
Cuneo Hall, Lake Shore Campus

LOYOLA UNIVERSITY CHICAGO

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

For the years ended June 30, 2012 and 2011

Deloitte.

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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, 2012 and 2011, and the related consolidated statements of activities and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of LUC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of LUC as of June 30, 2012 and 2011, 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.

Deloitte & Touche LLP

October 19, 2012

LOYOLA UNIVERSITY CHICAGO
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of June 30, 2012 and 2011 (in thousands of dollars)

	2012	2011
ASSETS		
Cash and cash equivalents	$ 345,807	$ 80,354
Short-term investments	24,999	
Notes and accounts receivable, net	95,152	60,269
Receivable from Trinity Health	75,000	212,003
Other assets	11,662	7,416
Endowment and other long-term investments	444,047	400,304
Assets held in trust by others	56,256	
Interest held in perpetual trust	9,588	9,847
Land, buildings and equipment, net	912,629	788,048
TOTAL ASSETS	**$ 1,975,140**	**$ 1,558,241**
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 88,942	$ 65,666
Deferred income	34,828	34,011
Unexpended grants	14,675	18,036
Refundable advances - loans	18,426	18,132
Indebtedness	593,865	285,905
Pension and other postretirement plan liabilities	51,847	38,876
Other liabilities	3,814	3,810
TOTAL LIABILITIES	806,397	464,436
NET ASSETS:		
Unrestricted	862,251	822,888
Temporarily restricted	167,559	139,290
Permanently restricted	138,933	131,627
TOTAL NET ASSETS	**1,168,743**	**1,093,805**
TOTAL LIABILITIES AND NET ASSETS	**$ 1,975,140**	**$ 1,558,241**

See notes to the consolidated financial statements.

LOYOLA UNIVERSITY CHICAGO
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the years ended June 30, 2012 and 2011 (in thousands of dollars)

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2011
OPERATING REVENUES:								
Tuition and fees, net of scholarships $128,932 (2012) and $121,179 (2011)	$ 320,972	$ -	$ -	$ 320,972	$ 313,592	$ -	$ -	$ 313,592
Grants and contracts for sponsored projects	49,511			49,511	51,192			51,192
Academic support	22,772			22,772	18,258			18,258
Gifts	2,971			2,971	2,027			2,027
Interest income	313			313	197			197
Investment income designated for operations	4,627			4,627	4,226			4,226
Other	22,179			22,179	17,908			17,908
Auxiliary services	49,631			49,631	46,406			46,406
Net assets utilized or released from restrictions for operations	17,196			17,196	19,470			19,470
TOTAL OPERATING REVENUES	**490,172**			**490,172**	**473,276**			**473,276**
OPERATING EXPENSES:								
Salaries and wages	210,556			210,556	199,164			199,164
Fringe benefits	57,513			57,513	53,202			53,202
Non-salary operating expenses	118,748			118,748	110,140			110,140
Insurance	1,944			1,944	1,468			1,468
Depreciation and amortization	40,217			40,217	37,314			37,314
Interest	9,895			9,895	10,128			10,128
Utilities	7,020			7,020	7,580			7,580
TOTAL OPERATING EXPENSES	**445,893**			**445,893**	**418,996**			**418,996**
RESULTS OF OPERATIONS	**44,279**			**44,279**	**54,280**			**54,280**
NON-OPERATING ACTIVITIES:								
Gifts	1,941	45,237	4,125	51,303		11,934	4,785	16,719
Investment gain (loss), net of amounts designated for operations	(2,082)	2,010	(272)	(344)	29,505	37,301		66,806
Other	(1,534)	(312)	943	(903)	1,303	(632)	1,795	2,466
Retirement plan related changes other than net periodic retirement plan expense	(11,111)			(11,111)	12,473			12,473
Net assets transferred or released from restrictions	(1,040)	(18,666)	2,510	(17,196)	5,343	(24,824)	11	(19,470)
TOTAL NON-OPERATING ACTIVITIES	**(13,826)**	**28,269**	**7,306**	**21,749**	**48,624**	**23,779**	**6,591**	**78,994**
CHANGE IN NET ASSETS FROM CONTINUING OPERATIONS	**30,453**	**28,269**	**7,306**	**66,028**	**102,904**	**23,779**	**6,591**	**133,274**
DISCONTINUED OPERATIONS:								
Gain from discontinued operations					91,247	625	31	91,903
Gain (loss) on disposal of discontinued operations	8,910			8,910	(22,601)	(20,362)	(6,671)	(49,634)
CHANGE IN NET ASSETS FROM DISCONTINUED OPERATIONS	**8,910**	**-**	**-**	**8,910**	**68,646**	**(19,737)**	**(6,640)**	**42,269**
CHANGE IN NET ASSETS	**39,363**	**28,269**	**7,306**	**74,938**	**171,550**	**4,042**	**(49)**	**175,543**
Total net assets, beginning of year	822,888	139,290	131,627	1,093,805	651,338	135,248	131,676	918,262
TOTAL NET ASSETS, END OF YEAR	**$ 862,251**	**$ 167,559**	**$ 138,933**	**$ 1,168,743**	**$ 822,888**	**$ 139,290**	**$ 131,627**	**$ 1,093,805**

See notes to the consolidated financial statements.

