LOYOLA UNIVERSITY CHICAGO

Consolidated Financial Statements and Independent Auditors' Report

Years ended June 30, 2010 and 2009

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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, 2010 and 2009, 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, 2010 and 2009, 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 2010 consolidated financial statements taken as a whole. The supplemental consolidating information for 2010 for University Academic and LUHS on pages 2-4 is presented for the purpose of additional analysis of the basic 2010 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 2010 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 2010 consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2010 consolidated financial statements taken as a whole.

Deloitte & Touche LLP

September 24, 2010

LOYOLA UNIVERSITY OF CHICAGO
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
YEARS ENDED JUNE 30, 2010 AND 2009
($000s)

	Consolidating Information			2010	2009
	University Academic	LUHS	Eliminating Entries	Consolidated Total	Consolidated Total
ASSETS					
CASH AND CASH EQUIVALENTS	$ 101,849	$ 126,666	$ -	$ 228,515	$ 209,964
SHORT-TERM INVESTMENTS		28,838		28,838	33,635
INTERFUND BALANCES		568	(568)		
RECEIVABLES	56,858	145,809		202,667	220,765
OTHER ASSETS	6,821	77,560		84,381	76,730
ENDOWMENT AND OTHER LONG-TERM INVESTMENTS	331,529	189,396		520,925	466,164
ASSETS HELD IN TRUST BY OTHERS		2,660		2,660	3,395
INTEREST HELD IN PERPETUAL TRUST	8,217			8,217	7,562
LAND, BUILDINGS AND EQUIPMENT - NET	705,707	423,478		1,129,185	1,046,628
TOTAL ASSETS	$ 1,210,981	$ 994,975	$ (568)	$ 2,205,388	$ 2,064,843
LIABILITIES AND NET ASSETS					
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	$ 49,323	$ 94,950	$ -	$ 144,273	$ 158,376
ESTIMATED THIRD-PARTY PAYER SETTLEMENTS PAYABLE		69,877		69,877	66,573
DEFERRED INCOME	28,797			28,797	28,507
UNEXPENDED GRANTS	17,678			17,678	17,827
REFUNDABLE ADVANCES - LOANS	17,762			17,762	17,593
INDEBTEDNESS	291,596	350,096		641,692	665,926
SELF-INSURANCE		152,430		152,430	158,903
INTERFUND BALANCES	568		(568)		
PENSION AND OTHER POST-RETIREMENT LIABILITIES	48,531	140,493		189,024	153,780
OTHER LIABILITIES	5,302	20,291		25,593	31,172
TOTAL LIABILITIES	459,557	828,137	(568)	1,287,126	1,298,657
NET ASSETS:					
Unrestricted	510,877	140,461		651,338	520,265
Temporarily restricted	115,511	19,737		135,248	123,794
Permanently restricted	125,036	6,640		131,676	122,127
TOTAL NET ASSETS	751,424	166,838		918,262	766,186
TOTAL LIABILITIES AND NET ASSETS	$ 1,210,981	$ 994,975	$ (568)	$ 2,205,388	$ 2,064,843

See notes to consolidated financial statements

LOYOLA UNIVERSITY OF CHICAGO
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2010 AND 2009
($000s)

	Consolidating Information			2010	2009
	University Academic	LUHS	Eliminating Entries	Consolidated Total	Consolidated Total
OPERATING REVENUES:					
Tuition and fees, net of scholarships $112,811 (2010) and $108,450 (2009)	$ 299,099	$ -	$ -	$ 299,099	$ 281,148
Grants and contracts for sponsored projects	51,882	801		52,683	53,727
Academic support	24,098		(24,098)		12,010
Gifts	6,098		(577)	5,521	15,103
Interest income	781			781	1,132
Investment income designated for operations	3,709			3,709	3,399
Other	17,664	40,301		57,965	49,899
Auxiliary services	45,769			45,769	45,858
Net patient service revenues		1,024,243		1,024,243	919,916
Research and education net assets for operations	1,680			1,680	2,678
Net assets released from restrictions	15,714			15,714	21,845
Total operating revenues	466,494	1,065,345	(24,675)	1,507,164	1,406,715
OPERATING EXPENSES:					
Salaries and wages	191,191	442,792		633,983	619,850
Fringe benefits	47,835	103,037		150,872	147,512
Non-salary operating expenses	107,443	386,834	(24,675)	469,602	453,050
Insurance	2,023	43,309		45,332	24,316
Depreciation and amortization	35,521	45,311		80,832	85,879
Interest	10,808	6,958		17,766	23,387
Utilities	7,868	14,255		22,123	25,571
Illinois Healthcare and Family Services Assessment		22,445		22,445	22,444
Total operating expenses	402,689	1,064,941	(24,675)	1,442,955	1,402,009
RESULTS OF OPERATIONS	63,805	404		64,209	4,706
NON-OPERATING ACTIVITIES:					
Gifts	29,753	5,854		35,607	
Investment gain (loss) net of amounts designated for operations	11,818	17,506		29,324	(68,608)
Other	467	(2,495)		(2,028)	(7,036)
Retirement plan related changes other than net periodic retirement plan expense	(5,698)	(24,709)		(30,407)	(88,094)
Net assets transferred or released from restrictions	34,364	1,684		36,048	(7,248)
Research and education net assets for operations	(1,680)			(1,680)	(2,678)
Net assets of GHR assumed under Membership Substitution Agreement					50,654
Total non-operating activities	69,024	(2,160)		66,864	(123,010)
Increase (decrease) in unrestricted net assets	132,829	(1,756)		131,073	(118,304)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS					
Gifts	39,985	6,807		46,792	18,534
Investment gain (loss)	19,824	(75)		19,749	(58,121)
Change in annuity value	(312)			(312)	5
Other	(112)			(112)	95
Net assets transferred or released from restrictions	(52,979)	(1,684)		(54,663)	(14,952)
Increase (decrease) in temporarily restricted net assets	6,406	5,048		11,454	(54,439)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:					
Gifts	5,779	31		5,810	6,131
Change in value of perpetual trust	838			838	(1,405)
Net assets transferred	2,901			2,901	355
Increase in permanently restricted net assets	9,518	31		9,549	5,081
Increase (decrease) in net assets	148,753	3,323		152,076	(167,662)
Net assets at beginning of year	602,671	163,515		766,186	933,848
Net assets at end of year	$ 751,424	$ 166,838	$ -	$ 918,262	$ 766,186

See notes to consolidated financial statements

LOYOLA UNIVERSITY OF CHICAGO
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009
($000s)

