

LOYOLA UNIVERSITY OF CHICAGO
**CONSOLIDATED FINANCIAL STATEMENTS
 AND INDEPENDENT AUDITORS' REPORT**

YEARS ENDED JUNE 30, 2003 AND 2002

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2003, on our consideration of ILL's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial

statements taken as a whole. The additional consolidated information for 2003 and additional information listed in the table of contents is presented for the purpose of additional analysis of the basic consolidated financial statements. This additional information is the responsibility of ILL's management.

Such information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects when

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LOYOLA UNIVERSITY OF CHICAGO
 CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

FOR THE YEARS ENDED
 JUNE 30, 2003 AND 2002

(\$000s)

	University Academic	LUHS	Eliminating Entries	2003 Consolidated Total	2002 Consolidated Total
ASSETS					
CASH AND CASH EQUIVALENTS	\$ 103,535	\$ 37,305	\$ -	\$ 140,840	\$ 105,848
INTERFUND BALANCES	13,745	-	(13,745)	-	-
RECEIVABLES	59,584	135,759	-	195,343	212,873
PROPERTY AND EQUIPMENT	7,072	33,233	-	40,305	44,823
INVESTMENTS	207,892	167,014	-	374,906	414,340
INTEREST HELD IN PERPETUAL TRUST	7,176	-	-	7,176	7,114
NOTES RECEIVABLE FROM SUBSIDIARY	1,566	-	(1,566)	-	-
LIABILITIES AND EQUIPMENT FOST	210,334	308,120	-	518,454	570,600
TOTAL ASSETS	\$ 607,504	\$ 710,481	\$ (15,211)	\$ 1,302,674	\$ 1,425,623
LIABILITIES AND NET ASSETS					
DEFERRED INCOME	-	-	-	11,745	17,777
UNRECORDED LIABILITIES	22,982	-	-	22,982	17,317
REFUNDABLE ADVANCES - LOANS	10,651	-	-	10,651	10,097
INDEBTEDNESS	124,900	290,247	(1,500)	413,647	502,864
LIABILITY	14,183	88,626	-	102,809	104,205
INTERFUND BALANCES	-	13,745	(13,745)	-	-
LIABILITIES	159,613	392,618	(15,245)	536,986	628,391
NET ASSETS:					
Temporarily restricted	102,477	1,393	-	103,870	107,972
Permanently restricted	80,590	5,555	-	86,145	85,458
TOTAL NET ASSETS	355,430	216,931	-	572,365	622,017
TOTAL LIABILITIES AND NET ASSETS	\$ 607,504	\$ 710,481	\$ (15,211)	\$ 1,302,674	\$ 1,425,623

See notes to consolidated financial statements

LOYOLA UNIVERSITY OF CHICAGO
 CONSOLIDATED STATEMENTS OF ACTIVITIES AND OTHER CHANGES
 IN UNRESTRICTED NET ASSETS

YEARS ENDED JUNE 30, 2003 AND JUNE 30, 2002

(\$000)

	University		Elimination Entries	2003	2002
	Academic	LUHS		Consolidated Total	Consolidated Total
RESULTS OF OPERATIONS:					
OPERATING REVENUES:					
Tuition and fees, net of scholarships \$53,371 (2003) and \$47,330 (2002)	150,514			150,514	130,000
Grants and contracts for sponsored projects	54,695	3,190		57,885	55,761
Academic support	46,522		(18,194)	28,328	25,207
Gifts	1,555	1,752		3,307	4,484
Interest income	1,033	301		1,334	
Investment income designated for operations	1,320	5,372		6,692	7,557
Other	11,598		(1,840)	9,758	14,281
Auxiliary services	21,474			21,474	19,508
Patient care		586,779		586,779	547,173
Research and education net assets for operations	1,063			1,063	7,038
Net assets released from restrictions	8,541	2,895		11,436	13,316
Total operating revenues	300,315	600,289	(20,034)	880,570	834,215
OPERATING EXPENSES:					
Instruction	81,422			81,422	86,382
Research and other sponsored programs	41,913	2,639		44,552	42,244
Academic support	62,101	17,314	(17,314)	62,101	50,540
Student services	10,600			10,600	10,100
Institutional support	50,072	81,864		131,936	130,706
Operations and maintenance	20,673	20,804	(1,840)	39,637	39,170
Depreciation and disposal	10,375	25,324		35,699	44,910
Patient care		440,970		440,970	413,394
Auxiliary services	15,180			15,180	14,348
Total	300,300	580,835	(18,054)	862,881	812,614
Results of operations	(8,984)	11,564	(980)	1,600	(15,429)
NON OPERATING ACTIVITIES:					
Investment (loss)/income net of amounts designated for operations	(2,946)	4,519		1,573	(17,130)
Other	2,240	(4,490)	000	(1,150)	(0,130)
Gain on sale of properties	6,142			6,142	
Transfer of net assets	56	705		761	
Research and education net assets for operations	(1,063)			(1,063)	(7,038)
Total non-operating activities	(5,611)	834	000	(4,777)	(24,298)
Increase (decrease) in unrestricted net assets before	(14,605)	12,402	(980)	(13,183)	(40,127)