LOYOLA UNIVERSITY CHICAGO
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2012 and 2011 (in thousands of dollars)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 74,938	$ 175,543
Increase in net assets from discontinued operations	(8,910)	(42,269)
Increase in net assets from continuing operations	66,028	133,274
Adjustments to reconcile increase in net assets from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	40,217	37,314
Provision for bad debt expense	1,141	1,155
Cost of early extinguishment of debt	3,880	
Retirement plan market (gain) loss	11,111	(12,473)
Provision for retirement costs	3,137	4,031
Net realized and unrealized (gain) loss on investments	3,997	(63,348)
Contributions restricted for long-term investment	(4,390)	(4,713)
Other	3,796	(289)
Changes in assets and liabilities:		
Notes and accounts receivable	(36,011)	(4,084)
Other assets	(2,719)	(595)
Accounts payable and accrued expenses	8,590	3,882
Deferred income and unexpended grants	(2,544)	5,572
Interest held in perpetual trust	259	(1,630)
Refundable advances - loans	294	370
Other liabilities	(120)	(1,330)
NET CASH PROVIDED BY OPERATING ACTIVITIES - CONTINUING OPERATIONS	**96,666**	**97,136**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	255,057	205,428
Purchase of investments	(327,796)	(210,855)
Proceeds from sale of property		3,656
Expenditures for land, buildings and equipment	(157,704)	(113,396)
Student loans issued	(3,073)	(3,676)
Student loans sold and collected	3,060	3,194
NET CASH USED BY INVESTING ACTIVITIES - CONTINUING OPERATIONS	**(230,456)**	**(115,649)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for long-term investment	4,390	4,713
Issuance of new debt	375,247	
Issuance costs	(1,894)	
Advance refunding of debt	(56,341)	
Retirement of debt	(13,462)	(7,695)
Deposit of bond proceeds with trustee	(60,444)	
Withdrawal of trusteed bond funds	24,190	
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES - CONTINUING OPERATIONS	**271,686**	**(2,982)**
NET CASH PROVIDED FROM THE SALE OF DISCONTINUED OPERATIONS	**127,557**	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**265,453**	**(21,495)**
Cash and cash equivalents, beginning of year	80,354	101,849
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 345,807**	**$ 80,354**

See notes to the consolidated financial statements.

(1) Overview of Loyola University of Chicago

Loyola University of Chicago (referred to as Loyola University Chicago or LUC) is a private, coeducational, not-for-profit institution of higher education and research founded in 1870 by the Society of Jesus (Jesuits). LUC's 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. LUC operates on six campuses providing educational services to approximately sixteen thousand students primarily in undergraduate, graduate, and professional degree programs. LUC performs research, training, and other services under grants and contracts with government agencies and other sponsoring organizations. The LUC consolidated financial statements are comprised of Higher Education, Loyola Management Company (LMC), and Mundelein College (Mundelein). Mundelein exists to provide limited services for the benefit of LUC. In fiscal year 2012, LMC had no activity and was dissolved. In fiscal year 2011, LUC discontinued operations of its hospital, Loyola University Heath System (LUHS) (see note 14).

(2) Tax Status

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

(3) Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

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

Operations

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

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

Certain unrestricted net assets are designated by the Board of Trustees for specific purposes or uses under various internal agreements.

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

Cash and Cash Equivalents

Cash and cash equivalents are liquid instruments having original maturities at the time of purchase of three months or less, or funds investing primarily in such instruments, 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 maturities, duration, and sector exposures extend beyond the characteristics of cash and cash equivalents. Short-term investments are recorded at fair value and are generally priced and available on a daily basis.

Investment income is recorded on the accrual basis and purchases and sales of investment securities are recorded on a trade-date basis.

Long-term Investments

Long-term investments are recorded at fair value. The fair value of a financial instrument is the amount that would be received to sell an asset, or the amount that would be paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Investments in publicly-traded equity securities are valued based on quoted market prices. To the extent that quoted market prices are not readily available, fair value may be determined based on broker or dealer quotations or alternate pricing sources with reasonable levels of price transparency. Securities that trade infrequently may be valued as determined in good faith by LUC’s investment managers. The fair value of fixed income securities may be determined based on yields currently available on comparable securities of issuers with similar credit ratings, dealer-supplied prices or by discounting future principal and interest payments at prevailing interest rates. The fair value of holdings of mutual funds, common collective trusts, and commingled funds are determined by reference to the funds’ underlying assets, which are principally marketable equity and fixed income securities. Units held in registered mutual funds and in common collective trusts and commingled funds that do not have a readily determined market value for fund units are valued based on the funds’ net asset value as supplied by the fund administrator or trustee. Estimates of fair value provided by general partners or investment managers are reviewed by management.

Investments in private investment funds are recorded at estimated fair value based on LUC’s share of the funds’ fair value or number of units outstanding. A private investment fund’s fair value is typically based on estimated asset values as of valuation dates that precede the LUC fiscal year end by up to 180 days and are adjusted for cash flows that occur between the valuation date and year end. These funds allocate gains, losses, and expenses to partners based on their respective ownership percentages or the number of units held. Management reviews reports and financial statements and communicates regularly with fund managers to maintain oversight of their valuation processes and estimates.

Investment income is recorded on the accrual basis and purchases and sales of investment securities are recorded on a trade-date basis.

Derivative Financial Instruments

LUC may use derivative financial instruments in the management of its treasury and investment portfolio. In addition, investment managers employed by LUC may use derivative instruments to implement their investment strategies. Investments in derivative financial instruments are not designated as hedges. All derivative financial instruments used for investment purposes are marked to market and recorded at fair value. Gains and losses realized on derivative financial instruments used for investment purposes are recorded in investment gain/loss in the consolidated statements of activities and changes in net assets.

During fiscal year 2011, LUC entered into a series of forward foreign exchange contracts with PNC Bank, National Association to reduce the risk of exchange rate fluctuations related to expenses incurred in euros in the operation of its Rome Center campus. At June 30, 2012, LUC had commitments to purchase 2.4 million euros over the following fiscal year for $3.0 million (a fixed rate of 1.28 dollars per euro compared to the June 30, 2012 spot rate of 1.27 dollars per euro).

Assets Held in Trust by Others

Assets held in trust by others are comprised of bond-trustee held assets to be used for future capital expenditures and an escrow account funded by Trinity Health Corporation resulting from the sale of LUHS (see note 14).

Interest Held in Perpetual Trust

LUC is the beneficiary of funds held in trust. LUC does not control or have possession of these funds, but receives income from the trust in support of LUC's Stritch School of Medicine (SSOM). Funds are recognized at the estimated fair value of future cash flows, which is estimated to equal the fair 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 all necessary impairments have been recorded as of June 30, 2012.

Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, *Improving Disclosures about Fair Value Measurements,* adding new disclosure requirements for Levels 1 and 2, separate disclosures of purchases, sales, issuances, and settlements relating to Level 3 measurements and clarification of existing fair value disclosures. ASU No. 2010-06 is effective for periods beginning after December 15, 2009, except for the separate disclosure requirements for Level 3 measurements which is effective for periods beginning after December 15, 2010. For requirements effective for fiscal year 2011, LUC adopted these new guidelines on July 1, 2010 and for requirements effective for fiscal year 2012, LUC adopted these new guidelines on July 1, 2011. LUC has incorporated the disclosure requirements within the notes to the consolidated financial statements (see note 4).

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement*, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs,* to develop common requirements for measuring fair value and disclosing information about fair value measurements in accordance with U.S. GAAP and

IFRS. This guidance clarifies measurement of fair value and includes additional disclosure requirements. The related requirements are effective for annual periods beginning after December 15, 2011. LUC is currently assessing the impact the adoption of this guidance will have on its consolidated financial statements.

(4) Investments

Investment objectives are established by the Board of Trustees and the establishment of investment policy and guidelines is delegated to the Investment Policy Committee of the Board of Trustees. The investment strategy is predicated on the objective of growth and preservation of the purchasing power of invested assets. Therefore the investment strategy is equity-oriented and includes private equity investments, energy and real estate investments, with diversifying exposure to fixed income investments. Substantially all investments are managed by external investment managers and all are held in custody by third-party financial institutions.

Functional Composition

LUC's total endowment and other long-term investments are comprised primarily of endowed funds and board-designated funds functioning as endowment (quasi-endowments), and also include unrestricted institutional funds held as reserves for future use, split-interest agreements, and other non-endowed donor and university funds invested for various purposes. The table below presents the functional composition of LUC's total endowment and other long-term investments at June 30, 2012 and 2011:

(in thousands of dollars)	2012	2011
Donor-restricted endowment funds	$ 210,113	$ 204,956
Board-designated funds functioning as endowment	193,463	184,358
Total endowment investments	403,576	389,314
Institutional reserves	30,915	
Total long-term investment pool	434,491	389,314
Split-interest agreements	8,385	9,633
Other invested assets	1,171	1,357
Total endowment and other long-term Investments	$ 444,047	$ 400,304

In addition to endowment and other long-term investments, LUC had short-term investments of $25 million at June 30, 2012. LUC had no short-term investments at June 30, 2011.

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.

Short-term Investments

All short-term investments are fixed income mutual funds and are classified as Level 1 per the fair value hierarchy.

Endowment and Other Long-term Investments

The tables below summarize LUC's fair value measurements for the endowment and other long-term investments by the fair value hierarchy levels as of June 30, 2012 and 2011:

(in thousands of dollars)	Total	Level 1	Level 2	Level 3
2012				
Cash and cash equivalents, including pending settlements	$(5,759)	$(5,759)	$ -	$ -
Money market mutual funds	23,049	23,049		
U.S. marketable equity securities	63,869	63,869		
U.S. marketable equity mutual funds	47,110	47,110		
U.S. marketable equity exchange-traded funds	100	100		
Non-U.S. marketable equity securities	(2,167)	(2,167)		
Non-U.S. marketable equity mutual funds	17,925	17,925		
Non-U.S. marketable equity commingled funds	87,353		87,232	121
Other equity securities	1,469			1,469
Fixed income mutual funds	38,115	38,115		
Fixed income commingled funds	44,051		15,351	28,700
U.S. Treasury and government agency debt obligations	45,095	8,893	36,202	
U.S. corporate debt securities	16,418	16,329	89	
Other fixed income	387		387	
Real estate investment trust commingled funds	12,508		12,508	
Private equity investments	38,737			38,737
Real assets mutual funds	489	489		
Private real assets investments	15,298			15,298
Total	$ 444,047	$ 207,953	$ 151,769	$ 84,325

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

The following table summarizes changes in fair value of the endowment and other long-term investment portfolio's Level 3 investments for the years ended June 30, 2012 and June 30, 2011:

(in thousands of dollars)	Non-U.S. Marketable Equity Comingled Funds	Other Equity Securities	Fixed Income Commingled Funds	Private Equity Investments	Private Real Assets Investments	Total
2012						
Balance at July 1, 2011	$ 150	$ 1,121	$ 4,444	$ 44,881	$ 11,923	$ 62,519
Realized gain (loss)		(752)	(77)	2,672	323	2,166
Unrealized gain (loss)	(29)	906	203	640	1,544	3,264
Purchases		196	25,001	4,840	2,239	32,276
Sales		(2)	(871)	(14,296)	(731)	(15,900)
Balance at June 30, 2012	$ 121	$ 1,469	$ 28,700	$ 38,737	$ 15,298	$ 84,325
2011						
Balance at July 1, 2010	$ 235	$ 1,008	$ 8,138	$ 39,159	$ 8,998	$ 57,538
Realized gain (loss)	(1)		1,248	2,607	49	3,903
Unrealized gain (loss)	(28)	6	(610)	3,800	66	3,234
Purchases		107	269	9,212	3,500	13,088
Sales	(56)		(4,601)	(9,897)	(690)	(15,244)
Balance at June 30, 2011	$ 150	$ 1,121	$ 4,444	$ 44,881	$ 11,923	$ 62,519

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 $(855) thousand and $1.7 million at June 30, 2012 and 2011.

There were no significant transfers between fair value hierarchy levels for the years ended June 30, 2012 and 2011. LUC recognizes transfers between hierarchy levels as of the beginning of the month in which a change in inputs or circumstances under which an asset is valued occurs. Significance is determined by reference to a transferred asset's fair value in relation to the aggregate value of LUC's long-term investments, with a transfer of value in excess of five percent of total long-term investments generally deemed significant.