	Consolidating Information		2010	2009
	University Academic	LUHS	Consolidated Total	Consolidated Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Increase (decrease) in net assets	$ 148,753	$ 3,323	$ 152,076	$ (167,662)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:				
Depreciation and amortization	35,521	45,311	80,832	85,879
Provision for bad debt expense	2,057	59,225	61,282	54,739
Net assets of GHR assumed under Membership Substitution Agreement, net of cash acquired				(39,113)
Retirement plan related changes other than net periodic retirement plan expense	5,698	24,709	30,407	88,094
Provision for retirement costs	3,580	27,207	30,787	19,993
Net realized and unrealized (gain) loss on investments	(28,270)	(21,025)	(49,295)	142,537
Contributions restricted for long-term investment	(4,790)		(4,790)	(7,064)
Gift in kind contributions	(41,146)		(41,146)	(970)
Other	(691)	(2,113)	(2,804)	(3,224)
Changes in assets and liabilities:				
Receivables	(2,779)	(38,544)	(41,323)	5,688
Other assets	3,067	(14,047)	(10,980)	11,809
Accounts payable and accrued expenses	(197)	(13,886)	(14,083)	(12,789)
Estimated third-party payer settlements		4,877	4,877	21,823
Deferred income and unexpended grants	141		141	2,860
Self-insurance		(3,715)	(3,715)	(4,756)
Interest held in perpetual trust	(655)		(655)	1,622
Refundable advances - loans	169		169	251
Other liabilities	(44)	(25,828)	(25,872)	(12,528)
Interfund balances	9,703	(9,703)		
Net cash provided by operating activities	130,117	35,791	165,908	187,189
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of investments	162,077	196,292	358,369	351,982
Purchase of investments	(167,339)	(196,570)	(363,909)	(299,502)
Proceeds on disposal of property				37
Purchase of property	(108,070)	(18,359)	(126,429)	(100,511)
Student loans issued	(3,323)		(3,323)	(1,957)
Student loans sold and collected	2,650		2,650	2,460
Swap collateral deposited				(22,822)
Swap collateral repaid		2,113	2,113	12,415
Net cash (used) by investing activities	(114,005)	(16,524)	(130,529)	(57,898)
CASH FLOWS FROM FINANCING ACTIVITIES				
Contributions restricted for long-term investment	4,790		4,790	7,064
Issuance of new debt	14,086		14,086	
Borrowing on line of credit				20,000
Payment of line of credit		(20,000)	(20,000)	(25,000)
Letter of credit advance				85,350
Letter of credit repayment				(85,350)
Retirement of debt	(6,678)	(9,761)	(16,439)	(27,684)
Withdrawal of trusteed bond funds for construction		735	735	22,161
Net cash provided (used) by financing activities	12,198	(29,026)	(16,828)	(3,459)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	28,310	(9,759)	18,551	125,832
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	73,539	136,425	209,964	84,132
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 101,849	$ 126,666	$ 228,515	$ 209,964

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 six campuses providing educational services to approximately sixteen thousand students primarily in undergraduate, graduate, and professional degree programs. LUC performs research, training, and other services under grants and contracts with government agencies and other sponsoring organizations. Mundelein and LMC exist to provide limited services for the benefit of LUC. 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. 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).

(2) Tax Status

LUC, Mundelein, LUHS, LUMC, and Gottlieb are Illinois not-for-profit corporations and are exempt from federal income taxes under section 501(c)(3) of the U.S. Internal Revenue Code (IRC). LMC is exempt from income taxes under section 501(c)(2) of the IRC. LUCIC is a for-profit Cayman Islands insurance company which provides primary and patient general liability insurance to LUMC.

(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 transferred or released from restrictions.

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

Operations

Revenues received and expenses incurred in conducting the programs and services are presented in the consolidated financial statements as operating activities. Non-operating results include investment income or loss, change in pension liability, gains or losses on the sale or disposal of property, non-recurring items and the net change to the research and education assets. In 2010, non-operating results included a one-time $29.8 million unrestricted contribution of property, cash, and securities that, along with a temporarily restricted contribution of property and artwork, was part of a larger $50.1 million contribution to University Academic.

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 the Board of Trustees for specific purposes or uses under various internal agreements.

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

LUHS results of operations are based on the method of reporting common in health care operations and as such, interest and dividend income, gift income, net assets released and other miscellaneous treasury gains or losses are reported as non-operating activities in the 2010 consolidated statements of activities and changes in net assets.

Cash and Cash Equivalents

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

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. Short-term investments 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 to increase or decrease capital market exposures and to mitigate the risk of a decline in value of certain equity securities. Derivatives are not used for tactical investment decisions or to speculate on the future direction of markets. Investments in derivative financial instruments are not designated as hedges. 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 investment purposes are recorded in investment gain/loss 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; furniture, 15-20 years; and equipment, 3-10 years. LUC uses the component method of capitalization. Management continually reviews its long-lived assets for evidence of potential impairment and believes that no impairment exists as of June 30, 2010.

Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-01, *The FASB Accounting Standards Codification (ASC) and Hierarchy of Generally Accepted Accounting Principles (GAAP) (the Codification)* (formerly Statement of Financial Accounting Standards (SFAS) No. 168.) This new Codification has become the exclusive source of authoritative U. S. GAAP for nongovernmental entities. All content in the Codification will carry the same level of authority, essentially modifying the GAAP hierarchy to include only two levels of GAAP: authoritative and nonauthoritative. This new guidance was effective for fiscal years ending after

December 31, 2009. LUC has adopted the new guidance, which does not have a material impact on its consolidated financial statements.

In April 2009, the FASB issued ASC 820, the Fair Value Measurement Topic, which provides guidance for estimating fair value when the volume and level of activity for the related asset or liability have significantly decreased. The new accounting literature also includes guidance on identifying circumstances that indicate a transaction is not orderly. The adoption of this new accounting guidance did not have a material impact on the consolidated financial statements of LUC.

In April 2009, the FASB issued ASC 954, the Mergers and Acquisitions Involving Not-for-Profit Entities Topic. This topic establishes principles and requirements for how a not-for-profit entity determines whether a combination is a merger or an acquisition, including how to account for the combination under either the carryover method or the acquisition method. This new guidance is effective for financial statements issued for fiscal years beginning after December 15, 2009. LUC will adopt this statement for combinations consummated after July 1, 2010.

In December 2008, the FASB issued ASC 715, the Compensation-Retirement Benefits Plan Topic pertaining to employers' disclosure about postretirement benefit plan assets. This topic requires disclosure of plan asset investment policies and strategies, the fair value of each major category of plan assets, information about inputs and valuation techniques used to develop fair value measurements of plan assets, and additional disclosure about significant concentrations of risk in plan assets for an employer's pension and other postretirement plans. These additional disclosure requirements for postretirement benefit plan assets are effective for fiscal years ending after December 15, 2009. The adoption of this new accounting guidance did not have a material impact on the consolidated financial statements. LUC has added disclosure to consolidated financial statements to meet these new disclosure requirements in Note 10.

In March 2008, the FASB issued ASC 815, the Derivatives and Hedging Topic. This topic requires enhanced disclosures about an entity's derivative and hedging activities including how and why an entity uses derivative instruments, how an entity accounts for derivatives and hedges and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This new accounting guidance is effective for financial statements issued for fiscal years beginning after November 15, 2008. LUC adopted these new guidelines on a prospective basis on July 1, 2009 and has incorporated the disclosure requirements within the notes to the consolidated financial statements, specifically Note 5.

In January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures, which amends ASC 820 (originally issued as FASB Statement No. 157, Fair Value Measurements), adding new disclosure requirements for Levels 1 and 2, separate disclosures of purchases, sales, issuances, and settlements relating to Level 3 measurements and clarification of existing fair value disclosures. ASU No. 2010-06 is effective for periods beginning after December 15, 2009, except for the requirement to provide Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010. LUC is currently evaluating the impact ASU No. 2010-06 may have on its consolidated financial statements.

(4) Loyola University Health System

Organization

LUHS is a regional integrated health care delivery system providing a full continuum of health care services and competencies in primary care and tertiary care medicine. LUHS provides services to patients in various settings, including a tertiary care hospital, 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)).

