LOYOLA UNIVERSITY CHICAGO

Consolidated Financial Statements and Independent Auditors' Report

Years Ended June 30, 2007 and 2006

LOYOLA
UNIVERSITY CHICAGO
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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, 2007 and 2006, 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of LUC as of June 30, 2007 and 2006, and the changes in its net assets and its 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. Further, as discussed in Note 3, LUC adopted FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations — An Interpretation of FASB Statement No. 143,* and changed its method of accounting for conditional asset retirement obligations during the year ended June 30, 2006.

As discussed in Note 5 to the consolidated financial statements, the accompanying 2006 financial statements have been restated.

Deloitte & Touche LLP

October 1, 2007

LOYOLA UNIVERSITY OF CHICAGO
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
YEARS ENDED JUNE 30, 2007 AND 2006 (AS RESTATED)
($000s)

	University Academic	LUHS	Eliminating Entries	2007 Consolidated Total	2006 (As Restated) Consolidated Total
ASSETS					
CASH AND CASH EQUIVALENTS	$ 26,760	$ 23,936	$ -	$ 50,696	$ 61,656
SHORT-TERM INVESTMENTS	113,063	34,248		147,311	139,112
INTERFUND BALANCES	10,874		(10,874)		
RECEIVABLES	51,144	176,230		227,374	171,729
OTHER ASSETS	26,673	95,602		122,275	98,703
ENDOWMENT AND OTHER LONG-TERM INVESTMENTS	386,606	202,437		589,043	535,244
ASSETS HELD IN TRUST BY OTHERS		75,590		75,590	11,096
INTEREST HELD IN PERPETUAL TRUST	9,604			9,604	8,464
LAND, BUILDINGS AND EQUIPMENT - NET	479,154	347,835		826,989	748,497
TOTAL ASSETS	$ 1,103,878	$ 955,878	$ (10,874)	$ 2,048,882	$ 1,774,501
LIABILITIES AND NET ASSETS					
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	$ 78,371	$ 90,452	$ -	$ 168,823	$ 153,723
DEFERRED INCOME	27,106			27,106	21,644
UNEXPENDED GRANTS	17,193			17,193	17,483
REFUNDABLE ADVANCES - LOANS	17,090			17,090	16,860
INDEBTEDNESS	263,213	375,627		638,840	560,027
SELF-INSURANCE	135	141,804		141,939	130,855
INTERFUND BALANCES		10,874	(10,874)		
OTHER LIABILITIES	10,425	71,590		82,015	34,084
TOTAL LIABILITIES	413,533	690,347	(10,874)	1,093,006	934,676
NET ASSETS:					
Unrestricted	404,933	244,014		648,947	581,999
Temporarily restricted	185,064	15,008		200,072	160,902
Permanently restricted	100,348	6,509		106,857	96,924
TOTAL NET ASSETS	690,345	265,531		955,876	839,825
TOTAL LIABILITIES AND NET ASSETS	$ 1,103,878	$ 955,878	$ (10,874)	$ 2,048,882	$ 1,774,501

See notes to consolidated financial statements

LOYOLA UNIVERSITY OF CHICAGO
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2007 AND 2006
($000s)

	University Academic	LUHS	Eliminating Entries	2007 Consolidated Total	2006 Consolidated Total
OPERATING REVENUES:					
Tuition and fees, net of scholarships $91,605 (2007) and $79,686 (2006)	$ 243,221	$ -	$ -	$ 243,221	$ 214,762
Grants and contracts for sponsored projects	51,815	4,851	(1,273)	55,393	55,327
Academic support	49,983		(20,305)	29,678	28,474
Gifts	1,634	2,765		4,399	9,206
Interest income	7,638			7,638	5,677
Investment income designated for operations	1,572	20,458		22,030	14,265
Other	13,900	36,937		50,837	57,152
Auxiliary services	37,733			37,733	32,275
Net patient service revenues		676,413		676,413	659,973
Research and education net assets for operations	2,426			2,426	1,741
Hospital Access Improvement Program		52,629		52,629	
Net assets released from restrictions	14,099	556		14,655	15,930
Total operating revenues	424,021	794,609	(21,578)	1,197,052	1,094,782
OPERATING EXPENSES:					
Salaries and wages	180,622	289,609		470,231	453,388
Fringe benefits	42,921	63,137		106,058	103,037
Non-salary operating expenses	99,555	274,830	(21,546)	352,839	334,153
Insurance	2,871	42,642		45,513	45,014
Depreciation and amortization	27,197	31,848		59,045	55,755
Interest	13,688	13,223		26,911	26,203
Utilities	8,478	11,056		19,534	19,754
Illinois Healthcare and Family Services Assessment		35,823		35,823	
Hurricane Katrina student relief support					3,450
Total operating expenses	375,332	762,168	(21,546)	1,115,954	1,040,754
RESULTS OF OPERATIONS	48,689	32,441	(32)	81,098	54,028
NON-OPERATING ACTIVITIES:					
Investment income net of amounts designated for operations	19,817	6,685		26,502	9,582
Other	10,691	7,121	32	17,844	8,056
Change in pension liability	968	(9,402)		(8,434)	15,357
Cumulative effect of asset retirement obligation					(7,526)
Cost of early extinguishment of debt	(1,926)	(8,073)		(9,999)	
Transfer of net assets	9,442			9,442	1,746
Research and education net assets for operations	(2,426)			(2,426)	(1,741)
Total non-operating activities	36,566	(3,669)	32	32,929	25,474
Cumulative effect of changes in accounting for pension and postretirement plan obligations	(3,573)	(43,506)		(47,079)	
Increase (decrease) in unrestricted net assets	81,682	(14,734)		66,948	79,502
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:					
Gifts	9,927	10,742		20,669	15,652
Investment income	40,535	449		40,984	25,580
Change in annuity value	(105)			(105)	(257)
Other	979			979	(2,371)
Transfer of net assets	(8,702)			(8,702)	(2,034)
Net assets released from restrictions	(14,099)	(556)		(14,655)	(15,930)
Increase in temporarily restricted net assets	28,535	10,635		39,170	20,640
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:					
Gifts	9,231	124		9,355	4,443
Change in value of perpetual trust	1,347			1,347	831
Other	(29)			(29)	(1,280)
Transfer of net assets	(740)			(740)	288
Increase in permanently restricted net assets	9,809	124		9,933	4,282
Increase (decrease) in net assets	120,026	(3,975)		116,051	104,424
Net assets at beginning of year	570,319	269,506		839,825	735,401
Net assets at end of year	$ 690,345	$ 265,531	$ -	$ 955,876	$ 839,825