Fair values of financial instruments approximate their carrying values in the consolidated financial statements except for indebtedness for which fair value information is provided in Note 7. LUC is obligated to make future capital contributions in private investment vehicles in the maximum amount of $23.4 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, 2012 are in the table below. There were no unfunded commitments as of June 30, 2012.

(in thousands of dollars)

Investment Type	Fair Value	Redemption Frequency	Redemption Notice Period	Other Redemption Restrictions
Equity hedge fund of funds	$ 121	Directed by investment manager	N/A	Fund in liquidation
Private real estate commingled funds	2,007	Directed by investment manager	N/A	Fund in liquidation
Listed real estate equity securities commingled funds	12,508	Monthly	Ten business days	None
Listed equity securities commingled funds	33,130	Daily	Thirty days	None
Listed equity securities commingled funds	12,052	Semimonthly	Five business days	None
Fixed income securities commingled funds	15,351	Monthly	Ten business days	None
Total	$ 75,169			

Interest Held in Perpetual Trust

The fair value hierarchy levels pertaining to the perpetual trust of which LUC is sole beneficiary are summarized in the following tables. The trust held no assets valued by means of Level 3 inputs at June 30, 2012 and 2011.

(in thousands of dollars)	Total	Level 1	Level 2
2012			
Money market mutual funds	$ 115	$ 115	$ -
U.S. marketable equity securities	3,064	3,064	
U.S. marketable equity mutual funds	758	758	
U.S. marketable equity exchange-traded funds	81	81	
Non-U.S. marketable equity securities	33	33	
Non-U.S. marketable equity mutual funds	2,044	2,044	
Fixed income mutual funds	2,051	2,051	
Fixed income exchange-traded funds	182	182	
U.S. corporate debt securities	432		432
Real assets exchange-traded funds	457	457	
Real assets mutual funds	371	371	
Total	$ 9,588	$ 9,156	$ 432

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

Alternative Investments

Alternative investments are less liquid than LUC's other investments and are generally accessed via limited partnerships, limited liability corporations, and off-shore investment funds. There is generally no readily determinable market value for alternative investments, though certain funds may invest in securities for which there is a public market. These investments are subject to liquidity restrictions. The following table summarizes these investments by investment strategy at June 30, 2012 and 2011:

(in thousands of dollars)	2012	2011	Liquidity
Private equity partnerships	$ 38,737	$ 44,881	No contractual liquidity
Real estate partnerships	15,298	11,923	No contractual liquidity
Fixed income (credit)	3,191	4,444	In liquidation
Multi-strategy	10,320		Quarterly
Fixed income	15,189		1/3 of capital available annually
Long-short equity - fund of funds	121	150	In liquidation
Total	$ 82,856	$ 61,398	

Derivative Financial Instruments

Derivative financial instruments may be used in the management of the LUC investment portfolio. As of June 30, 2012 and 2011, the investment portfolio held futures contracts with a notional value of $28.5 million and $38.4 million, respectively. The net impact of the futures held at June 30, 2012 is to reduce the proportion of cash in the endowment portfolio by 4.4% while increasing fixed income exposure by 2.0%, decreasing non-U.S. equity exposure by 1.0%, and increasing U.S. equity exposure by 3.4%. Futures contracts are exchange-traded and are used to maintain a fully invested position relative to asset allocation targets. Futures contracts are subject to the same market risk as cash invested in securities positions.

At June 30, 2012, nine call options were written on stocks held in the investment portfolio. At June 30, 2011, four call options were written on stocks held in the investment portfolio.

The fair value of derivative instruments as of June 30, 2012 and 2011 is as follows:

(in thousands of dollars)

Derivative Type	Consolidated Statements of Financial Position Location	2012	2011
Equity, fixed income, and currency futures	Endowment and other long-term investments	$ -	$ -
Equity options contracts	Endowment and other long-term investments	(208)	(114)
Total derivatives		$(208)	$(114)

The effect of derivative instruments on the consolidated statements of activities and changes in net assets as of June 30, 2012 and 2011 is as follows:

(in thousands of dollars)

Derivative Type	Location of Gain (Loss) Recognition in Consolidated Statements of Activities and Changes in Net Assets	2012	2011
Equity, fixed income, and currency futures	Investment gain (loss) – non-operating	$ 1,589	$(1,057)
Equity options contracts	Investment gain (loss) – non-operating	149	(362)
Total derivatives		$ 1,738	$(1,419)

Investment Returns

Investment returns, net of management fees, for the years ended June 30, 2012 and 2011 were:

(in thousands of dollars)	2012	2011
Interest and dividend income (net of fees)	$ 8,280	$ 7,684
Net realized gains	14,613	12,731
Net unrealized gains (losses)	(18,610)	50,617
Total net return on investment	$ 4,283	$ 71,032

Interest income on cash and cash equivalents and short-term investments of $313 thousand in 2012 and $197 thousand in 2011 is not included in the investment returns.

Endowment Net Assets

The endowment consists of over 500 individual funds established for a variety of purposes supporting LUC operations. Endowment fund balances, including funds functioning as endowment (quasi-endowments), 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 from or otherwise alter the designated principal of these unrestricted funds.

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

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

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

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

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

A central component of the investment policy is its asset allocation. Target allocations, and acceptable ranges of deviation from them, are established in order to achieve a diversified investment portfolio that can adapt to changing market environments and investment opportunities. The endowment portfolio is also managed to ensure that, within the constraints of its asset allocation targets, sufficient liquidity is maintained to fund ongoing spending draws and the periodic funding requirements of its various investments. The following table summarizes endowment asset allocation targets as of June 30, 2012:

Target Asset Class	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 for endowed funds to apply a spending rate in excess of five percent must be approved as part of the annual budget approval process. In absence of donor stipulations to the contrary, allowable endowment appropriations are determined by application of an annually-determined base spending rate to endowment funds' net asset values as measured at the end of the calendar year preceding the beginning of the fiscal year in which the appropriated amounts are to be drawn.

