

Loyola University Chicago
University Academic
Management Discussions of Financial Results
For the Year Ended June 30, 2006

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

FY 2006 Increase in Net Assets

University Academic FY 2006 operating revenues in excess of operating expenses shows an operating surplus of \$43.1 million. Non-operating revenues were \$18.5 million and included investment earnings and insurance proceeds. Unrestricted assets also increased for: defined benefit pension accounting rules required the University to record a \$25.3 million increase in net assets because of the plan's improved financial position and new accounting rules required a decrease in assets of \$7.2 for recording potential asbestos removal costs. Temporarily restricted net assets increased by \$19.4 million due to investment performance and gifts, and permanently restricted net assets increased by \$4.2 million due to permanent endowment gifts. The total increase in net assets for the year ended June 30, 2006 was \$103.2 million for a total of \$570.3 million at June 30, 2006. This is a 22% increase in net assets since June 30, 2005.

Operating Performance for FY 2006:

University Academic continues to experience the resurgence and renewal which began several years ago. Enrollment continues to be strong and management controls have managed and controlled costs. The results of operations for the year ended June 30, 2006 were \$43.1 million compared to \$26.5 million for the same period last year, a 62.8% increase.

Enrollment continues to strengthen and the University is approaching capacity for undergraduate students. In fiscal year 2006, total enrollment reached 14,299, representing both full and part-time students. Undergraduate enrollment, the largest component of University enrollment was 8,917, or 19.7% over the previous fiscal year. In the fall of 2005 (Fiscal Year 2006), the University welcomed 2,425 new students as compared to 2,401 in the fall of 2004. This is the largest group of new students in the University's history and included 1,890 freshman and 535 transfer students.

Graduate and Professional students totaled 5,352 compared to 5,461 in Fiscal Year 2005. Graduate enrollment was down 2.7% reflecting the nature of some particular graduate programs. Medical enrollment increased by nine students as a result of Stritch School of Medicine's decision to increase total enrollment by 40 students over four years.

Gross tuition increased to \$282.3 million from \$247.3 million or 14.1%. This increase was principally due to higher enrollments and a tuition rate increase approximating 6.0%. University funded scholarships as a percentage of related revenue was similar to prior years with the average scholarship for all freshmen at 40.0% while the continuing students receive an average of approximately 36%. Rate of University funded scholarships is consistent with our Jesuit mission to provide educational opportunities to those needing such assistance. Net tuition and fees increased by \$25.4 million or 13.4% to \$214.8 million.

Total operating revenue amounted to \$397.5 million in FY 2006 or 12.2% higher than in fiscal year 2005. The most significant factor in this increase (58.7%) was the increase in net tuition and fees. Other increases include:

- x Interest income increased by \$3.2 million or 126.8% to \$5.7 million. This increase is related to greater funds deposited, principally related to management savings incentives and debt repayments, as well as higher interest rates.
- x Unrestricted gifts of \$7.0 million were received, an increase of \$2.3 million from the prior year.

Total operating expenses increased 8.1% or \$26.6 million to \$354.4 million in FY 2006. Included in operating expenses was \$3.5 million in support provided to students displaced by Hurricane Katrina. With the increasing number of students, the University increased the number of faculty and made market adjustments for faculty and staff salaries allowing the University to become more competitive in the labor market. In FY 2006, the University operated two new buildings including

Cash and Investments:

Liquidity levels continued to strengthen due to positive investment returns and a strong operating performance. Cash and Investments increased to \$464.2 million from \$401.4 million the prior year. At June 30, 2006, Cash and Investment represented 131% of FY 2006 operating expenses and 172% of outstanding debt at June 30, 2006. Comparable statistics for FY 2005 were 122% and 147%, respectively.