See notes to consolidated financial statements

LOYOLA UNIVERSITY OF CHICAGO
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006 (AS RESTATED)
($000s)

	University Academic	LUHS	2007 Consolidated Total	2006 (As Restated) Consolidated Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Increase (decrease) in net assets	$ 120,026	$ (3,975)	$ 116,051	$ 104,424
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES:				
Add/Deduct Non-Cash Transactions:				
Depreciation and amortization	27,197	31,848	59,045	55,755
Cost of early extinguishment of debt	1,926	8,073	9,999	
Cumulative effect of asset retirement obligation				7,526
Cumulative effect of changes in accounting for pension and postretirement plan obligations	3,573	43,506	47,079	
Provision for retirement costs	1,179	8,796	9,975	12,273
Change in pension liability	(968)	9,402	8,434	(15,357)
Change in unrealized gain on investments	(24,316)	(6,685)	(31,001)	(5,557)
Other	(2,635)	(7,153)	(9,788)	(1,232)
	5,956	87,787	93,743	53,408
Changes in assets and liabilities:				
Receivables	(1,847)	(43,187)	(45,034)	9,069
Other assets	282	(46,056)	(45,774)	(11,157)
Accounts payable and accrued expenses	(2,322)	16,239	13,917	4,484
Deferred income and unexpended grants	5,172		5,172	77
Self-insurance	(7,700)	18,784	11,084	3,471
Interest held in perpetual trust	(1,140)		(1,140)	(709)
Refundable advances - loans	230		230	287
Other liabilities	(85)	2,426	2,341	(8,338)
Interfund balances	(2,086)	2,086		
Total change in assets and liabilities	(9,496)	(49,708)	(59,204)	(2,816)
Net cash from operating activities	116,486	34,104	150,590	155,016
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of investments	281,714	132,774	414,488	380,563
Purchase of investments	(319,970)	(127,378)	(447,348)	(468,252)
Proceeds on disposal of property				1,232
Purchase of property	(84,095)	(49,971)	(134,066)	(118,277)
Student loans issued	(41,286)		(41,286)	(32,068)
Student loans sold and collected	41,296		41,296	34,795
Net cash from investing activities	(122,341)	(44,575)	(166,916)	(202,007)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of new debt	28,980	235,145	264,125	
Issuance costs	(959)	(1,266)	(2,225)	
Payment of line of credit		(24,000)	(24,000)	
Advance refunding and repayment of debt	(27,635)	(126,750)	(154,385)	
Retirement of debt	(5,985)	(7,670)	(13,655)	(8,209)
Deposit of bond proceeds with trustee		(149,039)	(149,039)	
Withdrawal of trusteed bond funds for construction	11,096	73,449	84,545	29,617
Net cash from financing activities	5,497	(131)	5,366	21,408
NET CHANGE IN CASH AND CASH EQUIVALENTS	(358)	(10,602)	(10,960)	(25,583)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	27,118	34,538	61,656	87,239
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 26,760	$ 23,936	$ 50,696	$ 61,656

See notes to consolidated financial statements

(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. In 2006, LUHS recorded $4.5 million relating to recoveries of prior years receivables from a bankrupt HMO as reductions in the provisions for bad debts ($3.4 million) and interest expense ($1.1 million). 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 of three months or less, excluding certain instruments held in the endowment pending reinvestment or which are on deposit with a trustee.

Short-Term Investments

Short-term investments are comprised of investments in commingled fixed income funds whose maturity, duration and risk exposures extend beyond the characteristics of cash and cash equivalents and money market investments. Such funds are priced and liquidity is 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 value of investments in publicly-traded equity securities is based on quoted market prices. 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 investing in publicly traded stocks and bonds and 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 90 days 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.

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, primarily futures and options, in the management of its endowment 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, 2007.

Accounting Pronouncements

On July 1, 2005, LUC adopted Financial Interpretation No. 47, (FIN 47) *Accounting for Conditional Asset Retirement Obligations.* FIN 47 clarifies the term "conditional asset retirement obligation" as used in Statement of Financial Accounting Standards (SFAS) No. 143*, Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement.

Effective July 1, 2005, LUC has performed certain asset retirement activities associated with constructed facilities and equipment. The obligations were recognized in 2006 as a change in accounting principle that requires the recognition of asset retirement obligations with a cumulative effect adjustment of $7.2 million and $328 thousand for LUC and LUHS, respectively, reflected in the consolidated statements of activities and changes in net assets and as a component of liabilities on the consolidated statements of financial position.

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 11 and 12.

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. FIN 48 outlines a process for measuring and recognizing tax benefits and defines disclosure requirements for potential tax benefits. LUC is assessing the impact, if any, of the implementation of FIN 48 on their consolidated financial statements.

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 their 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.

(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 $31.9 million for 2007 and $32.8 million for 2006.

