

LOYOLA UNIVERSITY CHICAGO

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

For the years ended June 30, 2016 and 2015



Cover designed by a Loyola University Chicago student

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, 2016 and 2015, 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

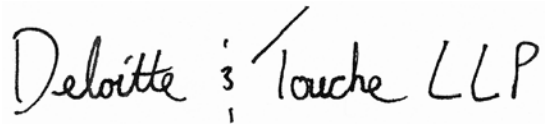
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable 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 LUC'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, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LUC as of June 30, 2016 and 2015, and results of their 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 horizontal bar at the top and bottom, resembling a stylized "3" or a separator. To the right of this symbol, the word "Touche" is written in a cursive style, followed by "LLP" in a simpler, blocky cursive style.

September 16, 2016

LOYOLA UNIVERSITY CHICAGO
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2016 and 2015 (in thousands of dollars)

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 66,896	\$ 60,663
Short-term investments	117,564	142,314
Notes and accounts receivable, net	77,813	73,998
Receivable from Trinity Health	13,983	30,428
Other assets	23,163	21,811
Endowment and other long-term investments	613,374	602,642
Assets held in trust by others	-	10,007
Interest held in perpetual trust	11,703	11,817
Land, buildings and equipment, net	1,141,468	1,150,830
TOTAL ASSETS	\$ 2,065,964	\$ 2,104,510
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 51,413	\$ 71,624
Deferred income	34,872	31,214
Unexpended grants	11,419	11,129
Refundable advances - loans	19,486	19,177
Indebtedness	485,203	520,484
Pension and other postretirement plan liabilities	88,552	69,123
Other liabilities	4,497	4,288
TOTAL LIABILITIES	695,442	727,039
NET ASSETS:		
Unrestricted	1,035,425	1,036,895
Temporarily restricted	165,132	176,407
Permanently restricted	169,965	164,169
TOTAL NET ASSETS	1,370,522	1,377,471
TOTAL LIABILITIES AND NET ASSETS	\$ 2,065,964	\$ 2,104,510

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, 2016 and 2015 (in thousands of dollars)

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015
OPERATING REVENUES:								
Tuition and fees, net of scholarships \$162,597 (2016) and \$152,405 (2015)	\$ 360,285	\$ -	\$ -	\$ 360,285	\$ 353,190	\$ -	\$ -	\$ 353,190
Grants and contracts for sponsored projects	46,013			46,013	57,981			57,981
Academic support	23,409			23,409	23,574			23,574
Gifts	2,300			2,300	1,658			1,658
Return on short-term investments and interest income	2,286			2,286	2,029			2,029
Investment income designated for operations	7,245			7,245	7,047			7,047
Other	32,576			32,576	30,514			30,514
Auxiliary services	66,002			66,002	65,534			65,534
Net assets utilized or released from restrictions for operations	18,255			18,255	17,534			17,534
TOTAL OPERATING REVENUES	558,371			558,371	559,061			559,061
OPERATING EXPENSES:								
Salaries and wages	243,563			243,563	236,260			236,260
Fringe benefits	70,145			70,145	66,639			66,639
Non-salary operating expenses	126,589			126,589	133,580			133,580
Insurance	2,527			2,527	2,401			2,401
Depreciation and amortization	57,316			57,316	53,245			53,245
Interest	17,426			17,426	17,768			17,768
Utilities	11,053			11,053	10,253			10,253
TOTAL OPERATING EXPENSES	528,619			528,619	520,146			520,146
RESULTS OF OPERATIONS	29,752			29,752	38,915			38,915
NON-OPERATING ACTIVITIES:								
Gifts		10,951	5,770	16,721		11,558	7,524	19,082
Investment gain (loss), net of amounts designated for operations	(8,876)	(1,693)	(2)	(10,571)	(6,187)	1,009	46	(5,132)
Other	(5,384)	(250)	(137)	(5,771)	(16,910)	(272)	107	(17,075)
Retirement plan related changes other than net periodic retirement plan expense	(18,825)			(18,825)	(8,563)			(8,563)
Net assets transferred or released from restrictions	1,863	(20,283)	165	(18,255)	14,085	(31,895)	276	(17,534)
TOTAL NON-OPERATING ACTIVITIES	(31,222)	(11,275)	5,796	(36,701)	(17,575)	(19,600)	7,953	(29,222)
CHANGE IN NET ASSETS	(1,470)	(11,275)	5,796	(6,949)	21,340	(19,600)	7,953	9,693
Total net assets, beginning of year	1,036,895	176,407	164,169	1,377,471	1,015,555	196,007	156,216	1,367,778
TOTAL NET ASSETS, END OF YEAR	\$ 1,035,425	\$ 165,132	\$ 169,965	\$ 1,370,522	\$ 1,036,895	\$ 176,407	\$ 164,169	\$ 1,377,471