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 its clinical 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 years ended June 30, 2010 and 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 payor 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 payor 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

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 2009 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:	
Accounts payable	$ 76
Accrued expenses	8,867
Due to LUMC	2,717
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 a Memorandum of Understanding which provides for financial, operating, and shared services relationships between the organizations. Under this agreement LUMC made payments to LUC in the amount of $24.7 million for 2010 and $37.8 million for 2009.

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 2010 and 2009.

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 $1.5 million in 2010 and $1.8 million in 2009. 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 Gottlieb have agreements with third-party payors that provide for payments to LUHS 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 payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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.

The activity of the physician faculty group is included within the net patient service revenues and is included in the accounts receivable reported in the consolidated statements of financial position. These revenues are also subject to agreements with third-party payors and include payments at amounts different from the established fee schedule. Services to Medicare patients are paid based upon the Resource Based Relative Value fee schedule and Medicaid services are reimbursed using the Medicaid fee schedule. In addition, there are different fee schedule arrangements with the various managed care payors. 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 exceed 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 LUHS is in compliance with current laws and regulations.

In addition to the agreements with third-party payors, LUMC and Gottlieb are dedicated to providing high-quality care to the communities they serve. Patients who cannot afford to pay may receive charity care as described below. Consistent with LUHS' charitable mission, patients without health insurance are provided a discount from established rates.

In 2010 and 2009, LUHS recorded in net patient service revenues $34.4 million each year of Hospital Access Improvement payments from the Illinois Healthcare and Family Services program. LUHS recorded expense of $22.4 million each year for assessments relating to this program in 2010 and 2009. These expenses are reflected in a separate line within the consolidated statements of activities and changes in net assets.

In 2009, 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 statement 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.

LUMC and Gottlieb grant credit without collateral to its patients, most of which are local residents and are insured under third-party payor agreements. The mix of net patient accounts receivable and net patient service revenues (excluding Hospital Access Improvement payments) from patients and third-party payors for 2010 and 2009, was as follows:

	Accounts Receivable		Net Patient Service Revenues	
	2010	2009	2010	2009
Managed Care and Commercial	48%	52%	45%	46%
Medicare	26%	26%	32%	32%
Medicaid	13%	15%	11%	13%
Other	13%	7%	12%	9%
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. The charges foregone associated with the provision of charity care are $49.4 million and $57.0 million in 2010 and 2009, respectively. LUHS also incurs losses related to the unreimbursed costs of providing services to Medicaid patients.

(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 Measurements

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

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

The tables below summarize University Academic's fair value measurements for short-term and long-term investments by the fair value hierarchy levels as of June 30, 2010 and 2009:

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

(in thousands of dollars)	Total	Level 1	Level 2	Level 3
2009				
Cash and cash equivalents	$ 10,008	$ 10,008	$ -	$ -
Money market mutual funds	13,288	13,288		
U.S. marketable equity securities	74,739	74,739		
U.S. marketable equity mutual funds	3,664	3,664		
Non-U.S. marketable equity securities	7,614	7,614		
Non-U.S. marketable equity mutual funds	56,409	56,409		
Non-U.S. marketable equity commingled funds	265			265
Other equity securities	283			283
Fixed income mutual funds	3,967	3,967		
Fixed income commingled funds	70,241		55,978	14,263
U.S. Treasury and government agency debt obligations	192		192	
U.S. corporate debt securities	391		391	
Other fixed income	848		848	
Real estate investment trust commingled funds	8,281		8,281	
Private equity investments	34,090			34,090
Private real assets investments	13,717			13,717
Total	$ 297,997	$ 169,689	$65,690	$62,618

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

(in thousands of dollars)	Other Equity Securities	Non-U.S. Marketable Equity Commingled Funds	Fixed Income Commingled Funds	Private Equity Investments	Private Real Assets Investments	Total
2010						
Balance at July 1, 2009	$ 283	$ 265	$ 14,263	$ 34,090	$ 13,717	$ 62,618
Realized gain (loss)	(83)	10	1,119	3,897		4,943
Unrealized gain (loss)	209	40	2,733	3,836	(7,503)	(685)
Purchases	1,033			5,509	3,026	9,568
Sales	(1)	(80)	(9,977)	(8,173)	(242)	(18,473)
Transfers to (from) Level 3	(433)					(433)
Balance at June 30, 2010	$ 1,008	$ 235	$ 8,138	$ 39,159	$ 8,998	$ 57,538

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

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 equity investments and private real assets investments in the maximum amount of $24.9 million over the next five years, subject to investment period modifications provided for in limited partnership agreements.

Fair value estimates for investment funds calculating net asset value per share as of June 30, 2010 are in the table below. There were no unfunded commitments as of June 30, 2010.

(in thousands of dollars)

Investment Type	Fair Value	Redemption Frequency	Redemption Notice Period	Other Redemption Restrictions
Equity hedge fund of funds	$ 235	Directed by investment manager	N/A	Fund in liquidation
Private real estate commingled funds	1,119	Annual	Thirty days ending one quarter prior to start of year in which units will be redeemed	No more than one fifth of units held at least five years at each notice period may be redeemed; manager has suspended redemptions
Public real estate commingled funds	12,584	Monthly	Ten business days	None
Fixed income commingled funds	21,301	Monthly	Ten business days	None
Fixed income commingled funds	26,225	Daily	Daily	None
Total	$61,464			

The fair value hierarchy levels pertaining to the perpetual trust of which University Academic is sole beneficiary are summarized in the following tables. The trust held no assets valued by means of Level 3 inputs at June 30, 2010 and 2009.

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

(in thousands of dollars)	Total	Level 1	Level 2
2009			
Money market mutual funds	$ 328	$ 328	$ -
U.S. marketable equity securities	2,146	2,146	
U.S. marketable equity mutual funds	546	546	
Non-U.S. marketable equity securities	96	96	
Non-U.S. marketable equity mutual funds	1,303	1,303	
Fixed income mutual funds	486	486	
U.S. corporate debt securities	1,507		1,507
Non-U.S. corporate debt securities	210		210
Real assets exchange-traded funds	65	65	
Real assets mutual funds	875	875	
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 determinable market value for alternative investments, though certain funds may invest in securities for which there is a public market. These investments are subject to varying degrees of liquidity restrictions. The following table summarizes these investments by investment strategy at June 30, 2010 and 2009:

(in thousands of dollars)

Alternative investment strategy	2010	2009	Asset Class	Liquidity
Private equity - fund of funds	$22,688	$24,128	Private equity	No contractual liquidity
Private equity - direct	16,471	9,954	Private equity	No contractual liquidity
Private real estate	8,998	13,717	Real estate	Varies
Fixed income - credit	8,138	14,263	Fixed income	Subject to liquidity restrictions
Long-short equity - fund of funds	235	265	Marketable equity	Subject to liquidity restrictions
Total	$56,530	$62,327		

University Academic - Derivative Financial Instruments

Futures contracts are exchange traded, subject to daily mark-to-market settlement of gain and loss and do not create portfolio leverage. Futures contracts are subject to the same market risk as cash invested directly in stock and bond positions. As of June 30, 2010 and 2009, the investment portfolio held futures contracts with a notional value of $7.3 million and $1.3 million, respectively. The net impact of the futures held at June 30, 2010 is to reduce the proportion of cash in the endowment portfolio by 2.3% while increasing fixed income assets by 2.3%.

