

LOYOLA UNIVERSITY CHICAGO



Damen Student Center, Lake Shore Campus

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Loyola University of Chicago
Chicago, Illinois

We have audited the accompanying consolidated financial statements of Loyola University of Chicago ("LUC") which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities and changes in net assets and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

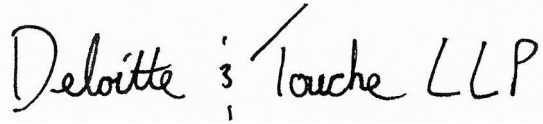
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the LUC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of LUC as of June 30, 2013 and 2012, and results of its activities and changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Deloitte Touche LLP". The word "Deloitte" is written in a cursive style, followed by a vertical line with a small circle at the top and a small circle at the bottom. To the right of this line is the word "Touche" in a cursive style, followed by "LLP" in a more blocky, uppercase cursive style.

Chicago, IL
October 17, 2013

LOYOLA UNIVERSITY CHICAGO
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2013 and 2012 (in thousands of dollars)

	2013	2012
ASSETS		
Cash and cash equivalents	\$ 173,663	\$ 345,807
Short-term investments	104,643	24,999
Notes and accounts receivable, net	73,394	95,152
Receivable from Trinity Health	75,000	75,000
Other assets	27,453	11,662
Endowment and other long-term investments	502,902	444,047
Assets held in trust by others	28,483	56,256
Interest held in perpetual trust	10,289	9,588
Land, buildings and equipment, net	1,029,530	912,629
TOTAL ASSETS	\$ 2,025,357	\$ 1,975,140
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 67,503	\$ 88,942
Deferred income	30,531	34,828
Unexpended grants	14,081	14,675
Refundable advances - loans	18,818	18,426
Indebtedness	584,666	593,865
Pension and other postretirement plan liabilities	49,425	51,847
Other liabilities	4,040	3,814
TOTAL LIABILITIES	769,064	806,397
NET ASSETS:		
Unrestricted	936,325	862,251
Temporarily restricted	172,470	167,559
Permanently restricted	147,498	138,933
TOTAL NET ASSETS	1,256,293	1,168,743
TOTAL LIABILITIES AND NET ASSETS	\$ 2,025,357	\$ 1,975,140

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, 2013 and 2012 (in thousands of dollars)

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012
OPERATING REVENUES:								
Tuition and fees, net of scholarships \$133,318 (2013) and \$128,932 (2012)	\$ 326,397	\$ -	\$ -	\$ 326,397	\$ 320,972	\$ -	\$ -	\$ 320,972
Grants and contracts for sponsored projects	53,461			53,461	49,511			49,511
Academic support	22,725			22,725	22,772			22,772
Gifts	4,775			4,775	2,971			2,971
Return on short-term investments and interest income	2,687			2,687	313			313
Investment income designated for operations	4,579			4,579	4,627			4,627
Other	27,903			27,903	25,524			25,524
Auxiliary services	49,417			49,417	46,286			46,286
Net assets utilized or released from restrictions for operations	17,355			17,355	17,196			17,196
TOTAL OPERATING REVENUES	509,299			509,299	490,172			490,172
OPERATING EXPENSES:								
Salaries and wages	223,541			223,541	210,556			210,556
Fringe benefits	62,275			62,275	57,513			57,513
Non-salary operating expenses	120,135			120,135	118,748			118,748
Insurance	2,800			2,800	1,944			1,944
Depreciation and amortization	46,124			46,124	40,217			40,217
Interest	16,353			16,353	9,895			9,895
Utilities	7,138			7,138	7,020			7,020
TOTAL OPERATING EXPENSES	478,366			478,366	445,893			445,893
RESULTS OF OPERATIONS	30,933			30,933	44,279			44,279
NON-OPERATING ACTIVITIES:								
Gifts	1,379	11,514	7,998	20,891	1,941	45,237	4,125	51,303
Investment gain (loss), net of amounts designated for operations	24,079	25,939	145	50,163	(2,082)	2,010	(272)	(344)
Other	(2,530)	(371)	600	(2,301)	(1,534)	(312)	943	(903)
Retirement plan related changes other than net periodic retirement plan expense	5,219			5,219	(11,111)			(11,111)
Net assets transferred or released from restrictions	14,994	(32,171)	(178)	(17,355)	(1,040)	(18,666)	2,510	(17,196)
TOTAL NON-OPERATING ACTIVITIES	43,141	4,911	8,565	56,617	(13,826)	28,269	7,306	21,749
CHANGE IN NET ASSETS FROM CONTINUING OPERATIONS	74,074	4,911	8,565	87,550	30,453	28,269	7,306	66,028
CHANGE IN NET ASSETS FROM DISCONTINUED OPERATIONS	-	-	-	-	8,910	-	-	8,910
CHANGE IN NET ASSETS	74,074	4,911	8,565	87,550	39,363	28,269	7,306	74,938
Total net assets, beginning of year	862,251	167,559	138,933	1,168,743	822,888	139,290	131,627	1,093,805
TOTAL NET ASSETS, END OF YEAR	\$ 936,325	\$ 172,470	\$ 147,498	\$ 1,256,293	\$ 862,251	\$ 167,559	\$ 138,933	\$ 1,168,743

See notes to the consolidated financial statements.

