Consolidated Financial Statements and Independent Auditors' Report

Years ended June 30, 2009 and 2008

LOYOLA
UNIVERSITY CHICAGO
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Preparing people to lead extraordinary lives

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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, 2009 and 2008, and the related consolidated statements of activities and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of LUC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the consolidated financial position of LUC as of June 30, 2009 and 2008, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic 2009 consolidated financial statements taken as a whole. The supplemental consolidating information for 2009 for University Academic and LUHS on pages 2-4 is presented for the purpose of additional analysis of the basic 2009 consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities, and is not a required part of the basic 2009 consolidated financial statements. This supplemental consolidating information is the responsibility of LUC's management. Such information has been subjected to the auditing procedures applied in our audit of the basic 2009 consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2009 consolidated financial statements taken as a whole.

Deloitte & Touche LLP

September 25, 2009

LOYOLA UNIVERSITY OF CHICAGO
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
YEARS ENDED JUNE 30, 2009 AND 2008
($000s)

	Consolidating Information			2009	2008
	University Academic	LUHS	Eliminating Entries	Consolidated Total	Consolidated Total
ASSETS					
CASH AND CASH EQUIVALENTS	$ 73,539	$ 136,425	$ -	$ 209,964	$ 84,132
SHORT-TERM INVESTMENTS	8,056	25,579		33,635	91,193
INTERFUND BALANCES	9,135		(9,135)		
RECEIVABLES	55,463	165,302		220,765	240,316
OTHER ASSETS	9,888	66,842		76,730	95,358
ENDOWMENT AND OTHER LONG-TERM INVESTMENTS	289,941	176,223		466,164	595,894
ASSETS HELD IN TRUST BY OTHERS		3,395		3,395	25,556
INTEREST HELD IN PERPETUAL TRUST	7,562			7,562	9,184
LAND, BUILDINGS AND EQUIPMENT - NET	596,269	450,359		1,046,628	982,127
TOTAL ASSETS	$ 1,049,853	$ 1,024,125	$ (9,135)	$ 2,064,843	$ 2,123,760
LIABILITIES AND NET ASSETS					
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	$ 49,134	$ 109,242	$ -	$ 158,376	$ 153,953
ESTIMATED THIRD-PARTY PAYER SETTLEMENTS PAYABLE		66,573		66,573	38,660
DEFERRED INCOME	28,507			28,507	24,992
UNEXPENDED GRANTS	17,827			17,827	18,482
REFUNDABLE ADVANCES - LOANS	17,593			17,593	17,342
INDEBTEDNESS	286,141	379,785		665,926	698,647
SELF-INSURANCE		158,903		158,903	142,859
INTERFUND BALANCES		9,135	(9,135)		
PENSION AND OTHER POST-RETIREMENT LIABILITIES	40,302	113,478		153,780	68,212
OTHER LIABILITIES	7,678	23,494		31,172	26,765
TOTAL LIABILITIES	447,182	860,610	(9,135)	1,298,657	1,189,912
NET ASSETS:					
Unrestricted	378,048	142,217		520,265	638,569
Temporarily restricted	109,105	14,689		123,794	178,233
Permanently restricted	115,518	6,609		122,127	117,046
TOTAL NET ASSETS	602,671	163,515		766,186	933,848
TOTAL LIABILITIES AND NET ASSETS	$ 1,049,853	$ 1,024,125	$ (9,135)	$ 2,064,843	$ 2,123,760

See notes to consolidated financial statements

LOYOLA UNIVERSITY OF CHICAGO
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008
($000s)

	Consolidating Information			2009	2008
	University Academic	LUHS	Eliminating Entries	Consolidated Total	Consolidated Total
OPERATING REVENUES:					
Tuition and fees, net of scholarships $108,450 (2009) and $101,107 (2008)	$ 281,148	$ -	$ -	$ 281,148	$ 260,483
Grants and contracts for sponsored projects	49,828	3,899		53,727	54,478
Academic support	42,650		(30,640)	12,010	25,927
Gifts	8,532	7,513	(942)	15,103	4,940
Interest income	1,132			1,132	3,884
Investment income designated for operations	3,399			3,399	15,171
Other	16,803	33,096		49,899	46,106
Auxiliary services	45,858			45,858	41,684
Net patient service revenues		885,515		885,515	696,535
Research and education net assets for operations	2,678			2,678	5,190
Hospital Access Improvement Program		34,401		34,401	26,315
Net assets released from restrictions	16,503	5,342		21,845	18,872
Total operating revenues	468,531	969,766	(31,582)	1,406,715	1,199,585
OPERATING EXPENSES:					
Salaries and wages	203,122	416,728		619,850	507,351
Fringe benefits	50,366	97,146		147,512	116,043
Non-salary operating expenses	109,263	375,209	(31,422)	453,050	391,791
Insurance	2,165	22,151		24,316	31,039
Depreciation and amortization	34,673	51,206		85,879	66,098
Interest	12,345	11,042		23,387	23,261
Utilities	9,593	15,978		25,571	21,805
Illinois Healthcare and Family Services Assessment		22,444		22,444	17,911
Total operating expenses	421,527	1,011,904	(31,422)	1,402,009	1,175,299
RESULTS OF OPERATIONS	47,004	(42,138)	(160)	4,706	24,286
NON-OPERATING ACTIVITIES:					
Investment loss net of amounts designated for operations	(48,336)	(20,272)		(68,608)	(31,913)
Support for LUHS Operations	(11,727)	11,727			
Other	3,227	(10,423)	160	(7,036)	(6,580)
Cost of early extinguishment of debt					(973)
Retirement plan related change other than net periodic retirement plan expense	(21,224)	(66,870)		(88,094)	2,341
Transfer of net assets	(7,248)			(7,248)	7,651
Research and education net assets for operations	(2,678)			(2,678)	(5,190)
Net assets of GHR assumed under Membership Substitution Agreement		50,654		50,654	
Total non-operating activities	(87,986)	(35,184)	160	(123,010)	(34,664)
Decrease in unrestricted net assets	(40,982)	(77,322)		(118,304)	(10,378)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:					
Gifts	10,926	7,608		18,534	15,116
Investment loss	(57,536)	(585)		(58,121)	(11,250)
Change in annuity value	5			5	(111)
Other	95			95	1,642
Transfer of net assets	6,893			6,893	(8,364)
Net assets released from restrictions	(16,503)	(5,342)		(21,845)	(18,872)
Increase (decrease) in temporarily restricted net assets	(56,120)	1,681		(54,439)	(21,839)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:					
Gifts	6,105	26		6,131	9,646
Change in value of perpetual trust	(1,405)			(1,405)	(160)
Other					(10)
Transfer of net assets	355			355	713
Increase in permanently restricted net assets	5,055	26		5,081	10,189
Decrease in net assets	(92,047)	(75,615)		(167,662)	(22,028)
Net assets at beginning of year	694,718	239,130		933,848	955,876
Net assets at end of year	$ 602,671	$ 163,515	$ -	$ 766,186	$ 933,848

See notes to consolidated financial statements

LOYOLA UNIVERSITY OF CHICAGO
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008
($000s)

	Consolidating Information		2009	2008
	University Academic	LUHS	Consolidated Total	Consolidated Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Decrease in net assets	$ (92,047)	$ (75,615)	$ (167,662)	$ (22,028)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:				
Depreciation and amortization	34,673	51,206	85,879	66,098
Provision for bad debt expense	1,546	53,193	54,739	49,935
Net assets of GHR assumed under Membership Substitution Agreement, net of cash acquired		(39,113)	(39,113)	
Cost of early extinguishment of debt				973
Retirement plan related change other than net periodic retirement plan expense	21,224	66,870	88,094	(2,341)
Provision for retirement costs	852	19,141	19,993	8,744
Net realized and unrealized loss on investments	109,199	33,338	142,537	49,197
Contributions restricted for long-term investment	(7,064)		(7,064)	(9,357)
Other	(1,228)	(2,966)	(4,194)	15,823
Changes in assets and liabilities:				
Receivables	(2,076)	13,083	11,007	(29,700)
Other assets	(2,098)	13,907	11,809	10,149
Accounts payable and accrued expenses	(2,684)	(10,105)	(12,789)	3,665
Estimated third-party payer settlements payable		16,504	16,504	8,234
Deferred income and unexpended grants	2,860		2,860	1,537
Self-insurance		(4,756)	(4,756)	920
Interest held in perpetual trust	1,622		1,622	420
Refundable advances - loans	251		251	252
Other liabilities	(338)	(12,190)	(12,528)	(8,888)
Interfund balances	2,904	(2,904)		
Net cash provided by operating activities	67,596	119,593	187,189	143,633
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of investments	242,438	109,544	351,982	397,434
Purchase of investments	(207,757)	(91,745)	(299,502)	(397,916)
Proceeds on disposal of property	37		37	4,700
Purchase of property	(61,005)	(39,506)	(100,511)	(230,502)
Student loans issued	(1,957)		(1,957)	(45,114)
Student loans sold and collected	2,460		2,460	44,340
Swap collateral deposited		(22,822)	(22,822)	
Swap collateral repaid		12,415	12,415	
Net cash (used) by investing activities	(25,784)	(32,114)	(57,898)	(227,058)
CASH FLOWS FROM FINANCING ACTIVITIES				
Contributions restricted for long-term investment	7,064		7,064	9,357
Issuance of new debt				80,000
Issuance costs				(504)
Borrowing on line of credit		20,000	20,000	25,000
Payment of line of credit	(25,000)		(25,000)	
Letter of credit advance		85,350	85,350	
Letter of credit repayment		(85,350)	(85,350)	
Advance refunding and repayment of debt				(34,800)
Retirement of debt	(18,424)	(9,260)	(27,684)	(12,226)
Deposit of bond proceeds with trustee				(8,779)
Withdrawal of trusteed bond funds for construction	8,779	13,382	22,161	58,813
Net cash provided (used) by financing activities	(27,581)	24,122	(3,459)	116,861
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,231	111,601	125,832	33,436
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	59,308	24,824	84,132	50,696
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 73,539	$ 136,425	$ 209,964	$ 84,132