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 2007 and 2006.

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 $2.1 million in 2007 and $1.8 million in 2006. 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 revenues are 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 $5.5 million and $5.1 million in favorable Medicare prior year settlements for the years ended June 30, 2007 and 2006, respectively.

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.

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 substantial compliance with current laws and regulations.

In 2007, LUHS recorded $52.6 million of Hospital Access Improvement Program payments from the Illinois Healthcare and Family Services program. These payments were approved during fiscal year 2007 and relate to fiscal years 2006 and 2007. LUHS recorded as expense $35.8 million of assessments relating to this program. 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 $8.4 million at June 30, 2007 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 2007 and 2006 are as follows:

(in thousands of dollars)	2007	2006
Charges foregone for charity purposes	$ 23,137	$20,923
Excess cost over reimbursement for Medicaid patients:		
Excess cost before Hospital Access Improvement payments	$ 37,603	$33,721
Hospital Access Improvement payments – net		
Fiscal year 2006 payments	(8,403)	
Fiscal year 2007 payments	(8,403)	
Excess cost over reimbursement for Medicaid patients	$ 20,797	$33,721

(5) Restatement of Financial Statements

Subsequent to the issuance of the LUC 2006 consolidated financial statements, and based on the guidance in the AICPA Practice Aid on alternative investments issued in July 2007, it was determined that LUC held certain investment securities that were classified as cash equivalents rather than short-term investments. As a result, the accompanying consolidated statements of financial position and consolidated statements of cash flows have been restated from the amounts previously reported to disclose the change in classification of the investment securities as well as the change in cash used for purchase of investments and the change in cash received from the sale of investments for year ended June 30, 2006. The following summarizes the significant effects of the restatement:

(in thousands of dollars)	As Previously Reported	Reclassification	As Restated
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION			
Cash and cash equivalents	$ 178,219	$(116,563)	$ 61,656
Short-term investments		139,112	139,112
Endowment and other long-term investments	557,793	(22,549)	535,244
CONSOLIDATED STATEMENTS OF CASH FLOWS			
Cash flows from investing activities			
Proceeds from sale of investments	300,078	80,485	380,563
Purchase of investments	(355,690)	(112,562)	(468,252)
Net cash from investing activities	(169,930)	(32,077)	(202,007)
Net change in cash and cash equivalents	6,494	(32,077)	(25,583)
Cash and cash equivalents at beginning of year	171,725	(84,486)	87,239
Cash and cash equivalents at end of year	178,219	(116,563)	61,656

(6) Investments

University Academic

Investment policy is the responsibility of the Investment Policy Committee of the Board of Trustees. 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, 2007 and 2006 was:

(in thousands of dollars)	2007	2006
Marketable equity investments	$232,020	$176,091
Private equity investments	32,672	26,737
Absolute return/hedge funds		21,786
Fixed income investments	81,375	61,327
Real estate	26,744	23,188
Cash pending investment	13,795	11,406
Total investments	$386,606	$320,535

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 9. University Academic is obligated to make future capital contributions in private equity and real estate investments in its endowment portfolio in the maximum amount of $27.5 million over the next four years, subject to investment period modifications provided for in its limited partnership agreements.

Alternative Investments – University Academic

Alternative investments are less liquid than University Academic’s other investments and are subject to varying degrees of liquidity restrictions across different 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. The following table summarizes these investments by investment strategy at June 30, 2007 and 2006:

(in thousands of dollars)

Alternative investment strategy	2007	2006	Asset Class	Liquidity
Private equity – fund of funds	$28,766	$26,073	Private equity	No contractual liquidity
Private real estate	14,906	13,692	Real estate	Varies
Opportunistic fixed income - credit	11,141	7,893	Fixed income	Subject to liquidity restrictions
Long-short equity - fund of funds	9,470		Marketable equity	Subject to liquidity restrictions
Private equity - direct	3,905	664	Private equity	No contractual liquidity
Multi-strategy, fund of funds, and absolute return		21,786	Absolute return/hedge funds	
Total	$68,188	$70,108		

Alternative investments include limited partnerships, limited liability corporations, and off-shore investment funds. Included among the investments of these funds are primarily illiquid investments, the fair value of which has been estimated by the general partner or investment manager. Funds may also invest in certain other financial instruments including, among others, futures and forward contracts, options, swaps, and securities sold but not yet purchased intended to hedge against changes in the market value of investments. These financial instruments involve varying degrees of off-balance sheet risk and may result in loss due to changes in the market.

Derivative Financial Instruments – University Academic

University Academic uses derivative financial instruments, primarily futures and options, in the management of its endowment 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 positions are fully collateralized and do not create leverage in the endowment portfolio.

Investments in derivative financial instruments are classified as trading activity, not as hedges. As of June 30, 2007 and 2006, the endowment portfolio held futures contracts with a notional value of $25.3 million and $14.4 million, respectively. The fair value of all futures contracts held at June 30, 2007 and 2006 is zero, as contracts are marked to market and gains and losses are recognized and settled in cash on a daily basis. The net impact of the futures held at June 30, 2007 is to reduce the proportion of cash in the endowment portfolio by 6.7% ($25.2 million), while increasing equity assets by 6.0% ($22.5 million) and fixed income assets by 0.7% ($2.7 million).

The use of futures contracts on equity and bond markets during 2007 and 2006 generated $3.3 million and $2.2 million in gains, respectively. Realized gains and losses from derivative financial instruments are included in investment income.

At June 30, 2007, eight option positions were held in the endowment portfolio with a fair value of ($380) thousand, offsetting underlying stock positions of $2.7 million. At June 30, 2006, five option positions were held in the endowment portfolio with a fair value of ($165) thousand, offsetting underlying stock positions of $2.9 million. Realized gains on exercised or expired options were $281 thousand in 2007 and $594 thousand in 2006.

