

LOYOLA UNIVERSITY CHICAGO



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# CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

For the years ended June 30, 2011 and 2010

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of Loyola University Chicago ("LUC") as of June 30, 2011 and 2010, 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 the 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of LUC as of June 30, 2011 and 2010, and the change 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 15 to the consolidated financial statements, LUC completed a transaction on June 30, 2011, whereby LUC was replaced as the sole member of Loyola University Health System. The gain from discontinued operations and loss on disposal of discontinued operations are included in the change in net assets from discontinued operations in the accompanying consolidated financial statements.

*Deloitte & Touche LLP*

October 10, 2011

**LOYOLA UNIVERSITY CHICAGO**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

*As of June 30, 2011 and 2010 (in thousands of dollars)*

	2011	2010
<b>ASSETS</b>		
Cash and cash equivalents	\$ 80,354	\$ 101,849
Notes and accounts receivable, net	60,269	56,858
Receivable from Trinity Health	212,003	
Other assets	7,416	6,821
Endowment and other long-term investments	400,304	331,529
Interest held in perpetual trust	9,847	8,217
Land, buildings and equipment, net	788,048	705,707
Assets of discontinued operations		994,407
<b>TOTAL ASSETS</b>	<b>\$ 1,558,241</b>	<b>\$ 2,205,388</b>
<b>LIABILITIES AND NET ASSETS</b>		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 65,666	\$ 49,891
Deferred income	34,011	28,797
Unexpended grants	18,036	17,678
Refundable advances - loans	18,132	17,762
Indebtedness	285,905	291,596
Pension and other post-retirement liabilities	38,876	48,531
Other liabilities	3,810	5,302
Liabilities of discontinued operations		827,569
<b>TOTAL LIABILITIES</b>	<b>464,436</b>	<b>1,287,126</b>
NET ASSETS:		
Unrestricted	822,888	651,338
Temporarily restricted	139,290	135,248
Permanently restricted	131,627	131,676
<b>TOTAL NET ASSETS</b>	<b>1,093,805</b>	<b>918,262</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,558,241</b>	<b>\$ 2,205,388</b>

*See notes to the consolidated financial statements.*

**LOYOLA UNIVERSITY CHICAGO**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

For the years ended June 30, 2011 and 2010 (in thousands of dollars)

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2010
<b>OPERATING REVENUES:</b>								
Tuition and fees, net of scholarships \$121,179 (2011) and \$112,811 (2010)	\$ 313,592	\$ -	\$ -	\$ 313,592	\$ 299,099	\$ -	\$ -	\$ 299,099
Grants and contracts for sponsored projects	51,192			51,192	51,882			51,882
Academic support	18,258			18,258	24,098			24,098
Gifts	2,027			2,027	6,098			6,098
Interest income	197			197	781			781
Investment income designated for operations	4,226			4,226	3,709			3,709
Other	17,908			17,908	17,664			17,664
Auxiliary services	46,406			46,406	45,769			45,769
Net assets utilized or released from restrictions for operations	19,470			19,470	17,394			17,394
<b>TOTAL OPERATING REVENUES</b>	<b>473,276</b>			<b>473,276</b>	<b>466,494</b>			<b>466,494</b>
<b>OPERATING EXPENSES:</b>								
Salaries and wages	199,164			199,164	191,191			191,191
Fringe benefits	53,202			53,202	47,835			47,835
Non-salary operating expenses	110,140			110,140	107,443			107,443
Insurance	1,468			1,468	2,023			2,023
Depreciation and amortization	37,314			37,314	35,521			35,521
Interest	10,128			10,128	10,808			10,808
Utilities	7,580			7,580	7,868			7,868
<b>TOTAL OPERATING EXPENSES</b>	<b>418,996</b>			<b>418,996</b>	<b>402,689</b>			<b>402,689</b>
<b>RESULTS OF OPERATIONS</b>	<b>54,280</b>			<b>54,280</b>	<b>63,805</b>			<b>63,805</b>
<b>NON-OPERATING ACTIVITIES:</b>								
Gifts		11,934	4,785	16,719	29,753	39,985	5,779	75,517
Investment gain, net of amounts designated for operations	29,505	37,301		66,806	11,818	19,824		31,642
Other	1,303	(632)	1,795	2,466	467	(424)	838	881
Retirement plan related changes other than net periodic retirement plan expense	12,473			12,473	(5,698)			(5,698)
Net assets transferred or released from restrictions	5,343	(24,824)	11	(19,470)	32,684	(52,979)	2,901	(17,394)
<b>TOTAL NON-OPERATING ACTIVITIES</b>	<b>48,624</b>	<b>23,779</b>	<b>6,591</b>	<b>78,994</b>	<b>69,024</b>	<b>6,406</b>	<b>9,518</b>	<b>84,948</b>
<b>CHANGE IN NET ASSETS FROM CONTINUING OPERATIONS</b>	<b>102,904</b>	<b>23,779</b>	<b>6,591</b>	<b>133,274</b>	<b>132,829</b>	<b>6,406</b>	<b>9,518</b>	<b>148,753</b>
<b>DISCONTINUED OPERATIONS:</b>								
Gain (loss) from discontinued operations	91,247	625	31	91,903	(1,756)	5,048	31	3,323
Loss on disposal of discontinued operations	(22,601)	(20,362)	(6,671)	(49,634)				
<b>CHANGE IN NET ASSETS FROM DISCONTINUED OPERATIONS</b>	<b>68,646</b>	<b>(19,737)</b>	<b>(6,640)</b>	<b>42,269</b>	<b>(1,756)</b>	<b>5,048</b>	<b>31</b>	<b>3,323</b>
<b>CHANGE IN NET ASSETS</b>	<b>171,550</b>	<b>4,042</b>	<b>(49)</b>	<b>175,543</b>	<b>131,073</b>	<b>11,454</b>	<b>9,549</b>	<b>152,076</b>
Total net assets, beginning of year	651,338	135,248	131,676	918,262	520,265	123,794	122,127	766,186
<b>TOTAL NET ASSETS, END OF YEAR</b>	<b>\$ 822,888</b>	<b>\$ 139,290</b>	<b>\$ 131,627</b>	<b>\$ 1,093,805</b>	<b>\$ 651,338</b>	<b>\$ 135,248</b>	<b>\$ 131,676</b>	<b>\$ 918,262</b>

See notes to the consolidated financial statements.