At June 30, 2010, seven call options were written on stocks held in the investment portfolio. At June 30, 2009, ten call options were written on stocks held in the investment portfolio.

The fair value of derivative instruments as of June 30, 2010 and 2009 is as follows:

(in thousands of dollars)

Derivative Type	Consolidated Statements of Financial Position Location	2010	2009
Equity and fixed income futures	Endowment and other long-term investments	$ -	$ -
Equity options contracts	Endowment and other long-term investments	(218)	(440)
Total derivatives		$(218)	$(440)

The effect of derivative instruments on the consolidated statements of activities and changes in net assets as of June 30, 2010 and 2009 is as follows:

(in thousands of dollars)

Derivative Type	Location of Gain (Loss) Recognition in Consolidated Financial Statements	2010	2009
Equity and fixed income futures	Investment gain (loss)	$ 508	$(9,278)
Equity options contracts	Investment gain (loss)	337	613
Total derivatives		$ 845	$(8,665)

University Academic - Investment Returns

Investment returns, net of management fees, for the years ended June 30, 2010 and 2009 were:

(in thousands of dollars)	2010	2009
Interest and dividend income (net of fees)	$ 7,081	$ 6,726
Net realized gains (losses)	11,751	(60,217)
Net unrealized gains (losses)	16,519	(48,982)
Total net return on investment	$35,351	$(102,473)

Interest income on short-term investments, cash, and cash equivalents of $781 thousand in 2010 and $1.2 million in 2009 is not included in the investment returns.

University Academic - Endowment

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

The LUC Board of Trustees has reviewed the Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA or the Act) and, having considered its rights and obligations thereunder, has determined that it would be desirable for University Academic 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 University Academic'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, University Academic 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, University Academic considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The purposes of University Academic 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 University Academic;
- The expected total return from income and the appreciation of investments;
- Other University Academic 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, 2010:

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

Current endowment spending policy establishes a maximum spending rate in any given year of 5.0% of an endowment fund's net assets; proposals to spend in excess of five percent must be 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 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
2010	12.4%	3.4%
2009	(26.9)%	2.9%
2008	(5.0)%	2.6%
2007	19.5%	2.6%
2006	13.7%	2.9%

Endowment net assets at June 30, 2010 and 2009 are classified as follows:

(in thousands of dollars)

2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$(4,220)	$64,302	$112,575	$172,657
Board-designated funds functioning as endowment	142,648			142,648
Total endowment net assets	$ 138,428	$64,302	$112,575	$315,305
2009				
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

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 University Academic to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets and totaled $4.2 million and $7.5 million as of June 30, 2010 and 2009, respectively. These deficiencies are the result of unfavorable investment results experienced in recent 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 tables provide a summary of the changes in the endowment net assets for the years ended June 30, 2010 and 2009:

(in thousands of dollars)

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

(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

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.

Gains and losses are calculated using the average cost method. LUHS recorded unrealized gains (losses) on investments of $12.6 million and ($8.4) million in 2010 and 2009, respectively.

Investments include $94.6 million and $86.7 million at June 30, 2010 and 2009, respectively, held by LUCIC for the payment of general and professional liability claims, including $27.5 million and $34.2 million reported as short-term investments at June 30, 2010 and 2009, respectively.

LUHS – Fair Value Measurements

LUHS adopted the Fair Value Measurements and Disclosures Topic of the FASB ASC as of July 1, 2008 and uses the same established fair value hierarchy as described above. The tables below summarize LUHS's fair value measurements for short-term and long-term investments by the fair value hierarchy levels as of June 30, 2010 and 2009:

(in thousands of dollars)	Total	Level 1	Level 2	Level 3
2010				
U.S. Treasury securities and obligations	$ 11,609	$ -	$ 11,609	$ -
U.S. corporate bonds	24,242	14,964	9,278	
Non-U.S. corporate bonds	798		798	
Mutual funds	97,156	24,634	72,522	
U.S. equity securities	51,093	50,121		972
Non-U.S. equity securities	7,373	7,373		
Asset-backed securities	886		886	
Collateralized mortgage obligations	1,190		1,190	
Mortgage-backed securities	7,391		7,391	
Cash and cash equivalents	8,890	8,890		
Other	7,606			7,606
Total	$218,234	$105,982	$103,674	$8,578

(in thousands of dollars)	Total	Level 1	Level 2	Level 3
2009				
U.S. Treasury securities and obligations	$ 30,246	$ -	$ 30,246	$ -
U.S. corporate bonds	36,965	13,407	23,558	
Non-U.S. corporate bonds	1,550		1,550	
Non-U.S. Treasury and obligations of non-U.S. government corporations	47		47	
U.S. equity securities	66,581	65,634		947
Non-U.S. equity securities	6,652	6,627	25	
Asset-backed securities	3,541		3,541	
Collateralized mortgage obligations	6,494		6,494	
Mortgage-backed securities	30,648		30,648	
Cash and cash equivalents	11,003	11,003		
Other	8,075			8,075
Total	$201,802	$ 96,671	$ 96,109	$9,022

There were no purchases or sales of the Level 3 holdings in the current year. In addition, there were no transfers to or from Level 3 in the current year. The Level 3 holdings consist of real estate and common stock with a non-listed energy company located in Texas and incorporated in Delaware, involved in the exploration, production, and operation of oil and natural gas in California and Oklahoma.

LUHS - Investment Returns

Investment returns, net of management fees, for the years ended June 30, 2010 and 2009 were:

(in thousands of dollars)	2010	2009
Interest and dividend income (net of fees)	$ 6,637	$ 9,764
Net realized gains (losses)	5,825	(23,589)
Net unrealized gains (losses)	12,638	(8,438)
Total net return on investment	$25,100	$(22,263)

LUHS - Endowment

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 LUHS 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, 2010 and 2009:

(in thousands of dollars)	Board-Designated Unrestricted	Donor-Restricted Temporarily Restricted	Donor-Restricted Permanently Restricted	Total
2010				
Net assets, beginning of year	$ 1,457	$ 744	$6,609	$ 8,810
Investment gain		127		127
Contributions			31	31
Net assets released from restrictions	(15)	(201)		(216)
Net assets, end of year	$ 1,442	$ 670	$6,640	$ 8,752
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

(6) Notes and Accounts Receivable

Notes and accounts receivable at June 30, 2010 and 2009 consisted of:

(in thousands of dollars)	2010			
	University Academic	LUHS	Total	2009
Student loan notes (less allowance for doubtful accounts of $1,739 (2010) and $1,641 (2009))	$ 21,314	$ -	$ 21,314	$ 20,997
Contributions (less discount of $14,720 (2010) and $7,583 (2009) and allowance for doubtful accounts of $1,091 (2010) and $944 (2009))	13,217	8,822	22,039	17,389
Health care (less allowance for doubtful accounts of $26,217 (2010) and $17,221 (2009))		136,987	136,987	157,668
Student receivables (less allowance for doubtful accounts of $5,469 (2010) and $4,058 (2009))	12,390		12,390	15,863
Grant receivables (less allowance for doubtful accounts of $0 (2010) and $67 (2009))	3,838		3,838	3,958
Other (less allowance for doubtful accounts of $63 (2010) and $120 (2009))	6,099		6,099	4,890
Total notes and accounts receivable	$ 56,858	$145,809	$202,667	$220,765

