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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Loyola University of Chicago
Chicago, Illinois

We have audited the accompanying consolidated statements of financial position of Loyola University of Chicago (LUC) as of June 30, 2004 and 2003, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of LUC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States. The financial statements of Loyola University Health System were not audited in accordance with *Governmental Auditing Standards.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of LUC as of June 30, 2004 and 2003, and the changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated September 15, 2004, on our consideration of LUC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

September 15, 2004

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

	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	57,780	127,598		185,378	195,343
OTHER ASSETS	4,704	75,129		79,833	72,305
INVESTMENTS	249,464	182,453		431,917	379,601
ASSETS HELD IN TRUST BY OTHERS	22,455			22,455	
NOTES RECEIVABLE FROM SUBSIDIARY	1,480		(1,480)		
INTEREST HELD IN PERPETUAL TRUST	7,781			7,781	7,176
LAND, BUILDINGS AND EQUIPMENT - NET	310,812	311,837		622,649	591,404
TOTAL ASSETS	$ 759,607	$ 755,228	$ (9,118)	$ 1,505,717	$ 1,382,674
LIABILITIES AND NET ASSETS					
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	$ 71,350	$ 67,203	$ -	$ 138,553	$ 135,633
DEFERRED INCOME	18,381			18,381	10,933
UNEXPENDED GRANTS	19,106			19,106	22,982
REFUNDABLE ADVANCES - LOANS	16,634			16,634	16,631
INDEBTEDNESS	214,545	291,691	(1,480)	504,756	491,589
SELF-INSURANCE	8,050	106,343		114,393	98,789
INTERFUND BALANCES		7,638	(7,638)		
OTHER LIABILITIES	1,227	28,873		30,100	33,756
TOTAL LIABILITIES	349,293	501,748	(9,118)	841,923	810,313
NET ASSETS:					
Unrestricted	203,814	243,887		447,701	379,796
Temporarily restricted	123,854	3,316		127,170	105,870
Permanently restricted	82,646	6,277		88,923	86,695
TOTAL NET ASSETS	410,314	253,480	-	663,794	572,361
TOTAL LIABILITIES AND NET ASSETS	$ 759,607	$ 755,228	$ (9,118)	$ 1,505,717	$ 1,382,674

See notes to consolidated financial statements

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

	University Academic	LUHS	Eliminating Entries	2004 Consolidated Total	2003 Consolidated Total
OPERATING REVENUES:					
Tuition and fees, net of scholarships $60,433 (2004) and $53,371 (2003)	$ 164,636	$ -	$ -	$ 164,636	$ 152,514
Grants and contracts for sponsored projects	54,119	3,275		57,394	57,885
Academic support	48,891		(19,314)	29,577	28,328
Gifts	1,387	1,018		2,405	3,307
Interest income	1,418			1,418	1,334
Investment income designated for operations	1,161	3,519		4,680	6,692
Other	9,558			9,558	9,758
Auxiliary services	22,612			22,612	21,474
Patient care		653,440		653,440	586,779
Research and education net assets for operations	1,313			1,313	1,063
Net assets released from restrictions	10,326	551		10,877	11,436
Total operating revenues	315,421	661,803	(19,314)	957,910	880,570
OPERATING EXPENSES:					
Salary	151,186	258,076		409,262	388,175
Benefits	41,986	56,825		98,811	84,543
Non-salary operating expenses	77,823	252,104	(17,201)	312,726	294,862
Insurance	2,409	37,728		40,137	29,008
Depreciation and disposals	20,577	28,272		48,849	47,321
Interest	10,894	9,681		20,575	20,141
Utilities	5,530	8,769		14,299	14,920
Total operating expenses	310,405	651,455	(17,201)	944,659	878,970
RESULTS OF OPERATIONS	5,016	10,348	(2,113)	13,251	1,600
NON-OPERATING ACTIVITIES:					
Investment income net of amounts designated for operations	10,652	3,860		14,512	1,573
Other	10,464	(2,113)	2,113	10,464	(1,160)
Gain on sale of properties	3,301			3,301	6,142
Change in pension liability		24,409		24,409	(56,419)
Transfer of net assets	3,281			3,281	781
Research and education net assets for operations	(1,313)			(1,313)	(1,063)
Total non-operating activities	26,385	26,156	2,113	54,654	(50,146)
Increase (decrease) in unrestricted net assets	31,401	36,504	-	67,905	(48,546)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:					
Gifts	7,044	474		7,518	10,994
Investment income	27,453			27,453	343
Change in annuity value	329			329	(2,056)
Other	44			44	42
Transfer of net assets	(3,167)			(3,167)	66
Net assets released from restrictions	(10,326)	(551)		(10,877)	(11,436)
Increase (decrease) in temporarily restricted net assets	21,377	(77)	-	21,300	(2,047)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:					
Gifts	1,615	122		1,737	1,722
Change in value of perpetual trust	605			605	62
Transfer of net assets	(114)			(114)	(847)
Increase (decrease) in permanently restricted net assets	2,106	122	-	2,228	937
Increase (decrease) in net assets	54,884	36,549		91,433	(49,656)
Net assets at beginning of year	355,430	216,931		572,361	622,017
Net assets at end of year	$ 410,314	$ 253,480	$ -	$ 663,794	$ 572,361