# LOYOLA UNIVERSITY CHICAGO

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2011 and 2010 (in thousands of dollars)

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 175,543	\$ 152,076
Increase in net assets from discontinued operations	(42,269)	(3,323)
Increase in net assets from continuing operations	133,274	148,753
Adjustments to reconcile increase in net assets from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	37,314	35,521
Provision for bad debt expense	1,155	2,057
Retirement plan market (gain) loss	(12,473)	5,698
Provision for retirement costs	4,031	3,580
Net realized and unrealized gain on investments	(63,348)	(28,270)
Contributions restricted for long-term investment	(4,713)	(4,790)
Gift in kind contributions	(205)	(41,146)
Other	(84)	(691)
Changes in assets and liabilities:		
Notes and accounts receivables	(4,084)	6,356
Other assets	(595)	3,067
Accounts payable and accrued expenses	3,882	371
Deferred income and unexpended grants	5,572	141
Interest held in perpetual trust	(1,630)	(655)
Refundable advances - loans	370	169
Other liabilities	(1,330)	(44)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES - CONTINUING OPERATIONS</b>	<b>97,136</b>	<b>130,117</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investments	205,428	162,077
Purchase of investments	(210,855)	(167,339)
Proceeds from sale of property	3,656	
Expenditures for land, buildings and equipment	(113,396)	(108,070)
Student loans issued	(3,676)	(3,323)
Student loans sold and collected	3,194	2,650
<b>NET CASH USED BY INVESTING ACTIVITIES - CONTINUING OPERATIONS</b>	<b>(115,649)</b>	<b>(114,005)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Contributions restricted for long-term investment	4,713	4,790
Issuance of new debt		14,086
Retirement of debt	(7,695)	(6,678)
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES - CONTINUING OPERATIONS</b>	<b>(2,982)</b>	<b>12,198</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(21,495)</b>	<b>28,310</b>
Cash and cash equivalents, beginning of year	101,849	73,539
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 80,354</b>	<b>\$ 101,849</b>

See notes to the consolidated financial statements.

**LOYOLA UNIVERSITY CHICAGO**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*For the years ended June 30, 2011 and 2010*

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

Loyola University Chicago (LUC) is a private, coeducational, not-for-profit institution of higher education and research 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), and Mundelein College (Mundelein). LUC operates on six campuses providing educational services to approximately sixteen 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. In fiscal year 2011, LUC discontinued operations of its hospital, Loyola University Health System (LUHS) (see note 15).

**(2) Tax Status**

LUC and Mundelein are Illinois not-for-profit corporations and are exempt from federal income taxes under section 501(c)(3) of the U.S. Internal Revenue Code (IRC). LMC is exempt from income taxes under section 501(c)(2) of the IRC.

**(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. 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 transferred or 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, and non-recurring items.

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 restrictions expire or the restrictions are fulfilled and are shown as net assets released from restrictions in operating revenue.

Certain unrestricted net assets are designated by the Board of Trustees 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 those held in the long term investment portfolio 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.

### **Investments**

Investments are recorded at fair value. The fair value of a financial instrument is the amount that would be received to sell an asset, or the amount that would be paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Investments in publicly-traded equity securities are valued based on quoted market prices. To the extent that quoted market prices are not readily available, fair value may be determined based on broker or dealer quotations or alternate pricing sources with reasonable levels of price transparency. Securities that trade infrequently may be valued as determined in good faith by LUC's investment managers. The fair value of fixed income securities may be determined 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 fair value of holdings of mutual funds, common collective trusts, and commingled funds are determined by reference to the funds' underlying assets, which are principally marketable equity and fixed income securities. Units held in registered mutual funds and in common collective trusts and commingled funds that do not have a readily determined market value for fund units are valued based on the funds' net asset value as supplied by the fund administrator or trustee. 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 LUC's 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**

LUC uses derivative financial instruments in the management of its investment portfolio to increase or decrease capital market exposures and to mitigate the risk of a decline in value of certain equity securities. Derivatives are not used for tactical investment decisions or to speculate on the future direction of markets. Investments in derivative financial instruments are not designated as hedges. All derivative financial instruments used for investment purposes are marked to market and recorded at fair value. Gains and losses realized on derivative financial instruments used for investment purposes are recorded in investment gain/loss in the consolidated statements of activities and changes in net assets.

During fiscal year 2011, LUC entered into a series of forward foreign exchange contracts with PNC Bank, National Association to mitigate the risk of exchange rate fluctuations related to its Rome Center campus annual operating and capital expenses. At June 30, 2011, LUC had commitments to purchase \$5.6 million euros over the next two fiscal years for \$7.1 million dollars (a fixed rate of 1.28 dollars per euro compared to the June 30, 2011 spot rate of 1.45 dollars per euro).

## **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 LUC'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; furniture, 15-20 years; and equipment, 3-10 years. LUC uses the component method of capitalization. Management continually reviews its long-lived assets for evidence of potential impairment and believes that no impairment exists as of June 30, 2011.

## **Accounting Pronouncements**

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, *Improving Disclosures about Fair Value Measurements*, adding new disclosure requirements for Levels 1 and 2, separate disclosures of purchases, sales, issuances, and settlements relating to Level 3 measurements and clarification of existing fair value disclosures. ASU No. 2010-06 is effective for periods beginning after December 15, 2009, except for the separate disclosure requirements for Level 3 measurements which is effective for periods beginning after December 15, 2010. For requirements effective for fiscal year 2011, LUC adopted these new guidelines on July 1, 2010 and has incorporated the disclosure requirements within the notes to the consolidated financial statements (see note 4).

In January 2010, the FASB issued ASU No. 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions*, improving the relevance, representational faithfulness, and comparability of the information that a not-for-profit reporting entity provides in its financial reports about a combination with one or more other not-for-profit entities, businesses, or nonprofit activities. The related requirements are effective for mergers and acquisitions occurring on or after December 15, 2009. LUC adopted this new accounting guidance and applied it related to the discontinuation of operations and disposal of LUHS in the current year (see note 15).

In July 2010, the FASB issued ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, adding new disclosure requirements for credit quality of material financed receivables and related credit losses. These disclosures are to facilitate the financial statement users' evaluation of the nature of credit risk inherent in the entity's portfolio of financing receivables, how that risk is analyzed and assessed in arriving at the allowance for credit losses, and the changes and reasons for those changes in the



allowance for credit losses. The related requirements are effective for reporting periods ending on or after December 15, 2010. LUC adopted this new accounting guidance on July 1, 2010 and has incorporated the disclosure requirement within the notes to the consolidated financial statements (see note 5).

#### (4) Investments

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 investments. Substantially all investments are managed by external investment managers and all are held in custody by third-party financial institutions.

#### Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the FASB ASC establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three categories:

- Level 1 – Unadjusted quoted prices in active markets for identical instruments.
- Level 2 – Quoted prices in active markets for similar instruments, quoted prices in inactive markets for identical or similar instruments, or model-derived valuations in which all significant inputs are directly or indirectly observable.
- Level 3 – Model-derived valuations in which one or more significant inputs are unobservable, including investment managers' own assumptions about the assumptions market participants would use to price an instrument based on the best available information.

The tables below summarize LUC's fair value measurements for the endowment and other long-term investments by the fair value hierarchy levels as of June 30, 2011 and 2010:

(in thousands of dollars)	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2011</u>				
Cash and cash equivalents	\$( 2,985)	\$( 2,985)	\$ -	\$ -
Money market mutual funds	9,191	9,191		
U.S. marketable equity securities	98,968	98,968		
U.S. marketable equity mutual funds	12,570	12,570		
U.S. marketable equity exchange-traded funds	106	106		
Non-U.S. marketable equity securities	13,190	13,190		
Non-U.S. marketable equity mutual funds	79,056	79,056		
Non-U.S. marketable equity commingled funds	150			150
Other equity securities	1,121			1,121
Fixed income mutual funds	24,487	24,487		
Fixed income exchange-traded funds	10,551	10,551		
Fixed income commingled funds	18,474		14,030	4,444
U.S. Treasury and government agency debt obligations	52,955	14,021	38,934	
U.S. corporate debt securities	13,914	13,817	97	
Other fixed income	541		541	
Real estate investment trust commingled funds	11,211		11,211	
Private equity investments	44,881			44,881
Private real assets investments	11,923			11,923
Total	<u>\$ 400,304</u>	<u>\$ 272,972</u>	<u>\$ 64,813</u>	<u>\$ 62,519</u>