Contributions receivable at June 30, 2010 and 2009 are due in the following periods:

(in thousands of dollars)	2010			
	University Academic	LUHS	Total	2009
In one year or less	$ 4,270	$ 4,659	$ 8,929	$ 6,469
Between one year and five years	3,563	4,420	7,983	8,951
More than five years	20,938		20,938	10,496
Discount $14,720 (2010) and $7,583 (2009) and allowance for doubtful accounts of $1,091 (2010) and $944 (2009)	(15,554)	(257)	(15,811)	(8,527)
Total contributions receivable	$ 13,217	$ 8,822	$ 22,039	$ 17,389

(7) Land, Buildings and Equipment

Components of land, buildings, equipment, and library books at June 30, 2010 and 2009 were:

(in thousands of dollars)	2010			
	University Academic	LUHS	Total	2009
Land and land improvements	$ 193,218	$ 43,996	$ 237,214	$ 150,916
Buildings	760,235	558,650	1,318,885	1,287,966
Equipment	77,295	308,556	385,851	371,397
Library books and art	29,340		29,340	21,241
Construction in progress	33,453	7,558	41,011	29,679
Total	1,093,541	918,760	2,012,301	1,861,199
Accumulated depreciation	(387,834)	(495,282)	(883,116)	(814,571)
Land, buildings, and equipment – net	$ 705,707	$ 423,478	$ 1,129,185	$ 1,046,628

As of June 30, 2010, University Academic and LUHS have commitments of $21.5 million and $4.4 million, respectively, related to various capital projects.

As of June 30, 2010 and 2009, University Academic included $507 thousand and $422 thousand of capitalized asset retirement costs, net of accumulated depreciation, within buildings, and $3.6 million and $6.1 million, respectively, of conditional asset retirement obligations within other liabilities in the consolidated statements of financial position.

As of June 30, 2010 and 2009, LUHS included $499 thousand and $166 thousand of capitalized asset retirement costs, net of accumulated depreciation, within buildings, and $994 thousand and $682 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, 2010 and 2009 are shown below:

(in thousands of dollars)	Final Maturity	Interest Rate	2010	Interest Rate	2009
University Academic					
Fixed rate:					
Illinois Finance Authority (IFA) (formerly Illinois Educational Facilities Authority (IEFA)):					
Series 1997C taxable bonds	2013	7.09-7.12%	$ 18,590	7.05-7.12%	$ 24,550
Series 2003A tax-exempt bonds	2027	5.00%	28,155	5.00%	28,155
Series 2003B taxable bonds	2022	5.60%	37,520	5.60%	37,520
Series 2004A tax-exempt bonds	2026	5.00-5.25%	24,000	5.00-5.25%	24,000
Series 2007 tax-exempt bonds	2025	4.00-5.00%	27,170	4.00-5.00%	27,405
Series 2003C taxable direct obligation bonds	2019	4.80-5.30%	40,805	4.80-5.30%	40,805
Medium-term notes	2018	7.52%	21,100	7.52%	21,100
Mortgage notes:					
6542-48 N. Sheridan Road	2016	9.50%	450	9.50%	515
Rome Center [1]	2029	1.51%	11,953		
City of Chicago Loan	2013	0.00%	312	0.00%	438
Total fixed rate			$210,055		$204,488
Variable rate: [2]					
IFA 2008 tax-exempt commercial paper [3]	2038	0.29%	$ 80,000	0.50%	$ 80,000
Total variable rate			$ 80,000		$ 80,000
Total University Academic indebtedness			$290,055		$284,488
Adjustment for unamortized bond premium/(discount)			$ 1,541		$ 1,653
Total University Academic indebtedness net of unamortized premium/(discount)			$291,596		$286,141

(1) Principal amount outstanding is subject to currency (euro) fluctuations.

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

(3) The $80 million unsecured commercial paper is fully backed by a direct-pay letter of credit from JP Morgan Chase Bank, N.A. that expires November 30, 2011.

During the fiscal year ended June 30, 2010, University Academic 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 and was financed with a cash payment of € 11.8 million and a € 10 million note payable to the Congregation over 20 years at an interest rate of 1.51%.

University Academic maintains an 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 2007 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, 2010, there was no balance outstanding on the line of credit. Interest paid on the line of credit was $34 thousand for the year ended June 30, 2010.

(in thousands of dollars)	Final Maturity	Interest Rate	2010	Interest Rate	2009
LUHS					
Long-term debt:					
Fixed rate:					
Illinois Health Facilities Authority (IHFA):					
Series 2001A tax-exempt bonds	2011	5.75%	$ 5,640	5.75%-6.125%	$ 8,230
Series 1997A tax-exempt bonds	2024	5.00-6.00%	102,606	5.00%-6.00%	106,830
Total fixed rate			$ 108,246		$ 115,060
Variable rate:					
Illinois Health Facilities Authority (IHFA):					
Series 2006A tax-exempt bonds	2035	0.23%	$ 85,145	0.30%	$ 85,145
Series 2006B tax-exempt bonds	2041	0.21%	75,000	0.22%	75,000
Series 2006C tax-exempt bonds	2041	0.45%	75,000	3.25%	75,000
Series 1997B tax-exempt bonds	2024	6.25%	7,244	3.25%-6.00%	10,190
Total variable rate			$ 242,389		$ 245,335
Short-term debt:					
Line of credit			-		$ 20,000
Total LUHS indebtedness			$ 350,635		$ 380,395
Adjustment for unamortized bond premium/(discount)			$(539)		$(610)
Total LUHS indebtedness net of unamortized premium/(discount)			$ 350,096		$ 379,785

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 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 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. 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. The repayment of any liquidity advance resulting from a failed marketing of the Series 2006 bonds would not become due until the earlier of a successful remarketing of the Bonds, or the expiration of the Letter of Credit Agreement. The maturity date on the Series 2006 bonds may be accelerated upon the occurrence of specified events.

During the fiscal year 2009, $13.5 million of the Series 2006A bonds and $71.9 million of the Series 2006C bonds were tendered. The bonds were subsequently remarketed. During fiscal year 2010 there were no failed remarketings.

In June 2008, the bond insurer for the 1997B bonds was downgraded. On June 5, 2009, the bond insurer was downgraded by a second rating agency. The bond insurer failed to have a permitted minimum bond insurer rating for a period of 90 consecutive days from at least one of the recognized rating agencies, causing an insurer event of default. The commercial bank providing the Standby Bond Purchase Agreement executed a mandatory tender on October 6, 2009, due to the lack of a permitted minimum bond insurer rating. LUHS has elected to repay the bonds quarterly through March of 2012 per the term out provision of the Standby Bond Purchase Agreement that expires in March of 2012.

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 with an outlook of stable. Any downgrade below Baa3 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.

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 1.35% or 2.0%. The line of credit was repaid in August of 2009. This facility was allowed to expire in October of 2009 and was not renewed. On April 7, 2010 LUMC signed an agreement for a $20.0 million line of credit with The Northern Trust Bank. Currently there are no amounts outstanding. Total interest paid on the previous line of credit was $142 thousand and $191 thousand for the years ended June 30, 2010 and 2009, respectively.