See notes to consolidated financial statements

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:				
Add/Deduct Non-Cash Transactions:				
Depreciation and disposals	20,577	28,272		48,849
Gain on disposal of property	(3,301)			(3,301)
Minimum pension liability		(24,409)		(24,409)
Change in unrealized (gain)/loss on investments	(13,613)	(2,808)		(16,421)
	3,663	1,055		4,718
Changes in assets and liabilities:				
Receivables	1,505	8,161		9,666
Notes receivable from subsidiary	86		(86)	
Other assets	2,368	14,513		16,881
Accounts payable and accrued expenses	437	2,483		2,920
Deferred income / unexpended grants	3,572			3,572
Self-insurance	(6,113)	21,717		15,604
Interest held in perpetual trust	(605)			(605)
Refundable advances - loans	3			3
Other liabilities	(317)	(3,339)		(3,656)
Interfund balances	6,107	(6,107)		
Total change in assets and liabilities	7,043	37,428	(86)	44,385
Net cash from operating activities	65,590	75,032	(86)	140,536
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of investments	190,921	66,402		257,323
Purchase of investments	(214,885)	(78,333)		(293,218)
Proceeds on disposal of plant assets	18,526			18,526
Purchase of plant assets	(59,680)	(35,639)		(95,319)
Student loans issued	(4,227)			(4,227)
Student loans collected	4,525			4,525
Net cash from investing activities	(64,820)	(47,570)		(112,390)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds of bond issue	107,155	14,000		121,155
Retirement of debt	(87,517)	(20,556)	86	(107,987)
Deposit of bond proceeds with trustee	(25,000)			(25,000)
Withdrawal of trusteed bond funds for construction	2,545			2,545
Net cash from financing activities	(2,817)	(6,556)	86	(9,287)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,047)	20,906		18,859
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	99,540	37,305		136,845
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 97,493	$ 58,211	$ -	$ 155,704

See notes to consolidated financial statements

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 exist to provide limited services for the benefit of LUC. LUHS is a wholly-owned subsidiary corporation of Loyola University of Chicago with an integrated health care delivery system providing services to patients in the hospital and outpatient sites.

(2) Tax Status

LUC, Mundelein College, and LUHS are exempt from income taxes under section 501(c)(3) of the U.S. Internal Revenue Code (IRC), except with regard to unrelated business income, which is taxed at corporate income tax rates. LMC is exempt from income taxes under section 501(c)(2) of the IRC. Loyola University of Chicago Insurance Company Ltd. (LUCIC), a wholly-owned subsidiary of LUHS, is a for-profit Cayman Islands insurance company not exempt from income taxes.

(3) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements are prepared on the accrual basis of accounting. The 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. Significant inter-company balances and transactions have been eliminated. These transactions are reflected in the eliminating entries column of the consolidated financial statements. Net assets, revenues, and investment income or loss are classified based on the existence or absence of donor-imposed restrictions, as follows:

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

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

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 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 restriction expires or the restrictions are fulfilled and are shown as "net assets released" in operating revenue.