(in thousands of dollars)	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2010</u>				
Cash and cash equivalents	\$( 318)	\$( 5,817)	\$ 5,499	\$ -
Money market mutual funds	2,614	2,614		
U.S. marketable equity securities	90,111	90,111		
U.S. marketable equity mutual funds	3,486	3,486		
Non-U.S. marketable equity securities	3,509	3,509		
Non-U.S. marketable equity mutual funds	60,080	60,080		
Non-U.S. marketable equity commingled funds	235			235
Other equity securities	1,008			1,008
Fixed income mutual funds	4,321	4,321		
Fixed income exchange-traded funds	9,837	9,837		
Fixed income commingled funds	55,664		47,526	8,138
U.S. Treasury and government agency debt obligations	37,187	7,251	29,936	
U.S. corporate debt securities	76		76	
Other fixed income	695		695	
Real estate investment trust exchange-traded funds	2,283	2,283		
Real estate investment trust commingled funds	12,584		12,584	
Private equity investments	39,159			39,159
Private real assets investments	<u>8,998</u>			<u>8,998</u>
Total	<u>\$ 331,529</u>	<u>\$ 177,675</u>	<u>\$96,316</u>	<u>\$57,538</u>

The following table summarizes changes in fair value of the endowment and other long-term investment portfolio's Level 3 investments for the years ended June 30, 2011 and June 30, 2010:

(in thousands of dollars)	<u>Other Equity Securities</u>	<u>Non-U.S. Marketable Equity Commingled Funds</u>	<u>Fixed Income Commingled Funds</u>	<u>Private Equity Investments</u>	<u>Private Real Assets Investments</u>	<u>Total</u>
<u>2011</u>						
Balance at July 1, 2010	\$ 1,008	\$ 235	\$ 8,138	\$39,159	\$ 8,998	\$57,538
Realized gain (loss)		( 1)	1,248	2,607	49	3,903
Unrealized gain (loss)	6	( 28)	( 610)	3,800	66	3,234
Purchases	107		269	9,212	3,500	13,088
Sales		( 56)	( 4,601)	( 9,897)	( 690)	( 15,244)
Transfers to (from) Level 3						
Balance at June 30, 2011	<u>\$ 1,121</u>	<u>\$ 150</u>	<u>\$ 4,444</u>	<u>\$ 44,881</u>	<u>\$ 11,923</u>	<u>\$ 62,519</u>
<u>2010</u>						
Balance at July 1, 2009	\$ 283	\$ 265	\$ 14,263	\$ 34,090	\$ 13,717	\$ 62,618
Realized gain (loss)	( 83)	10	1,119	3,897		4,943
Unrealized gain (loss)	209	40	2,733	3,836	( 7,503)	( 685)
Purchases	1,033			5,509	3,026	9,568
Sales	( 1)	( 80)	( 9,977)	( 8,173)	( 242)	(18,473)
Transfers to (from) Level 3	<u>( 433)</u>					<u>( 433)</u>
Balance at June 30, 2010	<u>\$ 1,008</u>	<u>\$ 235</u>	<u>\$ 8,138</u>	<u>\$ 39,159</u>	<u>\$ 8,998</u>	<u>\$ 57,538</u>

All gains and losses shown above are included in reported earnings for the period. The portion of the change in unrealized gains (losses) that is attributable to assets still held at the reporting date is \$1.7 million and \$(920) thousand at June 30, 2011 and 2010.

There were no significant transfers between fair value hierarchy levels for the year ended June 30, 2011. LUC recognizes transfers between hierarchy levels as of the beginning of the month in which a change in inputs or circumstances under which an asset is valued occurs. Significance is determined by reference to a transferred asset's fair value in relation to the aggregate value of LUC's long-term investments, with a transfer of value in excess of five percent of total long-term investments generally deemed significant.

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 7. LUC is obligated to make future capital contributions in private investment vehicles in the maximum amount of \$23.7 million over the next five years, subject to investment period modifications provided for in limited partnership agreements.

Fair value estimates for investment funds calculating net asset value per share as of June 30, 2011 are in the table below. There were no unfunded commitments as of June 30, 2011.

(in thousands of dollars)				
<u>Investment Type</u>	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>	<u>Other Redemption Restrictions</u>
Equity hedge fund of funds	\$ 150	Directed by investment manager	N/A	Fund in liquidation
Private real estate commingled funds	762	Annual	Thirty days ending one quarter prior to start of year in which units will be redeemed	No more than one fifth of units held at least five years at each notice period may be redeemed; manager has suspended redemptions
Public real estate commingled funds	11,211	Monthly	Ten business days	None
Fixed income commingled funds	<u>14,030</u>	Monthly	Ten business days	None
Total	\$ <u>26,153</u>			

The fair value hierarchy levels pertaining to the perpetual trust of which LUC is sole beneficiary are summarized in the following tables. The trust held no assets valued by means of Level 3 inputs at June 30, 2011 and 2010.

(in thousands of dollars)			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
<u>2011</u>			
Money market mutual funds	\$ 370	\$ 370	\$ -
U.S. marketable equity securities	2,623	2,623	
U.S. marketable equity mutual funds	732	732	
Non-U.S. marketable equity securities	121	121	
Non-U.S. marketable equity mutual funds	2,489	2,489	
Fixed income mutual funds	1,429	1,429	
Fixed income exchange-traded funds	191	191	
U.S. corporate debt securities	799		799
Real assets exchange-traded funds	629	629	
Real assets mutual funds	<u>464</u>	<u>464</u>	
Total	\$ <u>9,847</u>	\$ <u>9,048</u>	\$ <u>799</u>

(in thousands of dollars)			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
<u>2010</u>			
Money market mutual funds	\$ 594	\$ 594	\$ -
U.S. marketable equity securities	1,903	1,903	
U.S. marketable equity mutual funds	670	670	
Non-U.S. marketable equity securities	110	110	
Non-U.S. marketable equity mutual funds	1,685	1,685	
Fixed income mutual funds	716	716	
U.S. corporate debt securities	1,168		1,168
Non-U.S. corporate debt securities	105		105
Real assets exchange-traded funds	433	433	
Real assets mutual funds	<u>833</u>	<u>833</u>	
Total	\$ <u>8,217</u>	\$ <u>6,944</u>	\$ <u>1,273</u>

## Alternative Investments

Alternative investments are less liquid than LUC's other investments and are generally accessed via limited partnerships, limited liability corporations, and off-shore investment funds. There is generally no readily determinable market value for alternative investments, though certain funds may invest in securities for which there is a public market. These investments are subject to varying degrees of liquidity restrictions. The following table summarizes these investments by investment strategy at June 30, 2011 and 2010:

(in thousands of dollars)

<u>Alternative investment strategy</u>	<u>2011</u>	<u>2010</u>	<u>Asset Class</u>	<u>Liquidity</u>
Private equity - fund of funds	\$22,016	\$22,688	Private equity	No contractual liquidity
Private equity - direct	22,865	16,471	Private equity	No contractual liquidity
Private real estate	11,923	8,998	Real estate	Varies
Fixed income - credit	4,444	8,138	Fixed income	Subject to liquidity restrictions
Long-short equity - fund of funds	<u>150</u>	<u>235</u>	Marketable equity	Subject to liquidity restrictions
Total	<u>\$61,398</u>	<u>\$56,530</u>		

## Derivative Financial Instruments

Futures contracts are exchange traded, subject to daily mark-to-market settlement of gain and loss and do not create portfolio leverage. Futures contracts are subject to the same market risk as cash invested directly in asset positions. As of June 30, 2011 and 2010, the investment portfolio held futures contracts with a notional value of \$38.4 million and \$7.3 million, respectively. The net impact of the futures held at June 30, 2011 is to reduce the proportion of cash in the endowment portfolio by 1.2% while increasing fixed income exposure by 3.6%, increasing non-U.S. equity exposure by 1.9%, and decreasing U.S. equity exposure by 4.3%.