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 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. LUHS is a wholly-owned subsidiary corporation of Loyola University of Chicago with an integrated health care delivery system providing a full continuum of health care services and competencies in primary care and tertiary care medicine.

(2) Tax Status

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

(3) Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

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

Operations

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

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

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

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

Cash and Cash Equivalents

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

Short-Term Investments

Short-term investments are comprised of investments in securities or funds whose maturity, duration and sector exposures extend beyond the characteristics of cash and cash equivalents and money market investments. At June 30, 2009, the University's short-term investments of $8.1 million were invested in The Common Fund for Short Term Investments (Fund). This Fund is now in termination status and is in the process of liquidation. The University's remaining investment in the Fund will be distributed to the University as the underlying securities mature or are sold by the Fund. Management does not expect this situation to negatively impact cash flow. All other funds are generally priced and 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 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 the University'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

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

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, 2009.

Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair market value measurements. 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 does not impose fair value measurements on items not already accounted for at fair value; rather it applies, with certain exceptions, to other accounting pronouncements that either require or permit fair value measurements. This statement is effective in fiscal years beginning after November 15, 2007. LUC adopted SFAS No. 157 on July 1, 2008 and there was no impact on amounts recorded in the consolidated financial statements. See the impact of adoption of SFAS No. 157 within Note 5.

In February 2007, the 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 assessed the impact of SFAS No. 159 and determined they will not elect to carry any additional assets and liabilities at fair value.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events.* SFAS No. 165 establishes general standards of accounting for the disclosure of events that occur after the balance sheet date but before financial statements are issued. This includes disclosing the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. SFAS No. 165 is effective for annual financial periods ending after June 15, 2009. LUC has included this required disclosure within Note 18.

In August 2008, the FASB issued the final FASB Staff Position (FSP) No. 117-1 *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. The FSP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The FSP also improves disclosures about an organization's endowment funds, whether or not the organization is subject to UPMIFA. UPMIFA was introduced to the House Rules Committee in Illinois in 2008 and was enacted as of June 30, 2009. FSP No. 117-1 is effective for fiscal years ending after December 15, 2008. LUC has assessed the impact of adopting FSP No. 117-1 on its consolidated financial statements and has determined there is no effect other than the addition of the required disclosures in Note 5.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*. SFAS No. 161 requires additional disclosures about the objectives of the derivative instruments and hedging activities, the method of accounting for such instruments under SFAS No. 133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedge items on our financial position, financial performance, and cash flows. SFAS No. 161 will be effective for financial statements issued for fiscal years beginning after November 15, 2008. LUC is currently assessing the potential impact that the adoption of SFAS No.161 may have on its consolidated financial statements.

In December 2008, the FASB issued FSP No. 132(R)-1, *Employers' Disclosures About Postretirement Benefit Plan Assets*, which amends SFAS No. 132(R), *Employers' Disclosures About Pensions and Other Postretirement Benefits*, to require more detailed disclosures about plan assets, and valuation techniques used to measure the fair value of plan assets consistent with fair value hierarchy model described in SFAS No. 157. The disclosures required by FSP No. 132(R)-1 shall be provided for years ending after December 15, 2009.

Reclassification

Certain reclassifications have been made to the 2008 balances to conform to the 2009 presentation. LUHS management determined the settlement due to Blue Cross Blue Shield of Illinois under its uniform periodic payment process methodology is more appropriately classified in estimated third-party payer settlements payable. As a result $36.7 million was reclassified from patient accounts receivable to conform to the 2009 presentation. Management believes these changes in financial statement presentation, including reclassification of 2008 balances, result in a preferable financial statement presentation.

(4) Loyola University Health System

Organization

Loyola University Health System (LUHS) is an Illinois not-for-profit corporation, which is exempt from federal income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code.

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, a community hospital, home care and hospice services, outpatient service facilities, immediate care facilities, and primary care practice sites and includes a physician faculty group (formerly functioning within Loyola University Physician Foundation (LUPF)).

Loyola University Chicago (the University) is the sole corporate member of LUHS, and LUHS is the sole corporate member of Loyola University Medical Center (LUMC), Gottlieb Health Resources Incorporated (GHR), Gottlieb Memorial Hospital (Gottlieb) and Loyola University of Chicago Insurance Company Ltd. (LUCIC). LUMC and Gottlieb are Illinois not-for-profit corporations exempt from federal income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code. LUCIC is a for-profit Cayman Island insurance company, which provides primary and patient general liability insurance to LUMC.

On January 25, 2008 LUHS and GHR entered into a Membership Substitution Agreement (the Agreement). The Agreement represents the coming together of two not-for-profit health care institutions that complement each other and enhance health care in the geographic area served. The Agreement enhances the clinical capacity of LUMC and provides GHR the ability to expand services in general obstetrics and gynecology services and orthopedic joint services.

Under the terms of the Agreement, on July 1, 2008, LUHS became the sole member of GHR and LUHS was substituted for GHR as the sole member of Gottlieb, an Illinois not-for-profit corporation. Prior to the Agreement, GHR was the sole member of Gottlieb, Gottlieb Community Health Services Corporation (GCHSC) and sole shareholder of Gottlieb Management Services, Inc. (GMS). As part of the Agreement, Gottlieb became the sole member of GCHSC and GCHSC became the sole shareholder of GMS. No consideration was paid by LUHS to GHR for the membership substitution. The Agreement has been accounted for at historical cost with the GHR assets obtained and liabilities assumed as of July 1, 2008 carried over at their historical carrying value. The consolidated financial statements of LUHS as of and for the year ended June 30, 2009 include the accounts of GHR and Gottlieb.

The following table summarizes the assets acquired and the liabilities assumed as of July 1, 2008:

(in thousands of dollars)

	July 1, 2008
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 11,541
Patient accounts receivable, net of allowance for uncollectible accounts of $1,955	17,132
Inventories	2,362
Estimated third-party payer settlements receivable	1,140
Other current assets	5,550
Total current assets	37,725
LAND, BUILDINGS AND EQUIPMENT – Net	63,033
OTHER	651
TOTAL ASSETS	$101,409
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	$ 5,276
Accrued expenses	11,638
Estimated third-party payer settlements payable	11,409
Other current liabilities	882
Total current liabilities	29,205
SELF-INSURANCE RESERVES	20,800
OTHER LIABILITIES	750
TOTAL LIABILITIES	50,755
UNRESTRICTED NET ASSETS	50,654
TOTAL LIABILITIES AND NET ASSETS	$101,409

The following reflects the pro-forma impact to the revenues, expenses and changes in unrestricted net assets for the year ended June 30, 2008 as if the Agreement had been entered into July 1, 2007:

(in thousands of dollars)

Operating revenues	$ 903,708
Operating expenses	927,759
Non-operating activities	(43,345)
Increase in unrestricted net assets	9,083

On December 31, 2008, LUHS, LUMC and LUPF entered into an Integration Agreement (the LUPF Agreement). LUPF is an Illinois not-for-profit corporation, which is exempt from federal income taxes as described in Section 501(c)(3) of the Internal Revenue Code. The purpose of this Agreement was to integrate the clinical practice of the physician organization with the clinical operations of LUHS. LUPF provided billing, collection, and distribution services of professional fees generated by the Stritch School of Medicine (SSOM) physicians from their private practice of medicine at LUMC and other approved locations. Under the terms of the LUPF Agreement, LUPF contributed certain of its assets and liabilities to LUMC. The agreement resulted in the integration of the physician faculty group into LUMC with the physicians becoming employees of LUMC on January 1, 2009.