In 2010 and 2009, University Academic recorded capitalized interest of $605 thousand and $325 thousand, respectively, and LUHS recorded capitalized interest of $16 thousand and $109 thousand, respectively. Bond discounts, premiums, and costs incurred in connection with the issuance of bonds are deferred and amortized over the life of the related indebtedness.

Debt Covenants

Some debt agreements require University Academic and LUHS to maintain sinking or reserve funds, and some require the maintenance of financial ratios or impose other restrictions. Management believes both University Academic and LUHS are in compliance with financial debt covenants as of June 30, 2010.

Repayments and Classification

Total scheduled maturities for the next five fiscal years are:

(in thousands of dollars)	Fiscal Year	University Academic	LUHS	Total
	2011	$ 7,009	$ 10,867	$ 17,876
	2012	7,479	13,392	20,871
	2013	5,987	7,260	13,247
	2014	7,357	7,700	15,057
	2015	7,714	7,880	15,594
	Thereafter	254,509	303,536	558,045
		$290,055	$350,635	$640,690

Disclosure of Fair Value of Long-term Debt

The fair value of the outstanding long-term debt as of June 30, 2010 and 2009 was:

(in thousands of dollars)	2010		2009	
	Fair Value	Carrying Value	Fair Value	Carrying Value
University Academic	$294,561	$291,596	$283,134	$286,141
LUHS	349,993	350,096	356,875	359,785

The fair value of long-term debt is determined based on discounted cash flows or market prices for comparable borrowings as of June 30, 2010 and 2009.

Interest paid for the years ended June 30, 2010 and 2009 was:

(in thousands of dollars)	2010			
	University Academic	LUHS	Total	2009
Interest paid	$11,841	$7,450	$19,291	$23,966

LUHS Interest Rate Swaps

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 $85.0 million. The net amounts received under the interest rate swap agreements increased (reduced) interest expense by $(545) thousand in 2010 and by $265 thousand in 2009.

The fair value of the swap agreements at June 30, 2010 and 2009, representing an unrealized loss of $8.9 million and $11.0 million, respectively, is recorded as a component of other liabilities in the consolidated statements of financial position. This is considered a Level 2 measurement in the three-tier fair value hierarchy that is described in Note 5. At June 30, 2010 there was $9.3 million on deposit with the counterparty of which $8.9 million is collateral under the swap agreements with the counterparty and is recorded within endowment and other long-term investments in the consolidated statements of financial position. The remaining $419 thousand is below the contracted threshold for return and is being held at the counterparty in an overnight LIBOR investment and is available to LUHS when and if requested and is recorded within cash and cash equivalents on the consolidated statements of financial position. LUHS recorded the net mark-to-market fair value adjustment of the swaps as a gain of $2.1 million and a loss of $10.0 million for the years ended June 30, 2010 and 2009, 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, 2010.

LUHS

LUMC purchases claims-made insurance coverage from LUCIC for primary and patient general liability claims, as well as excess liability claims. Additional layers of professional liability insurance are available with coverage provided through other insurance carriers and various reinsurance arrangements. Reinsurance recoveries receivable of $11.9 million and $6.9 million were recorded as other assets at June 30, 2010 and 2009, respectively.

LUMC's estimated claims, including an estimate of incurred but not reported claims are discounted using a rate of 5.50% at June 30, 2010 and 2009. The amounts of the discounts were $18.0 million and $17.9 million in 2010 and 2009, respectively. These estimates are based on the loss and loss adjustment expense factors inherent in LUMC's premium structure. Independent consulting actuaries determined these factors from estimates of LUMC's expenses and available industry-wide data. The reserves include estimates of future trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes that the liability for unpaid claims and related adjustment expenses is adequate based on the loss experience of LUMC. The estimates are continually reviewed and adjusted as necessary with such adjustments reflected in current operations.

Effective January 1, 2001, Gottlieb purchased occurrence-based professional and general insurance coverage from the Chicago Hospital Risk Pooling Program (CHRPP). On January 1, 2003, CHRPP converted to claims-made coverage. Gottlieb premiums were $4.4 million and $4.1 million for 2010 and 2009, respectively. Gottlieb records an actuarially determined estimate for incurred but not reported claims and discounts such estimate using a rate of 4.25% and 4.50% at June 30, 2010 and 2009, respectively. The amounts of the discounts were $1.3 million in both 2010 and 2009. Self insurance liabilities for losses prior to December 31, 2001 carry reserves of $15.8 million and $16.5 million at June 30, 2010 and 2009, respectively. Effective July 1, 2010, Gottlieb has purchased claims-made insurance coverage from LUCIC for primary professional liability coverage.

LUHS's expenses related to general and professional liability were $43.3 million and $22.2 million for 2010 and 2009, respectively. The 2009 expense includes favorable prior year experience reflected in LUMC'S 2009 actuarial estimates. LUHS's expenses include primary and patient general liability and medical malpractice liability insurance provided to LUPF and its physicians prior to January 1, 2009. Premiums from LUPF related to general liability and medical malpractice liability insurance were $0 and $6.0 million for 2010 and 2009, respectively. These premiums are included in other revenue in the consolidated statements of activities and changes in net assets.

(10) Retirement Plans

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

Effective April 1, 2004, University Academic established a new defined contribution plan. University Academic's expense under this plan was $14.3 million and $15.2 million for 2010 and 2009, 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 $30.9 million to LUMC-ERP in fiscal year 2011. 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 $4.2 million in 2011. The GHR plan is governed by ERISA.

For LUHS, the LUERP plan has a projected benefit obligation of $151.5 million and $140.2 million and a fair value of plan assets of $127.1 million and $121.0 million as of June 30, 2010 and 2009, respectively. The LUMC-ERP plan has a projected benefit obligation of $141.0 million and $102.0 million, and a fair value of plan assets of $62.5 million and $40.4 million as of June 30, 2010 and 2009, respectively. The GHR plan has a projected benefit obligation of $103.8 million and $86.6 million and a fair value of plan assets of $75.6 million and $61.3 million as of June 30, 2010 and 2009, respectively.

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 $231 thousand (including a curtailment expense of $0 thousand) and $910 thousand (including a curtailment expense of $394 thousand) for 2010 and 2009, 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 $707 thousand and $917 thousand for 2010 and 2009, respectively.

The LUHS Restoration Retirement and Supplemental Employee Retirement plans have a projected benefit obligation of $3.5 million and $1.8 million and no plan assets as of June 30, 2010 and 2009, respectively.