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

Tuition and fee revenue is reported in the fiscal year in which the educational program is predominantly conducted. 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 investments having original maturities of three months or less, excluding certain instruments held in the endowment pending reinvestment or which are on deposit with a trustee.

Assets Held in Trust by Others

Assets held in trust are bond-trustee held assets to be used for future capital expenditures.

Investments

Investments are recorded at market value. The value of investments in publicly-traded fixed income and equity securities is based on quoted market prices. The value of investments not having a readily determined market value is estimated quarterly by external investment professionals and is reviewed by management. Investment income is recorded on the accrual basis. Security transactions are recorded on a trade-date basis.

Endowment

The investment policy for the endowment assets is set by the Investment Policy Committee of the Board of Trustees. All endowment funds are managed by external investment managers with the assets held by an external trustee. Endowment spending is set annually as part of the budget process and is approved by the Board of Trustees.

All University Academic endowment funds participate in an investment pool. The investment pool provides a source of funds for programmatic support as restricted by the donor or, if unspecified, as unrestricted and available as designated by management. New gifts and other additions to the endowment are assigned shares in the investment pool in the period received. Income distributions are recorded monthly based upon the participants' share in the pool. The income distributed to the pool participants includes interest and dividends, investment management fees and realized and unrealized gains and losses. Undistributed income is reinvested in the investment pool and is available for distribution in future periods.

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 the University Academic'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 market value of the 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: 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 facilities exceeds LUC's rental of LUMC facilities, and LUC agreed to forgive the annual rent differential. As required by the Affiliation and Operating Agreement, the amount forgiven under these leases was $3.7 million in 2004 and $5.0 million in 2003. These lease amounts are not reflected in the statement of activities and changes in net assets.

Loyola University Center for Health and Fitness - In 1997 LUC opened its Center for Health and Fitness (LUCHF) on the Medical Center campus for the use of students and employees of SSOM and the employees of LUHS and its affiliates. LUC and LUHS entered into an agreement under which LUHS was to provide financial support equal to any cash flow deficits of LUCHF. Payment from LUHS was not required in 2003 under the agreement. On June 13, 2003 ownership of the building transferred to LUHS in exchange for $11.1 million, the amount of the original debt associated with the construction of LUCHF. In addition, LUC transferred $1.2 million to LUHS representing the total cash operating capital surplus. LUHS has a forty-year operating lease to LUC for the land.

1997 Debt Refinancing Agreement - As part of the 1995 transfer of health care operations to LUMC, LUC and LUMC entered into certain Affiliate Guaranties related to LUC's then-outstanding bonds. In 1997, LUC and LUHS refinanced substantially all of LUC's and LUHS' debt in order to release LUMC from the restrictions of the Affiliate Guaranties and to separate LUC's credit from LUHS' credit. LUC, LUMC and LUHS entered into the 1997 Debt Refinancing Agreement which provides that LUMC and LUHS will pay LUC for any costs and expenses associated with refunding or defeasing LUC debt affected by the refinancing, including any ongoing increases in debt service resulting from the transaction or receive credit to the extent the variable interest rates produce effectively lower debt service. Because much of the refinanced debt originally paid variable rates of interest, the amounts payable between LUC and LUMC have varied each year. In 2003 LUC paid LUMC $148 thousand as a final payment under the debt service provisions. As of June 30, 2003 LUMC and LUC agreed to discontinue payments under the debt service provisions.

Net Patient Service Revenues

LUMC has agreements with third-party payers that provide for payments to LUMC at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, per diem payments, discounted charges and reimbursed costs. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. LUMC grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity continues with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services. Management believes that LUMC is in substantial compliance with current laws and regulations.

(5) Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board (FASB) issued a revision to Statement of Financial Accounting Standards No. 132(R), *Employers' Disclosures about Pensions and Other Postretirement Benefits,* which revises employers' disclosures but does not change the measurement or recognition of those plans. LUC and LUHS implemented the requirements of SFAS 132(R) in 2004.

