	\$ 1,854	\$ 4,131	\$ 5,985	\$ 5,362
Prior service (benefit)	( 2,969)	( 5,251)	( 8,220)	( 12,818)
Total	<u>\$(1,115)</u>	<u>\$(1,120)</u>	<u>\$(2,235)</u>	<u>\$(7,456)</u>
<b>Components of net period postretirement benefit cost</b>				
Service cost	\$ 1,513	\$ 95	\$ 1,608	\$ 1,530
Interest cost	1,618	265	1,883	1,933
Amortization of unrecognized prior service (benefit) and actuarial loss	<u>( 2,517)</u>	<u>( 1,996)</u>	<u>( 4,513)</u>	<u>( 3,608)</u>
Net period postretirement benefit cost	<u>\$ 614</u>	<u>\$(1,636)</u>	<u>\$(1,022)</u>	<u>\$(145)</u>
Discount rate	6.26%	6.35%		6.00%-6.26%

<b>Assumed health care cost trend rates</b>	<u>2008</u>	<u>2009</u>	<u>2010</u>
HMO plans	5.00%	5.00%	5.00%
Non-HMO plans	5.00%	5.00%	5.00%

For University Academic, the amounts of estimated net actuarial loss and prior service (benefit) for the plan that will be amortized from unrestricted net assets into net period postretirement benefit cost during the 2009 fiscal year are \$0 and (\$1.9) million, respectively.

For LUHS, the amounts of estimated net actuarial loss and prior service (benefit) for the plan that will be amortized from unrestricted net assets into net period postretirement benefit cost during the 2009 fiscal year are \$523 thousand and (\$1.8) million, respectively.

(in thousands of dollars)

	<u>2008</u>			<u>2007</u>
	<u>University Academic</u>	<u>LUHS</u>	<u>Total</u>	
<b>Effect of a 1% change in the health care cost trend rates</b>				
<b><u>1% increase</u></b>				
On year-end postretirement benefit obligations	\$ 2,300	\$ 390	\$ 2,690	\$ 2,228
On total of service and interest cost components	248	9	257	302
<b><u>1% decrease</u></b>				
On year-end postretirement benefit obligations	\$(2,314)	\$(359)	\$(2,673)	\$(2,072)
On total of service and interest cost components	( 226)	( 8)	( 234)	( 276)

The defined benefit retiree health plan measurement date was June 30, 2008 for the fiscal year ended June 30, 2008. The defined benefit retiree health plan measurement date was June 30, 2007 for the fiscal year ended June 30, 2007.

#### **Estimated future benefit payments**

(in thousands of dollars)

<u>Fiscal Year</u>	<u>University Academic</u>	<u>LUHS</u>	<u>Total</u>
2009	\$ 1,989	\$272	\$ 2,261
2010	2,386	287	2,673
2011	2,777	273	3,050
2012	3,164	172	3,336
2013	3,673	198	3,871
2014-2018	24,421	585	25,006

Effective July 1, 2004, University Academic changed its plan for retiree health benefits. New retirees after 2006 will receive an account-based retiree medical subsidy. The subsidy will be an annual allocation of \$2,750 (not indexed) towards an interest-bearing account. The allocations will be given for each year of active employment after age 50, up to a maximum of 15 years. Accounts will continue to earn interest during retirement and can be used by the retiree or spouse to pay qualified retiree medical expenses, including monthly premiums for coverage under University Academic's health plan.