Investment Return – University Academic

Investment return, net of management fees, for the years ended June 30, 2007 and 2006 was:

(in thousands of dollars)	2007	2006
Interest and dividend income (net of fees)	$ 6,278	$ 4,526
Net realized gains	31,330	33,735
Net unrealized gains (losses)	24,316	(2,326)
Total net return on investment	$61,924	$ 35,935

Interest income on cash and cash equivalents of $7.7 million in 2007 and $5.7 million in 2006 is not included in the investment return. The endowment's total investment return (net of management fees) for the years ended June 30, 2007 and 2006 was 19.5% and 13.7%, respectively.

Endowment – University Academic

The following table provides a summary of the change in the fair value of the endowment investment portfolio for the years ended June 30, 2007 and 2006:

(in thousands of dollars)	2007	2006
Beginning of year endowment value	$ 305,664	$ 259,118
Gifts and transfers:		
Contributions (excluding pledges)	8,125	6,406
Transfers	7,116	11,890
Total gifts and transfers	15,241	18,296
Investment income:		
Interest and dividend income (net of fees)	5,926	4,120
Net realized gains	30,652	33,806
Net unrealized gains (losses)	23,783	(2,249)
Total investment income	60,361	35,677
Income distributed for operating purposes:		
Scholarships	(2,652)	(2,100)
Endowed chairs	(2,141)	(2,093)
Research	(711)	(882)
Other	(2,551)	(2,352)
Total income distributed for operating purposes	(8,055)	(7,427)
End of year endowment value	$ 373,211	$ 305,664

Endowment net assets at June 30 are classified as follows:

(in thousands of dollars)	2007	2006
Unrestricted	$ 144,525	$ 110,152
Temporarily restricted	143,153	115,006
Permanently restricted	85,533	80,506
Total endowment net assets	$ 373,211	$ 305,664

University Academic uses a total return linked endowment spending policy. Endowment spending can consist of interest, dividends or accumulated capital gains when necessary. The primary benefit of a total return linked spending policy is to separate the spending decision from short-term investment results. Therefore, long-term investment strategy can be established independently of short-term income and spending needs. The current endowment spending rate is capped at 5.0%. At present, the spending is less than 5.0% in an effort to grow endowment funds at a higher rate. The base spending rate applied to eligible endowment funds was 4.0% in 2007 and 2006. The effective spending rate was less than 3.0% for 2007 and 2006.

LUHS

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) is included in the results from operations in the consolidated statements of activities and changes in net assets, unless the income or loss is restricted by donor or by law. Unrealized gains and losses on investments, unless considered impaired, are excluded from results of operations and are recorded as non-operating activity in the consolidated statements of activities and changes in net assets.

As of June 30, 2007 and 2006, the aggregate amounts of unrealized losses reflected in investments were $4.3 million and $6.8 million on investments with a fair value of $121.7 million and $140.1 million, respectively. Management believes that these individual investments, which have not had an impairment recorded, have not met the criteria for recording an other-than-temporary impairment.

Gains and losses are calculated using the average cost method. LUHS recognized losses on impaired investments of $0 and $14 thousand for the years ended June 30, 2007 and 2006, respectively, related to investments whose market value was significantly less than cost for an extended period of time. LUHS recorded an unrealized gain on investments of $6.7 million and an unrealized loss of $5.4 million in 2007 and 2006, respectively.

Investments include $111.5 million and $95.8 million at June 30, 2007 and 2006, respectively, held by LUCIC for the payment of general and professional liability claims, including $32.7 million and $22.5 million reported as short-term investments at June 30, 2007 and 2006, respectively.

The fair value of investments at June 30, 2007 and 2006 was:

(in thousands of dollars)	2007	2006
Marketable equity investments	$ 79,149	$ 70,344
Fixed income investments	115,219	135,553
Real estate	8,069	8,812
Total investments	$202,437	$214,709

Investment return for the years ended June 30, 2007 and 2006 was:

(in thousands of dollars)	2007	2006
Interest and dividend income	$ 10,323	$ 10,029
Net realized gains	10,584	9,098
Net unrealized gains (losses)	6,685	(5,420)
Total investment income	$ 27,592	$ 13,707

(7) Notes and Accounts Receivable

Notes and accounts receivable at June 30, 2007 and 2006 consisted of:

(in thousands of dollars)	2007			
	University Academic	LUHS	Total	2006
Student loan notes (less allowance for doubtful accounts of $1,522 (2007) and $1,683 (2006))	$19,615	$ -	$ 19,615	$ 17,898
Contributions (less discount of $10,793 (2007) and $6,159 (2006) and allowance for doubtful accounts of $889 (2007) and $1,198 (2006))	9,652	8,812	18,464	11,202
Health care (less allowance for doubtful accounts of $17,509 (2007) and $18,135 (2006))		167,418	167,418	123,249
Student receivables (less allowance for doubtful accounts of $3,011 (2007) and $3,663 (2006))	10,497		10,497	8,941
Grant receivables (less allowance for doubtful accounts of $9 (2007) and $506 (2006))	2,685		2,685	3,075
Other (less allowance for doubtful accounts of $370 (2007) and $937 (2006))	8,695		8,695	7,364
Total notes and accounts receivable	$51,144	$176,230	$227,374	$171,729

Contributions receivable at June 30, 2007 and 2006 are due in the following periods:

(in thousands of dollars)	2007			
	University Academic	LUHS	Total	2006
In one year or less	$ 282	$ 4,075	$ 4,357	$ 898
Between one year and five years	6,744	5,300	12,044	9,933
More than five years	13,745		13,745	7,728
Discount $10,793 (2007) and $6,159 (2006) and allowance for doubtful accounts of $889 (2007) and $1,198 (2006)	(11,119)	(563)	(11,682)	(7,357)
Total contributions receivable	$ 9,652	$ 8,812	$ 18,464	$ 11,202