At June 30, 2011, four call options were written on stocks held in the investment portfolio. At June 30, 2010, seven call options were written on stocks held in the investment portfolio.

The fair value of derivative instruments as of June 30, 2011 and 2010 is as follows:

(in thousands of dollars)

<u>Derivative Type</u>	<u>Consolidated Statements of Financial Position Location</u>	<u>2011</u>	<u>2010</u>
Equity, fixed income, and currency futures	Endowment and other long-term investments	\$ -	\$ -
Equity options contracts	Endowment and other long-term investments	( <u>114</u> )	( <u>218</u> )
Total derivatives		<u>\$ (114)</u>	<u>\$ (218)</u>

The effect of derivative instruments on the consolidated statements of activities and changes in net assets as of June 30, 2011 and 2010 is as follows:

(in thousands of dollars)

<u>Derivative Type</u>	<u>Location of Gain (Loss) Recognition in Consolidated Statements of Activities and Changes in Net Assets</u>	<u>2011</u>	<u>2010</u>
Equity, fixed income, and currency futures	Investment gain (loss)	\$ (1,057)	\$ 508
Equity options contracts	Investment gain (loss)	( <u>362</u> )	<u>337</u>
Total derivatives		<u>\$ (1,419)</u>	<u>\$ 845</u>

## Investment Returns

Investment returns, net of management fees, for the years ended June 30, 2011 and 2010 were:

(in thousands of dollars)	<u>2011</u>	<u>2010</u>
Interest and dividend income (net of fees)	\$ 7,684	\$ 7,081
Net realized gains	12,731	11,751
Net unrealized gains	<u>50,617</u>	<u>16,519</u>
Total net return on investment	<u>\$ 71,032</u>	<u>\$ 35,351</u>

Interest income on cash and cash equivalents of \$197 thousand in 2011 and \$781 thousand in 2010 is not included in the investment returns.

## Endowment

The endowment fund consists of over 500 individual funds established for a variety of purposes supporting LUC 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 and generally accepted accounting principles. While funds functioning as endowment (quasi-endowment) are not subject to permanent restrictions, approval by the Board of Trustees is required to spend the designated principal of these unrestricted funds.

The LUC Board of Trustees has reviewed the Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA or the Act) and, having considered its rights and obligations thereunder, has determined that it is desirable for LUC to preserve, on a long-term basis, the original value of a contribution of a donor-restricted endowment fund as of the gift date, subject to any express language in the applicable endowment agreement indicating otherwise and pursuant to UPMIFA. Notwithstanding the foregoing, this determination is not intended to, and shall not, affect LUC's authority under UPMIFA to spend any amounts from an endowment fund on a short-term basis even if the market value of the endowment fund is below the original value of the contributions by the donor. As a result of this determination, LUC classifies as permanently restricted net assets (a) the original value of gifts contributed to a permanent donor-restricted endowment fund, and (b) the original value of subsequent gifts to a permanent donor-restricted endowment fund. The remaining portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets.

In accordance with the Act, LUC considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The purposes of LUC and of the donor-restricted endowment fund;
- The duration and preservation of the fund;
- General economic conditions;
- The possible effects of inflation and deflation;
- The investment policies of LUC;
- The expected total return from income and the appreciation of investments;
- Other LUC resources

LUC 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.

The primary objective of the endowment's investment policy is to provide a stable source of funding for LUC programs, financial aid, and faculty support that will maintain and expand the purchasing power of endowment payout over a long-term time horizon.

A central component of the investment policy is its asset allocation. Target allocations, and acceptable ranges of deviation from them, are established in order to achieve a diversified investment portfolio that can adapt to changing market environments and investment opportunities. The endowment portfolio is also managed to ensure that, within the constraints of its asset allocation targets, sufficient liquidity is maintained to fund ongoing spending draws and the periodic funding requirements of its various investments. The following table summarizes endowment asset allocation targets as of June 30, 2011:

<u>Asset Class</u>	<u>Target Allocation</u>
U.S. equity	22.5%
Non-U.S. equity	22.5%
Private capital	15.0%
Real assets	10.0%
High yield	10.0%
Investment grade fixed income	17.5%
Net cash	2.5%

Current endowment spending policy establishes a maximum spending rate in any given year of 5.0% of an endowment fund's net assets. Proposals to spend in excess of five percent must be approved by the Board of Trustees as part of the annual budget approval process. In absence of donor stipulations to the contrary, allowable endowment appropriations are determined by application of an annually-determined base spending rate to endowment funds' net asset values as measured at the end of the calendar year preceding the beginning of the fiscal year in which the appropriated amounts are to be drawn.

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>
2011	21.7%	3.1%
2010	12.4%	3.4%
2009	(26.9)%	2.9%
2008	( 5.0)%	2.6%
2007	19.5%	2.6%

Endowment net assets at June 30, 2011 and 2010 are classified as follows:

(in thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2011</u>				
Donor-restricted endowment funds	\$( 463)	\$87,940	\$ 118,301	\$ 205,778
Board-designated funds functioning as endowment	<u>182,961</u>	<u>          </u>	<u>          </u>	<u>182,961</u>
Total endowment net assets	\$ <u>182,498</u>	\$ <u>87,940</u>	\$ <u>118,301</u>	\$ <u>388,739</u>
<u>2010</u>				
Donor-restricted endowment funds	\$( 4,220)	\$64,302	\$112,575	\$172,657
Board-designated funds functioning as endowment	<u>142,648</u>	<u>          </u>	<u>          </u>	<u>142,648</u>
Total endowment net assets	\$ <u>138,428</u>	\$ <u>64,302</u>	\$ <u>112,575</u>	\$ <u>315,305</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires LUC to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets and totaled \$463 thousand and \$4.2 million as of June 30, 2011 and 2010, respectively.