Endowment net assets at June 30, 2012 and 2011 are classified as follows:

(in thousands of dollars)

2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$(399)	$ 86,200	$ 125,988	$ 211,789
Board-designated funds functioning as endowment	194,166			194,166
Total endowment net assets	$ 193,767	$ 86,200	$ 125,988	$ 405,955
2011				
Donor-restricted endowment funds	$(463)	$ 87,940	$ 118,301	$ 205,778
Board-designated funds functioning as endowment	182,961			182,961
Total endowment net assets	$ 182,498	$ 87,940	$ 118,301	$ 388,739

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires LUC to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets and totaled $399 thousand and $463 thousand as of June 30, 2012 and 2011, respectively.

The following tables provide a summary of the changes in the endowment net assets for the years ended June 30, 2012 and 2011:

(in thousands of dollars)

2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ 182,498	$ 87,940	$ 118,301	$ 388,739
Gifts and transfers				
Contributions (excluding pledges)	11	607	4,390	5,008
Transfers	13,326	1,114	3,297	17,737
Total gifts and transfers	13,337	1,721	7,687	22,745
Investment income				
Interest and dividends (net of fees)	4,183	3,989		8,172
Realized gain	7,351	6,962		14,313
Unrealized loss	(8,986)	(8,641)		(17,627)
Total investment income	2,548	2,310		4,858
Income distributed for operating purposes				
Scholarships	(864)	(2,087)		(2,951)
Endowed chairs	(329)	(2,047)		(2,376)
Research	(149)	(481)		(630)
Other	(3,274)	(1,156)		(4,430)
Total income distributed for operating purposes	(4,616)	(5,771)		(10,387)
Net assets, end of year	$ 193,767	$ 86,200	$ 125,988	$ 405,955

(in thousands of dollars)

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

Split-Interest Agreements

Split-interest agreements consist of arrangements with donors for which LUC has an interest in assets held by the trustee and receives benefits that are shared with other beneficiaries. Split-interest agreements for which LUC is not the trustee may or may not be reported on the consolidated statements of financial position, depending on whether a donor or trustee has made LUC aware of the existence of LUC's beneficial interest. Known split-interest agreements for which LUC is not a trustee are reported as other assets in the consolidated statements of financial position.

The assets held under split-interest agreements for which LUC is the trustee were $8.4 million and $9.6 million, respectively, at June 30, 2012 and 2011 and are reported in endowment and other long-term investments in the consolidated statements of financial position at fair value. The discounted present value of any income beneficiary interest was included in accounts payable and other accrued expenses on the consolidated statements of financial position, and was $4.7 million and $5.3 million as of June 30, 2012 and 2011, respectively. The discount rate used is 6.5% in both fiscal years 2012 and 2011.

During fiscal years 2012 and 2011, the discounted present values of new gifts subject to split-interest agreements for which LUC is the trustee, net of the income beneficiary share, were $872 thousand and $386 thousand, respectively, and were included in gifts on the consolidated statements of activities and changes in net assets.

Actuarial gains or (losses) on split-interest agreements are included in other in the non-operating activities section of the consolidated statements of activities and changes in net assets, and were $1.3 million and ($668) thousand in fiscal years 2012 and 2011, respectively.

Net assets corresponding to LUC's interest that are subject to donor-imposed restrictions requiring that distributions be invested in perpetuity are classified as permanently restricted net assets in the consolidated statements of financial position; all others are classified as temporarily restricted net assets in the consolidated statements of financial position until the expiration of the donor-imposed restrictions, at which point they will be reclassified as unrestricted net assets.

(5) Notes and Accounts Receivable, Net

Notes and accounts receivable at June 30, 2012 and 2011 consisted of:

(in thousands of dollars)

	2012	2011
Student loan notes (less allowance for doubtful accounts of $1,705 (2012) and $1,699 (2011))	$ 21,436	$ 21,615
Contributions receivable (less discount of $19,224 (2012) and $12,610 (2011) and allowance for doubtful accounts of $1,122 (2012) and $1,072 (2011))	44,704	11,241
Student receivables (less allowance for doubtful accounts of $3,872 (2012) and $5,199 (2011))	16,907	16,309
Grant receivables	6,993	4,164
Other receivables (less allowance for doubtful accounts of $71 (2012) and $889 (2011))	5,112	6,940
Total notes and accounts receivable, net	$ 95,152	$ 60,269

Contributions receivable at June 30, 2012 and 2011 are due in the following periods:

(in thousands of dollars)

	2012	2011
In one year or less	$ 1,402	$ 2,440
Between one year and five years	31,247	3,934
More than five years	32,401	18,549
Discount of $19,224 (2012) and $12,610 (2011) and allowance for doubtful accounts of $1,122 (2012) and $1,072 (2011)	(20,346)	(13,682)
Total contributions receivable	$ 44,704	$ 11,241

Credit Quality of Student Loan Notes

LUC makes uncollateralized loans to students based on financial need. Student loan notes are funded through federal government loan programs or institutional/other resources. At June 30, 2012 and 2011, student loan notes represented 1.1% and 1.4% of total assets, respectively.

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

(in thousands of dollars)

	2012	2011
Federal government programs	$ 21,095	$ 21,122
Institutional/other programs	2,046	2,192
Total student loan notes	23,141	23,314
Less allowance for doubtful accounts:		
Beginning of year	(1,699)	(1,739)
Increase to reserve	(68)	(12)
Write-offs	62	52
End of year	(1,705)	(1,699)
Student loan notes, net	$ 21,436	$ 21,615

LUC participates in the Perkins federal revolving loan program, among other government revolving loan programs. The availability of funds for loans under these programs is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the federal government of $18.4 million and $18.1 million at June 30, 2012 and 2011, respectively, are ultimately refundable to the government and are classified as refundable advances – loans on the consolidated statements of financial position. At June 30, 2012 and 2011, LUC had past due loans of $2.9 million and $3.0 million, respectively. Allowance for doubtful accounts are established based on prior collection experience.