Summary information for the defined benefit pension plans (LUERP, LUMC-ERP, GHR plan, the Restoration Retirement plan, and the Supplemental Employee Retirement plan) follows:

(in thousands of dollars)	2010			
	University Academic	Combined LUMC Plans	Total	2009
Change in projected benefit obligation				
Projected benefit obligation, beginning of year	$ 70,446	$ 330,573	$ 401,019	$ 375,694
Plan amendment		164	164	95
Service cost		15,627	15,627	16,190
Interest cost	4,380	21,558	25,938	25,568
Benefits paid	(8,016)	(12,870)	(20,886)	(17,884)
Actuarial (gain) loss	8,876	44,759	53,635	2,105
Employee transfers				(54)
Settlement				(695)
Projected benefit obligation, end of year	$ 75,686	$ 399,811	$ 475,497	$ 401,019
Change in plan assets				
Fair value of plan assets, beginning of year	$ 61,613	$ 222,672	$ 284,285	$ 350,813
Actual return on plan assets	7,986	30,961	38,947	(59,499)
Employer contributions		24,401	24,401	11,550
Benefits paid	(8,016)	(12,870)	(20,886)	(18,579)
Fair value of plan assets, end of year	$ 61,583	$ 265,164	$ 326,747	$ 284,285
Funded status				
Funded status of the plans	$(14,103)	$(134,647)	$(148,750)	$(116,734)
Amounts included in the statement of financial position				
Pension and other postretirement plan liabilities	$(14,103)	$(134,647)	$(148,750)	$(116,734)
Amounts not yet recognized in net periodic pension cost and included in unrestricted net assets				
Actuarial loss	$ 43,339	$ 137,354	$ 180,693	$ 152,679
Net prior service cost		2,339	2,339	2,758
Total	$ 43,339	$ 139,693	$ 183,032	$ 155,437

(in thousands of dollars)	2010			
	University Academic	Combined LUMC Plans	Total	2009
Pension plan changes other than net periodic pension expense	$(4,235)	$(27,060)	$(31,295)	$(84,105)
Components of net pension expense				
Service cost	$ -	$ 15,627	$ 15,627	$ 16,190
Interest cost	4,380	21,558	25,938	25,568
Expected return on plan assets	(4,551)	(18,143)	(22,694)	(27,054)
Net amortization and deferral	1,207	8,746	9,953	4,199
Net periodic pension cost	1,036	27,788	28,824	18,903
Curtailment and settlement				394
Total	$ 1,036	$ 27,788	$ 28,824	$ 19,297

	2010			
	University Academic	Combined LUMC Plans	Total	2009
Weighted average assumptions				
Discount rate - benefit obligations	5.01%	5.16%	5.60%	6.25-6.84%
Discount rate - pension expense	6.52%	5.48%	6.25%	6.25-7.11%
Rate of compensation increase	n/a	n/a	3.50%	3.00-3.50%
Expected long-term return on assets	7.80%	7.80%	7.80%	7.80-8.50%

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

	2010			2009		
	University Academic	Combined LUMC Plans	GHR	University Academic	Combined LUMC Plans	GHR
Cash	1%	1%		13%	10%	9%
Equity securities	36%	47%	55%	38%	40%	51%
Fixed income securities	52%	47%	45%	36%	40%	40%
Private investments	6%	3%		8%	6%	
Other, including real estate	5%	2%		5%	4%	
Total	100%	100%	100%	100%	100%	100%

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

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

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

(in thousands of dollars)	Other Equity Securities	Private Equity Investments	Private Real Assets Investments	Total
Balance at July 1, 2009	$ 59	$ 4,697	$ 1,289	$ 6,045
Realized gain		1,002		1,002
Unrealized loss	(26)	(365)	(1,095)	(1,486)
Purchases	192	30		222
Sales		(1,409)	(87)	(1,496)
Transfers to (from) Level 3	(38)			(38)
Balance at June 30, 2010	$ 187	$ 3,955	$ 107	$ 4,249

The table below summarizes LUHS's fair value measurements of the LUERP, LUMC-ERP, and GHR plan portfolios by the fair value hierarchy levels as of June 30, 2010:

(in thousands of dollars)	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 467	$ 238	$ 229	$ -
Short term investment funds	1,626	1,626		
U.S. marketable equity securities	49,512	49,512		
U.S. marketable equity collective trusts	11,452		11,452	
Non-U.S. marketable equity securities	1,115	1,115		
Non-U.S. marketable equity collective trusts	16,385		16,385	
Other equity securities	387			387
Mutual funds	81,715	6,328	75,387	
Fixed income exchange-traded funds	291	291		
Fixed income collective trusts	9,471		9,471	
U.S. Treasury and government agency debt obligations	8,138	578	7,560	
U.S. state and municipal debt obligations	1,467		1,467	
U.S. corporate debt securities	45,355		45,355	
Non-U.S. corporate debt securities	7,900		7,900	
Collateralized mortgage obligations	241		241	
Mortgage-backed securities	9,994		9,994	
Asset-backed securities	574		574	
Private equity investments	8,160			8,160
Commingled funds	10,260		10,260	
Real estate investment trust exchange-traded funds	434	434		
Private real assets investments	220			220
Total	$265,164	$60,122	$196,275	$8,767

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

(in thousands of dollars)	Other Equity Securities	Private Equity Investments	Private Real Assets Investments	Total
Balance at July 1, 2009	$ 122	$ 9,690	$ 2,659	$ 12,471
Realized gain		2,068		2,068
Unrealized loss	(53)	(753)	(2,260)	(3,066)
Purchases	396	62		458
Sales		(2,907)	(179)	(3,086)
Transfers to (from) Level 3	(78)			(78)
Balance at June 30, 2010	$ 387	$ 8,160	$ 220	$ 8,767

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 the investment mix and the expected rates of return for the various investment strategies employed.

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

(in thousands of dollars)	Fiscal Year	University Academic	Combined LUMC Plans	Total
	2011	$ 6,300	$ 17,164	$ 23,464
	2012	6,338	17,977	24,315
	2013	6,373	18,983	25,356
	2014	6,041	23,493	29,534
	2015	5,828	21,868	27,696
	2016-2020	26,312	128,755	155,067

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 2010 and 2009 was $3.1 million for both years.

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 2010 and 2009 was $640 thousand and $716 thousand, respectively.

In addition, all employed physicians who work 1,000 or more hours or as specified within their contract 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 2010 and 2009 was $6.8 million and $4.4 million, respectively.

(11) Other Postretirement Benefits

University Academic has a defined benefit retiree health plan covering eligible employees upon their retirement. Health benefits are provided subject to various cost-sharing features and are not prefunded. As of June 30, 2010 and 2009, University Academic recognized $(1.5) million and $(1.2) million, respectively, of retirement plan related changes other than net periodic retirement plan expense as non-operating activities in the consolidated statements of activities and changes in net assets.

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 $406 thousand for covered retirees in 2011.

As of June 30, 2010 and 2009, LUHS recognized $(1.4) million and $(2.7) million of retirement plan related changes other than net periodic retirement plan expense as non-operating activities in the consolidated statements of activities and changes in net assets.

Defined benefit retiree health plan costs included in the consolidated statements of activities and changes in net assets for University Academic and LUHS for the years ended June 30, 2010 and 2009 were:

(in thousands of dollars)	2010			
	University Academic	LUHS	Total	2009
Change in benefit obligation				
Benefit obligation, beginning of year	$ 31,469	$ 5,577	$ 37,046	$ 34,009
Service cost	1,555	117	1,672	1,674
Interest cost	2,015	364	2,379	2,281
Participant contributions	1,153	362	1,515	1,611
Benefits paid	(2,201)	(403)	(2,604)	(3,259)
Actuarial (gain) loss	437	294	731	730
Benefit obligation, end of year	$ 34,428	$ 6,311	$ 40,739	$ 37,046
Change in plan assets				
Fair value of plan assets, beginning of year	$ -	$ -	$ -	$ -
Employer contributions	1,048	41	1,089	1,648
Participant contributions	1,153	362	1,515	1,611
Benefits paid	(2,201)	(403)	(2,604)	(3,259)
Fair value of plan assets, end of year	$ -	$ -	$ -	$ -
Funded status				
Funded status of plan	$(34,428)	$(6,311)	$(40,739)	$(37,046)
Amounts not yet recognized in net periodic benefit cost and included in unrestricted net assets				
Actuarial loss	$ 1,588	$ 4,699	$ 6,287	$ 6,192
Prior service (benefit)		(1,714)	(1,714)	(4,437)
Total	$ 1,588	$ 2,985	$ 4,573	$ 1,755
Components of net periodic postretirement benefit cost				
Service cost	$ 1,555	$ 117	$ 1,672	$ 1,674
Interest cost	2,015	364	2,379	2,281
Amortization of unrecognized prior service (benefit) and actuarial loss	(1,026)	(1,061)	(2,087)	(3,260)
Net periodic postretirement benefit cost	$ 2,544	$(580)	$ 1,964	$ 695
Discount rate	5.01%	5.16%		6.25-7.11%

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

For University Academic, there are no estimated net actuarial loss and prior service (benefit) for the plan that will be amortized from unrestricted net assets into net periodic postretirement benefit cost during the 2011 fiscal year.