#### **(12) Functional Classification of Expenses**

Expenses are reported in the consolidated statements of activities and changes in net assets in natural classifications. Expenses by functional classification for the years ended June 30, 2008 and 2007 were:



(in thousands of dollars)	<u>2008</u>	<u>2007</u>
Instruction	\$ 105,828	\$ 97,989
Research and other sponsored programs	41,532	40,266
Academic support	58,540	51,526
Student services	27,505	25,445
Institutional support	65,029	58,500
Operations and maintenance	21,582	20,797
Depreciation	25,109	21,361
Patient care	790,153	762,168
Auxiliary services	<u>40,021</u>	<u>37,902</u>
Total operating expenses	<u>\$1,175,299</u>	<u>\$1,115,954</u>

### (13) Restricted Net Assets

The program restrictions for temporarily and permanently restricted net assets at June 30, 2008 and 2007 were:

(in thousands of dollars)	<u>2008</u>			<u>2007</u>
	<u>University Academic</u>	<u>LUHS</u>	<u>Total</u>	
<b>Temporarily Restricted</b>				
Academic or program support and student financial aid	\$131,790	\$ -	\$131,790	\$148,916
Research	11,220		11,220	9,576
Student loans	4,664		4,664	4,827
Construction	1,258		1,258	660
Other	<u>16,293</u>	<u>13,008</u>	<u>29,301</u>	<u>36,093</u>
Total temporarily restricted net assets	<u>\$165,225</u>	<u>\$13,008</u>	<u>\$178,233</u>	<u>\$200,072</u>
<b>Permanently Restricted</b>				
Academic or program support and student financial aid	\$109,265	\$ -	\$109,265	\$ 99,155
Research	50		50	45
Student loans	1,148		1,148	1,148
Other	<u>6,583</u>	<u>6,583</u>	<u>6,583</u>	<u>6,509</u>
Total permanently restricted net assets	<u>\$110,463</u>	<u>\$ 6,583</u>	<u>\$117,046</u>	<u>\$106,857</u>

### (14) Related Party Transactions

During the year ended June 30, 2008, LUC sold properties referred to as Arrupe House and Gonzaga House at the estimated fair market value of \$4.7 million to the Chicago Province of the Society of Jesus (the "Province"), an Illinois not-for-profit corporation. LUC recognized a gain on the sale of \$3.7 million related to these two properties. In conjunction with this sale, LUC also agreed to transfer ownership of property referred to as Ignatius House to The Jesuit Community Corporation at Loyola University (the "Community"), an Illinois not-for-profit corporation, for \$1 in order to fulfill LUC's obligation to provide appropriate housing to the Community pursuant to the Sustaining Agreement dated June 6, 2003 between LUC, the Province, and the Community. The net book value of Ignatius House at June 30, 2008 was \$11.6 million. These transactions are recorded in non-operating activities in the consolidated statement of activities and changes in net assets.

#### Loyola University Physician Foundation

LUPF is an incorporated tax-exempt medical faculty practice plan consisting of the faculty of University Academic's SSOM. The physician employees of LUPF perform their clinical services by contractual arrangement with LUC and LUMC. LUPF provides billing, collection, and distribution services of professional fees generated by SSOM physicians from their private practice of medicine at LUMC and other approved locations. LUC and LUMC received a percentage of fees collected, less certain expenses, for the funding of various SSOM activities and for the use of LUMC's practice-related facilities. Revenues to LUC and LUMC in the years ended June 30, 2008 and 2007 and amounts receivable on these dates were:

(in thousands of dollars)

	<u>2008</u>			<u>2007</u>
	University			
	<u>Academic</u>	<u>LUHS</u>	<u>Total</u>	
Revenues	\$25,897	\$16,868	\$42,765	\$46,567
Accounts receivable	3,056	5,346	8,402	5,490

LUMC is reimbursed for providing administrative personnel and certain overhead services to LUPF. The reimbursement was \$6.9 million and \$6.1 million for 2008 and 2007, respectively. Additionally, LUMC is reimbursed for services provided relating to LUCIC exposures. Amounts billed for 2008 and 2007, respectively, were \$597 thousand and \$560 thousand. As of June 30, 2008 and 2007, LUPF's liability to LUMC for all services was \$5.3 million and \$2.6 million, respectively.

