

Loyola University Chicago
University Academic
Management Discussions of Financial Results
For the Year Ended June 30, 2007

The University Academic segment of Loyola University Chicago principally consists of academic and research operations. It excludes for this management discussion, the health care businesses which are included under Loyola University Health System. University Academic does include the Stritch School of Medicine.

FY 2007 Increase in Net Assets:

University Academic FY 2007 operating revenues in excess of operating expenses shows an operating surplus of \$48.7 million. Non-operating revenues were \$33.0 million and included investment earnings and insurance recoveries. Temporarily restricted net assets increased by \$28.5 million due to investment performance and gifts, and permanently restricted net assets increased by \$9.8 million due principally to permanent endowment gifts. **The total increase in net assets for the year ended June 30, 2007 was \$120.0 million for a total of \$690.3 million at June 30, 2007. This is a 21% increase in net assets since June 30, 2006.**

- **For the year ended June 30, 2006, the University had an increase of net assets of \$103.2 million for a 22% increase in net assets since June 30, 2005.**
- **In the last two fiscal years, net assets have increased by \$223.2 million for an increase of 48% from the net asset base of \$467.1 million at June 30, 2005.**

Operating Performance for FY 2007:

University Academic continues to experience the resurgence and renewal which began several years ago. Enrollment continues to be strong and management controls have managed and controlled costs. The results of operations for the year ended June 30, 2007 were \$48.7 million or 11.5% of operating revenues compared to \$43.1 million or 10.8% of operating revenues the same period last year.

Total enrollments continued to grow, reaching 15,093 students or 682 (4.7%) higher than in the previous year. The undergraduate population reached 9,711 students or 768 (8.6%) students greater than FY 2006. The University welcomed 2,863 new students as compared to 2,730 incoming students in the fall of FY 2006. This includes 734 transfer students which is the most in the history of Loyola University Chicago. These growths have been achieved even though the University's principal undergraduate campus is approaching capacity. Graduate students numbered 3,742 which are slightly less than last year. The enrollment for the School of Law reached 960 students which is up 21 (2.2%) from the prior year. SSOM increased medical student enrollment by 10 (1.8%) students for a total of 560.



Gross tuition increased by 13.7% to \$334.8 million in FY 2007 from \$294.4 million in FY 2006. This increase was driven by our increased enrollment and tuition increases of 6.4% for returning undergraduate students, 9.4% for new freshmen and transfer students, and 3% for our medical students. Scholarships had a corresponding increase but were maintained to the same percentage levels as had been awarded in the past three years. The average undergraduate scholarship awarded to a freshman was 40.0% while the overall average discount rate was maintained at approximately 35.9% for undergraduates. The University's financial aid given to need based and merit based students is consistent with the Jesuit mission of the University.

Total Operating Revenue increased to \$424.0 million or \$26.6 million (6.7%) compared to FY 2006. The more significant items contributing to this change were: interest income increased \$2.0 million due to higher rates and greater funds on deposit principally related to University debt repayment and incentive policies; and Auxiliary Services increased \$5.5 million principally related to the opening of a new residence hall (Baumhart Hall) which increased capacity by approximately 600 students. In addition, demand for residence halls increased substantially and average occupancy exceeded the prior year.

Total operating expenses of \$375.3 million increased by \$20.9 million or 5.9% compared to FY 2006 operating expenses of \$354.3 million. This increase consists of salary and related fringe benefit increases of 5.1%; \$4.6 million of investments in academic operations to support our increased enrollment and new program initiatives, and new expenses for the opening of Baumhart Hall (includes depreciation, interest, and building operating expenses. In FY 2006, the University reported a one-time cost of \$3.5 million in support of the Hurricane Katrina student relief effort by allowing 320 students' home college or university in New Orleans to bill and collect for tuition for education provided voluntarily by our faculty. As we stated last year, we are very proud of our alumni, faculty, staff and students who helped these New Orleans with their educational aspirations during this monumental crisis.

Cash and Cash Equivalents, Short-term Investments and Long-term Investments:

Liquidity levels continued to strengthen due to positive investment returns and a strong operating performance. Cash, Short-term Investments and Long-term Investments increased to \$526.4 million from \$464.2 million the prior year. At June 30, 2007, these assets represented 140% of FY 2007 operating expenses and 200% of outstanding debt at June 30, 2007. Comparable statistics for FY 2006 were 131% and 172%, respectively.