See notes to consolidated financial statements

LOYOLA UNIVERSITY OF CHICAGO
 CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2003 AND JUNE 30, 2002
 (\$000s)

	University Academic	ELIUC	Eliminating Entries	2003 Consolidated Total	2002 Consolidated Total
Increase (decrease) in unrestricted net assets before change in minimum pension liability	\$ (4,455)	\$ 12,329	\$ -	\$ 7,874	\$ (48,719)
Change in pension liability	(22,010)	(2,400)	-	(24,410)	-
Decrease in unrestricted net assets after change in minimum pension liability	\$ (26,465)	\$ (12,081)	\$ -	\$ (38,546)	\$ (48,719)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS					
Gifts	4,007	11,793	9,007	24,807	44,000
Investment income (loss)	-	-	343	343	(40,000)
Change in annuity value	-	-	(3,853)	(3,853)	100
Other	47	-	-	47	100
Transfer of net assets	-	66	-	66	100
Net assets released from restrictions	(8,541)	(2,895)	-	(11,436)	(13,316)
Increase (decrease) in temporarily restricted net assets	(2,049)	2	-	(2,047)	(14,751)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS					
Change in value of Chenequa trust	-	-	-	-	100
Transfer of net assets	10471	1,000	(1,000)	10471	100
Other	-	-	-	-	100
Net assets at end of year	\$ 355,400	\$ 1,216,971	\$ -	\$ 1,572,371	\$ 622,015

See notes to consolidated financial statements

LOYOLA UNIVERSITY CHICAGO
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2003 AND JUNE 30, 2002
(\$000s)

	University	Eliminating	2003 Consolidated	2002 Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES				
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS				
TO NET CASH FROM OPERATING ACTIVITIES:				
Add/Deduct Non-Cash Transactions:				
Depreciation and disposals	27,357	20,725	48,082	47,700
Minimum pension liability	32,010	24,409	56,419	-
Change in unrealized loss on investments	6,801	5,215	12,016	25,142
Total Non-Cash Transactions	66,168	50,349	116,517	72,842
Changes in Assets and Liabilities:				
Accounts receivable	10,434	7,284	17,718	(13,945)
Notes receivable from subsidiary	83	(83)	-	-
Deferred income / unexpended grants	6,385	-	6,385	(3,129)
Interest in perpetual trust	(102)	-	(102)	910
Refundable advances	100	-	100	(102)
Interfund balances	(1,232)	1,232	-	-
Total Change in Assets and Liabilities	15,568	7,323	24,004	10,534
Net cash from operating activities	45,104	42,613	87,624	30,604
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of investments	120,534	-	120,534	210,170
Purchase of investments	(88,755)	-	(88,755)	(88,755)
Purchase of plant assets	(8,770)	(60,028)	(68,798)	(58,259)
Net cash from investing activities	23,009	(60,028)	(56,969)	(36,844)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds of bond issue	19,610	17,000	36,610	110,712
Retirement of debt	(4,000)	(4,000)	(8,000)	(4,000)
Net cash from financing activities	15,610	13,000	28,610	106,712
NET CHANGE IN CASH AND CASH EQUIVALENTS	84,323	(4,415)	59,265	90,572

