	University Academic	LUHS	Eliminating Entries	2004 Consolidated Total	2003 Consolidated Total
ASSETS					
CASH AND CASH EQUIVALENTS	$ 97,493	$ 58,211	$ -	$ 155,704	$ 136,845
INTERFUND BALANCES	7,638		(7,638)		
RECEIVABLES	57TD0,84521.84 0 TD -18,381-0.0756 2				

LOYOLA UNIVERSITY OF CHICAGO
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2004 AND JUNE 30, 2003
($000s)

	2004	2003
University		

LOYOLA UNIVERSITY CHICAGO
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND JUNE 30, 2003
($000s)

	University Academic	LUHS	Eliminating Entries	2004 Consolidated Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net assets	$ 54,884	$ 36,549	$ -	$ 91,433

ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS
TO NET CASH FROM OPERATING ACTIVITIES:
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LOYOLA UNIVERSITY OF CHICAGO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

(1) Overview of Loyola University of Chicago

Loyola University of Chicago (LUC) is a private, coeducational, not-for-profit institution of higher education, research and health care founded in 1870 by the Society of Jesus (Jesuits). The University patron saint and namesake is St. Ignatius Loyola (1491-1556), the founder of the Society of Jesus, which today is the largest religious order in the Roman Catholic Church. The LUC consolidated financial statements are comprised of Higher Education, Loyola Management Company (LMC), Mundelein College (Mundelein) (collectively, University Academic), and Loyola University Health System (LUHS) (see Note 4). The University Academic operates on four campuses providing educational services to more than thirteen thousand students primarily in undergraduate, graduate, and professional degree programs. LUC performs research, training and other services under grants and contracts with government agencies and other sponsoring organizations. Mundelein and LMC

Operations

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

Contributions, including unconditional promises to give (pledges), are recognized as revenue in the period received and reported at present

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: buildings and building improvements, 5 to 40 years; equipment, 3 to 20 years; and books, 5 years. LUC uses the component method of capitalization.

Reclassification

Certain reclassifications have been made to the 2003 balances to conform to the 2004 presentation.

(4) Loyola University Health System

Organization

LUHS is a regional integrated health care delivery system providing a full continuum of health care services and competencies in primary care and tertiary care medicine. LUHS provides services to patients in various settings, including a tertiary care hospital, home care and hospice services, outpatient service facilities, immediate care facilities and primary care practice sites.

LUC is the sole corporate member of LUHS, and LUHS is the sole corporate member of Loyola University Medical Center (LUMC) and LUCIC. LUMC is an Illinois not-for-profit corporation exempt from federal income taxes as an organization described in Section 501(c)(3) of the IRC.

Basis of Presentation

LUHS maintains its accounts and prepares stand-alone audited financial statements in conformity with accounting principles generally accepted in the United States of America or 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 which provides for financial, operating, and shared services relationships between the organizations. Under this agreement LUMC makes payments to LUC for the following: reimbursements received by LUMC for direct medical education; a portion of the salaries and benefits of the SSOM faculty who provide health management services to LUMC; general support to University Academic; and capital support to SSOM. These amounts totaled $28.5 million for 2004 and $27.7 million for 2003.

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 2004 and 2003.

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

Loyola University Center for Health and Fy3jr49.2th mw (f /F0 12 eFy3jr49.3Tf -0.1201.3 Tw (289) Tj 104.25 512 eF

On July 1, 2003, LUHS adopted Statement of Position (SOP) 02-2, Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator, which amends requirements for reporting of gains and losses on hedging and non-hedging derivative instruments.

(6) Investments

University Academic

Investments are overseen by the Investment Policy Committee of the Board of Trustees of LUC. The Investment Policy Committee is responsible for establishing investment policies designed to ensure that investment objectives are achieved. Total long-term assets under management are endowment assets of $228.2 million, risk retention assets of $11.4 million, charitable assets of $8.4 million and $1.5 million in other assets. Investment professionals deploy the assets pursuant to applicable policies by selecting investment strategies and investment managers. The assets are invested by external equity and fixed income investment managers, and various limited partnerships or offshore investment companies for tax reasons.