(6) Land, Buildings and Equipment, Net

Components of land, buildings, and equipment at June 30, 2012 and 2011 were:

(in thousands of dollars)

	2012	2011
Land and land improvements	$ 226,734	$ 216,524
Buildings	825,666	820,321
Equipment	95,479	84,372
Library books and art	32,206	29,791
Construction in progress	127,584	44,413
Total	1,307,669	1,195,421
Accumulated depreciation	(395,040)	(407,373)
Land, buildings, and equipment, net	$ 912,629	$ 788,048

As of June 30, 2012, LUC had commitments of $116.2 million related to various capital projects.

As of June 30, 2012 and 2011, LUC included $1.1 million and $1.1 million of capitalized asset retirement costs, net of accumulated depreciation, within buildings, and $2.6 million and $2.7 million, respectively, of conditional asset retirement obligations within other liabilities in the consolidated statements of financial position.

As of June 30, 2012 and 2011, expenditures for land, buildings and equipment of $36.7 million and $19.4 million included in accounts payable and accrued expenses in the consolidated statements of financial position are reflected as noncash items in the consolidated statements of cash flows, respectively.

(7) Indebtedness

Notes and bonds payable as of June 30, 2012 and 2011 are shown below:

(in thousands of dollars)	Final Maturity	Interest Rate	2012	Interest Rate	2011
Fixed rate:					
Illinois Finance Authority (IFA) (formerly Illinois Educational Facilities Authority (IEFA)):					
Series 1997C taxable bonds	2013	7.10%	$ 5,380	7.10-7.12%	$ 12,210
Series 2003A tax-exempt bonds	2027			5.00%	28,155
Series 2003B taxable bonds	2022	5.60%	37,520	5.60%	37,520
Series 2004A tax-exempt bonds	2026			5.00-5.25%	23,330
Series 2007 tax-exempt bonds	2025	4.00-5.00%	26,670	4.00-5.00%	26,925
Series 2012B tax-exempt bonds	2043	2.00-5.00%	92,215		
Series 2003C taxable direct obligation bonds	2019	4.80-5.30%	40,805	4.80-5.30%	40,805
Series 2012A taxable bonds		3.20-4.63%	157,220		
Medium-term notes	2018	7.52%	21,100	7.52%	21,100
2012 term note	2018	2.36%	113,500		
Mortgage notes:					
6542-48 N. Sheridan Road	2016	9.50%	298	9.50%	377
Rome Center [1]	2029	1.51%	11,925	1.51%	13,868
City of Chicago Loan	2013	0.00%	62	0.00%	188
Total fixed rate			506,695		204,478
Variable rate: [2]					
IFA 2008 tax-exempt commercial paper [3]	2038	0.20%	74,040	0.13%	80,000
Total variable rate			74,040		80,000
Total indebtedness		3.71%[4]	$ 580,735	3.83%[4]	$ 284,478
Adjustment for unamortized bond premium/(discount)			13,130		1,427
Total indebtedness net of unamortized premium/(discount)			$ 593,865		$ 285,905

[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 commercial paper was fully backed by a direct-pay letter of credit from JPMorgan Chase Bank, N.A. that expired November 30, 2011. Effective August 15, 2011, the letter of credit support is provided by PNC Bank, National Association, pursuant to an agreement that expires on August 15, 2014. In June 2012, LUC opted to retire $5.96 million of the commercial paper, and the letter of credit was reduced commensurately.

[4] Weighted average interest rate on all outstanding debt as of June 30, 2012, and June 30, 2011, respectively.

On November 17, 2011, LUC entered into a Term Loan Agreement under which $113.5 million was loaned to LUC by PNC Bank, National Association, at a fixed rate of 2.36% and with semi-annual principal amortization beginning in December of 2013 and a final maturity in June of 2018. In connection with the execution of the Term Loan Agreement, the PNC Revolving Credit Facility (described below) was reduced from $50 million to $20 million, although LUC may request increases in such amount, subject to PNC Bank's right to refuse the same.

Effective February 27, 2012, LUC renewed and extended to February 25, 2013, a 364-day credit agreement with PNC Bank, National Association, which has been in place since 2011 and under which LUC may borrow up to $20 million on a revolving loan basis. Borrowings under the line of credit may bear interest at rates based on LIBOR, PNC's Prime Rate, or other negotiated rates. During the fiscal year ended June 30, 2012, there was no balance outstanding nor any interest paid on the line of credit.

In May 2012, LUC issued $92.2 million of tax-exempt bonds through the Illinois Finance Authority and $157.2 million of taxable general obligation bonds to fund certain capital expenditures and to advance refund the outstanding Series 2003A and 2004A bonds to reduce interest expense. The refundings resulted in a non-operating loss of $3.9 million in fiscal year 2012 due to the early extinguishment of debt. The estimated present value savings associated with these refundings will result in a decreased cash flow requirement of $4.3 million.

In 2012 and 2011, LUC recorded capitalized interest of $3.0 million and $760 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.

Interest paid for the years ended June 30, 2012 and 2011 was:

(in thousands of dollars)

	2012	2011
Interest paid	$10,950	$11,274

Debt Covenants

Certain debt agreements require the maintenance of financial ratios or impose other restrictions. Management believes LUC is in compliance with financial debt covenants as of June 30, 2012.

Repayments and Classification

Total scheduled maturities for the next five fiscal years are:

(in thousands of dollars)

2013	$ 5,993
2014	26,790
2015	33,595
2016	35,422
2017	35,911
Thereafter	443,024
	$ 580,735

Disclosure of Fair Value of Long-term Debt

The fair value of the outstanding long-term debt as of June 30, 2012 and 2011 was:

(in thousands of dollars)	2012		2011	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	$616,574	$593,865	$289,006	$285,905

The fair value of long-term debt is determined based on discounted cash flows or market prices for comparable borrowings as of June 30, 2012 and 2011.