See notes to consolidated financial statements

LOYOLA UNIVERSITY OF CHICAGO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2003 AND 2002

(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 1864 by the Society of Jesus (Jesuits). The university'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. The LUC consolidated financial statements are comprised of University Academic and Loyola University Health System (LUHS) (see note 4). The University Academic operates on four campuses to provide educational services to more than thirteen thousand students enrolled primarily in undergraduate, graduate, and professional degree programs. LUC performs research, teaching and other services under many grant agreements and contracts with government agencies and other sponsoring organizations. Muncie and LUC exist to provide medical services and the delivery of LUC is a wholly owned subsidiary of LUHS. LUHS provides services to patients in the hospital and outpatient sites.

(2) Tax Status

LUC, Mundelein College, and LUHS are exempt from income taxes under section 501(c)(3) of the U.S. Internal Revenue Code, except with regard to unrelated business income, which is taxed at corporate income tax rates. LUC is also exempt under the same revenue code. Loyola University of Chicago Insurance Company Ltd. (LUCIC), a wholly owned subsidiary of LUHS, is a for-profit Cayman Island insurance company not exempt from income taxes.

(3) Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting. The financial statements are prepared in accordance with the accounting principles generally accepted in the United States of America (GAAP). These principles require management to make estimates and judgments that affect the amounts of revenues and expenses in the reporting period. Actual results could differ from those estimates. All significant 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:

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

2. Restricted Net assets with donor restrictions that expire with the passage of time, the occurrence of a specified event, or the fulfillment of certain conditions. When donor restrictions are not temporarily restricted net

Operations

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

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

Tuition and fee revenue is reported in the fiscal year in which the student is enrolled. Tuition and fee revenue is recognized when the student is enrolled and reported as unrestricted net assets.

Cash and Cash Equivalents

Cash and cash equivalents are liquid investments having original maturities of less than one year.

Investments

Investments are recorded at market value. The value of investments in publicly traded fixed income securities and equities are determined by quoted market prices.

Investments in private equity are recorded at cost, less impairment, and adjusted for changes in fair value.

Investments in real estate are recorded at cost, less impairment, and adjusted for changes in fair value.

Interest Held in Perpetual Trust

The trust is the beneficiary of funds held in trust. The trust is managed by a trustee.

Land, Buildings and Equipment

Land, buildings and equipment used for LUC activities are recorded at cost. Depreciation is calculated on a straight-line method using the following useful lives: buildings and building improvements, 5 to 40 years.

Reclassification

Certain reclassifications have been made to the 2002 balances to conform to the 2003 presentation.

Organization

LUHS is a regional integrated health care delivery system that provides a full continuum of health care services in

LUC and LUMC are Illinois not-for-profit corporations exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. LUC is a for-profit Cayman Island insurance company that provides primary professional liability and patient general liability insurance.

Basis of Presentation

LUMC maintains its accounts and prepares consolidated 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 Parent Corporation

Affiliation and Operating Agreement - LUC and LUMC are participants in an Affiliation and Operating Agreement

medical education; a portion of the salaries and benefits of the University Academic's Stritch School of Medicine (SSOM) faculty who provide health management services to LUMC; general support to University Academic; and capital support to SSOM. These amounts totaled \$27.7 million for 2003 and \$26.1 million for 2002.

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, 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 2003 and 2002.

Facilities Leases - In 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. LUMC's rental of LUC facilities exceeds LUC's rental of LUMC facilities, and LUC agreed to forego the annual rent differential. The amount

Loyola University Center for Health and Fitness - In 1997 LUC opened its Center for Health and Fitness (LUCHF) on the Medical Center campus for the use of students and employees of SSOM and the employees of LUHS and its affiliates. LUC and LUHS entered into an agreement under which LUHS was to provide financial support equal to any cash flow deficits of LUCHF. Payment from LUHS was not required in 2003 or 2002 under the agreement. On June 13, 2003 ownership of the building transferred to LUHS in exchange for \$11,068,323, the amount of the original debt. In addition, LUC transferred \$1.2 million to LUHS for the total cash operating surplus. LUHS has a forty-year lease to LUC for the land.