The fair value of long-term investments at June 30, 2004 and 2003 was:

(in thousands of dollars)	2004			
	University Academic	LUHS	Total	2003
Cash pending investment	$ 16,229	$	$ 16,229	$ 20,863
Equity	108,428	50,520	158,948	100,487
Private capital	27,616		27,616	28,981
Absolute return/hedge funds	19,110		19,110	15,839
Fixed income	60,497	124,479	184,976	186,560
Real estate	17,584	7,454	25,038	26,871
Total investments	$249,464	$182,453	$431,917	$379,601

The above allocations do not reflect futures positions held in the endowment portfolio. University Academic is committed to making future capital contributions from its endowment portfolio in existing private equity investments in the maximum amount of $11.9 million over the next three to five years. Fair values of financial instruments approximate their carrying values in the financial statements except for indebtedness for which fair value information is provided in Note 9.

Derivative Financial Instruments

From time to time, University Academic enters into transactions that involve the use of futures and options contracts. In 2004, the endowment investment portfolio used futures for the express purpose of maintaining an asset allocation strategy as close as possible to policy targets. Futures may be used to maintain a fully invested position or to increase or decrease the allocation to stocks and bonds. Futures are not used for tactical investment decisions or to speculate on the future direction of markets. Realized gains and losses from derivative investments are included in investment income. All futures positions are fully collateralized and do not create leverage in the endowment portfolio.

The endowment portfolio held futures contracts with a notional exposure of $24.1 million gross, an asset of $9.1 million and an estimated fair value of $92 thousand at June 30, 2004. At June 30, 2003 futures contracts resulted in a notional exposure of $30.7 million gross, an asset of $16.1 million and an estimated fair value of ($440) thousand. The net impact of the futures held at June 30, 2004 is to reduce the cash position in the endowment portfolio by 4.0%, while increasing stocks by 7.0% and reducing the bond allocation by 3.0%. Futures positions generated approximately $3.3 million in gains in 2004 and $264 thousand in gains in 2003.

During 2004, options were used on a limited basis by one external investment advisor in the endowment portfolio to reduce the risk of holding certain individual securities. At June 30, 2004, three option positions were held in the portfolio with a notional value of $820 thousand and a fair value of ($153) thousand. At June 30, 2003, five option positions were held in the portfolio with a notional value of $422 thousand and a fair value of ($85) thousand. Realized gains on exercised or expired options were $188 thousand in 2004 and $674 thousand in 2003.

The endowment portfolio may invest in commingled funds that employ derivative-based strategies as part of a diversified investment strategy. These strategies may utilize derivatives for hedging purposes or for trading purposes. This type of exposure exists in one external investment fund valued at $19.1 million and $15.8 million as of June 30, 2004, and 2003, respectively.

Investment Income/(Loss)

Investment return, net of management fees, for the years ended June 30, 2004 and 2003 was:

(in thousands of dollars)	2004			
	University Academic	LUHS	Total	2003
Interest and dividends	$ 4,081	$3,124	$ 7,205	$ 7,897
Net realized gains	21,572	1,447	23,019	2,297
Net unrealized gains (losses)	13,613	2,808	16,421	(1,586)
Total return on investment	$39,266	$7,379	$46,645	$ 8,608

Interest income on cash and cash equivalents of $1.4 million in 2004 and $1.3 million in 2003 is not included in the investment return.

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Contributions receivable at June 30, 2004 and 2003 are due in the following periods:

(in thousands of dollars)	2004			
	University Academic	LUHS	Total	2003
In one year or less	$ 4,147	$71	$ 4,218	$ 4,609
Between one year and five years	14,464		14,464	16,457
More than five years	2,270		2,270	2,547
Discount $3,650 (2004) and $4,908 (2003) and allowance for doubtful accounts of $1,524 (2004) and $1,527 (2003)	(5,174)	3,	(5,174)	(6,435)174
Total contributions receivable	$ 15,707 5,174	174		

174

$

174

(in thousands of dollars)	Final Maturity	Interest Rate	2004	Interest Rate	2003
University Academic (continued)					
Variable rate: *					
Medium-term notes			$ -	** 7.65%	$ 53,030
Bank One Line of Credit				1.78%	16,110
IEFA commercial paper pool	2014	1.07%	12,174	0.99%	12,174
Total variable rate			$ 12,174		$ 81,314
Total University Academic indebtedness			$214,545		$194,908

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

** Under the terms of a swap agreement entered into as of the issuance date of these MTNs, the interest rate was effectively LIBOR plus 0.55% (1.84% at June 30, 2003).