The following tables provide a summary of the changes in the endowment net assets for the years ended June 30, 2011 and 2010:

(in thousands of dollars)

<u>2011</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ 138,428	\$ 64,302	\$112,575	\$ 315,305
Gifts and transfers				
Contributions (excluding pledges)	111	315	4,713	5,139
Transfers	<u>14,495</u>	<u>( 6,680)</u>	<u>1,013</u>	<u>8,828</u>
Total gifts and transfers	14,606	(6,365)	5,726	13,967
Investment income				
Interest and dividends (net of fees)	3,654	3,844		7,498
Realized gain	6,355	6,623		12,978
Unrealized gain	<u>23,672</u>	<u>25,050</u>		<u>48,722</u>
Total investment income	33,681	35,517		69,198
Income distributed for operating purposes				
Scholarships	( 870)	( 2,036)		( 2,906)
Endowed chairs	( 495)	( 2,006)		( 2,501)
Research	( 84)	( 371)		( 455)
Other	<u>( 2,768)</u>	<u>( 1,101)</u>		<u>( 3,869)</u>
Total income distributed for operating purposes	<u>( 4,217)</u>	<u>( 5,514)</u>		<u>(9,731)</u>
Net assets, end of year	\$ <u>182,498</u>	\$ <u>87,940</u>	\$ <u>118,301</u>	\$ <u>388,739</u>

(in thousands of dollars)

<u>2010</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ 104,515	\$ 70,710	\$103,648	\$ 278,873
Gifts and transfers				
Contributions (excluding pledges)	21	4,016	4,790	8,827
Transfers	<u>22,164</u>	<u>(23,260)</u>	<u>4,137</u>	<u>3,041</u>
Total gifts and transfers	22,185	(19,244)	8,927	11,868
Investment income				
Interest and dividends (net of fees)	3,136	3,721		6,857
Realized gain	5,602	6,650		12,252
Unrealized gain	<u>6,690</u>	<u>8,317</u>		<u>15,007</u>
Total investment income	15,428	18,688		34,116
Income distributed for operating purposes				
Scholarships	( 789)	( 2,047)		( 2,836)
Endowed chairs	( 541)	( 1,925)		( 2,466)
Research	( 151)	( 316)		( 467)
Other	<u>( 2,219)</u>	<u>( 1,564)</u>		<u>( 3,783)</u>
Total income distributed for operating purposes	<u>( 3,700)</u>	<u>( 5,852)</u>		<u>( 9,552)</u>
Net assets, end of year	\$ <u>138,428</u>	\$ <u>64,302</u>	\$ <u>112,575</u>	\$ <u>315,305</u>

## (5) Notes and Accounts Receivable, Net

Notes and accounts receivable at June 30, 2011 and 2010 consisted of:

(in thousands of dollars)

	<u>2011</u>	<u>2010</u>
Student loan notes (less allowance for doubtful accounts of \$1,699 (2011) and \$1,739 (2010))	\$ 21,615	\$ 21,314
Contributions (less discount of \$12,610 (2011) and \$14,463 (2010) and allowance for doubtful accounts of \$1,072 (2011) and \$1,091 (2010))	11,241	13,217
Student receivables (less allowance for doubtful accounts of \$5,199 (2011) and \$5,469 (2010))	16,309	12,390
Grant receivables	4,164	3,838
Other (less allowance for doubtful accounts of \$889 (2011) and \$63 (2010))	<u>6,940</u>	<u>6,099</u>
Total notes and accounts receivable, net	<u>\$ 60,269</u>	<u>\$ 56,858</u>

Contributions receivable at June 30, 2011 and 2010 are due in the following periods:

(in thousands of dollars)

	<u>2011</u>	<u>2010</u>
In one year or less	\$ 2,440	\$ 4,270
Between one year and five years	3,934	3,563
More than five years	18,549	20,938
Discount of \$12,610 (2011) and \$14,463 (2010) and allowance for doubtful accounts of \$1,072 (2011) and \$1,091 (2010)	<u>( 13,682)</u>	<u>( 15,554)</u>
Total contributions receivable	<u>\$ 11,241</u>	<u>\$ 13,217</u>

### Credit Quality of Student Loan Notes

LUC makes uncollateralized loans to students based on financial need. Student loan notes are funded through federal government loan programs or institutional/other resources. At June 30, 2011 and 2010, student loan notes represented 1.4% and 1.0% of total assets, respectively.

At June 30, student loan notes consisted of the following:

(in thousands of dollars)

	<u>2011</u>	<u>2010</u>
Federal government programs	\$ 21,122	\$ 20,532
Institutional/other programs	<u>2,192</u>	<u>2,521</u>
Total student loan notes	23,314	23,053

Less allowance for doubtful accounts:

Beginning of year	( 1,739)	( 1,641)
Increase to reserve	( 12)	( 198)
Write-offs	<u>52</u>	<u>100</u>
End of year	<u>( 1,699)</u>	<u>( 1,739)</u>
Student loan notes, net	<u>\$ 21,615</u>	<u>\$ 21,314</u>

LUC participates in the Perkins federal revolving loan program, among other government revolving loan programs. The availability of funds for loans under these programs is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the federal government of \$18.1 million and \$17.8 million at June 30, 2011 and 2010, respectively, are ultimately refundable to the government and are classified as refundable advances – loans on the consolidated statements of financial position. At June 30, 2011 and 2010, LUC had past due loans of \$3.0 million and \$3.4 million, respectively. Allowance for doubtful accounts are established based on prior collection experience.



## (6) Land, Buildings and Equipment, Net

Components of land, buildings, and equipment at June 30, 2011 and 2010 were:

(in thousands of dollars)

	<u>2011</u>	<u>2010</u>
Land and land improvements	\$ 216,524	\$ 193,218
Buildings	820,321	760,235
Equipment	84,372	77,295
Library books and art	29,791	29,340
Construction in progress	<u>44,413</u>	<u>33,453</u>
Total	1,195,421	1,093,541
Accumulated depreciation	<u>( 407,373)</u>	<u>( 387,834)</u>
Land, buildings, and equipment – net	<u>\$ 788,048</u>	<u>\$ 705,707</u>

As of June 30, 2011, LUC had commitments of \$37.3 million related to various capital projects.

As of June 30, 2011 and 2010, LUC included \$1.1 million and \$507 thousand of capitalized asset retirement costs, net of accumulated depreciation, within buildings, and \$2.7 million and \$3.6 million, respectively, of conditional asset retirement obligations within other liabilities in the consolidated statements of financial position.

As of June 30, 2011 and 2010, expenditures for land, buildings and equipment of \$19.4 million and \$9.9 million included in accounts payable and accrued expenses in the consolidated statements of financial position are reflected as a noncash item in the consolidated statements of cash flows, respectively.

## (7) Indebtedness

Notes and bonds payable as of June 30, 2011 and 2010 are shown below:

(in thousands of dollars)

	<u>Final</u> <u>Maturity</u>	<u>Interest</u> <u>Rate</u>	<u>2011</u>	<u>Interest</u> <u>Rate</u>	<u>2010</u>
Fixed rate:					
Illinois Finance Authority (IFA) (formerly Illinois Educational Facilities Authority (IEFA)):					
Series 1997C taxable bonds	2013	7.10-7.12%	\$ 12,210	7.09-7.12%	\$ 18,590
Series 2003A tax-exempt bonds	2027	5.00%	28,155	5.00%	28,155
Series 2003B taxable bonds	2022	5.60%	37,520	5.60%	37,520
Series 2004A tax-exempt bonds	2026	5.00-5.25%	23,330	5.00-5.25%	24,000
Series 2007 tax-exempt bonds	2025	4.00-5.00%	26,925	4.00-5.00%	27,170
Series 2003C taxable 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:					
6542-48 N. Sheridan Road	2016	9.50%	377	9.50%	450
Rome Center <sup>(1)</sup>	2029	1.51%	13,868	1.51%	11,953
City of Chicago Loan	2013	0.00%	<u>188</u>	0.00%	<u>312</u>
Total fixed rate			<u>\$204,478</u>		<u>\$210,055</u>
Variable rate: <sup>(2)</sup>					
IFA 2008 tax-exempt commercial paper <sup>(3)</sup>	2038	0.13%	<u>\$ 80,000</u>	0.29%	<u>\$ 80,000</u>
Total variable rate			<u>\$ 80,000</u>		<u>\$ 80,000</u>
Total indebtedness			<u>\$284,478</u>		<u>\$290,055</u>
Adjustment for unamortized bond premium/(discount)			<u>\$ 1,427</u>		<u>\$ 1,541</u>
Total indebtedness net of unamortized premium/(discount)			<u>\$285,905</u>		<u>\$291,596</u>

<sup>(1)</sup> Principal amount outstanding is subject to currency (euro) fluctuations.