Endowments and Investment Performance:

The rate of investment return on the endowment fund portfolio was 19.5% and the endowment fund grew from \$305.7 million at June 30, 2006 to \$373.2 million at June 30, 2007. The endowment at June 30, 2007 is double the value from four years ago. For FY 2007, the endowment return led by strong returns from the public and private equity markets. Real estate and high yield credit performed well but to a lesser degree. Investment grade fixed income produced mid-single digit returns. Endowment returns for FY 2006, 2005 and 2004 were 13.7%, 10.6% and 20.5%, respectively.

Donors contributed \$8.1 million to the endowment fund and the University invested \$7.1 million of unrestricted funds in fiscal year 2007. Spending from the endowment in fiscal year 2007 was \$8.5 million (2.4% effective rate).

Investments in Land, Building and Equipment:

Land, Buildings and Equipment increased by \$56.5 million to \$479.2 million. Capital expenditures of \$84.1 million increased Land, Buildings and Equipment in FY 2007 and depreciation expense of \$27.2 million decreased Land, Buildings and Equipment. Major capital expenditures included: construction of the new Information Commons building; completion of the Baumhart Residence Hall; renovation of Mundelein Center; renovation of the Santa Clara residence hall; acquisitions of strategic properties at 6255 Kenmore Avenue, 14 East Pearson Street, and 1225 West Loyola Avenue; investments in information systems and infrastructure; renovation of an acquired building for the Fine Arts Department; renovation of the Madonna Della Strada Chapel; Lakeshore Campus Playfield; and numerous other projects including ongoing maintenance.

The sources of funding for the capital expenditures were: funding of depreciation, proceeds from the FY 2004 Bond Issue for Baumhart Hall, prior year end operating surpluses, gifts, and grants. There were no other external borrowings required to fund the FY 2007 capital expenditures.

Debt:

University Academic had \$263.2 million in outstanding debt as of June 30, 2007 compared to \$269.2 at June 30, 2006. During FY 2007, \$6 million of debt principal was retired. Debt service of \$19.7 million in FY 2007 (\$15.0 million in FY 2006) was 4.6% of operating revenue (3.8% in FY 2006).

On April 12, 2007, the University successfully refinanced its \$27.6 million Series 1997A Bonds for a present value savings in excess of \$3 million over the life of the new bonds. As part of this transaction, the interest rate swap that was to reduce the interest rate risk (if variable rate bonds were issued) was terminated because market conditions were such that the University was able to issue fixed-rate bonds about as cheaply as variable-rate bonds. The Series 2007 Bonds were issued at a premium of \$1.3 million which was used to offset transaction costs, including the modest cost of unwinding the previously mentioned swap.

Moody's Investors Service upgraded the University's long-term rating to A2 from A3, citing "strong operating performance" and "effective cost management efforts." This upgrade improved the marketing of the University's bonds and also was a factor in not having to pay for bond insurance. S&P reported on January 5, 2007 that it had revised its outlook on Loyola from "stable" to "positive" and stated that yet another year of strong financial results would likely result in an upgrade from the current rating of A-.



Gifts:

It is the University's policy to record only those gifts that are received in cash or gifts whereby the donor is legally obligated to the University. Gifts recorded in FY 2007 were \$20.8 million compared to \$25.0 million in FY 2006. These gifts accounted for 17% and 25% of the increase in net assets in FY 2007 and FY 2006, respectively.

Reinvestment of FY 2007 Operating Surplus:

The University's operating surplus in FY 2007 was \$48.7 million. It is the University's practice to invest unrestricted operating earnings in capital asset reserves, SSOM incentive savings, housing auxiliary operations, parking auxiliary operations, unspent fees for equipment replacement, unspent budgets for personal computer and server replacement and the Rome Center. These policies set aside \$24.6 million of the \$48.7 million operating surplus for FY 2007. Additionally, the President has allocated the remaining operating surplus of \$24.1 million to strategically needed quasi-endowments to support our academic operations and allocated funds for needed capital expenditures.

Appreciation to all for making FY 2007 a successful year!

Loyola University Chicago is appreciative of the efforts and contributions made by all of our faculty, staff, students, trustees, alumni, business partners, friends, and administrators in making FY 2007 another successful year! All of us in Financial Services continue to be very proud of the progress made by our extraordinary University!

William G. Laird, CPA

Vice President for Finance, CFO and Treasurer

August 31, 2007