(in thousands of dollars)	Final Maturity	Interest Rate	2004	Interest Rate	2003

LUHS 2.25 0 TD 0.027i64n54.75 4841.027i

Repayments and Classification

Total scheduled maturities for the next five fiscal years are:

(in thousands of dollars)

Fiscal Year	University Academic	LUHS	Total
2005	$ 1,293	$ 18,260	$ 19,553
2006	2,854	5,448	8,302
2007	5,486	7,770	13,256
2008	5,751	8,331	14,082
2009	15,586	8,779	24,365
thereafter	183,575	243,103	426,678
	$214,545	$291,691	$506,236

Disclosure of Fair Value of Long -term Debt

The fair value of the outstanding debt as of June 30, 2004 and 2003 was:

(in thousands of dollars)

	2004		2003	
	Fair Value	Carrying Value	Fair Value	Carrying Value
University Academic	$215,162	$214,545	$203,111	$194,908
LUHS	280,494	291,691	288,038	298,247

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

Interest paid for the years ended June 30, 2004 and 2003 was:

(in thousands of dollars)

	2004			
	University Academic	LUHS	Total	2003
Interest paid	$10,622	$11,700	$22,322	$21,167

Inte rest 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 or vice versa. These agreements involve the exchange of floating and fixed-rate interest payments over the life of the agreement without an exchange of the underlying principal amount. The differential to be paid or received is recognized as an adjustment to interest expense related to the debt. The related amount payable to or receivable from counterparties is included in other liabilities or assets.

As of July 18, 2000, University Academic entered into a swap agreement effectively changing the interest rate of University Academic's $53.0 million MTNs from the fixed rate of 7.65% to a floating rate of LIBOR plus .55%. As a result, interest expense on these MTNs was reduced by $150 thousand in 2004 and by $2.9 million in 2003. This swap expired in 2004 and at June 30 University Academic was not participating in any interest rate swap agreements.

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

(11) Retirement Plans

Substantially all personnel participate in either a defined contribution retirement plan or a defined benefit plan (LUERP). University Academic froze pension benefits in LUERP effective March 31, 2004 for all but a grandfathered group of "ameliorated" participants. This group is allowed to continue to earn additional Adjusted Benefit Credited Service accruals for a period of up to five years. Effective April 1, 2004, University Academic established a new defined contribution plan.

LUMC froze pension benefits in LUERP effective March 31, 2004 for all participants. All LUMC participants will continue to earn pension benefits after March 31, 2004 in a new defined benefit plan, Loyola University Medical Center's Employees Retirement Plan (LUMCERP), which is substantially similar in design to LUERP and will "wrap around" the frozen March 31, 2004 accrued benefit from LUERP. The primary differences between LUMCERP and LUERP include removal of the unlimited lump sum optional form of payment, increase in the retirement age from 65 to Social Security Normal Retirement Age, and an increase in the hour requirement for participation and service accrual from 500 to 1,000.

Retirement plan expenses included in the consolidated statements of activities and changes in net assets for the years ended June 30, 2004 and 2003 were:

(in thousands of dollars)	2004			
	University Academic	LUHS	Total	2003
	$12,395	$14,432	$26,827	$14,252

Included in the Statement of Financial Position at June 30, 2004, are a pension liability of $287 thousand for University Academic and $3.4 million of unrecognized prior service costs and a prepaid pension asset of $10.2 million for LUHS. Included in the Statement of Financial Position at June 30, 2003, are $3.2 million of unrecognized prior service costs and a pension liability of $2.4 million for University Academic and $3.7 million of unrecognized prior service costs and a pension liability of $3.9 million for LUHS.

At March 31, 2003, the measurement date for the plan, the plan assets were less than plan liabilities requiring University Academic and LUHS to make contributions of $5.2 million and $8.0 million, respectively to the defined benefit plan. In 2004, contributions to the plan were not required and none were made. LUMC expects to contribute $3.1 million to the new defined benefit plan (LUMCERP) in 2005.

Summary information for the defined benefit pension plan follows:

(in thousands of dollars) 2004

University

Academic 13,591to contribute $3.requir52.