1997 Debt Refinancing Agreement - As part of the 1995 transfer of healthcare 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' debt in order to release LUMC from the restrictions of the

1997 Debt Refinancing Agreement which provides that LUMC and LUHS will pay LUC for any costs and

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 pays a variable rate of interest, the payment of the interest rate variations is of little to no economic and cost benefit to the financing business expense guarantor.

LUHS Net Patient Service Revenues

LUHS has agreements with third-party payers that provide for payments to LUHS at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, and other arrangements. The amount of revenue recognized for the accounting period is based on the estimated realizable amounts for services rendered and include estimated retroactive adjustments. Retroactive adjustments are accrued on an estimated basis in the period related services are rendered and adjusted in future periods as final settlements are determined.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Management believes that LUHS is in substantial compliance with current laws and regulations.

(5) Investments

The fair value of investments at June 30, 2003 and 2002 was:

(in thousands of dollars)	2003			2002
	University Academic	LUHS	Total	
Cash pending investment	\$ 16,868	\$	\$ 16,868	\$ 4,572
Equity	82,441	33,885	116,326	126,770
Private capital	28,981		28,981	31,919
Fixed income	60,143	126,417	186,560	224,956
Real estate	19,459	6,712	26,171	26,314
Total investments	<u>\$207,892</u>	<u>\$167,014</u>	<u>\$374,906</u>	<u>\$414,540</u>

Fair values of financial instruments are provided in Note 8. The fair value of debt securities is based on the fair value of the underlying assets, less indebtedness for which fair value information is provided in Note 8.

Derivative Financial Instruments

From time to time, LUHS enters into transactions that involve the use of derivatives such as futures and options contracts. In fiscal 2003, the long-term investment portfolio used futures for the express purpose of maintaining an asset allocation strategy as close as possible to policy targets. Futures provide a cost efficient mechanism to invest cash or rebalance the asset mix (i.e., allocations to stocks, bonds, and cash) to the policy target established by the Board of Trustees in order to eliminate the potential leverage inherent in these instruments.

During fiscal 2003, options were used on a limited basis by one external investment advisor to reduce the risk of a stock portfolio. The use of options was consistent with the investment strategy of the Board of Trustees. The use of options was consistent with the investment strategy of the Board of Trustees. The use of options was consistent with the investment strategy of the Board of Trustees.

dedicated investment strategy.

(in thousands of dollars)

	2003				2002			
	Notional or Contract	Estimated Fair Value	Average Fair Value	Net Trading Gains (Losses)	Notional or Contract	Estimated Fair Value	Average Fair Value	Net Trading Gains (Losses)
Futures Contracts				\$264				(\$4,224)
Liabilities	(7,285)	24	66		(7,855)	10	210	
Forward Contracts								201
Assets							11,428	
Liabilities							(8,060)	

	2003				2002			
	Notional or Contract Held	Written	Average Fair Value	Net Trading Gains (Losses)	Notional or Contract Held	Written	Average Fair Value	Net Trading Gains (Losses)
Options	\$ -	(\$422)	(\$116)	\$674	\$ -	(\$900)	(\$942)	(\$769)

Futures and Forward Contracts. These instruments consist of stock index and bond futures in the United States and several foreign markets to sell or finance a variety of bonds not owned by the University. A forward contract is an agreement between two parties to buy and sell an asset at a set price on a future date. A forward contract is an obligation to purchase or sell a financial instrument against the financial instrument's future price as agreed upon by the parties. Forward contracts are traded over-the-counter and not on organized commodities or securities exchanges. Futures are used to manage the asset mix of the University Academic's investment portfolio. They provide a cost efficient control mechanism whereby the asset mix of the funds (i.e. fund allocations to stocks, bonds, and cash) is maintained pursuant to a long term strategic investment policy, or adjusted on a tactical basis to either reduce equity exposure during periods of significant market risk, or increase equity exposure during periods of significant market opportunity within limits determined by the Investment Committee of the Board of Trustees. For example, while LUC would normally maintain an asset allocation of approximately 75% equities across its various funds, futures are used to reallocate market exposure such that equities represent a range of 60% to 90% of the portfolio. All futures positions are fully collateralized by cash or other assets in order to eliminate the potential leverage inherent in these contracts. Realized gains and losses are included in investment income.