See notes to the consolidated financial statements.

LOYOLA UNIVERSITY CHICAGO

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2016 and 2015 (in thousands of dollars)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase/(Decrease) in net assets	\$ (6,949)	\$ 9,693
Adjustments to reconcile increase/(decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	57,316	53,245
Provision for bad debt expense	2,187	2,005
Retirement plan related changes	18,825	8,563
Provision for retirement costs	4,829	4,065
Net realized and unrealized loss on investments	9,666	5,670
Contributions restricted for long-term investment	(5,183)	(6,360)
Other	(5,265)	13,906
Changes in assets and liabilities:		
Notes and accounts receivable	(4,724)	(1,840)
Other assets	(891)	(2,123)
Accounts payable and accrued expenses	119	(562)
Deferred income and unexpended grants	3,948	(3,366)
Interest held in perpetual trust	114	(144)
Refundable advances - loans	309	251
Other liabilities	363	(423)
NET CASH PROVIDED BY OPERATING ACTIVITIES	74,664	82,580
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	247,288	89,326
Purchase of investments	(267,475)	(90,643)
Purchases/sales of short-term investments, net	24,539	2,085
Proceeds on disposal of buildings	(446)	
Expenditures for land, buildings and equipment	(68,382)	(128,117)
Student loans issued	(5,075)	(3,923)
Student loans collected	3,797	3,673
NET CASH USED BY INVESTING ACTIVITIES	(65,754)	(127,599)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for long-term investment	5,183	6,360
Issuance of new debt	1,247	
Retirement of debt	(35,560)	(33,592)
NET CASH USED BY FINANCING ACTIVITIES	(29,130)	(27,232)
NET CASH PROVIDED FROM DISCONTINUED OPERATIONS	26,453	41,760
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	6,233	(30,491)
Cash and cash equivalents, beginning of year	60,663	91,154
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 66,896	\$ 60,663

See notes to the consolidated financial statements.

LOYOLA UNIVERSITY CHICAGO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2016 and 2015

(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 eight 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.

(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 activities include investment gain or loss, change in retirement plan, 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 qualifying expenses or activities occur. 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 but are not considered long-term investments. 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, land held for resale and capital leases.

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.

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 Health Sciences Division (HSD). 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, 2016.

Accounting Pronouncements

In April 2015, The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03, Simplifying the Presentation of Debt Issuance Costs. This standard requires all costs incurred to issue debt to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. The standard is effective for fiscal years beginning after December 15, 2016 with early adoption permitted. Management is evaluating the impact this will have on LUC's future financial statements.

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurement: Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent). This standard eliminates the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient and removes the requirement to make certain disclosures for these investments. Removing these investments from the fair value hierarchy eliminates the diversity in categorization of investments within the hierarchy. ASU 2015-07 is effective for fiscal years beginning after December 15, 2016 with early adoption permitted. LUC has early adopted ASU 2015-07 effective fiscal year 2016. Fiscal Year 2015 disclosures have been restated to reflect the implementation of the new guidance retrospectively. See Note 4 (Investments) and Note 8 (Retirement Plans) for further detail.