LOYOLA UNIVERSITY CHICAGO

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2013 and 2012 (in thousands of dollars)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 87,550	\$ 74,938
Increase in net assets from discontinued operations		(8,910)
Increase in net assets from continuing operations	87,550	66,028
Adjustments to reconcile increase in net assets from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	46,124	40,217
Provision for bad debt expense	1,145	1,141
Cost of early extinguishment of debt	480	3,880
Retirement plan market (gain) loss	(5,219)	11,111
Provision for retirement costs	3,946	3,137
Net realized and unrealized (gain) loss on investments	(44,444)	3,997
Contributions restricted for long-term investment	(5,599)	(4,390)
Other	(1,486)	3,796
Changes in assets and liabilities:		
Notes and accounts receivable	20,693	(36,011)
Other assets	3,213	(2,719)
Accounts payable and accrued expenses	(2,596)	8,590
Deferred income and unexpended grants	(4,891)	(2,544)
Interest held in perpetual trust	(701)	259
Refundable advances - loans	392	294
Other liabilities	(83)	(120)
NET CASH PROVIDED BY OPERATING ACTIVITIES - CONTINUING OPERATIONS	98,524	96,666
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	125,534	255,057
Purchase of investments	(139,146)	(302,796)
Purchases/sales of short-term investments, net	(80,443)	(25,000)
Expenditures for land, buildings and equipment	(200,926)	(157,704)
Student loans issued	(3,450)	(3,073)
Student loans sold and collected	3,370	3,060
NET CASH USED BY INVESTING ACTIVITIES - CONTINUING OPERATIONS	(295,061)	(230,456)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for long-term investment	5,599	4,390
Issuance of new debt		375,247
Issuance costs		(1,894)
Advance refunding of debt	(3,023)	(56,341)
Retirement of debt	(5,997)	(13,462)
Deposit of bond proceeds with trustee		(60,444)
Withdrawal of trustee bond funds	27,814	24,190
NET CASH PROVIDED BY FINANCING ACTIVITIES - CONTINUING OPERATIONS	24,393	271,686
NET CASH PROVIDED FROM THE SALE OF DISCONTINUED OPERATIONS		127,557
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(172,144)	265,453
Cash and cash equivalents, beginning of year	345,807	80,354
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 173,663	\$ 345,807

See notes to the consolidated financial statements.

LOYOLA UNIVERSITY CHICAGO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2013 and 2012

(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 degree programs as well as 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, Mundelein College (Mundelein), and Loyola Rome Center Foundation (Foundation). Mundelein exists to provide limited services for the benefit of LUC. The Foundation fosters, promotes, disseminates, and enhances the mission and values that govern LUC's John Felice Rome Center campus and LUC's programs in Italy. In fiscal year 2011, LUC discontinued operations of its hospital, Loyola University Health 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). The Foundation is an Italian entity organized under Italian law.

(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 LUC's 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) that are reasonably assured to be received, 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 short-term and long-term investments or which are on deposit with a trustee. Cash and cash equivalents represent short-term, 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 short-term investment securities are recorded on a trade-date basis.

Other Assets

Other assets are mostly comprised of prepaid expenses and land held for resale.

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 long-term 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.

Assets Held in Trust by Others

Assets held in trust by others represent proceeds of tax-exempt bonds held by a bond-trustee 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, 2013.

Accounting Pronouncements

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 adopted these new guidelines on July 1, 2012 and has incorporated the disclosure requirements within the notes to the consolidated

financial statements. The adoption resulted in the change in leveling for interest held in perpetual trust and is now reported as Level 3 in the fair-value hierarchy, based on having unobservable inputs in its valuation.

In October 2012, the FASB issued ASU No. 2012-05, *Statement of Cash Flows, Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows* to address the diversity in practice about how to classify cash receipts arising from the sale of certain donated financial assets, such as securities, in the statement of cash flows. ASU No. 2012-05 is effective for fiscal years beginning after June 15, 2013 but early adoption is permitted. LUC has adopted this guidance, which does not have a material impact on the consolidated financial statements.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

(4) Investments

The Investment Policy Committee of the Board of Trustees establishes the investment policy and guidelines governing the management of LUC's investments. Strategy for long-term investments is predicated on the objective of growth and preservation of the purchasing power of invested assets, and is thus equity-oriented and includes marketable equities, private equity, energy and real estate investments, with diversifying exposure to fixed income investments. Short-term investments are primarily managed with an objective to ensure safety of principal and a high level of liquidity to meet the needs of LUC's operations. 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, split-interest agreements, and other non-endowed donor and university funds. The table below presents the functional composition of LUC's total endowment and other long-term investments at June 30, 2013 and 2012:

(in thousands of dollars)	<u>2013</u>	<u>2012</u>
Donor-restricted endowment funds	\$ 236,899	\$ 210,113
Board-designated funds functioning as endowment	<u>223,584</u>	<u>193,463</u>
Total endowment investments	460,483	403,576
Institutional reserves	<u>32,666</u>	<u>30,915</u>
Total long-term investment pool	493,149	434,491
Split-interest agreements	8,567	8,385
Other invested assets	<u>1,186</u>	<u>1,171</u>
Total endowment and other long-term investments	\$ <u>502,902</u>	\$ <u>444,047</u>

In addition to endowment and other long-term investments, LUC had short-term investments of \$104.6 million and \$25.0 million at June 30, 2013 and 2012, respectively.