(8) Land, Buildings and Equipment

Components of land, buildings, equipment, and library books at June 30, 2007 and 2006 were:

(in thousands of dollars)	2007			
	University Academic	LUHS	Total	2006
Land	$ 59,480	$ 7,712	$ 67,192	$ 64,138
Buildings	558,505	369,574	928,079	857,653
Equipment	50,267	187,926	238,193	219,521
Library books and art	20,615		20,615	20,383
Construction in progress	47,552	51,627	99,179	85,953
Other real estate	53,767		53,767	37,880
Total	790,186	616,839	1,407,025	1,285,528
Accumulated depreciation	(311,032)	(269,004)	(580,036)	(537,031)
Land, buildings, and equipment – net	$ 479,154	$ 347,835	$ 826,989	$ 748,497

(9) Indebtedness

Notes and bonds payable as of June 30, 2007 and 2006 are shown below:

(in thousands of dollars)	Final Maturity	Interest Rate	2007	Interest Rate	2006
University Academic					
Fixed rate:					
Illinois Finance Authority (IFA) (formerly Illinois Educational Facilities Authority (IEFA)):					
Series 1997A convertible bonds	2026		$ -	5.70%	$ 27,635
Series 1997C taxable bonds	2013	6.95-7.12%	35,325	6.90-7.12%	40,215
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		
Series 2003C direct obligation bonds	2019	4.80-5.30%	40,805	4.80-5.30%	40,805
Medium-term note	2018	7.52%	21,100	7.52%	21,100
Mortgage notes:					
6566-82 N. Sheridan Road	2010	9.00%	382	9.00%	488
6542-48 N. Sheridan Road	2016	9.50%	629	9.50%	679
845-847 N. State Street	2009			2.50%	750
Capital Lease	2007			8.31%	64
City of Chicago Loan	2013	0.00%	688	0.00%	813
Total fixed rate			$216,239		$222,224

Notes and bonds payable as of June 30, 2007 and 2006 are shown below (continued):

(in thousands of dollars)	Final Maturity	Interest Rate	2007	Interest Rate	2006
Variable rate: *					
IFA Series 2004B bonds	2035	3.80%	$ 34,800	3.75%	$ 34,800
IEFA commercial paper pool	2014	3.73%	12,174	3.51%	12,174
Total variable rate			$ 46,974		$ 46,974
Total University Academic indebtedness			$263,213		$269,198

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

During the year ended June 30, 2007, 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 $35.2 million and $28.2 million for the years ended June 30, 2007 and 2006, respectively. Borrowings under this line of credit bear interest at the commercial paper rate plus .40% (5.26% at June 30, 2007 and 5.37% at June 30, 2006). As of June 30, 2007 and 2006, there were no principal amounts outstanding under this line of credit. Interest paid on University Academic's line of credit was $200 thousand and $33 thousand for the years ended June 30, 2007 and 2006, respectively.

(in thousands of dollars)	Final Maturity	Interest Rate	2007	Interest Rate	2006
LUHS					
Long-Term debt:					
Fixed rate:					
Illinois Health Facilities Authority (IHFA):					
Series 2001A bonds	2011	5.75%	$ 12,858	5.80-6.10%	$ 90,376
Series 1997A bonds	2024	5.00%-6.00%	114,079	5.00-6.00%	117,663
Total fixed rate			$126,937		$208,039
Variable rate:					
Illinois Health Facilities Authority (IHFA):					
Series 2006A bonds	2035	3.74%	$ 85,145		$ -
Series 2006B bonds	2041	3.74%	75,000		
Series 2006C bonds	2041	3.77%	75,000		
Series 1997B bonds	2024	3.73%	13,545	3.95%	14,090
Series 1997C bonds	2024			5.40%	44,700
Total variable rate			$248,690		$ 58,790
Total long-term debt			$375,627		$266,829
Short-Term debt:					
Line of credit			$ -		$ 24,000
Total short-term debt			$ -		$ 24,000
Total LUHS indebtedness			$375,627		$290,829

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 payable monthly (5.2% at June 30, 2006). As of June 30, 2007 and 2006, $0 and $24 million was outstanding on the line of credit, respectively. Interest paid on LUHS's line of credit was $1.8 million and $1.0 million for the years ended June 30, 2007 and 2006, respectively.

In 2007 and 2006, University Academic recorded capitalized interest of $452 thousand and $1.2 million, respectively, and LUHS recorded capitalized interest of $816 thousand and $343 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, 2007.

Repayments and Classification

Total scheduled maturities for the next five fiscal years are:

(in thousands of dollars)	Fiscal Year	University Academic	LUHS	Total
	2008	$ 5,501	$ 6,725	$ 12,226
	2009	15,566	7,065	22,631
	2010	8,019	7,435	15,454
	2011	6,822	7,860	14,682
	2012	7,289	10,385	17,674
	thereafter	220,016	336,157	556,173
		$263,213	$375,627	$638,840

Disclosure of Fair Value of Long-term Debt

The fair value of the outstanding debt as of June 30, 2007 and 2006 was:

(in thousands of dollars)	2007		2006	
	Fair Value	Carrying Value	Fair Value	Carrying Value
University Academic	$263,190	$263,213	$268,202	$269,198
LUHS	379,925	375,627	270,517	266,829

The fair value of long-term debt is determined based on discounted cash flows or market prices for comparable borrowings as of June 30, 2007 and 2006.