The transaction has been recorded as a contribution by LUPF of $13.0 million in net assets to LUMC. This contribution is recorded as a component of non-operating income in the consolidated statements of activities and changes in net assets.

The following table summarizes the assets contributed and liabilities assumed as of January 1, 2009:

(in thousands of dollars)

	January 1, 2009
CURRENT ASSETS CONTRIBUTED:	
Patient accounts receivable, net of allowance for uncollectible accounts of $2,864	$23,804
Other current assets	163
Total current assets	23,967
LAND, BUILDINGS AND EQUIPMENT – Net	700
TOTAL ASSETS CONTRIBUTED	$24,667
CURRENT LIABILITIES ASSUMED:	
Accrued expenses	$ 8,867
Due to LUMC	2,717
Other current liabilities	76
TOTAL LIABILITIES ASSUMED	$11,660
NET CONTRIBUTION TO LUMC:	
Operating assets	$12,307
Net long lived assets	700
TOTAL CONTRIBUTION TO LUMC	$13,007

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 as recommended in the Audit and Accounting Guide (Health Care Organizations) published by the American Institute of Certified Public Accountants.

Agreements with LUC

Affiliation and Operating Agreement - LUC and LUMC are participants in an Affiliation and Operating Agreement which provides for financial, operating, and shared services relationships between the organizations. Under this agreement LUMC makes payments to LUC for the following: reimbursements received by LUMC for direct medical education; a portion of the salaries and benefits of the Stritch School of Medicine (SSOM) faculty who provide health management services to LUMC; general support to University Academic; and capital support to SSOM. These amounts totaled $37.8 million for 2009 and $37.2 million for 2008.

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 2009 and 2008.

Facilities Leases - In October 1995 LUC and LUMC entered into ten-year lease agreements to lease certain facilities space from each other and to pay prevailing competitive rates for use of the facilities. The lease terms have been extended on an annual basis. LUMC's rental of LUC facilities exceeds LUC's rental of LUMC facilities, and LUC agreed to forgive the annual rent differential. As required by the Affiliation and Operating Agreement, the amount forgiven under these leases was $1.8 million in 2009 and $1.7 million in 2008. 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 and GHR have agreements with third-party payers that provide for payments to LUMC at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, per diem payments, discounted charges, and reimbursed costs. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Net patient service revenues in the consolidated statements of activities and changes in net assets includes $0 and $1.2 million in net favorable revisions to Medicare prior year settlements for the years ended June 30, 2009 and 2008, respectively.

The activity of the physician faculty group is included within the net patient service revenues in the consolidated statements of activities and changes in net assets and is included in the receivables reported in the consolidated statements of financial position. These revenues are also subject to agreements with third-party payers and include payments at amounts different from the established fee schedule. Services to Medicare patients are paid based upon the Resource Based Relative Value (RBRVS) fee schedule. Medicaid services are reimbursed using the Medicaid fee schedule. In addition, there are different fee schedule arrangements with the various managed care payers. The physician faculty group also provides care to certain patients under capitated agreements. LUHS bears the risk to the extent the cost of providing the covered services exceeds the capitation payments. An accrual for the incurred but not reported liability for out of network services has been recorded.

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

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

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

In 2009, due to continuing unfavorable collection experience, management revised its estimate of uncollectible accounts receivable as of June 30, 2008, and recorded additional bad debt and contractual allowances totaling $16.1 million. The $16.1 million is reflected in the 2009 consolidated statements of activities and changes in net assets as a $12.2 million reduction in net patient service revenues and a $3.9 million increase in the provision for bad debts.

In 2009 and 2008, LUHS recorded in net patient service revenues $34.4 million and $26.3 million, respectively, of Hospital Access Improvement payments from the Illinois Healthcare and Family Services program. LUHS recorded expenses of $22.4 million and $17.9 million of assessments relating to this program in 2009 and 2008, respectively. These expenses are reflected in a separate line within the consolidated statements of activities and changes in net assets.

LUMC and GHR grant credit without collateral to their patients, most of which are local residents and are insured under third-party payer agreements. The mix of net patient accounts receivable and net patient service revenues (excluding Hospital Access Improvement payments) from patients and third-party payers for 2009 and 2008, was as follows:

	Accounts Receivable		Net Patient Service Revenues	
	2009	2008	2009	2008
Managed Care and Commercial	52%	47%	46%	48%
Medicare	26%	22%	32%	32%
Medicaid	15%	25%	13%	10%
Other	7%	6%	9%	10%
Total	100%	100%	100%	100%

It is an inherent part of LUHS'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. LUHS also incurs losses related to the unreimbursed costs of providing services to Medicaid patients. The charges foregone associated with the provision of charity care are $57.0 million and $26.7 million in 2009 and 2008, respectively.

(5) Investments

University Academic

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

University Academic - Fair Value

SFAS No. 157 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 that are accessible to management at the measurement date
- 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 fair value of investments, including cash and cash equivalents, at June 30, 2009 and 2008 was:

(in thousands of dollars)	2009	2008
Marketable equity investments	$142,974	$224,345
Private equity investments	34,090	42,053
Fixed income investments	67,584	85,151
Real assets	21,997	29,719
Cash pending investment	23,296	5,986
Total investments	$289,941	$387,254
Short-term investments	$ 8,056	$ 54,623

The table below summarizes the University's fair value measurements by the SFAS No. 157 fair value hierarchy levels as of June 30, 2009:

(in thousands of dollars)	Total	Level 1	Level 2	Level 3
Marketable equity investments	$142,974	$142,426	$ -	$ 548
Private equity investments	34,090			34,090
Fixed income investments	75,640	3,967	57,410	14,263
Real assets	21,997		8,280	13,717
Cash and cash equivalents	23,296	23,296		
Total	$297,997	$169,689	$65,690	$62,618

The following table summarizes the changes in fair value of the University's Level 3 investments for the year ended June 30, 2009:

(in thousands of dollars)	Level 3 -- Marketable equity	Level 3 -- Private equity	Level 3 -- Fixed income	Level 3 -- Real assets	Level 3 -- Total
Balance at July 1, 2008	$ 3,216	$ 42,053	$ 10,755	$ 16,986	$ 73,010
Realized gains (losses)	308	398		(71)	635
Unrealized losses	(1,363)	(9,966)	(1,858)	(7,575)	(20,762)
Purchases		7,216	5,366	4,759	17,341
Sales	(1,029)	(5,618)		(382)	(7,029)
Transfers to (from) Level 3	(584)	7			(577)
Balance at June 30, 2009	$ 548	$ 34,090	$ 14,263	$ 13,717	$ 62,618

All gains and losses shown above are included in reported earnings for the period. The portion of the change in unrealized gains or losses that is attributable to assets still held at the reporting date is $(22.4) million.

Fair values of financial instruments approximate their carrying values in the consolidated financial statements except for indebtedness for which fair value information is provided in Note 8. University Academic is obligated to make future capital contributions in private investment funds in the maximum amount of $27.6 million over the next several years, subject to investment period modifications provided for in limited partnership agreements.

The SFAS No. 157 valuation input hierarchy levels pertaining to the perpetual trust of which the University is sole beneficiary are summarized in the following table. The trust held no assets valued by means of Level 3 inputs at June 30, 2009 and 2008.

(in thousands of dollars)	Total	Level 1	Level 2	Level 3
Marketable equity investments	$4,091	$4,091	$ -	$ -
Fixed income investments	2,203	486	1,717	
Real assets	940	940		
Cash and equivalents	328	328		
Total	$7,562	$5,845	$1,717	$ -

University Academic - Alternative Investments

Alternative investments are less liquid than University Academic's other investments and are generally accessed via limited partnerships, limited liability corporations, and off-shore investment funds. There is generally no readily determined market value for alternative investments, though certain funds may invest in securities for which there is a public or over-the-counter market. These investments are subject to varying degrees of liquidity restrictions. The following table summarizes these investments by investment strategy at June 30, 2009 and 2008:

(in thousands of dollars)

Alternative investment strategy	2009	2008	Asset Class	Liquidity
Private equity - fund of funds	$24,128	$30,645	Private equity	No contractual liquidity
Private equity - direct	9,954	11,408	Private equity	No contractual liquidity
Private real estate	13,717	16,986	Real estate	Varies
Fixed income - credit	14,263	10,755	Fixed income	Subject to liquidity restrictions
Long-short equity - fund of funds	266	1,478	Marketable equity	Subject to liquidity restrictions
Total	$62,328	$71,272		

University Academic - Derivative Financial Instruments

University Academic uses derivative financial instruments in the management of its investment portfolio to invest liquid cash, increase or decrease capital market exposures and to hedge the risk of a decline in value of certain equity securities. Futures are not used for tactical investment decisions or to speculate on the future direction of markets. Futures contracts are exchange traded, subject to daily mark-to-market settlement of gain and loss positions and do not create portfolio leverage. Futures contracts are subject to the same market risk as those funds invested directly in positions held by investment managers. The use of futures contracts on equity and bond markets during 2009 and 2008 generated losses of $9.3 million and $6.8 million, respectively. Realized gains and losses from derivative financial instruments are included in investment income in the consolidated statements of activities and changes in net assets.