(4) Investments

Under authority delegated by the Board of Trustees, the Investment Policy Committee of the Board of Trustees establishes the investment policy and guidelines governing the management of LUC's investments. The 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, and energy and real estate investments, with diversifying exposure to fixed income investments and hedging strategies. 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, 2016 and 2015:

(in thousands of dollars)	<u>2016</u>	<u>2015</u>
Donor-restricted endowment funds	\$ 266,698	\$ 269,944
Board-designated funds functioning as endowment	<u>267,907</u>	<u>271,354</u>
Total endowment investments	534,605	541,298
Institutional reserves	<u>69,185</u>	<u>50,547</u>
Total long-term investment pool	603,790	591,845
Split-interest agreements	8,690	9,572
Other invested assets	<u>894</u>	<u>1,225</u>
Total endowment and other long-term investments	\$ <u>613,374</u>	\$ <u>602,642</u>

In addition to endowment and other long-term investments, LUC had short-term investments of \$117.6 million and \$142.3 million at June 30, 2016 and 2015, respectively.

Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification (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.

Fair value for investments in certain commingled funds and private partnerships that utilize a net asset value (NAV) per share or that report capital account balances on an equivalent pro-rata basis is estimated, as a practical expedient, to equal the reported NAV for such shares or reported partner's capital balance, as applicable. These investments consist of funds holding primarily publicly traded equity and fixed income securities and private partnerships holding equity stakes in public and non-public companies, where fund or partnership interests or shares/units are not publicly quoted or traded.

In restating the long-term investments fair value hierarchy table as of June 30, 2015 to comport with the adoption of ASU 2015-07 as discussed in Note 3, \$161.0 million in marketable equity commingled funds, \$41.0 million in fixed income commingled funds, and \$13.4 million in real assets commingled funds were reclassified from Level 2 within the fair value hierarchy to being reported under their NAV (or its equivalent) as a practical expedient. \$26.9 million in marketable equity commingled funds, \$43.8 million in fixed income commingled funds, \$47.8 million in private equity investments, and \$14.9 million in private real assets investments were reclassified from Level 3 to reporting under their NAV (or its equivalent) as a practical expedient. The reconciliation for financial instruments classified as Level 3 investments as of June 30, 2015 was restated to reflect the Level 3 reclassifications to NAV (or its equivalent) as a practical expedient.

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, 2016 and 2015:

(in thousands of dollars)	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
<u>2016</u>			
Cash and cash equivalents	\$ 874	\$ 874	\$ -
Fixed income mutual funds	32,830	32,830	
U.S. Treasury and government agency debt securities	16,920		16,920
Non-U.S. agency debt securities	2,730		2,730
Municipal debt securities	5,747		5,747
Corporate debt securities	40,422		40,422
Mortgage-related securities	5,623		5,623
Asset-backed securities	12,219		12,219
Collateralized mortgage obligations	199		199
Total	<u>\$ 117,564</u>	<u>\$ 33,704</u>	<u>\$ 83,860</u>
<u>2015</u>			
Cash and cash equivalents	\$ 641	\$ 641	\$ -
Fixed income mutual funds	44,277	44,277	
U.S. Treasury and government agency debt securities	15,422		15,422
Non-U.S. agency debt securities	1,118		1,118
Municipal debt securities	3,980		3,980
Corporate debt securities	57,586		57,586
Mortgage-related securities	8,545		8,545
Asset-backed securities	10,642		10,642
Collateralized mortgage obligations	103		103
Total	<u>\$ 142,314</u>	<u>\$ 44,918</u>	<u>\$ 97,396</u>

Endowment and Other Long-term Investments

The tables below summarize the endowment and other long-term investment portfolio's fair value measurements by fair value hierarchy level and NAV (or its equivalent) as a practical expedient as of June 30, 2016 and 2015:

(in thousands of dollars)