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

The tables below summarize LUC's fair value measurements for short-term investments by the fair value hierarchy levels as of June 30, 2013 and 2012:

(in thousands of dollars)	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
<u>2013</u>			
Cash and cash equivalents	\$ 14,999	\$ 14,999	\$ -
Fixed income mutual funds	61,855	61,855	
U.S. Treasury and government agency debt obligations	799		799
Corporate debt securities	7,529		7,529
Mortgage-related securities	4,406		4,406
Asset-backed securities	<u>15,055</u>		<u>15,055</u>
Total	\$ <u>104,643</u>	\$ <u>76,854</u>	\$ <u>27,789</u>

(in thousands of dollars)	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
<u>2012</u>			
Fixed income mutual funds	\$ <u>24,999</u>	<u>24,999</u>	\$ -
Total	\$ <u>24,999</u>	\$ <u>24,999</u>	\$ -

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, 2013 and 2012:

(in thousands of dollars)	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2013</u>				
Cash and cash equivalents	\$ 955	\$ 955	\$ -	\$ -
Money market mutual funds	13,949	13,949		
U.S. marketable equity securities	55,381	55,381		
U.S. marketable equity mutual funds	77,883	77,883		
U.S. marketable equity exchange-traded funds	128	128		
Non-U.S. marketable equity securities	8,310	8,310		
Non-U.S. marketable equity mutual funds	1,255	1,255		
Non-U.S. marketable equity commingled funds	107,189		107,072	117
Marketable equity commingled funds	11,428			11,428
Other equity securities	610			610
Fixed income mutual funds	41,973	41,973		
Fixed income commingled funds	64,723		30,888	33,835
U.S. Treasury and government agency debt obligations	35,575		35,575	
Other fixed income	233		233	
Real assets commingled funds	28,608		28,608	
Real assets mutual funds	464	464		
Private equity investments	41,232			41,232
Private real assets investments	<u>13,006</u>			<u>13,006</u>
Total	\$ <u>502,902</u>	\$ <u>200,298</u>	\$ <u>202,376</u>	\$ <u>100,228</u>

(in thousands of dollars)	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2012</u>				
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	<u>15,298</u>			<u>15,298</u>
Total	<u>\$ 444,047</u>	<u>\$ 207,953</u>	<u>\$ 151,769</u>	<u>\$ 84,325</u>

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, 2013 and June 30, 2012:

(in thousands of dollars)	Non-U.S. Marketable Equity Commingled Funds	Marketable Equity Commingled Funds	Other Equity Securities	Fixed Income Commingled Funds	Private Equity Investments	Private Real Assets Investments	Total
<u>2013</u>							
Balance at July 1, 2012	\$ 121	\$ -	\$ 1,469	\$ 28,700	\$ 38,737	\$ 15,298	\$ 84,325
Realized gain (loss)			(207)	(57)	4,286	711	4,733
Unrealized gain (loss)	(4)	1,428	(114)	2,025	3,720	1,873	8,928
Purchases		10,000		5,000	6,948	1,086	23,034
Sales			(82)	(1,833)	(12,459)	(5,962)	(20,336)
Transfers to (from) Level 3			(456)				(456)
Balance at June 30, 2013	<u>\$ 117</u>	<u>\$ 11,428</u>	<u>\$ 610</u>	<u>\$ 33,835</u>	<u>\$ 41,232</u>	<u>\$ 13,006</u>	<u>\$ 100,228</u>
<u>2012</u>							
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	<u>\$ 121</u>	<u>\$ -</u>	<u>\$ 1,469</u>	<u>\$ 28,700</u>	<u>\$ 38,737</u>	<u>\$ 15,298</u>	<u>\$ 84,325</u>

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 \$7.4 million and \$(0.9) million at June 30, 2013 and 2012. Of these amounts, at June 30, 2013, \$1.4 million was attributable to marketable equity commingled funds, \$(0.3) million to other equity securities, \$1.9 million to fixed income commingled funds, \$2.5 million to private equity investments, and \$1.9 million to private real assets investments. At June 30, 2012, \$0.1 million was attributable to other equity securities, \$0.2 million to fixed income commingled funds, \$(2.7) million to private equity investments, and \$1.5 million to private real assets investments.

There were no significant transfers between fair value hierarchy levels for the years ended June 30, 2013 and 2012. 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 \$30.0 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, 2013 and June 30, 2012 are in the table below.