LUPF is party to a common paymaster agreement with LUC. The following summarizes unaudited condensed financial information of LUPF as of and for the years ended June 30, 2008 and 2007:

(in thousands of dollars)	<u>2008</u>	<u>2007</u>
Net assets	\$ 23,121	\$ 23,848
Operating revenues	157,975	162,627
Operating expenses	158,726	165,027

LUPF is neither consolidated nor accounted for under the equity method of accounting by LUC or LUHS in the consolidated financial statements because neither LUC nor LUHS exercise significant influence over the board of directors of LUPF.

LUPF pledged \$1.0 million for the establishment of a scholarship endowment to University Academic in December 2006. As of June 30, 2008, there was \$334 thousand outstanding. The \$314 thousand net present value of the pledge was recorded as a pledge receivable. The remainder is expected to be received by the end of fiscal year 2009.

### **RML Specialty Hospital**

LUMC owns a 49.5% interest in RML Specialty Hospital (RML), a long-term acute care hospital located in Hinsdale, Illinois. LUMC's investment in RML of \$9.1 million and \$8.4 million as of June 30, 2008 and 2007, respectively, is recorded using the equity method. LUMC provides renal dialysis and reference laboratory services to RML. The revenue from these services was \$1.5 million and \$1.1 million for 2008 and 2007, respectively. In addition, LUHS has guaranteed 50% of certain outstanding debt of RML. As of June 30, 2008, LUHS's guarantee was \$2.3 million.

The following summarizes condensed financial information of RML as of and for the years ended May 31, 2008 and 2007:

(in thousands of dollars)	<u>2008</u>	<u>2007</u>
Net assets	\$18,524	\$16,411
Revenues	46,090	44,390
Expenses	41,594	39,832

### **Loyola Ambulatory Surgical Center**

LUHS owns a 49% interest in Loyola Ambulatory Surgical Center (LASCO), a joint venture with Surgical Care Affiliates. LUHS's investment in LASCO of \$1.5 million and \$1.8 million as of June 30, 2008 and 2007, respectively, is recorded using the equity method. The following summarizes unaudited condensed financial information of LASCO as of and for the years ended December 31, 2007 and 2006:

(in thousands of dollars)	<u>2007</u>	<u>2006</u>
Net assets	\$1,825	\$1,912
Revenues	5,573	7,049
Expenses	4,523	4,664

The investments in RML Specialty Hospital and Loyola Ambulatory Surgical Center are recorded in other assets in the consolidated statements of financial position. LUHS's equity interest in the earnings of RML and LASCO totaled \$1.8 million and \$371 thousand, respectively, in 2008 and \$2.2 million and \$437 thousand, respectively, in 2007, and are recorded in other revenues in the consolidated statements of activities and changes in net assets.

**(15) LUHS Leases**

LUHS has certain non-cancelable operating leases for specific property, plant, and equipment. Under the terms of these lease agreements, LUHS has a maximum obligation of \$4.3 million in the event the lease for the cogeneration plant is not renewed in January 2013 and the plant is not sold. The obligation may be reduced by excess proceeds from the sale of the plant. Rent paid under operating leases was \$8.4 million in 2008 and \$10.2 million in 2007.

The future minimum lease commitments under these operating leases are as follows:

(in thousands of dollars)	
Fiscal year ending June 30	
2009	\$ 7,421
2010	7,165
2011	6,425
2012	4,500
2013	3,158
thereafter	<u>4,084</u>
Total	<u>\$32,753</u>

**(16) Commitments and Contingencies**

Various lawsuits, claims, and other contingent liabilities occasionally arise in the ordinary course of LUC's education, research, and patient care activities. In the opinion of management, all such matters have been adequately provided for, are without merit, or are of such kind that if disposed of unfavorably, would not have a material effect on LUC's financial position or results of operations.

**(17) Financial Instruments with Off-Balance Sheet Risk**

LUC has agreed to guarantee loans issued to its employees by the Loyola University Employees' Federal Credit Union to an aggregate maximum of \$750 thousand.