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV Prac Exp</u>
<u>2016</u>					
Cash and Cash Equivalents	\$ 3,359	\$ 3,359	\$ -	\$ -	\$ -
U.S. Marketable Equity Securities	57,732	57,732			
U.S. Marketable Equity Mutual Funds	54,080	54,080			
Non-U.S. Marketable Equity Securities	10,869	10,869			
Non-U.S. Marketable Equity Mutual Funds	1,530	1,530			
Marketable Equity Commingled Funds	214,301				214,301
Other Equity Securities	200			200	
Fixed Income Mutual Funds	21,060	21,060			
Fixed Income Commingled Funds	86,018				86,018
Other Fixed Income Securities	16,855	16,855			
U.S. Treasury and Government					
Agency Debt Obligations	50,569	9,248	41,321		
Private Equity Investments	54,879				54,879
Real Assets Mutual Funds	24,152	24,152			
Private Real Assets Investments	<u>17,770</u>				<u>17,770</u>
Total	<u>\$ 613,374</u>	<u>\$ 198,885</u>	<u>\$ 41,321</u>	<u>\$ 200</u>	<u>\$ 372,968</u>
<u>2015</u>					
Cash and Cash Equivalents	\$ 5,177	\$ 5,177	\$ -	\$ -	\$ -
U.S. Marketable Equity Securities	58,688	58,688			
U.S. Marketable Equity Mutual Funds	89,559	89,559			
Non-U.S. Marketable Equity Securities	3,196	3,196			
Non-U.S. Marketable Equity Mutual Funds	1,814	1,814			
Marketable Equity Commingled Funds	187,823				187,823
Other Equity Securities	200			200	
Fixed Income Mutual Funds	31,481	31,481			
Fixed Income Commingled Funds	84,868				84,868
U.S. Treasury and Government					
Agency Debt Obligations	44,200	9,862	34,338		
Real Assets Commingled Funds	13,376				13,376
Private Equity Investments	47,833				47,833
Real Assets Mutual Funds	19,519	19,519			
Private Real Assets Investments	<u>14,908</u>				<u>14,908</u>
Total	<u>\$ 602,642</u>	<u>\$ 219,296</u>	<u>\$ 34,338</u>	<u>\$ 200</u>	<u>\$ 348,808</u>

The following table summarizes changes in fair value of the Level 3 investments in the endowment and other long-term investment portfolio for the years ended June 30, 2016 and June 30, 2015:

(in thousands of dollars)	<u>Other Equity Securities</u>	<u>Total</u>
<u>2016</u>		
Balance at July 1, 2015	\$ 200	\$ 200
Realized gain (loss)		
Unrealized gain (loss)		
Purchases		
Sales		
Transfers to (from) Level 3		
Balance at June 30, 2016	<u>\$ 200</u>	<u>\$ 200</u>
<u>2015</u>		
Balance at July 1, 2014	\$ 626	\$ 626
Realized gain (loss)	60	60
Unrealized gain (loss)	40	40
Purchases		
Sales	(526)	(526)
Transfers to (from) Level 3		
Balance at June 30, 2015	<u>\$ 200</u>	<u>\$ 200</u>

All gains and losses shown above are included in reported earnings for the period. There is no change in unrealized gains (losses) that is attributable to assets still held at the reporting date as of June 30, 2016 and 2015.

There were no significant transfers between fair value hierarchy levels for the years ended June 30, 2016 and 2015. 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.

LUC is obligated to make future capital contributions in private investment vehicles in the maximum amount of \$71.3 million over the next several years, subject to investment period modifications provided for in fund offering documents or limited partnership agreements.

Fair value estimates for investment funds valued at NAV (or its equivalent) as a practical expedient at June 30, 2016 are in the table below.