In January 2004, the FASB issued FASB staff position (FSP) No. 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003.* This FSP provides companies with initial guidance on recognizing the effects of the prescription drug provisions of the Medicare Act on the sponsors of retiree health care benefit plans. LUC and LUHS have elected to defer recognition until further guidance is issued by the FASB. Changes to previously reported information may occur once guidance on the accounting and disclosure requirements are issued.

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.

The following table provides a summary of the change in value of endowment assets (excluding pledges) for the years ended June 30, 2004 and 2003:

(in thousands of dollars)	2004	2003
Beginning of year endowment value	$188,545	$188,936
Gifts and other additions:		
Contributions	1,775	3,293
Terminated life income trusts		46
Other transfers	4,744	3,504
Total contributions other additions	6,519	6,843
Investment income/(loss):		
Interest and dividends	3,554	3,453
Realized gains	20,993	727
Unrealized appreciation (depreciation)	14,502	(4,229)
Total investment income/(loss)	39,049	(49)
Income distributed for operating purposes:		
Scholarships	(1,655)	(2,243)
Endowed chairs	(1,459)	(1,501)
Research	(966)	(1,414)
Other	(1,903)	(2,027)
Total income distributed for operating purposes	(5,983)	(7,185)
End of year endowment value	$228,130	$188,545
Endowment net assets balance at June 30:		
Unrestricted	$ 73,919	$ 58,043
Temporarily restricted	80,581	57,433
Permanently restricted	73,630	73,069
	$228,130	$188,545

University Academic uses a total return linked endowment spending policy. Endowment spending can consist of interest, dividends or accumulated capital gains when necessary. The primary benefit of a total return linked spending policy is to separate the spending decision from short-term investment results. Therefore, long-term investment strategy can be established independently of short-term income and spending needs. The current endowment spending rate is capped at 5.0%. At present, the spending is less than 5.0% in an effort to grow endowment funds at a higher rate. The spending rate applied to eligible endowment funds for 2004 was 4.0%.

LUHS

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. The real estate investment is valued at cost and represents land not used in current operations. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the results from operations in the consolidated statement of activities and changes in net assets, unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments, unless considered impaired, are excluded from results of operations and are recorded as non-operating activity in the consolidated statement of activities and changes in net assets.

As of June 30, 2004, the aggregate amount of unrecognized unrealized losses reflected in investments was $102 thousand on investments with a fair value of $51.9 million. The investments have been in a loss position for less than 12 months. Management believes that those individual investments, which have not already had an impairment recorded, have not met the criteria for recording an other than temporary impairment.

Gains and losses are calculated using the average cost method. LUHS recognized losses on impaired investments of $737 thousand and $696 thousand for the years ended June 30, 2004 and 2003, respectively, related to investments whose market value was significantly less than cost for an extended period of time. LUHS recorded unrealized gains on investments of $2.8 million and $5.2 million in 2004 and 2003, respectively.

(7) Notes and Accounts Receivable

Notes and accounts receivable at June 30, 2004 and 2003 consisted of:

(in thousands of dollars)	2004			
	University Academic	LUHS	Total	2003
Student loan notes (less allowance for doubtful accounts of $2,660 (2004) and $2,630 (2003))	$20,822	$ -	$ 20,822	$ 21,515
Contributions (less discount of $3,650 (2004) and $4,908 (2003) and allowance for doubtful accounts of $1,524 (2004) and $1,527 (2003))	15,707	71	15,778	17,178
Health care (less allowance for doubtful accounts of $24,358 (2004) and $22,448 (2003))		127,527	127,527	135,347
Student receivables (less allowance for doubtful accounts of $7,077 (2004) and $6,688 (2003))	6,600		6,600	8,189
Grant receivables (less allowance for doubtful accounts of $1,016 (2004) and $817 (2003))	8,968		8,968	7,026
Other (less allowance for doubtful accounts of $1,001 (2004) and $1,242 (2003))	5,683		5,683	6,088
Total notes and accounts receivable	$57,780	$127,598	$185,378	$195,343