(in thousands of dollars)			Other	Redemption	Redemption	Redemption
Investment Type	2013	2012	Redemption	Notice Period	Restrictions	
			Frequency			
Equity hedge fund of funds	\$ 117	\$ 121	Directed by investment manager	N/A		Fund in liquidation
Private real estate commingled funds	132	2,007	Directed by investment manager	N/A		Fund in liquidation
Listed real estate equity securities commingled funds	13,367	12,508	Monthly	Ten business days		None
Listed equity securities commingled funds	37,373	33,130	Daily	Thirty days		None
Listed equity securities commingled funds	6,113		Quarterly	Forty-five days		None
Listed equity securities commingled funds	5,316		Quarterly	Forty-five days		Three-year lockup provision; two years remain
Listed equity securities commingled funds	22,032	12,052	Semimonthly	Five business days		None
Fixed income securities commingled funds	30,888	15,351	Monthly	Ten business days		None
Fixed income securities commingled funds	5,958		Annually	Ninety days		None
Total	<u>\$ 121,296</u>	<u>\$ 75,169</u>				

There were no unfunded commitments to investment funds calculating net asset value per share at June 30, 2013 or June 30, 2012. The equity hedge fund of funds category consists of a liquidating investment in a global fund of funds with a single remaining underlying fund investment with holdings in various Asian markets. The private real estate commingled funds category consists of a liquidating investment in a fund that made direct real estate investments. Both fund investments cannot be redeemed but generate periodic distributions at the direction of the funds' managers as underlying investments are sold.

The listed real estate equity securities commingled funds category consists of an investment in a fund holding primarily equity securities of real estate investment trusts. The listed equity securities commingled funds categories are comprised of investments in funds primarily holding publicly-traded US and non-US equity securities, including two long-short equity funds that can vary their net exposures across global markets. The fixed income securities commingled funds categories are comprised of funds that invest in primarily US high yield bonds, sovereign debt issues of various countries, and global corporate debt securities, including structured products.

Interest Held in Perpetual Trust

LUC's interest held in perpetual trust is considered Level 3 in the fair-value hierarchy, based on guidance in the FASB ASC. The table below summarizes the changes in LUC's fair value measurements for the interest held in perpetual trust as of June 30, 2013 and 2012:

(in thousands of dollars)	<u>2013</u>	<u>2012</u>
Balance at July 1	\$ 9,588	\$ 9,847
Realized gain	455	500
Unrealized gain (loss)	456	(558)
Sales	(<u>210</u>)	(<u>201</u>)
Balance at June 30	\$ <u>10,289</u>	\$ <u>9,588</u>

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, 2013 and 2012:

(in thousands of dollars)	<u>2013</u>	<u>2012</u>	<u>Liquidity</u>
Private equity partnerships	\$ 41,232	\$ 38,737	No contractual liquidity
Real estate partnerships	13,006	15,298	No contractual liquidity
Fixed income (credit)	7,490	3,191	Varies
Multi-strategy	11,381	10,320	Quarterly
Fixed income	14,964	15,189	1/3 of capital available annually
Marketable equity	11,428		Quarterly, subject to lockup provisions
Equity hedge fund of funds	<u>117</u>	<u>121</u>	In liquidation
Total	\$ <u>99,618</u>	\$ <u>82,856</u>	

Derivative Financial Instruments

Derivative financial instruments may be used in the management of the LUC investment portfolio, generally to assist in rebalancing its asset mix and to invest cash that would otherwise earn a low rate of return. As of June 30, 2013 and 2012, the investment portfolio held futures contracts with a notional value of \$19.3 million and \$28.5 million, respectively. The net impact of the futures held at June 30, 2013 is to reduce the proportion of cash in the endowment portfolio by 3.8% while increasing non-U.S. equity exposure by 1.3%, and increasing U.S. equity exposure by 2.5%. Futures contracts are exchange-traded and subject to the market risk of the underlying indexes from which their prices are derived.

At June 30, 2013, one call option was written (as part of the strategy of an investment manager) on a stock held in the investment portfolio. At June 30, 2012, nine call options were written on stocks held in the investment portfolio. Call options written are subject to the risk of loss from an obligation to sell underlying securities at a price below the then-current market price.

The fair value of derivative instruments as of June 30, 2013 and 2012 is as follows:

(in thousands of dollars)

<u>Derivative Type</u>	<u>Consolidated Statements of Financial Position Location</u>	<u>2013</u>	<u>2012</u>
Equity, fixed income, and currency futures	Endowment and other long-term investments	\$ -	\$ -
Equity options contracts	Endowment and other long-term investments	(72)	(208)
Total derivatives		\$(72)	\$(208)

The effect of derivative instruments on the consolidated statements of activities and changes in net assets as of June 30, 2013 and 2012 is as follows:

(in thousands of dollars)

<u>Derivative Type</u>	<u>Location of Gain (Loss) Recognition in Consolidated Statements of Activities and Changes in Net Assets</u>	<u>2013</u>	<u>2012</u>
Equity, fixed income, and currency futures	Investment gain (loss) – non-operating	\$ 2,219	\$ 1,589
Equity options contracts	Investment gain (loss) – non-operating	149	149
Total derivatives		\$ 2,368	\$ 1,738

Investment Returns

Investment returns, net of management fees, for short-term and long-term investments, for the years ended June 30, 2013 and 2012 were:

(in thousands of dollars)	<u>2013</u>	<u>2012</u>
Interest and dividend income (net of fees)	\$ 12,985	\$ 8,593
Net realized gains	16,671	14,613
Net unrealized gains (losses)	<u>27,773</u>	<u>(18,610)</u>
Total net return on investment	\$ <u>57,429</u>	\$ <u>4,596</u>

Endowment Net Assets

The endowment consists of over 600 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 GAAP. 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, 2013:

<u>Target</u> <u>Asset Class</u>	<u>Allocation</u>
Global equity	50.0%
Private capital	12.5%
Real assets	10.0%
Credit	12.5%
Fixed income	15.0%
Cash	0%

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 budget calculation to endowment funds' net asset values as of a measurement date preceding the beginning of the fiscal year in which the appropriated amounts are to be drawn.