Interest

Interest paid for the years ended June 30, 2007 and 2006 was:

(in thousands of dollars)	2007			
	University Academic	LUHS	Total	2006
Interest paid	$15,384	$17,237	$32,621	$28,761

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.

On June 22, 2005, University Academic entered into a forward-starting interest rate swap agreement with the intention of issuing variable rate bonds in April 2007 and using the interest rate swap to reduce future interest expense on the 2007 bonds. However, University Academic instead issued traditional fixed-rate bonds in April 2007 to refund the Series 1997A bonds; therefore, on March 28, 2007, University Academic terminated the interest rate swap. As of June 30, 2007, University Academic had no interest rate swaps outstanding.

LUHS entered into two new interest rate swap agreements in September and December 2006, an interest swap agreement in May 2003 and two interest rate swap agreements in March 2002 to offset future fluctuations in interest rates related to LUHS's fixed and variable rate debt. A $50 million March 2002 fixed rate swap agreement was terminated on March 1, 2006 and a $100 million March 2002 swap agreement was terminated on January 23, 2007. 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 $913 thousand in 2007 and by $991 thousand in 2006.

The fair value of the swap agreements at June 30, 2007, an unrealized gain of $6.0 million, is recorded as a component of other assets in the consolidated statements of financial position. The fair value of the swap agreements at June 30, 2006, an unrealized loss of $1.1 million, is recorded as a component of other liabilities in the consolidated statements of financial position. LUHS recorded the net mark-to-market fair value adjustment of the swaps as a gain of $7.2 million and a gain of $4.6 million for the years ended June 30, 2007 and 2006, respectively, as a component of the non-operating activities section of the consolidated statements of activities and changes in net assets. The 2002, 2003, and September 2006 swap agreements do not qualify for hedge accounting. The December 19, 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.

(10) 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 considers the reserve adequate to University Academic's loss exposure for all years.

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 6.5% at June 30, 2007 and 2006. The amounts of the discounts were $33.6 million in 2007 and $33.1 million in 2006. Self-insurance liabilities are estimated at the actuarially determined expected level, plus an estimate of incurred but not reported claims. Reinsurance recoveries receivable of $16.9 million and $8.3 million were recorded as other assets at June 30, 2007 and 2006, respectively.

Expenses related to general and professional liability were $42.6 million and $42.7 million for 2007 and 2006, 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 15). LUPF expenses related to general liability and medical malpractice liability insurance were $17.0 million for both 2007 and 2006.

(11) 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.

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 substantially 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, and the LUMC-ERP plan is not governed by ERISA (see Note 17).

LUMC expects to contribute a minimum of $11.5 million to LUMC-ERP in 2008.

At June 30, 2007 and 2006, for University Academic the fair value of the plan assets exceeded the accumulated benefit obligation, resulting in an increase in unrestricted net assets of $968 thousand and $25.3 million, respectively. Included in the consolidated statements of financial position at June 30, 2007 and 2006 is a prepaid pension asset of $18.9 million and $25.1 million, respectively.

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, 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, 2007 and 2006, LUHS recorded a minimum pension liability of $9.4 million and $9.9 million, respectively. The adjustment was reflected as a decrease in unrestricted net assets net of the recognition of an intangible asset included in other assets in the amount of $2.2 million in June 2007 and $2.6 million in June 2006 and in the pension plan obligation. This accounting treatment was required in 2006 when the accumulated benefit obligation of the plan exceeded the fair value of the underlying pension plan assets and accrued pension liabilities.

For LUHS, the LUERP plan has a projected benefit obligation of $157.8 million and $144.6 million and a fair value of plan assets of $159.7 million and $151.6 million as of June 30, 2007 and 2006, respectively. The LUMC-ERP plan has a projected benefit obligation of $81.7 million and $51.1 million, and a fair value of plan assets of $28 million and $14.6 million as of June 30, 2007 and 2006, respectively.

Retirement plan expense included in the consolidated statements of activities and changes in net assets for the University Academic and LUHS for the years ended June 30, 2007 and 2006 was:

(in thousands of dollars)	2007			
	University Academic	LUHS	Total	2006
	$13,746	$15,226	$28,972	$27,049

Summary information for the defined benefit pension plans follows:

(in thousands of dollars)	2007			
	University Academic	Combined LUMC Plans	Total	2006
Change in projected benefit obligation				
Projected benefit obligation, beginning of year	$ 82,097	$ 195,695	$ 277,792	$ 267,197
Plan amendment		1,878	1,878	
Service cost	1,353	10,823	12,176	11,036
Interest cost	4,786	11,850	16,636	15,142
Benefits paid	(8,579)	(11,626)	(20,205)	(16,817)
Actuarial gain	49	32,163	32,212	1,234
Projected benefit obligation, end of year	$ 79,706	$ 240,783	$ 320,489	$ 277,792
Change in plan assets				
Fair value of plan assets, beginning of year	$ 90,322	$ 166,132	$ 256,454	$ 236,564
Actual return on plan assets	11,604	21,523	33,127	30,452
Company contributions		11,674	11,674	6,255
Benefits paid	(8,579)	(11,626)	(20,205)	(16,817)
Fair value of plan assets, end of year	$ 93,347	$ 187,703	$ 281,050	$ 256,454
Reconciliation of funded status				
Excess of plan assets over projected benefit obligation	$ 13,641	$(53,080)	$(39,439)	$(21,337)
Unrecognized net actuarial loss	12,465	59,171	71,636	52,909
Unrecognized prior service cost		4,020	4,020	2,602
Minimum pension liability		(19,346)	(19,346)	(9,944)
Contributions		2,654	2,654	3,000
Balance before cumulative effect of SFAS 158	$ 26,106	$(6,581)	$ 19,525	$ 27,230
Cumulative effect - SFAS 158	(12,465)	(43,847)	(56,312)	
Effect of change in measurement date - SFAS 158	5,223	(3,515)	1,708	
Funded status	$ 18,864	$(53,943)	$(35,079)	$ 27,230
Amounts included in the statement of financial position:				
Other assets	$ 18,864	$ -	$ 18,864	$ 27,230
Current liabilities		(141)	(141)	
Pension and postretirement obligation		(53,802)	(53,802)	
Funded status	$ 18,864	$(53,943)	$(35,079)	$ 27,230
Weighted average assumptions of benefit obligations				
Discount rate	5.93%	6.06%		6.09-6.23%
Lump sum distributions	5.43%	5.56%		5.34-6.23%
Rate of compensation increase	N/A	3.50%		3.00%
Components of net pension expense				
Service cost	$ 1,353	$ 10,823	$ 12,176	$ 11,036
Interest cost	4,786	11,850	16,636	15,143
Expected return on plan assets	(7,379)	(14,085)	(21,464)	(19,431)
Net amortization and deferral	272	2,011	2,283	3,049
Net periodic pension cost	$(968)	$ 10,599	$ 9,631	$ 9,797