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)		(5,174)	(6,435)
Total contributions receivable	$ 15,707	$71	$ 15,778	$ 17,178

(8) Land, Buildings and Equipment

Components of land, buildings, equipment, and library books at June 30, 2004 and 2003 were:

(in thousands of dollars)	2004			
	University Academic	LUHS	Total	2003
Land	$ 34,829	$ 7,139	$ 41,968	$ 45,000
Buildings	380,389	340,142	720,531	709,960
Equipment	38,669	130,259	168,928	158,418
Library books and art	20,094		20,094	20,094
Construction in progress	62,839	17,290	80,129	37,735
Other real estate	43,231		43,231	45,656
Total	580,051	494,830	1,074,881	1,016,863
Accumulated depreciation	(269,239)	(182,993)	(452,232)	(425,459)
Net land, buildings and equipment	$ 310,812	$ 311,837	$ 622,649	$ 591,404

(9) Indebtedness

Notes and bonds payable as of June 30, 2004 and 2003 are shown below:

(in thousands of dollars)	Final Maturity	Interest Rate	2004	Interest Rate	2003
University Academic					
Fixed rate:					
Illinois Educational Facilities Authority (IEFA):					
Series 1997A convertible bonds	2026	5.70%	$ 27,635	5.70%	$ 37,540
Series 1997C taxable bonds	2013	6.88-7.12%	42,430	6.88-7.12%	42,430
Series 2003A bonds	2027	5.00%	28,155		
Series 2003B bonds	2022	5.60%	37,520		
Series 2003C direct obligation bonds	2019	1.65-5.30%	41,480		
Medium-term note				7.35%	8,125
Medium-term note	2018	7.52%	21,100	7.52%	21,100
Mortgage notes:					
6566-82 N. Sheridan Rd.	2010	9.00%	676	9.00%	759
6542-48 N. Sheridan Rd.	2016	9.50%	765	9.50%	802
845-847 N. State Street	2009	2.50%	1,250	2.50%	1,250
Capital Lease	2007	8.31%	297	8.31%	400
City of Chicago Loan	2013	0.00%	1,063	0.00%	1,188
Total fixed rate			$202,371		$113,594

(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					
Fixed rate:					
Illinois Health Facilities Authority (IHFA):					
Series 2001A bonds	2031	5.80-6.10%	$ 90,262	5.80-6.10%	$ 90,206
Series 1997A bonds	2024	5.00-6.00%	124,169	5.00-6.00%	127,230
Total fixed rate			$214,431		$217,436
Variable rate:					
Illinois Health Facilities Authority (IHFA):					
Series 1997B bonds	2024	1.10%	$ 15,180	0.90%	$ 15,645
Series 1997C bonds	2024	1.20%	46,600	1.10%	46,600
Notes payable to affiliate	2015	4.00-6.50%	1,480	4.00-6.50%	1,566
Line of Credit			14,000		17,000
Total variable rate			$ 77,260		$ 80,811
Total LUHS indebtedness			$291,691		$298,247

In 2004, University Academic recorded capitalized interest of $1.3 million and in 2003, LUHS recorded capitalized interest of $2.3 million. Bond discounts and costs incurred in connection with the issuance of bonds are deferred and amortized over the life of the related indebtedness.

Debt Covenants

Some debt agreements require LUC and LUHS to maintain sinking or reserve funds, and some require the maintenance of financial ratios or impose other restrictions. Both LUC and LUHS are in compliance with all debt covenants as of June 30, 2004.

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

Interest Rate Swaps

From time to time, LUC enters into interest rate swap agreements to modify the interest rate characteristics of its outstanding debt from floating to a fixed-rate 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-year period, and has a notional amount of $50 million. The March 2002 floating rate agreement has a rate equal to 73.75% of the one-month LIBOR, extends over a twenty-year period, and has a notional amount of $100 million. The May 2003 floating rate agreement has a rate equal to 63.00% of the one-month LIBOR plus .705%, extends over a twenty-year period, and has a notional amount of $125.0 million. The net amounts received under the interest rate swap agreements reduced interest expense by $1.7 million in 2004 and by $1.0 million in 2003.