**(18) Subsequent Events**

**LUHS**

On January 25, 2008, Gottlieb Health Resources, Inc. ("GHR"), an Illinois not-for-profit corporation and LUHS entered into a Membership Substitution Agreement ("Agreement"). Under the terms of the Agreement, on July 1, 2008, LUHS became the sole member of GHR and LUHS was substituted for GHR as the sole member of Gottlieb Memorial Hospital, an Illinois not-for-profit corporation. No consideration was paid by LUHS to GHR for the membership substitution.

As part of the agreement, GHR was to transfer \$75.0 million to the Gottlieb Community Foundation, an Illinois not-for-profit corporation.

The following summarizes as of June 30, 2008, condensed financial information of GHR:

(in thousands of dollars)	<u>2008</u>
Total assets	\$104,000
Total liabilities	49,000
Revenues, including treasury	136,000
Operating expenses	134,000

The fair market value of the real property of GHR has been appraised at a value of \$128 million, an increase of \$65 million over the cost.

## **University Academic**

At June 30, 2008, the University's Short Term Investments of \$54.6 million were invested in The Common Fund for Short Term Investments (Fund). On September 29, 2008, the Fund trustee, Wachovia Bank, N.A., notified Fund participants of its decision to impose limitations on redemptions, initiate the termination of the Fund, and establish procedures for liquidation and distribution of the Fund's assets. Wachovia's actions were not taken in response to any losses in the Fund and were not a response to an increase in redemptions. At October 24, 2008, the University's remaining investment in the Fund was \$37.9 million, which will be distributed to the University as the underlying securities mature or are sold by the Fund. An additional \$12.0 million of the University's investment is scheduled to mature by December 31, 2008. The University was able to withdraw all of its operating funds and management does not expect this situation to cause cash flow problems.

LOYOLA UNIVERSITY OF CHICAGO - UNIVERSITY ACADEMIC  
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION  
YEARS ENDED JUNE 30, 2008 AND 2007  
(\$000s)

Schedule 1

	Higher Education	Mundelein	LMC	Eliminating Entries	2008 Consolidated Total	2007 Consolidated Total
<b>ASSETS</b>						
CASH AND CASH EQUIVALENTS	\$ 59,308	\$ -	\$ -	\$ -	\$ 59,308	\$ 26,760
SHORT-TERM INVESTMENTS	54,623				54,623	113,063
INTERFUND BALANCES	12,039				12,039	10,874
RECEIVABLES	55,183		239		55,422	51,144
OTHER ASSETS	18,302		88		18,390	26,673
ENDOWMENT AND OTHER LONG-TERM INVESTMENTS	387,254				387,254	386,606
ASSETS HELD IN TRUST BY OTHERS	8,779				8,779	
NOTES RECEIVABLE FROM SUBSIDIARY	21,100			(21,100)		
INTEREST HELD IN PERPETUAL TRUST	9,184				9,184	9,604
LAND, BUILDINGS AND EQUIPMENT - NET	558,284	324	14,168		572,776	479,154
<b>TOTAL ASSETS</b>	<b>\$ 1,184,056</b>	<b>\$ 324</b>	<b>\$ 14,495</b>	<b>\$ (21,100)</b>	<b>\$ 1,177,775</b>	<b>\$ 1,103,878</b>
<b>LIABILITIES AND NET ASSETS</b>						
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 81,282	\$ -	\$ 134	\$ -	\$ 81,416	\$ 78,371
DEFERRED INCOME	24,992				24,992	27,106
UNEXPENDED GRANTS	18,482				18,482	17,193
REFUNDABLE ADVANCES - LOANS	17,342				17,342	17,090
INDEBTEDNESS	329,673		21,100	(21,100)	329,673	263,213
SELF-INSURANCE						135
INTERFUND BALANCES	(6,110)	1,278	4,832			
OTHER LIABILITIES	11,152				11,152	10,425
<b>TOTAL LIABILITIES</b>	<b>476,813</b>	<b>1,278</b>	<b>26,066</b>	<b>(21,100)</b>	<b>483,057</b>	<b>413,533</b>
<b>NET ASSETS:</b>						
Unrestricted	431,555	(954)	(11,571)		419,030	404,933
Temporarily restricted	165,225				165,225	185,064
Permanently restricted	110,463				110,463	100,348
<b>TOTAL NET ASSETS</b>	<b>707,243</b>	<b>(954)</b>	<b>(11,571)</b>		<b>694,718</b>	<b>690,345</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,184,056</b>	<b>\$ 324</b>	<b>\$ 14,495</b>	<b>\$ (21,100)</b>	<b>\$ 1,177,775</b>	<b>\$ 1,103,878</b>