Summary information for the defined benefit pension plans follows (continued):

(in thousands of dollars)	2007			
	University Academic	Combined LUMC Plans	Total	2006
Weighted average assumptions of net periodic pension expense				
Discount rate	6.09%	6.23%		5.50-6.00%
Lump sum distributions	5.34%	6.23%		4.75-6.00%
Expected long-term return on plan assets	8.50%	8.50%		8.50%
Rate of compensation increase	N/A	3.00%		3.00%

The defined benefit pension measurement date was June 30, 2007 for the fiscal year ended June 30, 2007. The defined benefit pension measurement date was March 31, 2006 for the fiscal year ended June 30, 2006. The defined benefit plan asset allocation at the respective measurement dates was as follows:

	2007		2006	
	University Academic	Combined LUMC Plans	University Academic	Combined LUMC Plans
Cash	1%	1%	1%	7%
Equity securities	48%	48%	47%	48%
Fixed income securities	30%	31%	31%	31%
Private investments	14%	13%	14%	13%
Other, including real estate	7%	7%	7%	1%
Total	100%	100%	100%	100%

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
	2008	$ 7,438	$13,678	$ 21,116
	2009	7,403	14,562	21,965
	2010	6,395	14,797	21,192
	2011	6,598	14,488	21,086
	2012	6,665	15,696	22,361
	2013-2017	31,343	92,999	124,342

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 2007 and 2006 was $3.0 million and $2.8 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 for 2007 was $314 thousand.

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 2007 and 2006 was $766 and $474 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 2007 and 2006 was $1.4 million and $1.3 million, respectively.

(12) 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 $369 thousand for covered retirees in 2008.

Effective January 1, 2006, LUMC amended its plan to eliminate coverage of prescription drugs for participants age 65 and over. The impact of this amendment resulted in an $8.9 million reduction in the accumulated benefit obligation.

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.

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.

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, 2007 and 2006 were:

(in thousands of dollars)	2007			
	University Academic	LUHS	Total	2006
Change in benefit obligation				
Benefit obligation, beginning of year	$ 29,144	$ 3,630	$ 32,774	$ 40,570
Service cost	1,478	52	1,530	2,040
Interest cost	1,718	215	1,933	2,347
Participant contributions	1,493	421	1,914	1,822
Plan amendments				(8,927)
Benefits paid	(2,650)	(888)	(3,538)	(3,440)
Actuarial gain (loss)	(3,918)	197	(3,721)	(1,638)
Benefit obligation, end of year	$ 27,265	$ 3,627	$ 30,892	$ 32,774
Change in plan assets				
Fair value of plan assets, beginning of year	$ -	$ -	$ -	$ -
Employer contributions	1,157	467	1,624	1,618
Participant contributions	1,493	421	1,914	1,822
Benefits paid	(2,650)	(888)	(3,538)	(3,440)
Fair value of plan assets, end of year	$ -	$ -	$ -	$ -
Reconciliation of funded status				
Funded status of plan	$ 27,265	$ 3,627	$30,892	$ 32,774
Unrecognized actuarial gain	3,365	3,862	7,227	6,953
Accrued postretirement benefit obligation before cumulative effect of SFAS 158	$ 30,630	$ 7,489	$ 38,119	$ 39,727
Cumulative effect of SFAS 158	(3,618)	(3,856)	(7,474)	
Effect of change in measurement date - SFAS 158	(51)		(51)	
Accrued postretirement benefit obligation	$ 26,961	$ 3,633	$ 30,594	$ 39,727

(in thousands of dollars)	2007			
	University Academic	LUHS	Total	2006
Components of net period postretirement benefit cost				
Service cost	$ 1,478	$ 52	$ 1,530	$ 2,040
Interest cost	1,718	215	1,933	2,347
Unrecognized actuarial gain	(2,017)	(1,591)	(3,608)	(1,754)
Net period postretirement benefit cost	$ 1,179	$(1,324)	$(145)	$ 2,633
Discount rate	6.26%	6.00%		6.00-6.23%

Assumed health care cost trend rates	2007	2008	2009
HMO plans	5.00%	5.00%	5.00%
Non-HMO plans	5.00%	5.00%	5.00%

(in thousands of dollars)	2007			
	University Academic	LUHS	Total	2006
Effect of a 1% change in the health care cost trend rates				
1% increase				
On year-end postretirement benefit obligations	$ 1,918	$ 310	$ 2,228	$ 2,504
On total of service and interest cost components	270	32	302	301
1% decrease				
On year-end postretirement benefit obligations	$(1,786)	$(286)	$(2,072)	$(2,320)
On total of service and interest cost components	(247)	(29)	(276)	(276)

The defined benefit retiree health plan measurement date was June 30, 2007 for the fiscal year ended June 30, 2007. The defined benefit retiree health plan measurement date was March 31, 2006 for the fiscal year ended June 30, 2006.