(8) Retirement Plans

Substantially all personnel participate in either a defined contribution retirement plan or a defined benefit pension plan (LUERP). LUC froze pension benefits in LUERP effective March 31, 2004 for all but a grandfathered group of "ameliorated" participants. This group was allowed to continue to earn additional Adjusted Benefit Credited Service accruals for a period of up to five years. The LUERP plan is governed by ERISA. Effective April 1, 2004, LUC established a new defined contribution plan. LUC's expense under this plan was $18.1 million and $14.8 million for 2012 and 2011, respectively. Summary information for the defined benefit pension plan, LUERP, follows:

(in thousands of dollars)

	2012	2011
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	$ 75,944	$ 75,686
Interest cost	3,788	3,634
Benefits paid	(5,492)	(5,885)
Actuarial loss	8,858	2,509
Projected benefit obligation, end of year	$ 83,098	$ 75,944
Change in plan assets		
Fair value of plan assets, beginning of year	$ 67,230	$ 61,583
Actual return on plan assets	2,939	11,532
Benefits paid	(5,492)	(5,885)
Fair value of plan assets, end of year	$ 64,677	$ 67,230
Funded status		
Funded status of the plans	$(18,421)	$(8,714)
Amounts included in the statements of financial position		
Pension and other postretirement plan liabilities	$(18,421)	$(8,714)
Amounts not yet recognized in net periodic pension cost and included in unrestricted net assets		
Actuarial loss	$ 47,093	$ 37,451
Pension plan changes other than net periodic pension plan expense	$(9,641)	$ 5,887
Components of net pension expense		
Service cost	$ -	$ -
Interest cost	3,788	3,634
Expected return on plan assets	(4,780)	(4,558)
Net amortization and deferral	1,059	1,421
Net periodic pension expense	$ 67	$ 497

	2012	2011
Weighted average assumptions		
Discount rate - benefit obligations	4.31%	5.23%
Discount rate - pension expense	5.23%	5.01%
Rate of compensation increase	n/a	n/a
Expected long-term return on assets	7.50%	7.80%

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

	2012	2011
Cash	2%	2%
Equity securities	30%	35%
Fixed income securities	51%	47%
Private equity investments	4%	5%
Other, including real estate	13%	11%
Total	100%	100%

The table below summarizes LUC's fair value measurements of the LUERP investment portfolio by the fair value hierarchy levels as of June 30, 2012:

(in thousands of dollars)	Total	Level 1	Level 2	Level 3
Cash and cash equivalents, including pending settlements	$(629)	$(629)	$ -	$ -
Short term investment funds	1,920	1,920		
U.S. marketable equity securities	5,628	5,628		
U.S. marketable equity mutual funds	2,574	2,574		
U.S. marketable equity commingled funds	3,948		3,948	
Non-U.S. marketable equity securities	253	253		
Non-U.S. marketable equity commingled funds	9,615		9,615	
Other equity securities	264			264
Fixed income mutual funds	5,508	5,508		
Fixed income commingled funds	3,682		3,682	
U.S. Treasury and government agency debt obligations	257	(360)	617	
U.S. state and municipal debt obligations	954		954	
U.S. corporate debt securities	19,096		19,096	
Non-U.S. corporate debt securities	7,501	4,140	3,361	
Asset-backed securities	91		91	
Private equity investments	2,350			2,350
Real estate investment trust commingled funds	1,459		1,459	
Private real assets investments	206			206
Total	$ 64,677	$ 19,034	$ 42,823	$ 2,820

The following table summarizes the changes in fair value of LUC's defined benefit pension plan Level 3 investments for the year ended June 30, 2012:

(in thousands of dollars)	Other Equity Securities	Private Equity Investments	Private Real Assets Investments	Total
Balance at July 1, 2011	$ 192	$ 3,406	$ 58	$ 3,656
Realized gain (loss)	(144)	174	9	39
Unrealized gain	168	157	157	482
Purchases	48	21		69
Sales		(1,408)	(18)	(1,426)
Balance at June 30, 2012	$ 264	$ 2,350	$ 206	$ 2,820

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

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

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

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

LUERP assets are held in trust by an external trustee. The trust portfolio is managed in accordance with the policies established by the LUERP Retirement Allowance Committee. Management developed the estimates of the expected long-term rates of return on plan assets based upon the investment mix and the expected rates of return for the various investment strategies employed.

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

(in thousands of dollars)	Fiscal Year	Payments
	2013	$ 7,159
	2014	6,648
	2015	6,308
	2016	6,170
	2017	6,044
	2018-2022	27,098

(9) Other Postretirement Benefits

LUC has a defined benefit retiree health plan covering eligible employees upon their retirement. Health benefits are provided subject to various cost-sharing features and are not prefunded.

Defined benefit retiree health plan costs included in the consolidated statements of activities and changes in net assets for LUC for the years ended June 30, 2012 and 2011 were:

(in thousands of dollars)

	2012	2011
Change in benefit obligation		
Benefit obligation, beginning of year	$ 30,162	$ 34,428
Service cost	1,967	1,861
Interest cost	1,371	1,672
Plan amendments	-	(210)
Participant contributions	1,090	1,078
Benefits paid	(2,366)	(2,291)
Actuarial (gain) loss	1,202	(6,376)
Benefit obligation, end of year	$ 33,426	$ 30,162
Change in plan assets		
Fair value of plan assets, beginning of year	$ -	$ -
Employer contributions	1,276	1,213
Participant contributions	1,090	1,078
Benefits paid	(2,366)	(2,291)
Fair value of plan assets, end of year	$ -	$ -
Funded status		
Funded status of plan	$ (33,426)	$ (30,162)
Amounts included in the statements of financial position		
Pension and other postretirement plan liabilities	$ (33,426)	$ (30,162)
Amounts not yet recognized in net periodic benefit cost and included in unrestricted net assets		
Actuarial gain	$ (3,357)	$ (4,787)
Prior service benefit	(171)	(210)
Total	$ (3,528)	$ (4,997)
Retirement plan changes other than net periodic retirement plan expense	$ (1,470)	$ 6,586
Components of net periodic postretirement benefit cost		
Service cost	$ 1,967	$ 1,861
Interest cost	1,371	1,672
Amortization of unrecognized prior service benefit and actuarial gain	(268)	
Net periodic postretirement benefit cost	$ 3,070	$ 3,533
Discount rate	3.78%	4.63%

Assumed health care cost trend rates	2012	2011
HMO plans	5.00%	5.00%
Non-HMO plans	5.00%	5.00%

Net actuarial gain of $39 thousand and prior service benefits for the plan will be amortized from unrestricted net assets into net periodic postretirement benefit cost during the 2013 fiscal year.