(in thousands of dollars)

<u>Investment Type</u>	<u>2016 Fair Value</u>	<u>2016 Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>	<u>Other Redemption Restrictions</u>
Marketable equity commingled funds	\$ 214,301	\$ -	Semimonthly to triannually	Five business days to ninety days	Various initial lockup periods, potential redemption fees, limits on redeemable proportion of outstanding balances, and provisions allowing partial redemptions despite lockups
Fixed income commingled funds	86,018	5,000	Monthly to biannually	Ten business days to ninety days	Various initial lockup periods, limits on redeemable proportion of outstanding balances, and provisions allowing partial redemptions despite lockups
Private equity investments	54,879	39,252	Directed by investment manager	N/A	None
Private real assets investments	17,770	27,010	Directed by investment manager	N/A	None
Total	\$ <u>372,968</u>	\$ <u>71,262</u>			

The marketable equity commingled funds category is comprised of investments in funds primarily holding publicly-traded US and non-US equity securities, including long-short equity funds that can vary their net exposures across global markets. The fixed income commingled funds category is comprised of funds that invest primarily in US high yield bonds, sovereign debt issues of various countries, and global corporate debt securities, including structured products. The private equity investments and private real assets fund categories are comprised of closed-end fund investments primarily holding controlling equity stakes in private firms and real estate assets.

Interest Held in Perpetual Trust

LUC's interest held in perpetual trust is classified as 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, 2016 and 2015:

(in thousands of dollars)

	<u>2016</u>	<u>2015</u>
Balance at July 1	\$ 11,817	\$ 11,673
Realized gain	676	547
Unrealized loss	(637)	(245)
Sales	(<u>153</u>)	(<u>158</u>)
Balance at June 30	\$ <u>11,703</u>	\$ <u>11,817</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, 2016 and 2015, the investment portfolio held futures contracts with a notional value of \$26.3 million and \$9.9 million, respectively. The net impact of the futures held at June 30, 2016 is to reduce the proportion of cash in the endowment portfolio by 4.3% while increasing equity exposure by 2.8% and fixed income exposure by 1.5%. Futures contracts are exchange-traded and subject to the market risk of the underlying indexes from which their prices are derived.

At June 30, 2016 and June 30, 2015, one call option was written (as part of the strategy of an investment manager) on stock 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, 2016 and 2015 is as follows:

(in thousands of dollars)

<u>Derivative Type</u>	<u>Consolidated Statements of Financial Position Location</u>	<u>2016</u>	<u>2015</u>
Equity options contracts	Endowment and other long-term investments	(10)	(24)
Total derivatives		\$(10)	\$(24)

The effect of derivative instruments on the consolidated statements of activities and changes in net assets as of June 30, 2016 and 2015 is as follows:

(in thousands of dollars)

<u>Derivative Type</u>	<u>Location of Gain Recognition in Consolidated Statements of Activities and Changes in Net Assets</u>	<u>2016</u>	<u>2015</u>
Equity, fixed income, and currency futures	Investment gain – non-operating	\$ 1,415	\$ 208
Equity options contracts	Investment gain – non-operating	38	30
Total derivatives		\$ <u>1,453</u>	\$ <u>238</u>

Investment Returns

Investment returns, net of management fees, for short-term and long-term investments, for the years ended June 30, 2016 and 2015 were:

(in thousands of dollars)

	<u>2016</u>	<u>2015</u>
Interest and dividend income (net of fees)	\$ 8,627	\$ 9,614
Net realized gains	7,577	11,757
Net unrealized losses	(17,243)	(17,427)
Total net return on investment	\$(1,039)	\$ 3,944

Returns earned on long-term investments are classified as non-operating activities in the statement of activities and changes in net assets, while returns earned on short-term investments and operating cash are classified under operating revenues. In addition, expenditures of accumulated investment return earned on board-designated funds functioning as endowment funds are classified as investment income designated for operations under operating revenues, and are concomitantly deducted from non-operating investment returns, within unrestricted net assets.

The table below reconciles total investment return with its reporting in the statement of activities and changes in net assets:

	<u>2016</u>	<u>2015</u>
Changes in unrestricted net assets		
Operating investment income	\$ 9,532	\$ 9,076
Non-operating investment loss, net of amounts designated for operations	(8,876)	(6,187)
Changes in temporarily restricted net assets		
Non-operating investment gain (loss)	(1,693)	1,009
Changes in permanently restricted net assets		
Non-operating investment gain (loss)	(2)	46
Total investment return	\$(1,039)	\$ 3,944

Endowment Net Assets

LUC's endowment consists of over 800 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.

