



**Management Discussion of the FY 2005 Increase in Net Assets
University Academic**

Refer to Audit Report on <http://www.luc.edu/finance/FinSt.shtml>

FY 2005 Increase in Net Assets:

FY 2005 actual operating revenues in excess of operating expenses shows an operating surplus of \$26.5 million compared to the FY 2005 budget operating surplus of \$9.3 million. Non-operating revenues increased by \$13.3 million, temporarily net assets increased by \$13.3 million and permanently restricted increased by \$3.7 million. *The total increase in net assets for the year ended June 30, 2005 was \$56.8 million.* For FY 2005, the year to date returns from the endowment were a positive 10.6% resulting in a \$24.9 million increase of net assets reported as non-operating and temporarily restricted. A summary of how the \$26.5 million of operating income in FY 2005 was earned and how the funds will be reinvested in the University Academic is as follows:

Factors Identifying FY 2005 Operating Results of \$26.5 million:	<u>Actual</u>	<u>Budget</u>
Gifts recorded in Operations (not relied on for operating budget)	\$ 8.4	\$ -
Excess over depreciation expense for capital projects	2.7	5.0
Lakeside favorable spending variances	6.1	-
Water Tower rental income	3.8	3.0
Residence Life results of operations	3.1	1.3
SSOM operations in excess of budget	2.4	
Total FY 2005 Operating Results	\$ 26.5	\$ 9.3
Reinvestment of the FY 2005 Operating Results:		
SSOM Capital Asset Reserve, including gifts	\$ 7.9	
Lakeside Capital Asset Reserve	3.9	
Resident Life Capital Asset Reserve	3.1	
Other Designated Gifts	3.0	
FY 2005 Capital Expenditures Support	2.7	
Endowment for Media Integrity Professorship	1.0	
Endowment for Catholic Center for Effectiveness	1.0	
Endowment for Catholic Intellectual Heritage	1.0	
Capital Expenditures for Business/Law Space Swap	1.0	
Capital Expenditures for Madonna della Strada	1.0	
Capital for Lewis Tower 13th Floor	0.7	
Lily Grant Match	0.2	
Total FY 2005 Operating Results	\$ 26.5	

The University Academic increase in cash flow was \$27 million and reflects the quality of the increase in operating results for FY 2005. Increases in non-operating, temporarily restricted, and permanent net assets for FY 2005 are principally reflected in the increase in investments.

Recently, Standard & Poor's has affirmed the 'A-' rating on the Illinois Educational Facilities Authority's bonds, issued for Loyola University of Chicago. In addition, the



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outlook has been revised to 'stable' from 'negative.' Standard & Poor's rating is consistent with Moody's rating of A3 stable. The ratings reflect:

- Improved operating performance according to the university's financial plan, with a \$5 million operating surplus in fiscal 2004 and a \$26.5 million operating surplus in fiscal 2005; unrestricted net assets increased by \$31.4 million in FY 2004 and by \$39.8 million in FY 2005;
- Increasing enrollment and improved demand;
- Loyola's strong geographic niche and broad array of professional programs;
- A strong management team that turned around several years of operating deficits through strong financial controls;
- Two years of annual increases in endowment market value after several years of decline; and
- Manageable debt levels.

Finances

After enduring a period of recurring operating deficits, Loyola returned to profitable operations in fiscal year 2004 and achieved a solid \$26.5 million operating surplus in fiscal 2005 (excluding realized and unrealized gains, gain on sale of property, transfer of net assets, research and education net assets, and other non-operating activities). The turnaround was achieved by strict adherence to a financial plan to increase revenues through rebuilding enrollment, renting certain properties at the Water Tower Campus, and by curbing expenses through divesting unproductive assets and reducing related expenses.

Liquidity levels improved in fiscal 2005 compared to liquidity levels two years ago due primarily to positive investment returns and a return to operating profitability. Cash and investments were \$401 million in fiscal 2005 compared with \$311 million two years earlier, representing 122% of fiscal 2005 operating expenses and 147% of outstanding debt.