Endowment net assets at June 30, 2013 and 2012 are classified as follows:

(in thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2013</u>				
Donor-restricted endowment funds	\$(103)	\$ 105,675	\$ 131,443	\$ 237,015
Board-designated funds functioning as endowment	<u>224,934</u>	<u> </u>	<u> </u>	<u>224,934</u>
Total endowment net assets	\$ <u>224,831</u>	\$ <u>105,675</u>	\$ <u>131,443</u>	\$ <u>461,949</u>
<u>2012</u>				
Donor-restricted endowment funds	\$(399)	\$ 86,200	\$ 125,988	\$ 211,789
Board-designated funds functioning as endowment	<u>194,166</u>	<u> </u>	<u> </u>	<u>194,166</u>
Total endowment net assets	\$ <u>193,767</u>	\$ <u>86,200</u>	\$ <u>125,988</u>	\$ <u>405,955</u>

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 \$0.1 million and \$0.4 million as of June 30, 2013 and 2012, respectively.

The following tables provide a summary of the changes in the endowment net assets for the years ended June 30, 2013 and 2012:

(in thousands of dollars)

<u>2013</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ 193,767	\$ 86,200	\$ 125,988	\$ 405,955
Gifts and transfers				
Contributions (excluding pledges)	8	2,524	5,599	8,131
Transfers	<u>8,615</u>	<u>(2,360)</u>	<u>(144)</u>	<u>6,111</u>
Total gifts and transfers	8,623	164	5,455	14,242
Investment income				
Interest and dividends (net of fees)	4,279	4,259		8,538
Realized gain	8,023	8,012		16,035
Unrealized gain	<u>12,709</u>	<u>12,613</u>		<u>25,322</u>
Total investment income	25,011	24,884		49,895
Income distributed for operating purposes				
Scholarships	(821)	(1,986)		(2,807)
Endowed chairs	(362)	(1,943)		(2,305)
Research	(62)	(441)		(503)
Other	<u>(1,325)</u>	<u>(1,203)</u>		<u>(2,528)</u>
Total income distributed for operating purposes	<u>(2,570)</u>	<u>(5,573)</u>		<u>(8,143)</u>
Net assets, end of year	\$ <u>224,831</u>	\$ <u>105,675</u>	\$ <u>131,443</u>	\$ <u>461,949</u>

(in thousands of dollars)

<u>2012</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>13,326</u>	<u>1,114</u>	<u>3,297</u>	<u>17,737</u>
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	<u>(8,986)</u>	<u>(8,641)</u>		<u>(17,627)</u>
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	<u>(3,274)</u>	<u>(1,156)</u>		<u>(4,430)</u>
Total income distributed for operating purposes	<u>(4,616)</u>	<u>(5,771)</u>		<u>(10,387)</u>
Net assets, end of year	\$ <u>193,767</u>	\$ <u>86,200</u>	\$ <u>125,988</u>	\$ <u>405,955</u>

Split-Interest Agreements

Split-interest agreements consist of arrangements with donors in which LUC shares an interest in the assets held and the benefits received 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 (charitable trusts for which LUC is the trustee and assets held in respect to gift annuity contracts) were \$8.6 million and \$8.4 million, respectively, at June 30, 2013 and 2012 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 is included in accounts payable and other accrued expenses on the consolidated statements of financial position, and was \$4.6 million and \$4.7 million as of June 30, 2013 and 2012, respectively. The discount rate used is 6.5% in both fiscal years 2013 and 2012.

During fiscal year 2012, the discounted present values of new gifts subject to split-interest agreements, net of the income beneficiary share, were \$0.9 million, 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 \$(0.4) million and \$1.3 million in fiscal years 2013 and 2012, 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 unless otherwise subject to donor-imposed spending conditions.

(5) Notes and Accounts Receivable, Net

Notes and accounts receivable at June 30, 2013 and 2012 consisted of:

(in thousands of dollars)

	<u>2013</u>	<u>2012</u>
Student loan notes (less allowance for doubtful accounts of \$1,669 (2013) and \$1,705 (2012))	\$ 21,332	\$ 21,436
Contributions receivable (less discount of \$16,914 (2013) and \$19,224 (2012) and allowance for doubtful accounts of \$654 (2013) and \$1,122 (2012))	30,164	44,704
Student receivables (less allowance for doubtful accounts of \$4,412 (2013) and \$3,872 (2012))	13,130	16,907
Grant receivables	3,609	6,993
Other receivables (less allowance for doubtful accounts of \$83 (2013) and \$71 (2012))	5,159	5,112
Total notes and accounts receivable, net	<u>\$ 73,394</u>	<u>\$ 95,152</u>

Contributions receivable at June 30, 2013 and 2012 are due in the following periods:

(in thousands of dollars)

	<u>2013</u>	<u>2012</u>
In one year or less	\$ 6,821	\$ 1,402
Between one year and five years	10,812	31,247
More than five years	30,099	32,401
Discount of \$16,914 (2013) and \$19,224 (2012) and allowance for doubtful accounts of \$654 (2013) and \$1,122 (2012)	<u>(17,568)</u>	<u>(20,346)</u>
Total contributions receivable	<u>\$ 30,164</u>	<u>\$ 44,704</u>

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, 2013 and 2012, student loan notes represented 1.1% of total assets.