Options. An option is a contract which grants the right, but not the obligation, to execute a specific purchase or sales transaction at a stated exercise price. LUC's option strategy is designed to add incremental return to its invested funds. The strategy uses index options and/or options on futures contracts to construct a market neutral portfolio to capture incremental income for the portfolio, while protecting against major market moves by buying similar size positions in longer-term options. Realized gains and losses are included in investment income.

Investment Income/(Loss)

	2003				2002
	University Academic	LUHS	Total		
Interest and dividends	\$5,215	\$3,390	\$8,605	\$11,735	
Net unrealized gains (losses)	(6,001)	5,213	(\$788)	(27,142)	
Management fees	(967)		(967)	(1,601)	
Total return on investment	\$(1,283)	\$9,891	\$8,608	\$(20,437)	

Interest income on cash and cash equivalents of \$1.033 million for University Academic and \$301 thousand for LUHS is not included in the investment return.

(6) Notes and Accounts Receivable

Notes and accounts receivable at June 30, 2003 and 2002 consisted of:

(in thousands of dollars)

2003

University
Academic

LUHS

Total

2002

	University Academic	LUHS	Total	2002
Student loans receivable				
Accounts receivable				
Notes receivable				
Other receivables				
Total notes and accounts receivable	\$59,584	\$135,759	\$195,343	\$212,873

Contributions receivable at June 30, 2003 and 2002 are due in the following periods:

(in thousands of dollars)

2003

University

	University	LUHS	Total	2002
In one year or less	\$ 4,243	\$366	\$ 4,609	\$ 2,223
Between one year and five years	16,411	46	16,457	11,634
Discount \$4,913 (2003) and \$7,560 (2002) and allowance \$1,321 (2003) and \$681 (2002)	(6,435)		(6,435)	(8,241)

	Academic	LUHS	Total	2002
Land	\$ 38,434	\$ 6,566	\$ 45,000	\$ 53,012
Buildings	392,508	318,152	710,660	653,050
Equipment	36,006	122,412	158,418	135,810
Library books and art	20,094		20,094	20,094
Construction in progress	19,810	17,925	37,735	57,675
Other real estate	45,656		45,656	41,262
Total	552,508	465,055	1,017,563	960,803
Accumulated depreciation	(265,574)	(150,885)	(416,459)	(300,375)
Total land, buildings, and equipment	\$286,934	\$305,170	\$592,104	\$570,628

(8) Indebtedness

Notes and bonds payable as of June 30, 2003 and 2002 are shown below.

(in thousands of dollars)	Final Maturity	Interest Rate	2003	Interest Rate	2002
0542-48 N. Sheridan Rd. Term note:	2015	9.50%	807	9.50%	892
Capital Lease: Ramp One Leasing Corp.	2007	9.31%	400	9.31%	415
Medium-term notes	2003	* 7.65%	\$53,030	* 7.65%	53,030
IEFA commercial paper pool	2007	0.99%	12,174	1.46%	19,334
Total variable rate			\$81,314		\$88,474
Total University Academic indebtedness			\$194,908		\$199,855

* Under the terms of a trust indenture dated June 1, 1999, the effective rate on the above notes was 1.55%. At June 30, 2003, the effective rate was 1.84%. As of June 30, 2002, the effective rate was 2.59%.

(in thousands of dollars)	Final Maturity	Interest Rate	2003	Interest Rate	2002
LUHS					
Illinois Health Facilities Series 2001A bonds	2031	5.861%	\$200,206	5.961%	\$200,140
Variable rate (average as of June 30):					
Illinois Health Facilities Authority (IHFA):					
Series 1997B bonds	2024	0.90%	\$15,645	1.20%	\$16,110
Series 1997C bonds	2024	1.10%	46,600	1.90%	46,600
Line of Credit			17,000		20,000
Total variable rate			\$79,245		\$82,710
Total LUHS indebtedness			\$296,681		\$303,009
Total indebtedness			\$491,589		\$502,864

Debt Covenants

Some debt agreements require LUC to maintain sinking or reserve funds, and some require the maintenance of financial ratios and impose other restrictions. LUC is in compliance with all debt covenants as of June 30, 2003.