The fair value of the swap agreements at June 30, 2004, an unrealized loss of $3.6 million, was recorded by LUHS as a component of other liabilities. The swap agreements do not qualify for hedge accounting. Accordingly, LUHS recorded the net mark-to-market fair value adjustment of the swaps of $1.8 million for the year ended June 30, 2004 as a component of the results of operations in the statement of activities and changes in net assets. In 2003, prior to the date of adoption of SOP 02-2, the unrealized loss on the mark-to-market adjustment of $3.5 million was recorded as a component of other changes in unrestricted net assets.

(10) Self Insurance

University Academic

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

In 1986 LUC and its full-time SSOM faculty established a joint University/Physician risk retention program to provide general and professional liability protection to LUC and patient liability protection to participating faculty. Until June 30, 1995, LUC and physicians paid proportionately into the joint risk retention fund based on actuarial loss estimates of hospital and physician components. The risk retention program is supplemented by commercial excess umbrella protection on an occurrence basis through 1986, and thereafter on a combined claims-made and occurrence basis.

The provision for risk retention is calculated using an actuarial basis and management judgment. The reserve for risk retention is the estimated value of claims and claims adjustment expense which will be settled in the future. Management considers the reserve adequate to cover LUC's loss exposure for all years.

LUHS

Beginning July 1, 1995, LUMC began purchasing insurance coverage from LUCIC, a Cayman Islands company, for primary and patient general liability claims. Estimated claims are discounted using a rate of 6.75% and 7.00% at June 30, 2004 and 2003, respectively. Self-insurance liabilities are estimated at the actuarially determined expected level plus an estimate of incurred but not reported claims. Effective July 1, 2001, LUCIC changed its coverage from occurrence-based to a claims-made policy.

Expenses related to general and professional liability were $37.7 million and $29.0 million for 2004 and 2003, respectively. This includes primary and patient general liability and medical malpractice liability insurance to Loyola University Physician Foundation (LUPF) and its physicians. LUPF expenses related to general liability and medical malpractice liability insurance were $12.3 million and $10.7 million for 2004 and 2003, respectively. Reinsurance recoveries receivable of $26.0 million and $26.2 million were recorded as other assets at June 30, 2004 and 2003, respectively.

(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	LUHS	Total	2003
Change in projected benefit obligation				
Projected benefit obligation, beginning of year	$ 80,209	$ 136,742	$ 216,951	$180,285
Service cost	2,831	8,030	10,861	8,137
Interest cost	4,929	8,662	13,591	12,932
Curtailment gain	(8,780)		(8,780)	
Plan amendments				2,440
Benefits paid	(7,386)	(7,568)	(14,954)	(13,882)
Actuarial loss	14,774	15,268	30,042	27,039
Projected benefit obligation, end of year	$ 86,577	$ 161,134	$ 247,711	$ 216,951
Change in plan assets				
Fair value of plan assets, beginning of year	$ 72,891	$ 114,578	$ 187,469	$ 227,360
Actual return on plan assets	20,785	33,302	54,087	(39,209)
Company contributions				13,200
Benefits paid	(7,386)	(7,568)	(14,954)	(13,882)
Fair value of plan assets, end of year	$ 86,290	$ 140,312	$ 226,602	$ 187,469

(in thousands of dollars)	2004			
	University Academic	LUHS	Total	2003
Reconciliation of funded status				
Funded status	$(287)	$(20,822)	$(21,109)	$(29,482)
Unrecognized net actuarial loss	25,179	31,037	56,216	79,623
Unrecognized prior service cost		3,358	3,358	6,924
Minimum pension liability	(25,179)		(25,179)	(63,342)
Net amount recognized	$(287)	$ 13,573	$ 13,286	$(6,277)
Accumulated benefit obligation, end of year	$ 86,577	$ 136,508	$ 223,085	$ 193,747
Weighted average assumptions of benefit obligations				
Discount rate	5.60%	6.10%		6.50%
Lump sum distributions	4.85%	6.10%		6.50%
Rate of compensation increase	2.50%	2.50%		2.50%
Components of net pension expense				
Service cost	$ 2,831	$ 8,030	$ 10,861	$ 8,137
Interest cost	4,929	8,662	13,591	12,932
Expected return on plan assets	(5,481)	(8,887)	(14,368)	(18,657)
Amortization of unrecognized loss	2,473	2,477	4,950	115
Amortization of prior service cost	310	378	688	479
Net periodic pension cost	5,062	10,660	15,722	3,006
Effect of plan curtailment	2,878		2,878	
Total pension expense	$ 7,940	$ 10,660	$ 18,600	$ 3,006
Weighted average assumptions of net periodic pension expense				
Discount rate	6.50%	6.50%		7.50%
Lump sum distributions	6.50%	6.50%		7.50%
Expected long-term return on plan assets	8.00%	8.00%		8.50%
Rate of compensation increase	2.50%	2.50%		2.50%