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

(in thousands of dollars)

	<u>2013</u>	<u>2012</u>
Federal government programs	\$ 20,896	\$ 21,095
Institutional/other programs	<u>2,105</u>	<u>2,046</u>
Total student loan notes	23,001	23,141
Less allowance for doubtful accounts:		
Beginning of year	(1,705)	(1,699)
Increase to reserve	(70)	(68)
Write-offs	<u>106</u>	<u>62</u>
End of year	<u>(1,669)</u>	<u>(1,705)</u>
Student loan notes, net	\$ <u>21,332</u>	\$ <u>21,436</u>

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 \$18.8 million and \$18.4 million at June 30, 2013 and 2012, respectively, are ultimately refundable to the government and are classified as refundable advances – loans on the consolidated statements of financial position. At June 30, 2013 and 2012, LUC had past due loans of \$2.8 million and \$2.9 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, 2013 and 2012 were:

(in thousands of dollars)

	<u>2013</u>	<u>2012</u>
Land and land improvements	\$ 214,722	\$ 226,734
Buildings	997,969	825,666
Equipment	111,809	95,479
Library books and art	33,656	32,206
Construction in progress	<u>105,108</u>	<u>127,584</u>
Total	1,463,264	1,307,669
Accumulated depreciation	<u>(433,734)</u>	<u>(395,040)</u>
Land, buildings, and equipment, net	\$ <u>1,029,530</u>	\$ <u>912,629</u>

As of June 30, 2013, LUC had commitments of \$32.3 million related to various capital projects.

As of June 30, 2013 and 2012, LUC included \$1.0 million and \$1.1 million of capitalized asset retirement costs, net of accumulated depreciation, within buildings, and \$2.8 million and \$2.6 million, respectively, of conditional asset retirement obligations within other liabilities in the consolidated statements of financial position.

As of June 30, 2013 and 2012, expenditures for land, buildings and equipment of \$17.9 million and \$36.7 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, 2013 and 2012 are shown below:

(in thousands of dollars)	<u>Final</u> <u>Maturity</u>	<u>Interest</u> <u>Rate</u>	<u>2013</u>	<u>Interest</u> <u>Rate</u>	<u>2012</u>
Fixed rate:					
Illinois Finance Authority (IFA) (formerly Illinois Educational Facilities Authority (IEFA)):					
Series 1997C taxable bonds	2013	7.10%	\$ -	7.10%	\$ 5,380
Series 2003B taxable bonds	2022	5.60%	37,520	5.60%	37,520
Series 2007 tax-exempt bonds	2025	4.00-5.00%	23,905	4.00-5.00%	26,670
Series 2012B tax-exempt bonds	2043	2.00-5.00%	92,215	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	2043	3.20-4.63%	157,220	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	2.36%	113,500
Mortgage notes:					
6542-48 N. Sheridan Road	2016	9.50%	211	9.50%	298
Rome Center ⁽¹⁾	2029	1.51%	12,128	1.51%	11,925
City of Chicago Loan	2013	0.00%	<u>62</u>	0.00%	<u>62</u>
Total fixed rate			<u>498,604</u>		<u>506,695</u>
Variable rate:					
IFA 2008 tax-exempt commercial paper ^{(2) (3)}	2038	0.15%	<u>74,040</u>	0.20%	<u>74,040</u>
Total variable rate			<u>74,040</u>		<u>74,040</u>
Total indebtedness		3.66% ⁽⁴⁾	<u>\$ 572,644</u>	3.71% ⁽⁴⁾	<u>\$ 580,735</u>
Adjustment for unamortized bond premium/(discount)			<u>12,022</u>		<u>13,130</u>
Total indebtedness net of unamortized premium/(discount)			<u>\$ 584,666</u>		<u>\$ 593,865</u>

⁽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 commercial paper is fully backed by a direct-pay letter of credit from PNC Bank, National Association, pursuant to an agreement that expires on August 15, 2014.

⁽⁴⁾ Weighted average interest rate on all outstanding debt as of June 30, 2013, and June 30, 2012, respectively.

Effective February 26, 2013, LUC renewed and extended to February 24, 2014, 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, 2013, there was no balance outstanding nor any interest paid on the line of credit.

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 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 August 2012, LUC opted to defease \$2.5 million of Series 2007 bonds pursuant to a change in use of some of the financed facilities.

In 2013 and 2012, LUC recorded capitalized interest of \$3.7 million and \$3.0 million, 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, 2013 and 2012 was:

(in thousands of dollars)

	<u>2013</u>	<u>2012</u>
Interest paid	\$16,995	\$10,950

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, 2013.