Repayments and Classification

Total scheduled maturities for the next five fiscal years are:

(in thousands of dollars)

Fiscal Year	University Academic	LUHS	Total
2004	\$77,612 *	\$3,585	\$81,197
2005	618	4,346	4,964
2006	2,854	5,448	8,302
2007	17,660	7,770	25,430
2008	5,751	8,331	14,082
	<u>\$104,495</u>	<u>\$29,480</u>	<u>\$133,975</u>

* See Note (17)

Disclosure of Fair Value of Long-term Debt

The fair value of the outstanding debt as of June 30, 2003 and 2002 was:

(in thousands of dollars)

	2003		2002	
	Fair Value	Carrying Value	Fair Value	Carrying Value
University Academic	\$203,111	\$104,000	\$101,054	\$100,055
LUHS	788,148	781,747	707,000	782,650

The fair value of long-term debt is determined based on quoted market prices when available or discounted cash flows, using interest rates currently available on similar borrowings.

Interest

(in thousands of dollars)

2003			2002
University Academic	LUHS	Total	
\$21,701	\$21,701	\$21,701	\$21,104

Interest Rate Swaps

From time to time, LUC enters into interest rate swap agreements to modify the interest rate characteristics of its outstanding debt from floating to a fixed rate basis or vice versa. These agreements involve the exchange of floating and fixed rate interest payments over the life of the agreement without an exchange of the underlying

related to the debt. The related amount payable to or receivable from counterparties is included in other liabilities or assets. As of July 18, 2003 LU entered into a swap agreement that effectively changed the interest rate of LUC's \$32.5 million from the fixed rate of 7.50% to a floating rate of LIBOR plus 1.50%. The net interest expense on these swaps was reduced by \$2.5 million in 2003 and by \$2.57 million in 2002.

LUHS entered into two interest rate swap agreements in March 2002 and one interest rate swap agreement in May 2003 to offset future fluctuations in interest rates related to LUHS' fixed and variable rate debt. The fixed rate swap agreement has a rate of 3.46%, extends over a five-year period, and has a notional amount of \$50 million. The March 2002 floating rate agreement has a rate equal to 73.75% of the one-month LIBOR, extends over a five-year period, and has a notional amount of \$125 million. The net amounts received under the interest rate swap agreements reduced interest expense by \$1.02 million in 2003. At June 30, 2003, the net mark-to-market fair value adjustment of the swaps was (\$3.5 million), which is recorded as a liability and as a component of changes in unrestricted net assets.

(9) Self Insurance

University Academic

The University Academic maintains risk retention programs for professional liability, certain general liability risks, and certain employee benefits. The assets of the risk retention fund are cash and marketable securities.

In 1986 LUC and its full-time Medical School faculty established a joint University/Physician risk retention program to provide general and professional liability protection to the LUC and patient liability protection to the University Academic. In July 20, 1995 LUC and physicians sold their interests in the joint risk retention program to a third party.

supplemented by commercial excess umbrella protection on an occurrence basis through 1986, and thereafter on a combined claims-made and occurrence basis.

Management considers the reserve adequate to cover LUC's gross exposure for all years.

LUHS

Beginning July 1, 1995 LUHS began purchasing insurance coverage from LUIC, a Cayman Island company, for primary and patient general liability claims. Estimated claims are disclosed using a rate of 1% and 2.5% as of June 30, 2003 and 2002, respectively. Self-insurance liabilities are estimated at the actuarially determined amount. In 2004 LUHS made a policy change to a combined claims-made and occurrence basis.

(10) Retirement Plans

Substantially all personnel participate in either the defined contribution pension plan for faculty and academic staff or the defined benefit and contribution plans for nonacademic personnel.

2003 and 2002 were:

	2003		2002	
	University Academic	LUHS	Total	2002
	\$8,063	\$3,497	\$11,560	\$11,050

During Fiscal Year 2002, the University of Louisiana at Lafayette...