(in thousands of dollars)	2012	2011
Effect of a 1% change in the health care cost trend rates		
1% increase		
On year-end postretirement benefit obligations	$ 1,707	$ 1,628
On total of service and interest cost components	134	140
1% decrease		
On year-end postretirement benefit obligations	$ (1,634)	$ (1,543)
On total of service and interest cost components	(137)	(140)

Estimated future benefit payments

(in thousands of dollars)	Fiscal Year	Payments
	2013	$ 1,536
	2014	2,013
	2015	2,496
	2016	2,991
	2017	3,468
	2018-2022	20,827

Effective July 1, 2004, LUC changed its plan for retiree health benefits. New retirees after 2006 will receive an account-based retiree medical subsidy. The subsidy will be an annual allocation of $2,750 (not indexed) towards an interest-bearing account. The allocations will be given for each year of active employment after age 50, up to a maximum of 15 years. The accounts cannot be accessed until after age 60 and 10 years of continuous service. Accounts will continue to earn interest during retirement and can be used by the retiree or spouse to pay qualified retiree medical expenses, including monthly premiums for coverage under LUC's health plan.

(10) Functional Classification of Expenses

Expenses are reported in the consolidated statements of activities and changes in net assets in natural classifications. Expenses by functional classification for the years ended June 30, 2012 and 2011 were:

(in thousands of dollars)	2012	2011
Instruction	$ 154,630	$ 147,620
Research and other sponsored programs	44,107	42,862
Academic support	63,950	61,040
Student services	44,736	41,077
Institutional support	91,972	82,407
Auxiliary services	46,498	43,990
Total operating expenses	$ 445,893	$ 418,996

(11) Restricted Net Assets

The program restrictions for temporarily and permanently restricted net assets at June 30, 2012 and 2011 were:

(in thousands of dollars)

	2012	2011
Temporarily Restricted		
Academic or program support		
and student financial aid	$ 96,839	$ 102,164
Research	4,734	6,728
Student loans	2,979	2,943
Construction	5,121	780
Other	57,886	26,675
Total temporarily restricted net assets	$ 167,559	$ 139,290
Permanently Restricted		
Academic or program support		
and student financial aid	$ 137,735	$ 130,429
Research	50	50
Student loans	1,148	1,148
Total permanently restricted net assets	$ 138,933	$ 131,627

(12) Commitments and Contingencies

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

(13) Subsequent Events

LUC has evaluated subsequent events through October 19, 2012, the date the consolidated financial statements were issued. LUC did not identify any subsequent events to be disclosed.

(14) Discontinued Operations

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

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

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

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

(in thousands of dollars)	2011
Operating revenues	$ 1,060,746
Operating expenses	1,074,758
Results of operations	(14,012)
Non-operating activities	105,259
Increase in unrestricted net assets	91,247
Increase in temporarily restricted net assets	625
Increase in permanently restricted net assets	31
Increase in net assets	$ 91,903

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

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

In fiscal year 2012, LUC recognized an additional $8.9 million gain on disposal of discontinued operations. This included recognition of a $20.0 million gain related to the Indemnification Escrow Agreement as described below, a ($7.4) million loss related to a reduction in the post-closing reconciliation payment, and a ($3.7) million loss related to the net impact of property transfers on the medical center campus.

Agreements with Trinity Health

Academic Affiliation Agreement

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

Indemnification Escrow Agreement

On July 1, 2011, Trinity made a payment of $20 million to establish an escrow account. The escrow was established in order to secure LUC's obligations under the Definitive Agreement, including, without limitation, the payment of any unrecorded, misstated or under-reserved pre-closing liabilities or the breach of any representations, warranties or covenants made by LUC in the Definitive Agreement. The escrow account will also be credited for any unnecessarily recorded, overstated or over-reserved pre-closing liabilities or other gain contingencies. The escrow amount, including any gain contingencies, will be released to LUC over a period of four years if it is not required to cover these potential liabilities or the indemnification owed to Trinity. In fiscal year 2011, LUC considered the escrow a gain contingency and did not include the escrow amount in the gain on disposal of discontinued operations. In fiscal year 2012, LUC recognized the $20 million escrow as a gain on disposal of discontinued operations in the consolidated statements of activities and changes in net assets as LUC determined the realization of the escrow is assured beyond a reasonable doubt. A corresponding amount was recorded in assets held in trust by others in the consolidated statements of financial position.

Research Facility Funding Agreement

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

Repurchase Rights

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

Real Estate Swap Agreement

As a result of the Real Estate Swap Agreement, LUC owns the central part of the LUMC campus. This central part is referred to as the “Academic/Health Sciences Zone” and includes, among other facilities, the Cuneo Center for the Stritch School of Medicine, the Center for Collaborative Studies/School of Nursing, the Center for Health and Fitness, the Cardinal Bernardin Cancer Center (subject to a 99-year leasehold interest for the portion of the Bernardin Center currently used by LUMC), and the new research enterprise facility. The north end of the campus is owned by LUMC and includes the primary hospital building and other inpatient facilities and related infrastructure. The south end of the campus is also owned by LUMC and includes outpatient/ambulatory facilities. In order to achieve this result, pursuant to the Real Estate Swap Agreement, LUC transferred to LUMC certain properties it owned and LUMC transferred to LUC certain properties it owned. The transfer of real estate under the Real Estate Swap Agreement occurred on August 31, 2011.

Other Agreements

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

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