LOYOLA UNIVERSITY OF CHICAGO - UNIVERSITY ACADEMIC  
CONSOLIDATING STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2008 AND 2007  
(\$000s)

Schedule 2

	Higher Education	Mundelein	LMC	Eliminating Entries	2008 Consolidated Total	2007 Consolidated Total
<b>OPERATING REVENUES:</b>						
Tuition and fees, net of scholarships \$101,107 (2008) and \$91,605 (2007)	\$ 260,483	\$ -	\$ -	\$ -	\$ 260,483	\$ 243,221
Grants and contracts for sponsored projects	51,497				51,497	51,815
Academic support	49,198				49,198	49,983
Gifts	3,054				3,054	1,634
Interest income	3,884				3,884	7,638
Investment income designated for operations	2,825				2,825	1,572
Other	16,180		2,992	(4,361)	14,811	13,900
Auxiliary services	41,684				41,684	37,733
Research and education net assets for operations	5,190				5,190	2,426
Net assets released from restrictions	15,389				15,389	14,099
Total operating revenues	<u>449,384</u>		<u>2,992</u>	<u>(4,361)</u>	<u>448,015</u>	<u>424,021</u>
<b>OPERATING EXPENSES:</b>						
Salaries and wages	197,515				197,515	180,622
Fringe benefits	47,861				47,861	42,921
Non-salary operating expenses	112,228		108	(2,762)	109,574	99,555
Insurance	1,973				1,973	2,871
Depreciation and amortization	30,867	36	713		31,616	27,197
Interest	12,583		1,599	(1,599)	12,583	13,688
Utilities	9,235				9,235	8,478
Total operating expenses	<u>412,262</u>	<u>36</u>	<u>2,420</u>	<u>(4,361)</u>	<u>410,357</u>	<u>375,332</u>
<b>RESULTS OF OPERATIONS</b>	<u>37,122</u>	<u>(36)</u>	<u>572</u>		<u>37,658</u>	<u>48,689</u>
<b>NON-OPERATING ACTIVITIES:</b>						
Investment income (loss) net of amounts designated for operations	(11,506)				(11,506)	19,817
Other	401				401	11,659
Cost of early extinguishment of debt	(973)				(973)	(1,926)
Retirement plan related change other than net periodic retirement plan expense	(13,944)				(13,944)	
Transfer of net assets	7,651				7,651	9,442
Research and education net assets for operations	(5,190)				(5,190)	(2,426)
Total non-operating activities	<u>(23,561)</u>				<u>(23,561)</u>	<u>36,566</u>
Cumulative effect of changes in accounting for pension and postretirement plan obligations						(3,573)
Increase (decrease) in unrestricted net assets	<u>13,561</u>	<u>(36)</u>	<u>572</u>		<u>14,097</u>	<u>81,682</u>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:</b>						
Gifts	13,816				13,816	9,927
Investment income (loss)	(11,433)				(11,433)	40,535
Change in annuity value	(111)				(111)	(105)
Other	1,642				1,642	979
Transfer of net assets	(8,364)				(8,364)	(8,702)
Net assets released from restrictions	(15,389)				(15,389)	(14,099)
Increase (decrease) in temporarily restricted net assets	<u>(19,839)</u>				<u>(19,839)</u>	<u>28,535</u>
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:</b>						
Gifts	9,572				9,572	9,231
Change in value of perpetual trust	(160)				(160)	1,347
Other	(10)				(10)	(29)
Transfer of net assets	713				713	(740)
Increase in permanently restricted net assets	<u>10,115</u>				<u>10,115</u>	<u>9,809</u>
Increase (decrease) in net assets	<u>3,837</u>	<u>(36)</u>	<u>572</u>		<u>4,373</u>	<u>120,026</u>
Net assets at beginning of year	703,406	(918)	(12,143)		690,345	570,319
Net assets at end of year	<u>\$ 707,243</u>	<u>\$ (954)</u>	<u>\$ (11,571)</u>	<u>\$ -</u>	<u>\$ 694,718</u>	<u>\$ 690,345</u>