	University Academic	LUHS	Total	2002
Change in benefit obligation				
Benefit obligation, beginning of year	\$70,404	\$106,004	\$176,408	\$176,408
Benefit obligation, end of year	\$76,760	\$126,787	\$203,547	\$203,547
Change in actuarial estimate				(4,237)
Service cost	2,340	5,797	8,137	7,903
Interest cost	5,177	7,402	12,579	12,150
Actuarial loss	6,356	20,683	27,039	437

Engineered average assumptions				
Discount rate	6.5%	6.5%		7.5%
Expected return on plan assets	8.5%	8.5%		8.5%
Rate of compensation increase	2.5%	2.5%		2.5%

Components of net pension expense				
Service cost	\$2,340	\$5,797	\$8,137	\$7,903
Interest cost	5,177	7,402	12,579	12,150
Net periodic pension cost	313	2,693	3,006	1,541
Total pension expense	\$313	\$2,693	\$3,006	\$1,541

(1) Other Postretirement Benefits

by December 31, 2000, regardless of age.

Defined benefit retiree health plan costs included in the consolidated statements of activities for the years ended June 30, 2002 and 2003 were:

University	LUHS	Total	2002		
Academic					
Change in benefit obligation					
Benefit obligation, beginning of year		\$29,999	\$11,420	\$41,419	\$31,763
Service cost		1,805	182	1,987	1,661
Interest cost		2,191	810	3,001	2,387
Participant contributions		1,000	623	1,623	724
Plan amendments		(6,602)	(2,162)	(8,764)	
Actuarial loss		11,639	3,797	15,431	8,155
Benefit obligation, end of year		\$35,033	\$13,950	\$48,983	\$40,819
Change in plan assets					
Fair value of plan assets, beginning of year		\$ -	\$ -	\$ -	\$ -
Employer contributions		2,551	1,455	4,006	2,547
Participant contributions		1,623	623	2,246	724
Unrecognized actuarial gain		(1,280)	(1,000)	(2,280)	(1,000)
Change in plan assets		2,894	1,078	3,972	2,271
Plan assets, end of year		\$2,894	\$1,078	\$3,972	\$2,271
Discount rate		6.50%	6.50%	6.50%	7.50%
Health care plan	0.7%	0.7%	0.7%	0.7%	
Other health plans		0.10	0.10	0.10	0.10
2003					
	<u>LUC</u>	<u>LUHS</u>	<u>Total</u>	<u>2002</u>	
Effect of a 1% change in the health care cost trend rates					
1% increase					
On total of service and interest cost components	\$5,022	\$1,667	\$6,689	\$5,093	
On year-end postretirement benefit obligations	499	127	626	648	
1% decrease					
On total of service and interest cost components	\$(4,264)	\$(1,414)	\$(5,678)	\$(4,374)	
On total of service and interest cost components	(551)	(122)	(673)	(548)	

(12) Natural Classification of Expenses

Expenses are reported in the consolidated statements of activities in functional classifications recommended by the National Association of College and University Business Officers. Employee benefits are recorded in each

(in thousands of dollars)	2003		2002	
	University	University	University	University
Salaries	\$138,218	\$237,623	\$141,851	\$227,779
Benefits	28,040	46,502	25,415	42,221
Total	\$166,258	\$284,125	\$167,266	\$270,000
Utilities, repairs, and plant maintenance	\$12,166	\$33,529	\$11,626	\$32,989
Total other expenses	\$133,041	\$304,599	\$139,288	\$280,616
Total expenses	\$309,299	\$588,725	\$316,554	\$550,626

(in thousands of dollars)

	2003			2002
	University Academic	LUHS	Total	
Temporarily Restricted				
Academic or program support and student financial aid	\$61,666	\$-	\$61,666	\$ 64,800
Research	4,418		4,418	2,448
Student loans	2,759		2,759	6,024
Construction	8,546		8,546	7,653
Other	25,088	3,393	28,481	26,983
Total temporarily restricted net assets	\$102,477	\$3,393	\$105,870	\$107,917

(in thousands of dollars)

	2003			2002
	University Academic	LUHS	Total	
Permanently Restricted				
Academic or program support and student financial aid	\$80,436	\$-	\$80,436	\$ 78,845
Student loans	104		104	104
Other		6,155	6,155	6,809
Total permanently restricted net assets	\$80,540	\$6,155	\$86,695	\$ 85,758