At June 30, 2003, University Academic and LUMC recorded a minimum pension liability of $35.2 million and $28.1 million, respectively. The adjustment was shown as a non-operating charge in the statement of activities and changes in net assets, decreasing unrestricted net assets of University Academic by $32.0 million and LUHS by $24.4 million. The adjustment is required by FAS 87, *Employer's Accounting for Pensions*, when the accumulated benefit obligation of the plan exceeds the fair value of the underlying assets. Intangible assets were recorded for prior service costs of $3.2 million for University Academic and $3.7 million for LUMC. The LUMC liability was reversed in 2004 as the fair value of the plan assets exceeded the accumulated benefit obligation.

LUERP's asset allocation at the March 31, 2004 measurement date, by asset category, was as follows:

	2004	2003
Cash and cash equivalents	3%	9%
Equity securities	47%	47%
Fixed income securities	27%	22%
Private capital	10%	11%
Other	13%	11%
Total	100%	100%

LUERP assets are held in trust by an external trustee. The trust portfolio is managed in accordance with the policies established by LUERP's Administrative and Investment Committee. The investment policy includes specific guidelines for quality, asset concentration, asset mix, asset allocations and performance expectations. Management developed the estimate of the expected long-term rate of return on plan assets based upon this mix and the expected rates of return for the various investment strategies employed.

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
Benefits paid	(2,453)	(967)	(3,420)	(6,252)
Fair value of plan assets, end of year	$ -	$ -	$ -	$ -
Reconciliation of funded status				
Funded status	$ 26,952	$ 14,518	$ 41,470	$ 50,523
Unrecognized actuarial loss (gain)	3,051	(5,688)	(2,637)	(16,676)
Accrued postretirement benefit obligation	$ 30,003	$ 8,830	$ 38,833	$ 33,847
Components of net period postretirement benefit cost				
Service cost	$ 2,375	$ 276	$ 2,651	$ 1,987
Interest cost	2,414	795	3,209	3,001
Unrecognized actuarial loss	387	320	707	426
Net period postretirement benefit cost	$ 5,176	$ 1,391	$ 6,567	$ 5,414
Discount rate	6.5%	6.5%	6.5%	7.5%

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 service and interest cost components	$ 2,054	$ 1,107	$ 3,161	$ 6,689
On year-end postretirement benefit obligations	851	169	1,020	626
1% decrease				
On total of service and interest cost components	$(1,800)	$(969)	$(2,769)	$(5,678)
On year-end postretirement benefit obligations	(708)	(142)	(850)	(673)

The postretirement benefit measurement date was March 31, 2004.

Estimated future benefit payments:

(in thousands of dollars)	Fiscal Year	University Academic	LUHS	Total
	2004	$ 1,762	$ 791	$ 2,553
	2005	1,973	886	2,859
	2006	2,170	975	3,145
	2007	2,344	1,053	3,397
	2008	2,485	1,116	3,601
	2009-2013	14,850	6,669	21,519

Effective July 1, 2004, University Academic 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. 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 the University Academic's health plan. This new design is reflected in the June 30, 2004 year-end disclosures and development of 2005 expense.