Investments in derivative financial instruments are not designated as hedges. As of June 30, 2009 and 2008, the investment portfolio held futures contracts with a notional value of $1.3 million and $29.7 million, respectively. The fair value of all futures contracts held at June 30, 2009 and 2008 is zero, as gains and losses are recognized and settled in cash on a daily basis. The net impact of the futures held at June 30, 2009 is to reduce the proportion of cash in the endowment portfolio by 0.5% while increasing equity assets by 0.5%.

At June 30, 2009, ten option positions were held in the investment portfolio with a fair value of $(440) thousand, offsetting underlying stock positions of $3.7 million. At June 30, 2008, five option positions were held in the investment portfolio with a fair value of ($86) thousand, offsetting underlying stock positions of $1.2 million. Realized gains on exercised or expired options were $613 thousand in 2009 and $465 thousand in 2008.

University Academic - Investment Return

Investment return, net of management fees, for the years ended June 30, 2009 and 2008 was:

(in thousands of dollars)	2009	2008
Interest and dividend income (net of fees)	$ 6,726	$ 8,850
Net realized gains (losses)	(60,217)	7,750
Net unrealized gains (losses)	(48,982)	(36,714)
Total net return on investment	$(102,473)	$(20,114)

Interest income on short-term investments, cash, and cash equivalents of $1.2 million in 2009 and $3.9 million in 2008 is not included in the investment return.

University Academic - Endowment

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

The University's 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 would be desirable for the University 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 the University'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, the University 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, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The purposes of the University 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 the University;
- The expected total return from income and the appreciation of investments;
- Other University resources

University Academic uses a total return-linked spending policy designed to preserve the value of the endowment in real terms (i.e. after inflation) and to generate a predictable stream of income to support spending. Endowment spending can consist of interest, dividends or accumulated capital gains, and the proportion of each varies from year to year as a result of the emphasis on total return. The primary benefit of a total return-linked spending policy is to separate the spending decision from short-term investment results. Therefore, a long-term investment strategy can be established independently of spending needs.

The primary objective of the endowment's investment policy is to provide a stable source of funding for University academic programs, financial aid, and faculty support that will maintain and expand the purchasing power of endowment payout over a long-term time horizon. The policy seeks to achieve this by investing endowment assets in a manner that consistently generates average annualized returns (measured over rolling three- and five-year periods) in excess of the combination of annual inflation and the endowment's spending rate while maintaining a level of risk that is appropriate to an investment portfolio with a perpetual 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, 2009.

Asset Class	Target Allocation
US Equity	22.5%
Non-US Equity	22.5%
Private Capital	15.0%
Real Assets	10.0%
High Yield	15.0%
Investment Grade Fixed Income	15.0%

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 individually approved by the Board of Trustees. 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 base spending rate applied to eligible endowment funds was 4.0% in 2009 and 2008.

The following table illustrates the endowment's total return (net of investment management fees) and effective spending rates for the past five fiscal years.

Fiscal Year	Endowment Total Return	Effective Spending Rate
2009	(26.9)%	2.9%
2008	(5.0)%	2.6%
2007	19.5%	2.6%
2006	13.7%	2.9%
2005	10.6%	2.2%

Endowment net assets at June 30, 2009 and 2008 are classified as follows:

(in thousands of dollars)

2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$(7,493)	$ 70,710	$103,648	$166,865
Board-designated funds functioning as endowment	112,008	-	-	112,008
Total endowment net assets	$ 104,515	$ 70,710	$103,648	$278,873

2008	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$125,183	$ 95,863	$221,046
Board-designated funds functioning as endowment	151,480	-	-	151,480
Total endowment net assets	$ 151,480	$125,183	$ 95,863	$372,526

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 the University to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets and totaled $7.5 million as of June 30, 2009. These deficiencies are the result of unfavorable investment results experienced over the past two fiscal years, which overwhelmed the earnings accumulations on recent permanently restricted contributions, as well as some instances of continued spending appropriations for certain programs that were deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of such funds to the required level will be classified as increases in unrestricted net assets.

The following table provides a summary of the changes in the endowment net assets for the years ended June 30, 2009 and 2008:

(in thousands of dollars)

2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ 151,480	$ 125,183	$ 95,863	$ 372,526
Gifts and transfers				
Contributions (excluding pledges)	8	581	7,064	7,653
Transfers	1,433	7,588	721	9,742
Total gifts and transfers	1,441	8,169	7,785	17,395
Investment income (loss)				
Interest and dividends (net of fees)	2,936	3,509		6,445
Realized gain (loss)	(26,998)	(32,238)		(59,236)
Unrealized gain (loss)	(20,953)	(26,623)		(47,576)
Total investment income (loss)	(45,015)	(55,352)	-	(100,367)
Income distributed for operating purposes				
Scholarships	(1,092)	(2,425)		(3,517)
Endowed chairs	(650)	(2,250)		(2,900)
Research	(386)	(682)		(1,068)
Other	(1,263)	(1,933)		(3,196)
Total income distributed for operating purposes	(3,391)	(7,290)	-	(10,681)
Net assets, end of year	$ 104,515	$ 70,710	$103,648	$ 278,873

(in thousands of dollars)

2008	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ 144,525	$ 143,153	$ 85,533	$ 373,211
Gifts and transfers				
Contributions (excluding pledges)	6	1,664	9,358	11,028
Transfers	18,488	(1,768)	972	17,692
Total gifts and transfers	18,494	(104)	10,330	28,720
Investment income (loss)				
Interest and dividends (net of fees)	3,806	4,678		8,484
Realized gain (loss)	3,021	3,801		6,822
Unrealized gain (loss)	(15,547)	(19,350)		(34,897)
Total investment income (loss)	(8,720)	(10,871)	-	(19,591)
Income distributed for operating purposes				
Scholarships	(871)	(2,201)		(3,072)
Endowed chairs	(487)	(2,163)		(2,650)
Research	(348)	(616)		(964)
Other	(1,113)	(2,015)		(3,128)
Total income distributed for operating purposes	(2,819)	(6,995)	-	(9,814)
Net assets, end of year	$ 151,480	$ 125,183	$ 95,863	$ 372,526

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, and other-than-temporary investment declines) is included in results from operations in the consolidated statements of activities and changes in net assets unless the income or loss is restricted by donor or law.

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

Gains and losses are calculated using the average cost method. LUHS recorded unrealized losses on investments of $8.4 million and $20.4 million in 2009 and 2008, respectively.

Investments include $86.7 million and $117.2 million at June 30, 2009 and 2008, respectively, held by LUCIC for the payment of general and professional liability claims, including $34.2 million and $34.4 million reported as cash and cash equivalents and short-term investments at June 30, 2009 and 2008, respectively.

LUHS – Fair Value

LUHS adopted SFAS No.157 as of July 1, 2008 and uses the same established hierarchy as described above. The fair value of cash, cash equivalents and investments, which includes less than $1.0 million in a private equity investment, at June 30, 2009 and 2008 was:

(in thousands of dollars)	2009	2008
Marketable equity investments	$ 42,542	$ 79,972
Fixed income investments	114,603	120,593
Real assets	8,075	8,075
Cash and equivalents	11,003	
Total investments	$176,223	$208,640
Short-term investments	$ 25,579	$ 36,570

The table below summarizes the LUHS's fair value measurements by the SFAS No. 157 fair value hierarchy levels as of June 30, 2009:

(in thousands of dollars)	Total	Level 1	Level 2	Level 3
Marketable equity investments	$ 67,566	$66,594	$ 25	$947
Fixed income investments	115,158	13,736	101,422	
Real assets	8,075	8,075		
Cash and cash equivalents	11,003	11,003		
Total	$201,802	$99,408	$101,447	$947

Investment Return - LUHS

Investment return for the years ended June 30, 2009 and 2008 was:

(in thousands of dollars)	2009	2008
Interest and dividend income	$ 9,764	$ 10,629
Net realized and unrealized gains (losses)	(32,027)	(18,507)
Total investment income (loss)	$(22,263)	$(7,878)

(6) Notes and Accounts Receivable

Notes and accounts receivable at June 30, 2009 and 2008 consisted of:

(in thousands of dollars)	2009			
	University Academic	LUHS	Total	2008
Student loan notes (less allowance for doubtful accounts of $1,641 (2009) and $1,583 (2008))	$20,997	$ -	$ 20,997	$ 21,842
Contributions (less discount of $7,583 (2009) and $8,855 (2008) and allowance for doubtful accounts of $944 (2009) and $910 (2008))	9,755	7,634	17,389	16,627
Health care (less allowance for doubtful accounts of $17,221 (2009) and $15,480 (2008))		157,668	157,668	177,689
Student receivables (less allowance for doubtful accounts of $4,058 (2009) and $4,484 (2008))	15,863		15,863	10,376
Grant receivables (less allowance for doubtful accounts of $67 (2009) and $84 (2008))	3,958		3,958	6,107
Other (less allowance for doubtful accounts of $120 (2009) and $230 (2008))	4,890		4,890	7,675
Total notes and accounts receivable	$55,463	$165,302	$220,765	$240,316

Contributions receivable at June 30, 2009 and 2008 are due in the following periods:

(in thousands of dollars)	2009			
	University Academic	LUHS	Total	2008
In one year or less	$ 3,960	$ 2,509	$ 6,469	$ 4,920
Between one year and five years	3,381	5,570	8,951	8,520
More than five years	10,496		10,496	12,952
Discount $7,583 (2009) and $8,855 (2008) and allowance for doubtful accounts of $944 (2009) and $910 (2008)	(8,082)	(445)	(8,527)	(9,765)
Total contributions receivable	$ 9,755	$ 7,634	$ 17,389	$ 16,627

(7) Land, Buildings and Equipment

Components of land, buildings, equipment, and library books at June 30, 2009 and 2008 were:

(in thousands of dollars)	2009			
	University Academic	LUHS	Total	2008
Land and land improvements	$ 130,116	$ 20,800	$ 150,916	$ 128,958
Buildings	713,718	574,248	1,287,966	1,114,459
Equipment	69,529	301,868	371,397	289,011
Library books and art	21,241		21,241	20,777
Construction in progress	20,646	9,033	29,679	58,741
Total	955,250	905,949	1,861,199	1,611,946
Accumulated depreciation	(358,981)	(455,590)	(814,571)	(629,819)
Land, buildings, and equipment – net	$ 596,269	$ 450,359	$ 1,046,628	$ 982,127

As of June 30, 2009, University Academic and LUHS have commitments of $23 million and $4 million, respectively, related to various capital projects.

As of June 30, 2009 and 2008, University Academic included $422 thousand and $735 thousand of capitalized asset retirement costs, net of accumulated depreciation, within buildings, and $6.1 million and $9.5 million, respectively, of conditional asset retirement obligations within other liabilities in the consolidated statements of financial position.

As of June 30, 2009 and 2008, LUHS included $166 thousand and $193 thousand of capitalized asset retirement costs, net of accumulated depreciation, within buildings, and $682 thousand and $644 thousand, respectively, of conditional asset retirement obligations within other liabilities in the consolidated statements of financial position.

(8) Indebtedness

Notes and bonds payable as of June 30, 2009 and 2008 are shown below:

(in thousands of dollars)	Final Maturity	Interest Rate	2009	Interest Rate	2008
University Academic					
Fixed rate:					
Illinois Finance Authority (IFA) (formerly Illinois Educational Facilities Authority (IEFA)):					
Series 1997C taxable bonds	2013	7.05-7.12%	$ 24,550	7.00-7.12%	$ 30,120
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%	27,405	4.00-5.00%	27,635

(in thousands of dollars)	Final Maturity	Interest Rate	2009	Interest Rate	2008
Series 2003C direct obligation bonds	2019	4.80-5.30%	$ 40,805	4.80-5.30%	$ 40,805
Medium-term notes	2018	7.52%	21,100	7.52%	21,100
Mortgage notes:					
6566-82 N. Sheridan Road	2010			9.00%	265
6542-48 N. Sheridan Road	2016	9.50%	515	9.50%	575
City of Chicago Loan	2013	0.00%	438	0.00%	563
Total fixed rate			$204,488		$210,738
Variable rate: *					
IEFA commercial paper pool	2014			1.65%	$ 12,174
IFA 2008 commercial paper	2038	0.50%	$ 80,000	1.70%	80,000
Chase line of credit	2010			3.12%	25,000
Total variable rate			$ 80,000		$117,174
Total University Academic indebtedness			$284,488		$327,912
Adjustment for unamortized bond premium/(discount)			$ 1,653		$ 1,761
Total University Academic indebtedness net of unamortized premium/(discount)			$286,141		$329,673

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

No new debt was issued during the fiscal year ended June 30, 2009. In addition to regularly scheduled principal payments, University Academic opted to pre-pay the outstanding balance on the IEFA commercial paper pool.

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

University Academic entered into a two-year unsecured bank line of credit with JPMorgan Chase Bank, N.A., under which it may borrow up to $50 million on a revolving loan basis. Borrowings under the line of credit may bear interest at rates based on the Eurodollar, the Prime Rate, or other negotiated rates. The agreement, which was amended and extended for an additional term ending November 30, 2010, permits the issuance of letters of credit, term loans, and leases, all within the $50 million capacity. As of June 30, 2009, there was no balance outstanding on the line of credit. Interest paid on the line of credit was $152 thousand for the year ended June 30, 2009.

University Academic issued $80 million of unsecured commercial paper through the Illinois Finance Authority backed by a direct-pay letter of credit from JPMorgan Chase Bank, N.A. A portion of the proceeds of this issuance refunded the Series 2004B bonds in the amount of $34.8 million, resulting in a $973 thousand cost of early extinguishment of debt. This refunding was undertaken in order to exit the auction rate securities market and reduce interest costs. Prior to this refinancing, the 2004B bonds bore interest rates at or above 5.0%; subsequent refinancing of this debt has produced interest rates averaging 0.5% as of June 30, 2009.

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

(in thousands of dollars)	Final Maturity	Interest Rate	2009	Interest Rate	2008
LUHS					
Long-Term debt:					
Fixed rate:					
Illinois Health Facilities Authority (IHFA):					
Series 2001A bonds	2011	5.75%-6.125%	$ 8,230	5.75%	$ 10,680
Series 1997A bonds	2024	5.00%-6.00%	106,830	5.00%-6.00%	110,865
Total fixed rate			$ 115,060		$ 121,545
Variable rate:					
Illinois Health Facilities Authority (IHFA):					
Series 2006A bonds	2035	0.3%	$ 85,145	1.54%	$ 85,145
Series 2006B bonds	2041	0.022%	75,000	1.54%	75,000
Series 2006C bonds	2041	3.25%	75,000	1.48%	75,000
Series 1997B bonds	2024	3.25%-8.75%	10,190	5.00%-8.75%	12,965
Total variable rate			$ 245,335		$ 248,110
Short-Term debt:					
Line of credit			$ 20,000		
Total LUHS indebtedness			$ 380,395		$ 369,655
Adjustment for unamortized bond premium/(discount)			$(610)		$(681)
Total LUHS indebtedness net of unamortized premium/(discount)			$ 379,785		$ 368,974

LUHS' long-term debt is issued under a System Trust Indenture (STI) that created an Obligated Group. The Obligated Group is comprised of LUHS and LUMC. Gottlieb is a System Affiliate as defined under the STI but not a member of the Obligated Group. Obligations issued under the STI, including bonds, bank obligations and swaps, are secured by a pledge and grant of a security interest in the unrestricted receivables of the Obligated Group.

Interest payable on the Series 1997B and Series 2006 A, B, & C (Series 2006) bonds may, at the option of LUHS and subject to the terms and conditions of the bond indenture agreements, be converted to alternative variable rate modes or into fixed rates. While the Series 1997B and Series 2006 bonds operate in a variable rate mode, holders of the bonds have a put option that allows them to redeem the bonds prior to maturity. LUHS has an agreement with two financial institutions to remarket any bonds redeemed pursuant to the exercise of put options. In addition, the Series 1997B bonds are secured by a Standby Bond Purchase Agreement with a commercial bank that expires on March 12, 2012. The Series 2006 variable rate bonds are secured by irrevocable letter of credit agreements with three commercial banks. The Series 2006A agreement expires on December 19, 2013, the Series 2006B and Series 2006C agreements expire on December 19 and 20, 2011, respectively. Under these agreements, the financial institutions would make liquidity advances to LUHS in the amount necessary to purchase the Variable Rate Demand Bonds in the event the bonds are not remarketed. Any liquidity advance for the Series 1997B bonds would be amortized quarterly and due on the 1st business day of every quarter until expiration of the agreement or until the bonds are successfully remarketed, whichever comes first. The repayment of any liquidity advance principal repayment not successfully remarketed for the Series 2006 bonds would not become due until the expiration of the applicable Series. The maturity date on the Series 1997B and Series 2006 bonds may be accelerated upon the occurrence of specified events.

During the fiscal year, $13.5 million of the Series 2006A bonds and $71.85 million of the Series 2006C bonds were tendered. The bonds were remarketed.