**LOYOLA UNIVERSITY OF CHICAGO - UNIVERSITY ACADEMIC**  
**CONSOLIDATING STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2008 AND 2007**  
**(\$000s)**

Schedule 3

	Higher Education	Mundelein	LMC	2008 Consolidated Total	2007 Consolidated Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Increase (decrease) in net assets	\$ 3,837	\$ (36)	\$ 572	\$ 4,373	\$ 120,026
Adjustment to reconcile increase (decrease) in net assets to net cash provided by operating activities:					
Depreciation and amortization	30,867	36	713	31,616	27,197
Cost of early extinguishment of debt	973			973	1,926
Cumulative effect of changes in accounting for pension and postretirement plan obligations					3,573
Retirement plan related change other than net periodic retirement plan expense	13,944			13,944	
Provision for retirement costs	(2,145)			(2,145)	211
Change in unrealized (gain) loss on investments	36,714			36,714	(24,316)
Contributions restricted for long-term investment	(9,357)			(9,357)	
Other	8,842			8,842	(2,635)
Changes in assets and liabilities:					
Receivables	(2,536)		760	(1,776)	(1,847)
Other assets	(1,157)		9	(1,148)	282
Accounts payable and accrued expenses	(1,996)		(54)	(2,050)	(2,322)
Deferred income and unexpended grants	1,537			1,537	5,172
Self-insurance	(135)			(135)	(7,700)
Interest held in perpetual trust	420			420	(1,140)
Refundable advances - loans	252			252	230
Other liabilities	727			727	(85)
Interfund balances	835		(2,000)	(1,165)	(2,086)
Net cash provided by operating activities	<u>81,622</u>			<u>81,622</u>	<u>116,486</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sale of investments	295,999			295,999	281,714
Purchase of investments	(274,921)			(274,921)	(319,970)
Proceeds on disposal of property	4,700			4,700	
Purchase of property	(138,851)			(138,851)	(84,095)
Student loans issued	(45,114)			(45,114)	(41,286)
Student loans sold and collected	44,340			44,340	41,296
Net cash used by investing activities	<u>(113,847)</u>			<u>(113,847)</u>	<u>(122,341)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Contributions restricted for long-term investment	9,357			9,357	
Issuance of new debt	105,000			105,000	28,980
Issuance costs	(504)			(504)	(959)
Advance refunding and repayment of debt	(34,800)			(34,800)	(27,635)
Retirement of debt	(5,501)			(5,501)	(5,985)
Deposit of bond proceeds with trustee	(8,779)			(8,779)	
Withdrawal of trusteeed bond funds for construction					11,096
Net cash provided by financing activities	<u>64,773</u>			<u>64,773</u>	<u>5,497</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	32,548			32,548	(358)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>26,760</u>			<u>26,760</u>	<u>27,118</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 59,308</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,308</u>	<u>\$ 26,760</u>

**LOYOLA UNIVERSITY CHICAGO**  
**PRESIDENT'S CABINET AND DEANS**  
**June 30, 2008**

**JOHN F. COSTELLO, S.J.**  
Special Assistant to the President

**DONNA CURIN**  
Assistant Vice President

**MICHAEL J. GARANZINI, S.J.**  
President

**PHILIP D. HALE**  
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