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 the asset allocation targets as of June 30, 2016 for the endowment portfolio (which also applies uniformly to the total investment pool):

Target <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 5.0% must be approved as part of the annual budget approval process. In absence of donor stipulations to the contrary, annual appropriations from an endowment fund are determined by application of an annually-determined base budget calculation to the endowment funds' NAV 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, 2016 and 2015 are classified as follows:

(in thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2016</u>				
Donor-restricted endowment funds	\$ (167)	\$ 115,393	\$ 151,339	\$ 266,565
Board-designated funds functioning as endowment	<u>267,049</u>			<u>267,049</u>
Total endowment net assets	\$ <u>266,882</u>	\$ <u>115,393</u>	\$ <u>151,339</u>	\$ <u>533,614</u>
<u>2015</u>				
Donor-restricted endowment funds	\$ (102)	\$ 125,436	\$ 145,571	\$ 270,905
Board-designated funds functioning as endowment	<u>270,762</u>			<u>270,762</u>
Total endowment net assets	\$ <u>270,660</u>	\$ <u>125,436</u>	\$ <u>145,571</u>	\$ <u>541,667</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 \$0.2 million as of June 30, 2016 and \$0.1 million as of June 30, 2015.

The following tables provide a summary of the changes in the endowment net assets for the years ended June 30, 2016 and 2015:

(in thousands of dollars)

<u>2016</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ 270,660	\$ 125,436	\$ 145,571	\$ 541,667
Gifts and transfers				
Contributions (excluding pledges)	1	4	5,183	5,188
Transfers	<u>3,845</u>	<u>22</u>	<u>585</u>	<u>4,452</u>
Total gifts and transfers	3,846	26	5,768	9,640
Investment income				
Interest and dividends (net of fees)	2,645	2,528		5,173
Realized gain	3,718	3,559		7,277
Unrealized loss	<u>(8,283)</u>	<u>(7,905)</u>		<u>(16,188)</u>
Total investment loss	(1,920)	(1,818)		(3,738)
Income distributed for operating purposes				
Scholarships	<u>(2,048)</u>	<u>(3,751)</u>		<u>(5,799)</u>
Endowed chairs	<u>(1,329)</u>	<u>(2,254)</u>		<u>(3,583)</u>
Research	<u>(199)</u>	<u>(462)</u>		<u>(661)</u>
Other	<u>(2,128)</u>	<u>(1,784)</u>		<u>(3,912)</u>
Total income distributed for operating purposes	<u>(5,704)</u>	<u>(8,251)</u>		<u>(13,955)</u>
Net assets, end of year	\$ <u>266,882</u>	\$ <u>115,393</u>	\$ <u>151,339</u>	\$ <u>533,614</u>
<u>2015</u>				
Net assets, beginning of year	\$ 268,504	\$ 132,206	\$ 137,813	\$ 538,523
Gifts and transfers				
Contributions (excluding pledges)		12	6,360	6,372
Transfers	<u>6,920</u>	<u>(245)</u>	<u>1,398</u>	<u>8,073</u>
Total gifts and transfers	6,920	(233)	7,758	14,445
Investment income				
Interest and dividends (net of fees)	2,942	2,820		5,762
Realized gain	5,671	5,431		11,102
Unrealized loss	<u>(7,829)</u>	<u>(7,616)</u>		<u>(15,445)</u>
Total investment income	784	635		1,419
Income distributed for operating purposes				
Scholarships	<u>(2,572)</u>	<u>(2,862)</u>		<u>(5,434)</u>
Endowed chairs	<u>(922)</u>	<u>(2,211)</u>		<u>(3,133)</u>
Research	<u>(177)</u>	<u>(437)</u>		<u>(614)</u>
Other	<u>(1,877)</u>	<u>(1,662)</u>		<u>(3,539)</u>
Total income distributed for operating purposes	<u>(5,548)</u>	<u>(7,172)</u>		<u>(12,720)</u>
Net assets, end of year	\$ <u>270,660</u>	\$ <u>125,436</u>	\$ <u>145,571</u>	\$ <u>541,667</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 \$8.7 million and \$9.6 million, respectively, at June 30, 2016 and 2015 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 \$4.3 million and \$4.5 million as of June 30, 2016 and 2015, respectively. The discount rate used is 6.5% in both fiscal years 2016 and 2015.