Repayments and Classification

Total scheduled maturities for the next five fiscal years are:

(in thousands of dollars)

2014	\$ 26,797
2015	33,602
2016	35,429
2017	35,918
2018	41,254
Thereafter	<u>399,644</u>
	<u>\$ 572,644</u>

Disclosure of Fair Value of Long-term Debt

The fair value of the outstanding long-term debt as of June 30, 2013 and 2012 was:

(in thousands of dollars)

	<u>2013</u>		<u>2012</u>	
	<u>Fair</u>	<u>Carrying</u>	<u>Fair</u>	<u>Carrying</u>
	<u>Value</u>	<u>Value</u>	<u>Value</u>	<u>Value</u>
	\$584,516	\$584,666	\$616,574	\$593,865

The fair value of long-term debt is determined based on discounted cash flows or market prices for comparable borrowings as of June 30, 2013 and 2012.

(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 \$19.1 million and \$18.1 million for 2013 and 2012, respectively. Summary information for the defined benefit pension plan, LUERP, follows:

(in thousands of dollars)

	<u>2013</u>	<u>2012</u>
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	\$ 83,098	\$ 75,944
Interest cost	3,429	3,788
Benefits paid	(6,750)	(5,492)
Actuarial loss	<u>435</u>	<u>8,858</u>
Projected benefit obligation, end of year	\$ <u>80,212</u>	\$ <u>83,098</u>
Change in plan assets		
Fair value of plan assets, beginning of year	\$ 64,677	\$ 67,230
Actual return on plan assets	5,560	2,939
Benefits paid	(6,750)	(5,492)
Fair value of plan assets, end of year	\$ <u>63,487</u>	\$ <u>64,677</u>
Funded status		
Funded status of the plans	\$ <u>(16,725)</u>	\$ <u>(18,421)</u>
Amounts included in the statements of financial position		
Pension and other postretirement plan liabilities	\$ <u>(16,725)</u>	\$ <u>(18,421)</u>
Amounts not yet recognized in net periodic pension cost and included in unrestricted net assets		
Actuarial loss	\$ <u>44,838</u>	\$ <u>47,093</u>
Pension plan changes other than net periodic pension plan expense		
	\$ <u>2,255</u>	\$ <u>(9,641)</u>
Components of net pension expense		
Service cost	\$ -	\$ -
Interest cost	3,429	3,788
Expected return on plan assets	(4,281)	(4,780)
Net amortization and deferral	<u>1,410</u>	<u>1,059</u>
Net periodic pension expense	\$ <u>558</u>	\$ <u>67</u>
Weighted average assumptions		
Discount rate - benefit obligations	4.78%	4.31%
Discount rate - pension expense	4.31%	5.23%
Rate of compensation increase	n/a	n/a
Expected long-term return on assets	7.00%	7.50%

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

	<u>2013</u>	<u>2012</u>
Cash	2%	2%
Equity securities	27%	30%
Fixed income securities	54%	51%
Private equity investments	3%	4%
Other, including real estate	<u>14%</u>	<u>13%</u>
Total	<u>100%</u>	<u>100%</u>

The table below summarizes LUC's fair value measurements of the LUERP investment portfolio by the fair value hierarchy levels as of June 30, 2013:

(in thousands of dollars)	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 1,015	\$ 1,015	\$ -	\$ -
Short term investment funds	414	414		
U.S. marketable equity securities	4,291	4,291		
U.S. marketable equity mutual funds	3,618	3,618		
U.S. marketable equity commingled funds	4,519		4,519	
Non-U.S. marketable equity securities	186	186		
Non-U.S. marketable mutual funds	3,710	3,710		
Non-U.S. marketable equity commingled funds	4,461		4,461	
Other equity securities	112			112
Fixed income mutual funds	8,471	8,471		
Fixed income commingled funds	4,543		4,543	
U.S. Treasury and government agency debt obligations	196	(688)	884	
U.S. state and municipal debt obligations	958		958	
U.S. corporate debt securities	17,806		17,806	
Non-U.S. corporate debt securities	7,410	5,055	2,355	
Asset-backed securities	74		74	
Private equity investments	1,678			1,678
Private real assets investments	<u>25</u>			<u>25</u>
Total	<u>\$ 63,487</u>	<u>\$ 26,072</u>	<u>\$ 35,600</u>	<u>\$ 1,815</u>

The following table summarizes the changes in fair value of the LUERP Level 3 investments for the year ended June 30, 2013:

(in thousands of dollars)	<u>Other Equity Securities</u>	<u>Private Equity Investments</u>	<u>Private Real Assets Investments</u>	<u>Total</u>
Balance at July 1, 2012	\$ 264	\$ 2,350	\$ 206	\$ 2,820
Realized gain	(46)	456		410
Unrealized gain (loss)	(6)	(89)	34	(61)
Sales	(48)	(1,039)	(215)	(1,302)
Transfers from Level 3	<u>(52)</u>			<u>(52)</u>
Balance at June 30, 2013	<u>\$ 112</u>	<u>\$ 1,678</u>	<u>\$ 25</u>	<u>\$ 1,815</u>

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)	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
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	<u>\$ 64,677</u>	<u>\$ 19,034</u>	<u>\$ 42,823</u>	<u>\$ 2,820</u>

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)	<u>Other Equity Securities</u>	<u>Private Equity Investments</u>	<u>Private Real Assets Investments</u>	<u>Total</u>
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	<u>\$ 264</u>	<u>\$ 2,350</u>	<u>\$ 206</u>	<u>\$ 2,820</u>