The letter of credit agreements securing the Series 2006 bonds provide that a downgrade of the unenhanced, long-term rating of LUHS below Baa3 by Moody's Investor Services (Moody's) would result in an event of default under each of the reimbursement agreements. The current LUHS rating by Moody's is Baa3. Any further downgrade would be an event of default and could result in a mandatory tender of the Series 2006 bonds with amounts outstanding becoming immediately due and payable.

In June 2008, the bond insurer for the 1997B bonds was downgraded. As a result $10.1 million of the total bonds outstanding of $13.0 million were tendered. As of June 30, 2009, $2.5 million of the outstanding bonds had not been remarketed. On June 5, 2009, the bond insurer was downgraded by a second rating agency. If the bond insurer fails to have a permitted minimum bond insurer rating for a period of 90 consecutive days from at least one of the recognized rating agencies, then a bond insurer event of default will exist. Subsequent to June 30, 2009, an insurer event of default took place. The commercial bank providing the standby bond purchase agreement has the option to execute a mandatory tender due to the lack of a permitted minimum bond insurer rating. In the event the mandatory tender is executed, LUHS management intends to repay 100% of these bonds in fiscal year 2010 and forego the quarterly term out provision that expires in March of 2012.

As of June 30, 2009, $20.0 million was outstanding on a $20.0 million unsecured bank line of credit. The line of credit was entered into in October of 2008. The interest rate on the line of credit is prime less 1.25% or 2.0% as of June 30, 2009. Interest paid on LUHS's line of credit was $191 thousand and $154 thousand for the years ended June 30, 2009 and 2008, respectively. This line of credit is for a one-year term expiring October 2009. It was repaid August 2009. LUHS did not have access to a line of credit as of June 30, 2008.

In 2009 and 2008, University Academic recorded capitalized interest of $325 thousand and $1.0 million, respectively, and LUHS recorded capitalized interest of $109 thousand and $1.1 million, 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. Management determined both University Academic and LUHS are in compliance with financial debt covenants as of June 30, 2009.

Repayments and Classification

Total scheduled maturities for the next five fiscal years are:

(in thousands of dollars)	Fiscal Year	University Academic	LUHS	Total
	2010	$ 6,386	$ 17,005	$ 23,391
	2011	6,822	7,245	14,067
	2012	7,289	9,770	17,059
	2013	5,795	7,260	13,055
	2014	7,161	7,700	14,861
	Thereafter	251,035	311,415	562,450
		$284,488	$360,395	$644,883

Disclosure of Fair Value of Long-term Debt

The fair value of the outstanding debt as of June 30, 2009 and 2008 was:

(in thousands of dollars)	2009		2008	
	Fair Value	Carrying Value	Fair Value	Carrying Value
University Academic	$283,134	$286,141	$326,828	$329,673
LUHS	356,875	359,785	372,378	368,974

The fair value of long-term debt is determined based on discounted cash flows or market prices for comparable borrowings as of June 30, 2009 and 2008.

Interest paid for the years ended June 30, 2009 and 2008 was:

(in thousands of dollars)	2009			
	University Academic	LUHS	Total	2008
Interest paid	$12,998	$10,968	$23,966	$28,053

Interest Rate Swaps

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

As of June 30, 2009 and 2008, University Academic had no interest rate swaps outstanding.

LUHS entered into interest rate swap agreements in September and December 2006 and in May 2003. The May 2003 floating rate agreement has a rate equal to 63.00% of the one-month LIBOR plus .705%, extends over a twenty-year period, and has a notional amount of $125.0 million. The September 2006 floating rate agreement has a rate equal to 61.70% of the ten-year ISDA plus .40%, extends over a twenty-year period, and has a notional amount of $100 million. The December 2006 floating rate agreement has a rate equal to 61.80% of the one-month LIBOR plus .31%, extends over a twenty-eight year period, and has a notional amount of $85 million. The net amounts received under the interest rate swap agreements increased (reduced) interest expense by $265 thousand in 2009 and by $(609) thousand in 2008.

The fair value of the swap agreements at June 30, 2009 and 2008, representing an unrealized loss of $11.0 million and $962 thousand, respectively, are recorded as a component of other liabilities in the consolidated statements of financial position and $11.0 million has been deposited as collateral. The $11.0 million liability is classified as Level 2 under the SFAS No. 157 fair value measurement hierarchy. LUHS recorded the net mark-to-market fair value adjustment of the swaps as a loss of $10.0 million and a loss of $7.0 million for the years ended June 30, 2009 and 2008, respectively, as a component of the non-operating activities section of the consolidated statements of activities and changes in net assets. LUHS has elected to not apply hedge accounting to these agreements.

(9) Self Insurance

University Academic

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

Under a risk retention program designed to provide general and professional liability protection to University Academic and patient liability protection to participating faculty, University Academic has responsibility for pre-1995 exposure. The risk retention program is supplemented by commercial excess umbrella protection on an occurrence basis through 1986, and thereafter on a combined claims-made and occurrence basis. The reserve for risk retention is the estimated value of claims and claims adjustment expense which will be settled in the future. Management determined that a reserve is not necessary as of June 30, 2009.

LUHS

LUMC purchases claims-made insurance coverage from LUCIC for primary and patient general liability claims, as well as excess liability claims. Estimated claims are discounted using a rate of 5.5% and 6.25% at June 30, 2009 and 2008, respectively. The amounts of the discounts were $17.9 million and $25.6 million in 2009 and 2008, respectively. Self-insurance liabilities are estimated at the actuarially determined level, including an estimate of incurred but not reported claims. Reinsurance recoveries receivable of $6.9 million and $10.5 million were recorded as a component of other assets at June 30, 2009 and 2008, respectively.

Expenses related to general and professional liability were $22.2 million and $29.0 million for 2009 and 2008, respectively. This includes primary and patient general liability and medical malpractice liability insurance provided to LUPF and its physicians prior to January 1, 2009. Premiums from LUPF expenses related to general liability and medical malpractice liability insurance were $6.0 million and $14.2 million for 2009 and 2008, respectively. These premiums are included in other revenue in the consolidated statements of activities and changes in net assets.

Effective January 1, 2001, Gottlieb purchased claims-made insurance coverage from the Chicago Hospital Risk Pooling Program ("CHRPP"). Gottlieb premiums were $4.1 million and $3.8 million for 2009 and 2008, respectively. Gottlieb records an actuarially determined estimate for incurred but not reported claims and discounts such estimate using a rate of 4.5% and 5.0% at June 30, 2009 and 2008, respectively. The amounts of the discounts were $1.3 million and $1.2 million in 2009 and 2008, respectively. Self insurance liabilities for losses prior to December 31, 2001 carry reserves of $16.5 million and $17.5 million at June 30 2009 and 2008, respectively.

(10) Retirement Plans

Substantially all personnel participate in either a defined contribution retirement plan or a defined benefit plan (LUERP). University Academic froze pension benefits in LUERP effective March 31, 2004 for all but a grandfathered group of "ameliorated" participants. This group is allowed to continue to earn additional Adjusted Benefit Credited Service accruals for a period of up to five years. The LUERP plan is governed by ERISA.

Effective April 1, 2004, University Academic established a new defined contribution plan. University Academic's expense under this plan was $15.2 million and $14.8 million for 2009 and 2008, respectively.

LUMC froze pension benefits in LUERP effective March 31, 2004 for all participants. All LUMC participants will continue to earn pension benefits after March 31, 2004 in a new defined benefit plan, the Loyola University Medical Center Employees' Retirement Plan (LUMC-ERP), which is similar in design to LUERP and provides coverage effective April 1, 2004. The primary differences between LUMC-ERP and LUERP include removal of the unlimited lump sum optional form of payment, an increase in the retirement age from 65 to Social Security Normal Retirement Age, an increase in the hour requirement for participation and service accrual from 500 to 1,000. LUMC-ERP was granted Church Plan status by the IRS and is not governed by ERISA. LUMC expects to contribute a minimum of $27.2 million to LUMC-ERP in 2009. Gottlieb employees who are age 21 and work 1,000 or more hours within a twelve month period are covered by the GHR plan. This is a defined benefit non-contributory pension program and GHR expects to contribute $5.9 million in 2010. The GHR plan is governed by ERISA.

For LUHS, the LUERP plan has a projected benefit obligation of $140.2 million and $134.6 million and a fair value of plan assets of $121.0 million and $151.9 million as of June 30, 2009 and 2008, respectively. The LUMC-ERP plan has a projected benefit obligation of $102.0 million and $90.5 million, and a fair value of plan assets of $40.4 million and $40.6 million as of June 30, 2009 and 2008, respectively. The GHR plan has a projected benefit obligation of $86.6 million and a fair value of plan assets of $61.3 million as of June 30, 2009.