During fiscal year 2016, the discounted present values of new gifts subject to split-interest agreements, net of the income beneficiary share, were \$0.2 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 \$(0.3) million in fiscal years 2016 and 2015.

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, 2016 and 2015 consisted of:

(in thousands of dollars)

	<u>2016</u>	<u>2015</u>
Student loan notes (less allowance for doubtful accounts of \$2,322 (2016) and \$1,986 (2015))	\$ 21,310	\$ 21,508
Contributions receivable (less discount of \$12,836 (2016) and \$14,843 (2015) and allowance for doubtful accounts of \$270 (2016) and \$258 (2015))	25,430	27,209
Student receivables (less allowance for doubtful accounts of \$5,140 (2016) and \$4,867 (2015))	10,634	11,886
Grant receivables	7,090	4,964
Other receivables (less allowance for doubtful accounts of \$160 (2016) and \$90 (2015))	13,349	8,431
Total notes and accounts receivable, net	<u>\$ 77,813</u>	<u>\$ 73,998</u>

Contributions receivable at June 30, 2016 and 2015 are due in the following periods:

(in thousands of dollars)

	<u>2016</u>	<u>2015</u>
In one year or less	\$ 1,766	\$ 1,484
Between one year and five years	10,229	10,736
More than five years	26,541	30,090
Discount of \$12,836 (2016) and \$14,843 (2015) and allowance for doubtful accounts of \$270 (2016) and \$258 (2015)	(13,106)	(15,101)
Total contributions receivable	<u>\$ 25,430</u>	<u>\$ 27,209</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, 2016 and 2015, student loan notes represented 1.0% of total assets.

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

(in thousands of dollars)

	<u>2016</u>	<u>2015</u>
Federal government programs	\$ 21,371	\$ 21,125
Institutional/other programs	<u>2,261</u>	<u>2,369</u>
Total student loan notes	23,632	23,494
Less allowance for doubtful accounts:		
Beginning of year	(1,986)	(1,831)
Increase to reserve	(411)	(250)
Write-offs	<u>75</u>	<u>95</u>
End of year	<u>(2,322)</u>	<u>(1,986)</u>
Student loan notes, net	\$ <u>21,310</u>	\$ <u>21,508</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 \$19.5 million and \$19.2 million at June 30, 2016 and 2015, respectively, are ultimately refundable to the government and are classified as refundable advances – loans on the consolidated statements of financial position. At June 30, 2016 and 2015, LUC had past due loans of \$3.6 million and \$3.5 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, 2016 and 2015 were:

(in thousands of dollars)

	<u>2016</u>	<u>2015</u>
Land and land improvements	\$ 214,360	\$ 209,837
Buildings	1,324,777	1,135,697
Equipment	146,367	128,795
Library books and art	32,353	31,913
Construction in progress	<u>5,398</u>	<u>173,212</u>
Total	1,723,255	1,679,454
Accumulated depreciation	<u>(581,787)</u>	<u>(528,624)</u>
Land, buildings, and equipment, net	\$ <u>1,141,468</u>	\$ <u>1,150,830</u>

As of June 30, 2016, LUC had commitments of \$0.5 million related to various capital projects.

As of June 30, 2016 and 2015, LUC included \$0.7 million and \$0.9 million of capitalized asset retirement costs, net of accumulated depreciation, within buildings. Additionally, \$3.0 million and \$2.9 million of conditional asset retirement obligations were included within other liabilities in the consolidated statements of financial position for fiscal years 2016 and 2015.