Estimated future benefit payments:

(in thousands of dollars)	Fiscal Year	University Academic	LUHS	Total
	2008	$ 2,224	$ 369	$ 2,593
	2009	2,369	359	2,728
	2010	2,643	365	3,008
	2011	2,808	274	3,082
	2012	3,145	257	3,402
	2013-2017	19,500	1,439	20,939

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 $2.8 million (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. This new design was reflected in the June 30, 2004 year-end disclosures and development of subsequent years' expense.

(13) 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, 2007 and 2006 were:

(in thousands of dollars)	2007	2006
Instruction	$ 97,989	$ 91,980
Research and other sponsored programs	40,266	41,333
Academic support	51,526	49,388
Student services	25,445	23,129
Institutional support	58,500	55,322
Operations and maintenance	20,797	22,317
Depreciation	21,361	19,373
Patient care	762,168	708,544
Auxiliary services	37,902	29,368
Total operating expenses	$1,115,954	$1,040,754

(14) Restricted Net Assets

The program restrictions for temporarily and permanently restricted net assets at June 30, 2007 and 2006 were:

(in thousands of dollars)	2007			
	University Academic	LUHS	Total	2006
Temporarily Restricted				
Academic or program support and student financial aid	$148,916	$ -	$148,916	$120,860
Research	9,576		9,576	7,842
Student loans	4,827		4,827	2,998
Construction	660		660	1,175
Other	21,085	15,008	36,093	28,027
Total temporarily restricted net assets	$185,064	$15,008	$200,072	$160,902
Permanently Restricted				
Academic or program support and student financial aid	$ 99,155	$ -	$ 99,155	$ 89,391
Research	45		45	
Student loans	1,148		1,148	1,148
Other		6,509	6,509	6,385
Total permanently restricted net assets	$100,348	$ 6,509	$106,857	$ 96,924

(15) Related Party Transactions

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, 2007 and 2006 and amounts receivable on these dates were:

(in thousands of dollars)	2007			
	University Academic	LUHS	Total	2006
Revenues	$29,014	$17,553	$46,567	$45,043
Accounts receivable	2,874	2,616	5,490	5,986

LUMC is reimbursed for providing administrative personnel and certain overhead services to LUPF. The reimbursement was $6.1 million and $7.0 million for 2007 and 2006, respectively. Additionally, LUMC is reimbursed for services provided relating to LUCIC exposures. Amounts billed for 2007 and 2006, respectively, were $560 thousand and $512 thousand. As of June 30, 2007 and 2006, LUPF's liability to LUMC for all services was $2.6 million and $3.5 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, 2007 and 2006:

(in thousands of dollars)	2007	2006
Net assets	$ 23,848	$ 26,651
Operating revenues	162,627	155,704
Operating expenses	165,027	159,878

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. The $860 thousand net present value of the pledge was recorded as a pledge receivable and revenue in fiscal year 2007 by University Academic. The total amount of $1.0 million 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 $8.4 million and $8.7 million as of June 30, 2007 and 2006, respectively, is recorded using the equity method. LUMC provides renal dialysis and reference laboratory services to RML. The revenue from these services was $1.1 million and $1.3 million for 2007 and 2006, respectively. In addition, LUHS has guaranteed 50% of certain outstanding debt of RML. As of June 30, 2007, LUHS's guarantee was $2.0 million.

The following summarizes condensed financial information of RML as of and for the years ended May 31, 2007 and 2006:

(in thousands of dollars)	2007	2006
Net assets	$16,411	$16,891
Revenues	44,390	43,266
Expenses	39,832	37,664

Loyola Ambulatory Surgical Center

LUHS owns a 49% interest in Loyola Ambulatory Surgical Center (LASCO), a joint venture with HealthSouth. On July 1, 2007 HealthSouth sold its surgical division to the Texas Pacific Group operating under the name Surgical Care Affiliates. LUHS does not believe the change in ownership will have a significant impact on the operations of LASCO. LUHS’s investment in LASCO of $1.8 million as of June 30, 2007 and 2006 is recorded using the equity method. The following summarizes unaudited condensed financial information of LASCO as of and for the years ended December 31, 2006 and 2005:

(in thousands of dollars)	2006	2005
Net assets	$1,912	$1,904
Revenues	7,049	5,396
Expenses	4,664	4,578

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 $2.2 million and $437 thousand, respectively, in 2007 and $2.8 million and $477 thousand, respectively, in 2006, and are recorded in other revenues in the consolidated statements of activities and changes in net assets.

(16) 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 $3.9 million in the event the lease for the cogeneration plant is not renewed in January 2010 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 $10.2 million in 2007 and $9.4 million in 2006.

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

(in thousands of dollars)
Fiscal year ending June 30

2008	$ 8,676
2009	6,081
2010	5,672
2011	4,818
2012	2,851
thereafter	6,278
Total	$34,376

(17) 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.

LUMC has applied to the IRS for Church Plan status of its LUMC-ERP defined benefit pension plan and has administered its pension program as a Church Plan. Depending on the outcome of this application, future funding requirements may change.

(18) 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.

(19) Subsequent Event

On July 2, 2007, LUC 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.

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June 30, 2007

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Special Assistant to the President

JOHN P. FRENDREIS
Provost
(through June 30, 2007)

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LOYOLA UNIVERSITY CHICAGO
TRUSTEES AND THEIR AFFILIATIONS
June 30, 2007

Office of Vice President for Finance

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