Endowments and Investment Performance:

The rate of investment return on the endowment fund portfolio was 13.6% and the endowment fund grew from \$259.1 million at June 30, 2005 to \$305.7 million at June 30, 2006. The University added \$11 million to fund several quasi-endowments and to meet other University obligations during fiscal year 2006, highlighted by \$2 million for the Center for Catholic Intellectual Heritage, \$1 million each for the Center for Catholic School Effectiveness, Media Integrity Professorship, Faculty Development Leave Fund, and the Carolyn Farrell Chair at the Gannon Center, \$.5 million for the Croghan Scholarship, and \$.4 million for the EVOKE Endowment.

Donors contributed \$6.4 million to the endowment fund in fiscal year 2006. In aggregate, 32 new endowment accounts were established in fiscal year 2006 and over \$18 million was added to the endowment fund portfolio. Spending from the endowment in fiscal year 2006 was \$7.4 million (a 2.6% effective rate), an increase of 44% over the previous year, and less than the budget of \$9.3 million. In addition to the endowment performance, positive results from operations and other activities translated to an increase in cash and cash equivalents cash from \$124.6 million June 30, 2005 to \$143.7 million at June 30, 2006.

Assets Held in Trust by Others:

Assets Held in Trust by Others declined to \$11.1 million from \$29.6 million. These assets represent unspent bond proceeds for the Mather Residence Hall. As construction payments are made from the trust, the balance is reduced and the cost related to the building is increased.

Investments in Land, Building and Equipment:

Property Plant and Equipment, net increased by \$64.6 million to \$422.7 million. Gross additions (cost) amounted to \$90.0 million, including the payments made on the Water Tower Residence Hall, renovations to various campus buildings and a variety of other projects. The larger capital investments made during 2006 included (dollars in millions):

Water Tower Residence Hall	\$	41.4
Strategic Properties Acquired		10.6

Reinvestment of FY 2006 Operating Surplus:

It is the University's practice to invest unrestricted operating earnings in capital asset reserves, SSOM incentive savings, housing, auxiliary operations, and the Rome Center. Additionally, the President has allocated the remaining operating surplus of \$20.6 million to the following (dollars in thousands):

Endowment:

Catholic Intellectual Heritage	\$	2,000
BVM Chair in Woman's Studies		1,000
Faculty Development Leaves		1,000
Match for Endowed Chair (Genomics)		1,000
Match for Endowed Chair (Psychology)		1,000
Match for Endowed Chair (English))		1,000
Match R.Croghan gift for Cristo Ray HS graduates @ LUC		500
Match E. Wanandi gift for scholarships		500
Match for Walsh Endowment		500
Campus Ministry Evoke Endowment		350
Match to honor Pope John Paul II		50
Match for Latino Alumni Group		25
Total for endowment	\$	<u>8,925</u>

Capital:

FY 2006/2007 Capital Budget	\$	3,450
Information Commons		2,000
Jesuit Residence Construction		2,000
Capital for Madonna della Strada		1,500
Capital for 4th Floor of Quinlan teaching and research labs		500
MDS Organ (savings account - \$330,000 for 3 years)		330
Communications Labs - Water Tower Campus		300
Stained Glass Installation at Crown Center		100
Total for capital	\$	<u>10,180</u>

Operating:

School as Lender for Scholarships	\$	950
Lilly Evoke Grant Match		150
Faculty Conferences at TBC and JFRC		150
Children's Rights Conference		100
Faculty Immersion Trips for 07		100
Total operating	\$	<u>1,450</u>

Total FY 2006 Distributions	\$	<u><u>20,555</u></u>
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Additional Financial Charts Attached:

- x Exhibit 1 - FTE Enrollment Ten Year Trend
- x Exhibit 2 - Total Gifts Five Year Trend
- x Exhibit 3 - Cash & Investments and Indebtedness Five Year Trend

Appreciation to all for making FY 2006 a successful year!

Loyola University Chicago is appreciative of the efforts and contributions made by all of our faculty, staff, students, Trustees, alumni, business partners, friends, and administrators in making FY 2006 a very successful year! For this, all of us in Financial Services continue to be deeply grateful and we look forward to serving an exciting and successful Loyola University Chicago!

William G. Laird, CPA
Vice President for Finance, CFO and Treasurer