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 periodic postretirement benefit cost during the 2011 fiscal year are $737 thousand and $(1.7) million, respectively.

(in thousands of dollars)	2010			
	University Academic	LUHS	Total	2009
Effect of a 1% change in the health care cost trend rates				
1% increase				
On year-end postretirement benefit obligations	$ 1,724	$ 733	$ 2,457	$ 2,875
On total of service and interest cost components	126	63	189	254
1% decrease				
On year-end postretirement benefit obligations	$(1,606)	$(639)	$(2,245)	$(2,685)
On total of service and interest cost components	(124)	(54)	(178)	(240)

Estimated future benefit payments

(in thousands of dollars)	Fiscal Year	University Academic	LUHS	Total
	2011	$ 2,116	$ 406	$ 2,522
	2012	2,685	426	3,111
	2013	3,253	426	3,679
	2014	3,783	429	4,212
	2015	4,214	443	4,657
	2016-2020	21,937	2,089	24,026

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. The accounts cannot be accessed until after age 60 and 10 years of continuous service. Accounts will continue to earn interest during retirement and can be used by the retiree or spouse to pay qualified retiree medical expenses, including monthly premiums for coverage under 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, 2010 and 2009 were:

(in thousands of dollars)	2010	2009
Instruction	$ 108,658	$ 109,817
Research and other sponsored programs	43,353	44,125
Academic support	35,144	45,721
Student services	30,200	28,235
Institutional support	69,056	71,685
Operations and maintenance	21,886	22,912
Depreciation	26,800	24,673
Patient care	1,064,941	1,011,904
Auxiliary services	42,917	42,937
Total operating expenses	$1,442,955	$1,402,009

(13) Restricted Net Assets

The program restrictions for temporarily and permanently restricted net assets at June 30, 2010 and 2009 were:

(in thousands of dollars)	2010			
	University Academic	LUHS	Total	2009
Temporarily Restricted				
Academic or program support and student financial aid	$ 78,557	$ -	$ 78,557	$ 75,304
Research	3,716	971	4,687	10,716
Student loans	2,980		2,980	2,963
Construction	1,985	14,106	16,091	1,314
Other	28,273	4,660	32,933	33,497
Total temporarily restricted net assets	$115,511	$19,737	$135,248	$123,794
Permanently Restricted				
Academic or program support and student financial aid	$123,838	$ -	$123,838	$114,320
Research	50	4,692	4,742	50
Student loans	1,148		1,148	1,148
Other		1,948	1,948	6,609
Total permanently restricted net assets	$125,036	$ 6,640	$131,676	$122,127

(14) Related Party Transactions

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 $9.9 million and $9.5 million as of June 30, 2010 and 2009, respectively, is recorded using the equity method. LUMC provides renal dialysis and reference laboratory services to RML. The revenue from these services was $1.2 million and $1.5 million for 2010 and 2009, respectively. In addition, LUHS has guaranteed 50% of certain outstanding debt of RML. As of June 30, 2010 and 2009, LUHS's guarantee was $1.7 million and $2.0 million, respectively.

The following summarizes condensed financial information of RML as of and for the years ended May 31, 2010 and 2009:

(in thousands of dollars)	2010	2009
Net assets	$19,720	$18,813
Revenues	52,425	43,998
Expenses	48,505	42,984

Loyola Ambulatory Surgical Center

LUHS owns a 49% interest in Loyola Ambulatory Surgical Center (LASCO), a joint venture with Surgical Care Affiliates. LUHS’s investment in LASCO of $1.5 million and $1.7 million as of June 30, 2010 and 2009, 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, 2009 and 2008:

(in thousands of dollars)	2009	2008
Net assets	$3,318	$1,700
Revenues	5,200	5,087
Expenses	3,802	4,167

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 $1.5 million and $493 thousand, respectively, in 2010 and $1.1 million and $602 thousand, respectively, in 2009, 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 $3.9 million in the event the lease for the cogeneration plant is not renewed in January 2013 and the plant is not sold. The obligation may be reduced by excess proceeds from the sale of the plant. Rent paid under operating leases was $8.2 million in 2010 and $7.7 million in 2009.

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

(in thousands of dollars)	
Fiscal year ending June 30	
2011	$ 8,130
2012	7,062
2013	5,727
2014	3,899
2015	2,916
thereafter	1,331
Total	$29,065

(16) Medical Resident FICA Refund

LUMC has filed claims with the Internal Revenue Service (IRS) seeking refunds of FICA taxes previously paid on medical residents' salaries on the basis that the residents are exempt from FICA taxes under the IRS's student exception rules. The IRS had historically disputed this position and not acted on the refund claims. In 2009, LUMC filed suit in the United States District Court for the Northern District of Illinois against the United States to obtain these refunds under Case number 1:09-cv-04997.

In March 2010, the IRS issued IR-2010-25 announcing its administrative determination to accept the position that medical residents are exempt from FICA taxes based on the student exception for tax periods ending before April 1, 2005 when new IRS regulations went into effect. In May 2010, the IRS issued Publication 4843-A, *Instructions for Medical Resident FICA Refund Claims*, providing further guidance on the refund claim process. Due to the government's concession, LUMC and the U.S. Department of Justice, Tax Division executed and filed a stipulation to dismiss only the portion of the case dealing with the period before the effective date of the new regulation.

In 2010 LUHS recorded approximately $11.1 million related to an anticipated refund of medical resident FICA taxes previously paid and expensed for periods from 1998 through March 31, 2005. LUHS expects payment from the IRS in fiscal year 2011. Such refund has been reported as a reduction of fringe benefits in the 2010 consolidated statements of activities and changes in net assets with a refund receivable reported in other assets in the 2010 consolidated statements of financial position.

LUMC continues to pursue medical resident FICA refund claims on taxes previously paid and expensed for periods subsequent to March 31, 2005. LUMC's lawsuit for the new regulation period remains pending in the U.S. District Court for the Northern District of Illinois. No amounts have been recorded in connection with these claims.

(17) Commitments and Contingencies

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

(18) Financial Instruments with Off-Balance Sheet Risk

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

(19) Subsequent Events

University Academic

LUC has evaluated subsequent events through September 24, 2010, the date the consolidated financial statements were available to be issued. LUC did not identify any subsequent events to be disclosed.

LUHS

LUHS has evaluated subsequent events through September 24, 2010, the date the consolidated financial statements were available to be issued. LUHS did not identify any subsequent events to be disclosed.

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