Summary information for the defined benefit pension plans (LUERP, LUMC-ERP, GHR plan, the restoration plan, and the Supplemental employee retirement plan) follows:

(in thousands of dollars)	2009			
	University Academic	Combined LUMC Plans	Total	2008
Change in projected benefit obligation				
Projected benefit obligation, beginning of year	$ 75,689	$ 227,024	$ 302,713	$ 320,994
GHR, projected benefit obligation, beginning of year		72,981	72,981	
Plan amendment		95	95	501
Service cost	279	15,911	16,190	12,548
Interest cost	4,955	20,613	25,568	18,825
Benefits paid	(6,682)	(11,202)	(17,884)	(16,236)
Actuarial (gain) loss	(307)	2,412	2,105	(33,919)
Employee transfers	(3,488)	3,434	(54)	
Settlement		(695)	(695)	
Projected benefit obligation, end of year	$ 70,446	$ 330,573	$ 401,019	$ 302,713
Change in plan assets				
Fair value of plan assets, beginning of year	$ 86,073	$ 192,443	$ 278,516	$ 285,915
Fair value of GHR assets, beginning of year		72,297	72,297	
Actual return on plan assets	(14,765)	(44,734)	(59,499)	(4,197)
Company contributions		11,550	11,550	13,034
Benefits paid	(6,682)	(11,897)	(18,579)	(16,236)
Employee transfers	(3,013)	3,013		
Fair value of plan assets, end of year	$ 61,613	$ 222,672	$ 284,285	$ 278,516
Funded status				
Funded status of the plan	$(8,833)	$(107,901)	$(116,734)	$(24,197)
Amounts included in the statement of financial position				
Other assets	$ -	$ -	$ -	$ 10,384
Pension and other postretirement plan liabilities	(8,833)	(107,901)	(116,734)	(34,581)
Funded status	$(8,833)	$(107,901)	$(116,734)	$(24,197)
Amounts not yet recognized in net period pension cost and included in unrestricted net assets*				
Actuarial loss	$ 39,104	$ 113,575	$ 152,679	$ 59,440
Net prior service cost		2,758	2,758	3,838
Total	$ 39,104	$ 116,333	$ 155,437	$ 63,278
Pension plan changes other than net periodic pension expense	$(19,984)	$(64,121)	$(84,105)	$ 7,780
Components of net pension expense				
Service cost	$ 279	$ 15,911	$ 16,190	$ 12,282
Interest cost	4,955	20,613	25,568	18,810
Expected return on plan assets	(6,402)	(20,652)	(27,054)	(24,039)
Net amortization and deferral	399	3,800	4,199	2,566
Net periodic pension cost	(769)	19,672	18,903	9,619
SFAS No. 88 curtailment expense		394	394	
Total	$(769)	$ 20,066	$ 19,297	$ 9,619

*Of the amounts recognized as a reduction in unrestricted net assets, $8.0 million is attributed to the net assets transferred from Gottlieb on July 1, 2008.

	2009			
	University Academic	Combined LUMC Plans	GHR Plan	2008
Weighted average assumptions				
Discount rate - benefit obligations	6.52%	6.84%	6.25%	6.26%-7.11%
Discount rate - pension expense	6.91%	7.11%	6.25%	6.26%-6.35%
Rate of compensation increase	n/a	3.00%	3.50%	3.50%
Expected long-term return on assets	7.80%	7.80%	8.50%	7.80%

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

	2009		2008	
	University Academic	Combined LUMC Plans	University Academic	Combined LUMC Plans
Cash	13%	9%	1%	1%
Equity securities	38%	44%	43%	47%
Fixed income securities	36%	40%	33%	34%
Private investments	8%	4%	15%	12%
Other, including real estate	5%	3%	8%	6%
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. The LUMC-ERP Plan is managed in accordance with the policies established by the LUMC-ERP Administrative and Investment Committees. The GHR Plan is managed in accordance with the Gottlieb investment policies. Management developed the estimates of the expected long-term rates of return on plan assets based upon these mixes 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
	2010	$ 6,549	$ 16,251	$ 22,800
	2011	6,159	16,841	23,000
	2012	6,314	17,760	24,074
	2013	6,303	22,070	28,373
	2014	5,946	19,335	25,281
	2015-2019	27,323	107,648	134,971

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 2009 and 2008 was $3.1 million for both years.

In fiscal year 2007 LUHS adopted a Restoration Retirement plan to provide to named executives additional, nonqualified pension benefits. The plan provides for periodic contributions. LUHS's expense under this plan was $910 thousand (including a curtailment expense of $394 thousand) and $590 thousand for 2009 and 2008, respectively.

In fiscal year 2008 LUHS adopted a Supplemental Employee Retirement plan to provide named executives additional, nonqualified pension benefits. The plan provides for periodic contributions. LUHS's expense under this plan was $917 thousand and $329 thousand for 2009 and 2008, respectively.

LUHS offers an Incentive Option 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. Effective January 1, 2009, no additional benefits are being accrued under this plan. The matching provisions continue for the next three years as the match vests. LUHS's expense for 2009 and 2008 was $716 thousand and $669 thousand, respectively.

In addition, all employed physicians who work 1,000 or more hours are eligible to participate in a defined contribution Physician Retirement plan. The plan provides for periodic contributions based on the salary of the employees. LUMC's expense under the provisions of the plan for 2009 and 2008 was $4.4 million and $1.7 million, respectively.

(11) Other Postretirement Benefits

University Academic has a defined benefit retiree health plan covering eligible employees upon their retirement. Health benefits are provided subject to various cost-sharing features and are not prefunded. As of June 30, 2009 and 2008, University Academic recognized ($1.2) million and ($2.7) million, respectively, of retirement plan related changes other than net periodic retirement plan expense as non-operating activity in the consolidated statements of activities and changes in net assets.

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 $513 thousand for covered retirees in 2009.

As of June 30, 2009 and 2008, LUHS recognized $(2.7) million and $(2.7) million of retirement plan related changes other than net periodic retirement plan expense as non-operating activity in the consolidated statements of activities and changes in net assets.

Defined benefit retiree health plan costs included in the consolidated statements of activities and changes in net assets for University Academic and LUHS for the years ended June 30, 2009 and 2008 were:

(in thousands of dollars)	2009			
	University Academic	LUHS	Total	2008
Change in benefit obligation				
Benefit obligation, beginning of year	$ 29,562	$ 4,447	$ 34,009	$ 30,493
Service cost	1,589	85	1,674	1,588
Interest cost	1,974	307	2,281	1,831
Participant contributions	1,308	303	1,611	1,732
Benefits paid	(2,261)	(998)	(3,259)	(2,736)
Actuarial gain (loss)	(703)	1,433	730	1,101
Benefit obligation, end of year	$ 31,469	$ 5,577	$ 37,046	$ 34,009
Change in plan assets				
Fair value of plan assets, beginning of year	$ -	$ -	$ -	$ -
Employer contributions	953	695	1,648	1,004
Participant contributions	1,308	303	1,611	1,732
Benefits paid	(2,261)	(998)	(3,259)	(2,736)
Fair value of plan assets, end of year	$ -	$ -	$ -	$ -
Funded status				
Funded status of plan	$ 31,469	$ 5,577	$ 37,046	$ 34,009
Amounts not yet recognized in net period benefit cost and included in unrestricted net assets				
Actuarial loss	$ 1,151	$ 5,041	$ 6,192	$ 5,985
Prior service (benefit)	(1,026)	(3,411)	(4,437)	(8,220)
Total	$ 125	$ 1,630	$ 1,755	$(2,235)
Components of net period postretirement benefit cost				
Service cost	$ 1,589	$ 85	$ 1,674	$ 1,608
Interest cost	1,974	307	2,281	1,883
Amortization of unrecognized prior service (benefit) and actuarial loss	(1,943)	(1,317)	(3,260)	(4,513)
Net period postretirement benefit cost	$ 1,620	$(925)	$ 695	$(1,022)
Discount rate	6.52%	7.11%		6.26-6.35%

Assumed health care cost trend rates	2009	2010	2011
HMO plans	5.00%	5.00%	5.00%
Non-HMO plans	5.00%	5.00%	5.00%

For University Academic, the amounts of estimated net actuarial loss and prior service (benefit) for the plan that will be amortized from unrestricted net assets into net period postretirement benefit cost during the 2010 fiscal year are $0 and ($1.0) million, respectively.

For LUHS, the amounts of estimated net actuarial loss and prior service (benefit) for the plan that will be amortized from unrestricted net assets into net period postretirement benefit cost during the 2010 fiscal year are $635 thousand and ($1.7) million, respectively.