- (2) Interest rates shown in the variable rate section of this chart represent the weighted average outstanding interest rate at June 30.
- (3) The \$80 million unsecured commercial paper was fully backed by a direct-pay letter of credit from JP Morgan Chase Bank, N.A. that expires November 30, 2011. Effective August 15, 2011, the letter of credit support is being provided by PNC Bank, National Association, pursuant to a reimbursement agreement that expires on August 15, 2014.

LUC maintained a \$50 million unsecured bank line of credit with JPMorgan Chase Bank, N.A., until it expired on November 30, 2010. On February 28, 2011, LUC entered into a 364-day credit agreement with PNC Bank, National Association, under which LUC may borrow up to \$50 million on a revolving loan basis. Borrowings under the line of credit may bear interest at rates based on LIBOR, the Prime Rate, or other negotiated rates. During the fiscal year ended June 30, 2011, there was no balance outstanding nor any interest paid on any line of credit.

In 2011 and 2010, LUC recorded capitalized interest of \$760 thousand and \$605 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

Certain debt agreements require LUC to maintain sinking or reserve funds, or require the maintenance of financial ratios or impose other restrictions. Management believes LUC is in compliance with financial debt covenants as of June 30, 2011.

### Repayments and Classification

Total scheduled maturities for the next five fiscal years are:

(in thousands of dollars)

2012	\$ 7,513
2013	6,022
2014	7,391
2015	7,749
2016	10,062
Thereafter	<u>245,741</u>
	<u>\$284,478</u>

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

The fair value of the outstanding long-term debt as of June 30, 2011 and 2010 was:

(in thousands of dollars)

	2011		2010	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	\$289,006	\$285,905	\$294,561	\$291,596

The fair value of long-term debt is determined based on discounted cash flows or market prices for comparable borrowings as of June 30, 2011 and 2010.

Interest paid for the years ended June 30, 2011 and 2010 was:

(in thousands of dollars)

	<u>2011</u>	<u>2010</u>
Interest paid	\$11,274	\$11,841

## (8) Retirement Plans

Substantially all personnel participate in either a defined contribution retirement plan or a defined benefit plan (LUERP). LUC 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, LUC established a new defined contribution plan. LUC's expense under this plan was \$14.8 million and \$14.3 million for 2011 and 2010, respectively. Summary information for the defined benefit pension plan, LUERP, follows:

(in thousands of dollars)

	<u>2011</u>	<u>2010</u>
<b>Change in projected benefit obligation</b>		
Projected benefit obligation, beginning of year	\$ 75,686	\$ 70,446
Interest cost	3,634	4,380
Benefits paid	( 5,885)	( 8,016)
Actuarial loss	<u>2,509</u>	<u>8,876</u>
Projected benefit obligation, end of year	\$ <u>75,944</u>	\$ <u>75,686</u>
<b>Change in plan assets</b>		
Fair value of plan assets, beginning of year	\$ 61,583	\$ 61,613
Actual return on plan assets	11,532	7,986
Benefits paid	<u>( 5,885)</u>	<u>( 8,016)</u>
Fair value of plan assets, end of year	\$ <u>67,230</u>	\$ <u>61,583</u>
<b>Funded status</b>		
Funded status of the plans	\$( <u>8,714</u> )	\$( <u>14,103</u> )
<b>Amounts included in the statement of financial position</b>		
Pension and other postretirement plan liabilities	\$( <u>8,714</u> )	\$( <u>14,103</u> )
<b>Amounts not yet recognized in net periodic pension cost and included in unrestricted net assets</b>		
Actuarial loss	\$ <u>37,451</u>	\$ <u>43,339</u>

(in thousands of dollars)

	<u>2011</u>	<u>2010</u>
<b>Pension plan changes other than net periodic pension expense</b>	\$ <u>5,887</u>	\$( <u>4,235</u> )
<b>Components of net pension expense</b>		
Service cost	\$ -	\$ -
Interest cost	3,634	4,380
Expected return on plan assets	(4,558)	( 4,551)
Net amortization and deferral	<u>1,421</u>	<u>1,207</u>
Net periodic pension expense	\$ <u>497</u>	\$ <u>1,036</u>
<b>Weighted average assumptions</b>		
Discount rate - benefit obligations	5.23%	5.01%
Discount rate - pension expense	5.01%	6.52%
Rate of compensation increase	n/a	n/a
Expected long-term return on assets	7.80%	7.80%

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

	<u>2011</u>	<u>2010</u>
Cash	2%	1%
Equity securities	35%	36%
Fixed income securities	47%	52%
Private investments	5%	6%
Other, including real estate	<u>11%</u>	<u>5%</u>
Total	<u>100%</u>	<u>100%</u>

The table below summarizes LUC's fair value measurements of the LUERP investment portfolio by the fair value hierarchy levels as of June 30, 2011:

(in thousands of dollars)	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 315	\$ 315	\$ -	\$ -
Short term investment funds	668	668		
U.S. marketable equity securities	7,766	7,766		
U.S. marketable mutual funds	1,399	1,399		
U.S. marketable equity collective trusts	4,888		4,888	
Non-U.S. marketable equity securities	381	381		
Non-U.S. marketable equity collective trusts	10,450		10,450	
Other equity securities	192			192
Fixed income mutual funds	4,647	4,647		
Fixed income collective trusts	2,125		2,125	
U.S. Treasury and government agency debt obligations	223	( 80)	303	
U.S. state and municipal debt obligations	1,086		1,086	
U.S. corporate debt securities	19,641		19,641	
Non-U.S. corporate debt securities	6,193	2,319	3,874	
Asset-backed securities	54		54	
Private equity investments	3,406			3,406
Real estate investment trust commingled funds	3,738		3,738	
Private real assets investments	58			58
Total	<u>\$ 67,230</u>	<u>\$17,415</u>	<u>\$46,159</u>	<u>\$3,656</u>

The following table summarizes the changes in fair value of the LUERP Level 3 investments for the year ended June 30, 2011:

(in thousands of dollars)	<u>Other Equity Securities</u>	<u>Private Equity Investments</u>	<u>Real Assets Investments</u>	<u>Total</u>
Balance at July 1, 2010	\$ 187	\$ 3,955	\$ 107	\$ 4,249
Realized gain		695		695
Unrealized gain (loss)		260	( 49)	211
Purchases	5	28		33
Sales		(1,532)		(1,532)
Balance at June 30, 2011	<u>\$ 192</u>	<u>\$ 3,406</u>	<u>\$ 58</u>	<u>\$ 3,656</u>

The table below summarizes University Academic's fair value measurements of the LUERP portfolio by the fair value hierarchy levels as of June 30, 2010:

(in thousands of dollars)	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$( 302)	\$( 302)	\$ -	\$ -
Short term investment funds	788	788		
U.S. marketable equity securities	7,998	7,998		
U.S. marketable equity collective trusts	5,551		5,551	
Non-U.S. marketable equity securities	256	256		
Non-U.S. marketable equity collective trusts	7,942		7,942	
Other equity securities	187			187
Mutual funds	3,067	3,067		
Fixed income exchange-traded funds	141	141		
Fixed income collective trusts	4,591		4,591	
U.S. Treasury and government agency debt obligations	1,139	280	859	
U.S. state and municipal debt obligations	711		711	
U.S. corporate debt securities	18,746		18,746	
Non-U.S. corporate debt securities	3,531		3,531	
Collateralized mortgage obligations	117		117	
Asset-backed securities	130		130	
Private equity investments	3,955			3,955
Commingled funds	2,718		2,718	
Real estate investment trust exchange-traded funds	210	210		
Private real assets investments	107			107
Total	<u>\$ 61,583</u>	<u>\$12,438</u>	<u>\$44,896</u>	<u>\$4,249</u>

The following table summarizes the changes in fair value of University Academic's defined benefit plan Level 3 investments for the year ended June 30, 2010:

(in thousands of dollars)	<u>Other Equity Securities</u>	<u>Private Equity Investments</u>	<u>Private Real Assets Investments</u>	<u>Total</u>
Balance at July 1, 2009	\$ 59	\$ 4,697	\$ 1,289	\$ 6,045
Realized gain		1,002		1,002
Unrealized loss	( 26)	( 365)	(1,095)	(1,486)
Purchases	192	30		222
Sales		(1,409)	( 87)	(1,496)
Transfers to (from) Level 3	( 38)			( 38)
Balance at June 30, 2010	<u>\$ 187</u>	<u>\$ 3,955</u>	<u>\$ 107</u>	<u>\$ 4,249</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 estimates of the expected long-term rates of return on plan assets based upon the investment 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)	<u>Fiscal Year</u>	<u>Payments</u>
	2012	\$ 6,877
	2013	6,629
	2014	6,329
	2015	5,974
	2016	5,952
	2017-2021	26,811

## (9) Other Postretirement Benefits

LUC 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. As of June 30, 2011 and 2010, LUC recognized \$6.6 million and \$(1.5) million, respectively, of retirement plan related changes other than net periodic retirement plan expense as non-operating activities 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 LUC for the years ended June 30, 2011 and 2010 were:

(in thousands of dollars)	<u>2011</u>	<u>2010</u>
<b>Change in benefit obligation</b>		
Benefit obligation, beginning of year	\$ 34,428	\$ 31,469
Service cost	1,861	1,555
Interest cost	1,672	2,015
Plan amendments	( 210)	
Participant contributions	1,078	1,153
Benefits paid	( 2,291)	( 2,201)
Actuarial (gain) loss	<u>( 6,376)</u>	<u>437</u>
Benefit obligation, end of year	<u>\$ 30,162</u>	<u>\$ 34,428</u>
<b>Change in plan assets</b>		
Fair value of plan assets, beginning of year	\$ -	\$ -
Employer contributions	1,213	1,048
Participant contributions	1,078	1,153
Benefits paid	( 2,291)	( 2,201)
Fair value of plan assets, end of year	<u>\$ -</u>	<u>\$ -</u>

<b>Funded status</b>		
Funded status of plan	\$ <u>(30,162)</u>	\$ <u>(34,428)</u>
<b>Amounts not yet recognized in net periodic benefit cost and included in unrestricted net assets</b>		
Actuarial loss (gain)	\$ (4,787)	\$ 1,588
Prior service (benefit)	( 210)	
Total	\$ <u>(4,997)</u>	\$ <u>1,588</u>
<b>Components of net periodic postretirement benefit cost</b>		
Service cost	\$ 1,861	\$ 1,555
Interest cost	1,672	2,015
Amortization of unrecognized prior service (benefit) and actuarial loss		( 1,026)
Net periodic postretirement benefit cost	\$ <u>3,533</u>	\$ <u>2,544</u>
Discount rate	4.63%	5.01%
<b>Assumed health care cost trend rates</b>	<u>2011</u>	<u>2010</u>
HMO plans	5.00%	5.00%
Non-HMO plans	5.00%	5.00%

For LUC, there are no estimated net actuarial losses and prior service costs (benefits) for the plan that will be amortized from unrestricted net assets into net periodic postretirement benefit cost during the 2012 fiscal year.

(in thousands of dollars)	<u>2011</u>	<u>2010</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	\$ 1,628	\$ 1,724
On total of service and interest cost components	140	126
<b><u>1% decrease</u></b>		
On year-end postretirement benefit obligations	\$(1,543)	\$(1,606)
On total of service and interest cost components	( 140)	( 124)

**Estimated future benefit payments**

(in thousands of dollars)	<u>Fiscal Year</u>	<u>Payments</u>
	2012	\$ 1,295
	2013	1,692
	2014	2,128
	2015	2,607
	2016	3,111
	2017-2021	20,747

Effective July 1, 2004, LUC 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. The accounts cannot be accessed until after age 60 and 10 years of continuous service. 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 LUC's health plan.

### (10) 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, 2011 and 2010 were:

(in thousands of dollars)	<u>2011</u>	<u>2010</u>
Instruction	\$ 114,838	\$ 108,658
Research and other sponsored programs	42,862	43,353
Academic support	61,070	59,819
Student services	31,849	30,200
Institutional support	75,381	69,056
Operations and maintenance	20,720	21,886
Depreciation	28,286	26,800
Auxiliary services	<u>43,990</u>	<u>42,917</u>
Total operating expenses	<u>\$ 418,996</u>	<u>\$ 402,689</u>

### (11) Restricted Net Assets

The program restrictions for temporarily and permanently restricted net assets at June 30, 2011 and 2010 were:

(in thousands of dollars)	<u>2011</u>	<u>2010</u>
<b>Temporarily Restricted</b>		
Academic or program support and student financial aid	\$ 102,164	\$ 78,557
Research	6,728	3,716
Student loans	2,943	2,980
Construction	780	1,985
Other	26,675	28,273
LUHS		<u>19,737</u>
Total temporarily restricted net assets	<u>\$ 139,290</u>	<u>\$ 135,248</u>
<b>Permanently Restricted</b>		
Academic or program support and student financial aid	\$ 130,429	\$ 123,838
Research	50	50
Student loans	1,148	1,148
LUHS		<u>6,640</u>
Total permanently restricted net assets	<u>\$ 131,627</u>	<u>\$ 131,676</u>

### (12) Commitments and Contingencies

Various lawsuits, claims, and other contingent liabilities occasionally arise in the ordinary course of LUC's education and research 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.

### (13) 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.

### (14) Subsequent Events

LUC has evaluated subsequent events through October 10, 2011, the date the consolidated financial statements were available to be issued. On September 9, 2011 the Board of Trustees authorized LUC to borrow approximately \$115 million to support capital expenditures at the Lake Shore campus.