(13) 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, 2004 and 2003 were:

(in thousands of dollars)	2004	2003
Instruction	$ 84,784	$ 81,422
Research and other sponsored programs	41,288	41,913
Academic support	45,966	44,887
Student services	19,858	18,663
Institutional support	53,226	50,072
Operations and maintenance	18,508	18,825
Depreciation and disposals	17,972	19,283
Patient care	651,455	588,725
Auxiliary services	11,602	15,180
Total operating expenses	$944,659	$878,970

(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				
Academic or program support and student financial aid	$ 86,016	$ -	$ 86,016	$ 61,666
Research	5,162		5,162	4,418
Student loans	2,748		2,748	2,759
Construction	5,880		5,880	8,546
Other	24,048	3,316	27,364	28,481
Total temporarily restricted net assets	$123,854	$ 3,316	$127,170	$105,870
Permanently Restricted				
Academic or program support and student financial aid	$ 81,585	$ -	$ 81,585	$ 80,436
Student loans	1,061		1,061	104
Other		6,277	6,277	6,155
Total permanently restricted net assets	$ 82,646	$ 6,277	$ 88,923	$ 86,695

(15) Related Party Transactions

LUPF is an incorporated medical faculty practice plan consisting of the faculty of the University Academic's SSOM. The physician employees of LUPF perform their clinical services by contractual arrangement with LUC and LUMC. LUPF provides billing, collection, and distribution services of professional fees generated by SSOM physicians from their private practice of medicine at LUMC and other approved locations. LUC and LUMC received a percentage of fees collected, less certain expenses, for the funding of various SSOM activities and for the use of LUMC's practice-related facilities. Revenues to LUC and LUMC in the years ended June 30, 2004 and 2003 and amounts receivable on these dates were:

(in thousands of dollars)	2004			
	University Academic	LUHS	Total	2003
Revenues	$ 27,105	$17,153	$ 44,258	$ 42,845
Accounts receivable	3,300	3,736	7,036	9,009

LUMC is reimbursed for providing administrative personnel and certain overhead services to LUPF. The reimbursement was $6.5 million and $6.9 million for 2004 and 2003, respectively. Additionally, LUMC is reimbursed for services provided relating to LUCIC exposures. Amounts billed for 2004 and 2003, respectively, were $442 thousand and $365 thousand. As of June 30, 2004 and 2003, LUPF's liability to LUMC for all services was $3.7 million and $6.6 million respectively.

LUPF is neither consolidated nor accounted for under the equity method of accounting by LUC or LUHS in the financial statements.

Rehabilitation Institute of Chicago

LUHS and the Rehabilitation Institute of Chicago (RIC) established and operated a joint venture limited liability corporation, RIC & LUHS PMR, LLC. The joint venture provided a network-wide continuum of comprehensive physical medicine and rehabilitation services. Effective June 30, 2004, the joint venture was dissolved and ceased operations. Management determined that the impact of the dissolution of the agreement will not have a material impact on future results of operations. LUHS estimates a settlement payment of less than $1.0 million which is reflected in other liabilities in the statement of financial position. The following summarizes condensed financial information of RIC, LUHS, PMR, LLC for the years ended June 30, 2004 and 2003:

(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 Ambulatory 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. The following summarizes condensed financial information of LASCO as of and for the years ended December 31, 2003 and 2002:

(in thousands of dollars)	2004	2003
Net assets	$ 1,511	$ 1,331
Revenues	4,852	4,065
Expenses	4,499	3,977

(16) Leases

LUHS has certain non-cancelable operating leases for specific property, plant, and equipment. Under the terms of these lease agreements, LUHS has a maximum obligation of $3.9 million in the event the lease for the cogeneration plant is not renewed in January 2010 and the plant is not sold. The obligation may be reduced by excess proceeds from the sale of the plant.

Rent paid under operating leases was $6.8 million in 2004 and $4.8 million in 2003.

The future minimum lease commitments under these operating leases are as follows:

(in thousands of dollars) Fiscal year ending June 30	
2005	$ 7,673
2006	7,548
2007	5,644
2008	4,947
2009	2,760
thereafter	11,856
Total	$40,428

(17) Commitments and Contingencies

Various lawsuits, claims, and other contingent liabilities occasionally arise in the ordinary course of LUC's 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.