(in thousands of dollars)	2009			
	University Academic	LUHS	Total	2008
Effect of a 1% change in the health care cost trend rates				
1% increase				
On year-end postretirement benefit obligations	$ 2,220	$ 655	$ 2,875	$ 2,690
On total of service and interest cost components	189	65	254	257
1% decrease				
On year-end postretirement benefit obligations	$(2,100)	$(585)	$(2,685)	$(2,673)
On total of service and interest cost components	(182)	(58)	(240)	(234)

Estimated future benefit payments

(in thousands of dollars)	Fiscal Year	University Academic	LUHS	Total
	2010	$ 2,123	$ 513	$ 2,636
	2011	2,480	393	2,873
	2012	2,847	369	3,216
	2013	3,336	416	3,752
	2014	3,825	433	4,258
	2015-2019	22,416	2,361	24,777

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

(12) Functional Classification of Expenses

Expenses are reported in the consolidated statements of activities and changes in net assets in natural classifications. Expenses by functional classification for the years ended June 30, 2009 and 2008 were:

(in thousands of dollars)	2009	2008
Instruction	$ 109,817	$ 105,828
Research and other sponsored programs	44,125	41,532
Academic support	45,721	58,540
Student services	28,235	27,505
Institutional support	71,685	65,029
Operations and maintenance	22,912	21,582
Depreciation	24,673	25,109
Patient care	1,011,733	790,153
Auxiliary services	42,937	40,021
Total operating expenses	$1,401,838	$1,175,299

(13) Restricted Net Assets

The program restrictions for temporarily and permanently restricted net assets at June 30, 2009 and 2008 were:

(in thousands of dollars)	2009			
	University Academic	LUHS	Total	2008
Temporarily Restricted				
Academic or program support and student financial aid	$ 75,304	$ -	$75,304	$131,790
Research	10,716		10,716	11,220
Student loans	2,963		2,963	4,664
Construction	1,314		1,314	1,258
Other	18,808	14,689	33,497	29,301
Total temporarily restricted net assets	$109,105	$14,689	$123,794	$178,233
Permanently Restricted				
Academic or program support and student financial aid	$114,320	$ -	$114,320	$109,265
Research	50		50	50
Student loans	1,148		1,148	1,148
Other	-	6,609	6,609	6,583
Total permanently restricted net assets	$115,518	$6,609	$122,127	$117,046

LUHS

LUHS has certain endowment funds which are classified as permanently restricted. The amounts classified include the original value of gifts contributed to a permanent donor-restricted endowment fund and the original value of subsequent gifts to a permanent donor-restricted endowment fund.

LUHS uses a spending policy designed to preserve the value of the endowment in real terms and to generate a predictable stream of income to support spending. LUHS manages one investment portfolio in accordance with policies established by the Board of Directors. Investment earnings are allocated to the endowment net assets based upon the amount of the endowment balances included in both the temporarily and permanently restricted net assets. The portion of the donor-restricted endowment funds that represents the cumulative earnings less spending out of the fund is classified as temporarily restricted net assets.

The following table provides a summary of the changes in the endowment net assets for the years ended June 30, 2009 and 2008:

(in thousands of dollars)	Board-Designated Unrestricted	Donor-Restricted Temporarily Restricted	Donor-Restricted Permanently Restricted	Total
2009				
Net assets, beginning of year	$ 1,617	$ 1,530	$6,583	$ 9,730
Investment loss	(113)	(585)		(698)
Contributions			26	26
Net assets released from restrictions	(47)	(201)		(248)
Net assets, end of year	$ 1,457	$ 744	$6,609	$ 8,810
2008				
Net assets, beginning of year	$ 1,626	$ 1,640	$6,509	$ 9,775
Investment return	33	183		216
Contributions			74	74
Net assets released from restrictions	(42)	(293)		(335)
Net assets, end of year	$ 1,617	$ 1,530	$6,583	$ 9,730

(14) Related Party Transactions

Loyola University Physician Foundation

LUPF is an incorporated tax-exempt medical faculty practice plan consisting of the faculty of University Academic's Stritch School of Medicine (SSOM). Prior to December 31, 2008, the physician employees of LUPF performed their clinical services by contractual arrangement with LUC and LUMC. LUPF provided 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. Effective January 1, 2009, the physician faculty group was integrated into LUMC with the physicians becoming employees of LUMC. Revenues to LUC and LUMC in the years ended June 30, 2009 and 2008 and amounts receivable on these dates were:

(in thousands of dollars)	2009			
	University Academic	LUHS	Total	2008
Revenues	$11,925	$8,688	$20,613	$42,765
Accounts receivable	-	-	-	8,402

Prior to December 31, 2008, LUMC was reimbursed for providing administrative personnel and certain overhead services to LUPF. The reimbursement was $3.4 million and $6.9 million for 2009 and 2008, respectively. Additionally, LUMC was reimbursed for services provided relating to LUCIC exposures. Amounts billed for 2009 and 2008, respectively, were $520 thousand and $597 thousand. As of June 30, 2009 and 2008, LUPF's liability to LUMC for all services was $0 and $5.3 million, respectively.

RML Specialty Hospital

LUMC owns a 49.5% interest in RML Specialty Hospital (RML), a long-term acute care hospital located in Hinsdale, Illinois. LUMC's investment in RML of $9.5 million and $9.1 million as of June 30, 2009 and 2008, respectively, is recorded using the equity method. LUMC provides renal dialysis and reference laboratory services to RML. The revenue from these services was $1.5 million for both 2009 and 2008. In addition, LUHS has guaranteed 50% of certain outstanding debt of RML. As of June 30, 2009, LUHS's guarantee was $2.0 million.

The following summarizes condensed financial information of RML as of and for the years ended May 31, 2009 and 2008:

(in thousands of dollars)	2009	2008
Net assets	$18,813	$18,524
Revenues	43,998	46,090
Expenses	42,984	41,594

Loyola Ambulatory Surgical Center

LUHS owns a 49% interest in Loyola Ambulatory Surgical Center (LASCO), a joint venture with Surgical Care Affiliates. LUHS’s investment in LASCO of $1.7 million and $1.5 million as of June 30, 2009 and 2008, respectively, is recorded using the equity method. The following summarizes unaudited condensed financial information of LASCO as of and for the years ended December 31, 2008 and 2007:

(in thousands of dollars)	2008	2007
Net assets	$1,700	$1,825
Revenues	5,087	5,573
Expenses	4,167	4,523

The investments in RML Specialty Hospital and Loyola Ambulatory Surgical Center are recorded in other assets in the consolidated statements of financial position. LUHS’s equity interest in the earnings of RML and LASCO totaled $1.1

million and $602 thousand, respectively, in 2009 and $1.8 million and $371 thousand, respectively, in 2008, and are recorded in other revenues in the consolidated statements of activities and changes in net assets.

(15) LUHS Leases

LUHS has certain non-cancelable operating leases for specific property, plant, and equipment. Under the terms of these lease agreements, LUHS has a maximum obligation of $3.4 million in the event the lease for the cogeneration plant is not renewed in January 2013 and the plant is not sold. The obligation may be reduced by excess proceeds from the sale of the plant. Rent paid under operating leases was $7.7 million in 2009 and $8.4 million in 2008.

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

(in thousands of dollars)
Fiscal year ending June 30

2010	$ 8,206
2011	7,497
2012	5,579
2013	4,291
2014	2,672
thereafter	2,166
Total	$30,411

(16) Commitments and Contingencies

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

(17) Financial Instruments with Off-Balance Sheet Risk

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

(18) Subsequent Events

University Academic

Pursuant to FASB Statement No. 165, Subsequent Events, LUC has evaluated subsequent events through September 25, 2009.

On July 1, 2009, the University purchased the property at its John Felice Rome Center Campus in Rome, Italy, from the Congregation of the Dominican Sisters of Saint Catherine of Siena (the Congregation). The sale price was € 18 million plus an additional € 1.8 million in taxes and fees (equivalent to $27.8 million U.S. dollars at the June 30, 2009 exchange rate). This was financed with a cash payment of € 11.8 million and a € 10 million note payable to the Congregation over 20 years. The John Felice Rome Center (the Center) holds the distinction of being the oldest continual U.S. university program in Italy; for more than four decades, the Center has served as a fully equipped American campus. The property is located on Monte Mario near the site of a former Olympic Village, just 20 minutes north of Vatican City and Rome's city center. As a leader in international, cross-cultural learning, the Center serves students seeking to become global citizens through an expansive curriculum that fully incorporates Rome, Italy and Europe into the classroom. The purchase of the property will allow the University to further establish its presence in Rome and make the necessary capital improvements.

LUHS

Pursuant to FASB Statement No. 165, Subsequent Events, LUHS has evaluated subsequent events through September 25, 2009. LUHS did not identify any subsequent events to be disclosed.

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TRUSTEES AND THEIR AFFILIATIONS

Scenes from Lake Shore Campus. Photos by Anthony Argentine, CAS, '12.

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