## (15) Discontinued Operations

During fiscal year 2011, LUC completed a transaction with Trinity Health Corporation (“Trinity”), an Indiana not-for-profit corporation located in Novi, Michigan, pursuant to a Definitive Agreement dated March 31, 2011 (the “Definitive Agreement”). As part of the transaction, Trinity replaced LUC as the sole member of LUHS and all of its affiliates including Loyola University Medical Center (LUMC), Gottlieb Health Resources (GHR), Gottlieb Memorial Hospital (GMH), and Loyola University of Chicago Insurance Company Ltd (LUCIC). Trinity assumed control of all the assets of LUHS and retained all of the liabilities of LUHS. The closing date of the transaction was June 30, 2011. LUHS is reported as discontinued operations and the consolidated financial statements for fiscal years 2011 and 2010 have been reclassified to report the discontinued operations separately from LUC’s continuing operations.

LUC has or will receive \$212 million in total consideration from Trinity pursuant to the Definitive Agreement as follows: (i) On July 1, 2011, Trinity and its subsidiary corporation made a cash payment to LUC in the amount of \$80 million; (ii) Trinity is required to make a \$75 million payment to LUC for the construction and related start-up expenses of a new research enterprise facility that will be owned by LUC. LUC will also invest \$75 million to match the Trinity payment for the construction and related start-up expenses; (iii) there was a post-closing reconciliation based on a comparison of LUHS’s net assets at June 30, 2011 and its net assets on December 31, 2010 that will result in an additional payment from Trinity to LUC of \$57 million.

LUHS’s assets and liabilities have been reclassified on the consolidated statements of financial position as assets of discontinued operations and liabilities of discontinued operations. The detail for these assets and liabilities is:

(in thousands of dollars)

Assets:	<u>2010</u>
Cash and cash equivalents	\$ 126,666
Short-term investments	28,838
Receivables	145,809
Other assets	77,560
Endowment and other long-term investments	189,396
Assets held in trust by others	2,660
Land, buildings and equipment – net	<u>423,478</u>
Total assets	<u>\$ 994,407</u>
Liabilities:	
Accounts payable and accrued expenses	\$ 94,950
Estimated third-party payer settlements payable	69,877
Indebtedness	350,096
Self-insurance	152,430
Pension and other post-retirement liabilities	140,493
Other liabilities	<u>19,723</u>
Total liabilities	<u>\$ 827,569</u>

Discontinued operations at June 30, 2011 resulted in an overall gain of \$42.3 million that included a gain of \$91.9 million from discontinued operations and a loss on disposal of discontinued operations of (\$49.6) million.



The detail for the gain from discontinued operations is shown below:

(in thousands of dollars)	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 1,060,746	\$ 1,065,345
Operating expenses	<u>1,074,758</u>	<u>1,064,941</u>
Results of operations	( 14,012)	404
Non-operating activities	<u>105,259</u>	<u>( 2,160)</u>
Increase (decrease) in unrestricted net assets	91,247	( 1,756)
Increase in temporarily restricted net assets	625	5,048
Increase in permanently restricted net assets	<u>31</u>	<u>31</u>
Increase in net assets	\$ <u><u>91,903</u></u>	\$ <u><u>3,323</u></u>

The detail for the gain on disposal of discontinued operations is shown below:

(in thousands of dollars)	
Proceeds from sale:	
Cash proceeds from sale, received July 1, 2011	\$ 80,000
Research enterprise facility	75,000
Post-closing reconciliation payment	<u>57,003</u>
Total proceeds from sale	\$ <u><u>212,003</u></u>
Less book value of LUHS net assets as of June 30, 2011	( 258,741)
Less expenses related to the sale	( 1,996)
Less net impact of property transfers on the medical center campus	<u>( 900)</u>
Loss on disposal of discontinued operations	\$ <u><u>( 49,634)</u></u>

### **Agreements with Trinity Health**

#### *Academic Affiliation Agreement*

The education and research components of LUC's health sciences, including the Medical School and the Nursing School, remain with LUC following the Trinity transaction. LUC, LUHS, and LUMC have entered into an Academic Affiliation Agreement which includes negotiated terms and conditions and which provides for an annual academic support payment to LUC from LUHS and LUMC (which payment is guaranteed by Trinity). The annual academic support payment amount is set at \$22.5 million (subject to an inflation adjustment) for an initial term of ten years.

#### *Indemnification Escrow Agreement*

On July 1, 2011, Trinity made a payment of \$20 million to establish an escrow account. The escrow was established in order to secure LUC's obligations under the Definitive Agreement, including, without limitation, the payment of any unrecorded, misstated or under-reserved pre-closing liabilities or the breach of any representations, warranties or covenants made by LUC in the Definitive Agreement. The escrow account will also be credited for any unnecessarily recorded, overstated or over-reserved pre-closing liabilities or other gain contingencies. The escrow amount, including any gain contingencies, will be released to LUC over a period of four years if it is not required to cover these potential liabilities or the indemnification owed to Trinity. LUC is considering the escrow a gain contingency and did not include the escrow amount in the gain on disposal of discontinued operations.

### *Research Facility Funding Agreement*

As discussed above, Trinity and LUC have committed \$75 million each towards a new research facility to be owned by LUC. The Research Facility Funding Agreement contains the specific terms regarding the funding and payments associated with the new research facility. The design, planning, and construction of the facility, as well as the associated payments to LUC from Trinity, are anticipated to occur over the next three to seven years.

### *Repurchase Rights*

The Definitive Agreement also provides LUC with certain repurchase rights. If any of the following events occurs, LUC has the right to repurchase LUHS and its affiliates (as they are constituted at the time), at fair market value: (i) a change of control of Trinity, LUHS or LUMC as a result of which Trinity, LUHS or LUMC would no longer be bound by the Ethical and Religious Directives for Catholic Health Services as promulgated by the United States Conference of Catholic Bishops, (ii) any event that causes the failure of LUMC to maintain its status as an academic medical center as defined by and in accordance with the Academic Affiliation Agreement, or (iii) upon the expiration of the Academic Affiliation Agreement after failure of the parties to resolve a dispute related to the academic support payment amount or academic support payment calculation methodology for any period after the initial 10 year term of the Academic Affiliation Agreement.

### *Real Estate Swap Agreement*

As a result of the Real Estate Swap Agreement, LUC will own the central part of the LUMC campus. This central part will be the "Academic/Health Sciences Zone" and will include, among other facilities, the Cuneo Center for the Stritch School of Medicine, the Center for Collaborative Studies/School of Nursing, the Center for Health and Fitness, the Cardinal Bernardin Cancer Center (subject to a 99-year leasehold interest for the portion of the Bernardin Center currently used by LUMC), and the new research enterprise facility. The north end of the campus will be owned by LUMC and will include the primary hospital building and other inpatient facilities and related infrastructure. The south end of the campus will also be owned by LUMC and will include outpatient/ambulatory facilities. In order to achieve this result, pursuant to the Real Estate Swap Agreement, LUC will transfer to LUMC certain properties it presently owns and LUMC will transfer to LUC certain properties it owns. The transfer of the properties will be based on net book value and is anticipated to have a net impact to LUC of (\$900) thousand. The transfer of real estate under the Real Estate Swap Agreement occurred on August 31, 2011.

### *Other Agreements*

Other agreements delivered in connection with the Trinity transaction included a Branding and Trademark License Agreement regarding the use of the Loyola name, logo, trademarks, service marks, and all related goodwill in connection with healthcare operations. A Shared Services Agreement details the methodologies regarding the sharing of certain services between the entities. Examples of these shared services include utilities, housekeeping, and information technology services.

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