(in thousands of dollars)	2004			
	University Academic	LUHS	Total	2003
Reconciliation of funded status				
Funded status	$(287)	$(20,822)	$(21,109)	$(29,482)
Unrecog				

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

(in thousands of dollars)	Fiscal Year	University Academic	LUHS	Total
	2004	$ 7,839	$ 7,952	$15,791
	2005	6,492	9,179	15,671
	2006	6,629	10,039	16,668
	2007	6,332	10,148	16,480
	2008	6,578	10,592	17,170
	2009-2013	31,953	63,394	95,347

(12) Other Postretirement Benefits

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

Effective January 1, 2000, LUMC no longer contributes to the cost of retiree health coverage for certain future retirees. LUMC contributes to the cost of health coverage for current retirees, active employees who were 60 years of age with ten years of service at December 31, 2000, and active employees with 25 years or more of service at December 31, 2000, regardless of age.

Defined benefit retiree health plan costs included in the consolidated statements of activities and changes in net assets for the years ended June 30, 2004 and 2003 were:

	2004			
	University Academic	LUHS	Total	2003
Change in benefit obligation				
Benefit obligation, beginning of year	$ 37,936	$ 12,587	$ 50,523	$ 41,419
Service cost	2,375	276	2,651	1,987
Interest cost	2,414	795	3,209	3,001
Participant contributions	992	487	1,479	1,623
Plan amendments	(8,210)	-	(8,210)	(8,764)
Benefits paid	(2,453)	(967)	(3,420)	(4,174)
Actuarial (gain) loss	(6,102)	1,340	(4,762)	15,431
Benefit obligation, end of year	$ 26,952	$ 14,518	$ 41,470	$ 50,523
Change in plan assets				
Fair value of plan assets, beginning of year	$ -	$ -	$ -	$ -
Employer contributions	1,461	479	1,940	4,006
Participant contributions	992	488	1,480	2,246.75 0 TD 0 Tc 0.2895

Assumed health care cost trend rates	2004	2005	2006	2007
HMO plans	6.0%	6.0%	6.0%	6.0%
Non-HMO plans	6.0%	6.0%	6.0%	6.0%

	2004			
	University Academic	LUHS	Total	2003
Effect of a 1% change in the health care cost trend rates				
1% increase				
On total of servi ce and interest cost components	$ 2,054	$ 1,107	$ 3,161	$ 6,689
On year-				

(14) Restricted Net Assets

The program restrictions for temporarily and permanently restricted net assets at June 30, 2004 and 2003 were:

(in thousands of dollars)	2004			
	University Academic	LUHS	Total	2003
Temporarily Restricted				

(in thousands of dollars)	2004	2003
Revenues	$22,584	$26,185
Expenses	23,611	24,303

RML Specialty Hospital

LUMC owns a 49.5% interest in RML Specialty Hospital (RML), a long-term acute care hospital located in Hinsdale, Illinois. LUMC's investment in RML of $7.3 million and $7.2 million as of June 30, 2004 and 2003, respectively, is recorded using the equity method. LUMC provides renal dialysis and reference laboratory services to RML. The revenue from these services was $529 thousand and $717 thousand for 2004 and 2003, respectively. In addition, LUHS has guaranteed 50% of certain outstanding debt of RML. As of June 30, 2004, LUHS' guarantee was $2.6 million. During the year, LUHS received a cash distribution of $1.5 million from RML.

The following summarizes condensed financial information of RML as of and for the years ended May 31, 2004 and 2003:

(in thousands of dollars)	2004	2003
Net assets	$14,865	$13,636
Revenues	34,182	33,088
Expenses	30,932	29,239

Loyola Ambulato ry Surgical Center

LUHS owns an interest in Loyola Ambulatory Surgical Center (LASCO), a joint venture with HealthSouth. LUHS investment in LASCO was $1.4 million and $1.3 million as of June 30, 2004 and 2003, respectively, and is recorded using the equity method.

2004

education, research, and patient care activities. In the opinion of management, all such matters have been adequately provided for, are without merit, or are of such kind that if disposed of unfavorably, would not have a material effect on LUC's financial position or results of operations.

(18) Financial Instruments with Off-Balance Sheet Risk

In April 1994, LUC sold student loans of $7.2 million with 100% recourse. The balance of receivables outstanding under this agreement at June 30, 2004, is $219 thousand.

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