The university's endowment had a market value of \$259 million as of June 30, 2005, a level still below the endowment's historically highest level. Contributing to the partially restored endowment level is two years of positive financial returns and endowment spending of approximately 4% (lower than the university's 5% spending policy). The endowment investment return, net of management fees, for the years ended June 30, 2005 and 2004 was 10.6% and 20.5%, respectively. NACUBO ranked the FY 2004 investment return 38th out of 670 colleges and universities; rankings are not currently available for the FY 2005 results.



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Fundraising is now a new direction and emphasis with improved fundraising efforts. As a result, approximately \$30 million was raised in fiscal 2005 consisting of gifts of \$20 million and approximately \$10 from foundations to support the research operations.

Loyola University Chicago has a wholly owned subsidiary, the Loyola University Health System, which has separately secured debt. As of June 30, 2005, the health system had total net assets of \$268 million and outstanding debt of \$296 million.

Enrollment and Demand

Enrollment levels increased annually for the past five years, increasing 4% annually each of the past two years to 14,445 enrolled students in fall 2005. This is higher than fall 1998 levels of 13,811, the university's high point for enrollment that was followed by enrollment declines between fall 1999 and fall 2000. Approximately 60% of students are undergraduates and of those, approximately 87% attend on a full-time basis.

The enrollment increase is due primarily to a focused effort on increasing demand, which resulted in larger freshman classes for the past several years. The number of freshman applicants increased dramatically between fall 2000 and fall 2005, more than tripling from 3,749 to 14,579 applicants. As the number of applicants grew, selectivity improved over the time period from 85% in fall 2000 to 74% in fall 2005. Matriculation levels have been weak in recent years at only 19% in fall 2004 and fall 2005, indicative of the competitive marketplace in which Loyola operates.

Investments in Land, Buildings and Equipment

During the fiscal year ended June 30, 2005, University Academic expended \$68.6 million in land, buildings and equipment to meet our capital needs.

- \$33.2 million was invested in new construction projects including the Life Sciences Building, a new residence hall at the Lakeshore Campus, and a new resident hall for the Water Tower Campus. The first two projects were completed during FY 2005 and fully utilized in FY 2006. The residence hall at the Water Tower Campus is expected to be used in the August 2006.
- \$5.4 million was invested in the new Loyola University Museum of Arts at the Water Tower Campus.
- \$4.2 million was invested in utility and safety projects.
- \$4.0 million invested in strategic property acquisitions and development.
- \$3.3 million invested in Piper Hall.
- \$3.0 million invested in information systems.
- \$2.2 million in the new Simpson Dining Hall.



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- The remainder of \$13.3 million was invested in a numerous other projects prioritized in FY 2005.

The capital expenditures were funded from operations, tax-exempt bond issues, and gifts and grants.

Debt

University Academic had \$272 million in outstanding debt as of June 30, 2005. Debt service of \$14 million in fiscal 2005 was a manageable 3.5% of operating expenses. During FY 2005, University Academic issued \$58.8 million in tax-exempt debt to pay for the construction of the new Water Tower Campus 600 bed plus residence hall. In addition, University Academic entered into a forward swap agreement during fiscal 2005 in anticipation of a debt issuance expected in fiscal 2007 for refunding purposes. No new debt money is expected during the outlook period. The university plans to continue to address key capital projects, such as a new library annex/information commons and renovations to the Lake Shore Campus' Sky Building, and deferred maintenance through budgeted capital funds from operations (approximately \$23 million is allotted annually), gifts and a tax incentive financing district established with the City of Chicago.

Thanks to all for making FY 2005 a successful year!

Loyola University Chicago is appreciative of the efforts and contributions made by all of our faculty, staff, students, Trustees, business partners, friends, and administrators in making FY 2005 a very successful year! For this, all of us in Financial Services are deeply grateful and look forward to a very positive future for Loyola University Chicago!

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