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)	<u>Fiscal Year</u>	<u>Payments</u>
	2014	\$ 6,412
	2015	6,143
	2016	5,843
	2017	5,739
	2018	5,812
	2019-2023	27,579

(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, 2013 and 2012 were:

(in thousands of dollars)

	<u>2013</u>	<u>2012</u>
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 33,426	\$ 30,162
Service cost	2,194	1,967
Interest cost	1,235	1,371
Plan amendments	-	-
Participant contributions	1,054	1,090
Benefits paid	(2,204)	(2,366)
Actuarial (gain) loss	(3,005)	1,202
Benefit obligation, end of year	\$ <u>32,700</u>	\$ <u>33,426</u>
Change in plan assets		
Fair value of plan assets, beginning of year	\$ -	\$ -
Employer contributions	1,150	1,276
Participant contributions	1,054	1,090
Benefits paid	(2,204)	(2,366)
Fair value of plan assets, end of year	\$ <u>-</u>	\$ <u>-</u>
Funded status		
Funded status of plan	\$ (<u>32,700</u>)	\$ (<u>33,426</u>)
Amounts included in the statements of financial position		
Pension and other postretirement plan liabilities	\$ (<u>32,700</u>)	\$ (<u>33,426</u>)
Amounts not yet recognized in net periodic benefit cost and included in unrestricted net assets		
Actuarial gain	\$ (6,359)	\$ (3,357)
Prior service benefit	(133)	(171)
Total	\$ (<u>6,492</u>)	\$ (<u>3,528</u>)
Retirement plan changes other than net periodic retirement plan expense		
	\$ <u>2,964</u>	\$ (<u>1,470</u>)
Components of net periodic postretirement benefit cost		
Service cost	\$ 2,194	\$ 1,967
Interest cost	1,235	1,371
Amortization of unrecognized prior service benefit and actuarial gain	(41)	(268)
Net periodic postretirement benefit cost	\$ <u>3,388</u>	\$ <u>3,070</u>
Discount rate	4.07%	3.78%
Assumed health care cost trend rates		
HMO plans	<u>5.00%</u>	<u>5.00%</u>
Non-HMO plans	5.00%	5.00%

Net actuarial gain and prior service benefits of \$0.4 million for the plan will be amortized from unrestricted net assets into net periodic postretirement benefit cost during the 2014 fiscal year.

(in thousands of dollars)		<u>2013</u>	<u>2012</u>
Effect of a 1% change in the health care cost trend rates			
<u>1% increase</u>			
On year-end postretirement benefit obligations	\$	1,476	\$ 1,707
On total of service and interest cost components		124	134
<u>1% decrease</u>			
On year-end postretirement benefit obligations	\$ (1,435)	\$ (1,634)
On total of service and interest cost components		(128)	(137)

Estimated future benefit payments

(in thousands of dollars)	<u>Fiscal</u>	
	<u>Year</u>	<u>Payments</u>
	2014	\$ 1,641
	2015	2,117
	2016	2,608
	2017	3,102
	2018	3,568
	2019-2023	20,792

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, 2013 and 2012 were:

(in thousands of dollars)	<u>2013</u>	<u>2012</u>
Instruction	\$ 167,558	\$ 154,630
Research and other sponsored programs	47,951	44,107
Academic support	67,784	63,950
Student services	48,027	44,736
Institutional support	102,156	94,675
Auxiliary services	<u>44,890</u>	<u>43,795</u>
Total operating expenses	\$ <u>478,366</u>	\$ <u>445,893</u>

(11) Restricted Net Assets

The program restrictions for temporarily and permanently restricted net assets at June 30, 2013 and 2012 were:

(in thousands of dollars)

	<u>2013</u>	<u>2012</u>
Temporarily Restricted		
Academic or program support and student financial aid	\$ 114,800	\$ 96,839
Research	5,116	4,734
Student loans	3,049	2,979
Construction	5,774	5,121
Other	<u>43,731</u>	<u>57,886</u>
Total temporarily restricted net assets	\$ <u>172,470</u>	\$ <u>167,559</u>
Permanently Restricted		
Academic or program support and student financial aid	\$ 145,900	\$ 137,735
Research	450	50
Student loans	<u>1,148</u>	<u>1,148</u>
Total permanently restricted net assets	\$ <u>147,498</u>	\$ <u>138,933</u>

(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. Commitments for capital projects are disclosed in note 6.

(13) Subsequent Events

LUC has evaluated subsequent events through October 17, 2013, 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 Livonia, 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. The transaction resulted in a gain of \$42.3 million that was reported as discontinued operations at June 30, 2011.

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 \$20.0 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 \$20.0 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

Pursuant to the Definitive Agreement, Trinity is required to make a \$75.0 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 \$75.0 million to match the Trinity payment for the construction and related start-up expenses.

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 will own the central part of the LUMC campus. This central part will be the "Academic/Health Sciences Zone" and will include, 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 will be owned by LUMC and will include the primary hospital building and other inpatient facilities and related infrastructure. The south end of the campus will also be owned by LUMC and will include outpatient/ambulatory

facilities. In order to achieve this result, pursuant to the Real Estate Swap Agreement, LUC will transfer to LUMC certain properties it presently owns and LUMC will transfer to LUC certain properties it owns. 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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Rock climbing wall in the Damen Student Center, Lake Shore Campus



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