(14) Related Party Transactions

The Loyola University Physician Foundation (LUPF) is an incorporated medical faculty practice plan consisting of the faculty of the University Academic's SSOM. The physician employees of LUPF perform their clinical services by contractual arrangement with LLC and LUMC. LUPF provides billing, collection, and distribution services of professional fees generated by SSOM physicians from their private practice or medicine in LUMC or other approved locations. LLC and LUMC received a percentage of fees collected, less certain expenses for the funding of certain SSOM activities and for the use of LUMC's computer and facilities. Payments to LLC and LUMC in the years ended June 30, 2003 and 2002 and amounts receivable on these dates were:

Loyola University or others	2003	2002
University	2003	2002
	2003	2002
	2003	2002
	2003	2002

various contract terms and other component payments to casually arise in the ordinary course of LLC's

LLC shall subject loans of 7.2 percent with 100% recourse. The balance of receivables

LLC has agreed to guarantee loans issued to their employees by the Loyola University Employees' Federal Credit Union in an aggregate maximum of \$750,000 and

LLC shall subject loans of 7.2 percent with 100% recourse. The balance of receivables

LLC shall subject loans of 7.2 percent with 100% recourse. The balance of receivables

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LOYOLA UNIVERSITY CHICAGO - UNIVERSITY ACADEMIC
 CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
 JUNE 30, 2003 AND JUNE 30, 2002

(\$000s)

	2003	2002						
			Education	Mundelein	LMC	Entries	Total	Total
ASSETS								
CASH AND CASH EQUIVALENTS			\$ 103,535	\$ -	\$ -	\$ -	\$ 103,535	\$ 55,034
RECEIVABLES			73,111		218		73,329	82,343
OTHER ASSETS			6,901		171		7,072	32,250
INVESTMENTS			207,892				207,892	231,996
INTEREST HELD IN RECEIVABLES								
NOTES RECEIVABLE FROM SUBSIDIARY			22,666			(21,100)	1,566	1,649
LAND, BUILDINGS, AND EQUIPMENT - NET			270,350	2,500	12,994		285,844	280,260
TOTAL ASSETS			\$ 681,354	\$ 2,500	\$ 12,994	\$ (21,100)	\$ 675,748	\$ 550,292
LIABILITIES AND NET ASSETS								
UNRECORDED GRANTS							10,950	2,117
UNRECORDED DEBTS								
UNRECORDED BALANCE								
UNRECORDED LIABILITIES								
UNRECORDED ASSETS								
Temporarily restricted			102,477				102,477	104,526
TOTAL LIABILITIES AND NET ASSETS			\$ 691,631	\$ 2,500	\$ 12,994	\$ (21,100)	\$ 685,025	\$ 556,939

LOYOLA UNIVERSITY CHICAGO - UNIVERSITY ACADEMIC
 CONSOLIDATED STATEMENT OF ACTIVITIES
 JUNE 30, 2003 AND JUNE 30, 2002
 (\$000s)

	Higher		Eliminating	2003	2002
	Education	Mundelein	LMC	Consolidated	Consolidated
	Education	Mundelein	LMC	Entries	Total
OPERATING REVENUES:					
Grants and contracts for sponsored projects	54,695				54,695
Academic support	46,522				46,522
Gifts	1,555				1,555
Investment income designated for operations					
Total operating revenues	102,772				102,772
OPERATING EXPENSES:					
Instruction	81,422				81,422
Research and other sponsored programs	41,913				41,913
Academic support	62,101				62,101
Student services	18,663				18,663
Institutional support	47,987		3,925	(1,840)	50,072
Depreciation and disposals					
Results of operations	(7,610)	(208)	(1,166)		(8,984)
NON OPERATING ACTIVITIES:					
Investment loss net of amounts designated for operations	(2,946)				(2,946)
Other	2,340				2,340
Decrease in unrestricted net assets after change in permanently restricted net assets					
Gifts	8,007				8,007
Investment income/loss					
Change in annuity value	(2,056)				(2,056)
Other	42				42
Transfer of net assets	66				66
Net assets released from restrictions	(8,541)				(8,541)
Decrease in net assets	(35,549)	(208)	(1,166)		(36,923)
Net assets at beginning of year					
Net assets at end of year	\$ 370,286	\$ (257)	\$ (14,599)	\$ -	\$ 355,430
					\$ 392,353