As of June 30, 2016 and 2015, expenditures for land, buildings and equipment of \$1.7 million and \$21.9 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, 2016 and 2015 are shown below:

(in thousands of dollars)	Final Maturity	Interest Rate	2016	Interest Rate	2015
Fixed rate:					
Illinois Finance Authority (IFA) (formerly Illinois Educational Facilities Authority (IEFA)):					
Series 2003B taxable bonds	2022	5.60%	\$ 37,520	5.60%	\$ 37,520
Series 2007 tax-exempt bonds	2025	4.38-5.00%	23,035	4.38-5.00%	23,335
Series 2012B tax-exempt bonds	2043	3.00-5.00%	88,805	3.00-5.00%	90,975
Series 2003C taxable direct obligation bonds	2019	5.20-5.30%	19,415	5.20-5.30%	26,900
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%	44,188	2.36%	69,438
Mortgage notes:					
6542-48 N. Sheridan Road	2016	9.50%	-	9.50%	9
Rome Center ⁽¹⁾	2029	1.51%	<u>9,812</u>	1.51%	<u>9,986</u>
Total fixed rate			<u>401,095</u>		<u>436,483</u>
Variable rate:					
IFA 2008 tax-exempt commercial paper ^{(2) (3)}	2038	0.47%	<u>74,040</u>	0.08%	<u>74,040</u>
Total variable rate			<u>74,040</u>		<u>74,040</u>
Total indebtedness		3.85% ⁽⁴⁾	<u>475,135</u>	3.74% ⁽⁴⁾	<u>510,523</u>
Adjustment for unamortized bond premium/(discount)			<u>8,984</u>		<u>9,961</u>
Total indebtedness net of unamortized premium/(discount)			<u>\$ 484,119</u>		<u>\$ 520,484</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, 2017.

⁽⁴⁾ Weighted average interest rate on all outstanding debt as of June 30, 2016, and June 30, 2015, respectively.

Effective February 22, 2016, LUC renewed and extended to February 20, 2017, 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, 2016, there was no balance outstanding nor any interest paid on the line of credit.

In 2016 and 2015, LUC recorded capitalized interest of \$0.1 million and \$0.8 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, 2016 and 2015 was:

(in thousands of dollars)	2016	2015
Interest paid	\$18,743	\$19,791

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, 2016.

Repayments and Classification

Total scheduled maturities for the next five fiscal years are:

(in thousands of dollars)

2017	\$ 35,886
2018	41,221
2019	14,402
2020	14,873
2021	16,161
Thereafter	<u>352,592</u>
	\$ <u>475,135</u>

Disclosure of Fair Value of Long-term Debt

The fair value of the outstanding long-term debt as of June 30, 2016 and 2015 was:

(in thousands of dollars)

	2016		2015	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	\$518,635	\$484,119	\$538,543	\$520,484

The fair value of long-term debt is determined based on discounted cash flows or market prices for comparable borrowings as of June 30, 2016 and 2015.

Lease Obligations

LUC leases equipment under leases classified as capital leases. In 2016, total accumulated amortization related to the leased equipment was \$0.2 million and the interest rate was between 4.99% and 5.03%. Capital lease obligations at June 30, 2016 were \$1.1 million and are included as part of Indebtedness.

Future commitments for capital leases as of June 30, 2016 are as follows:

(in thousands of dollars)

2017	\$ 346
2018	346
2019	346
2020	<u>144</u>
Total minimum lease payments	1,182
Less: interest	(98)
Capital lease obligations	\$ <u>1,084</u>

(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 \$21.7 million and \$20.6 million for 2016 and 2015, respectively. Summary information for the defined benefit pension plan, LUERP, follows:

(in thousands of dollars)

	<u>2016</u>	<u>2015</u>
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	\$ 89,107	\$ 87,271
Interest cost	3,497	3,516
Benefits paid	(6,071)	(5,276)
Actuarial loss	<u>10,646</u>	<u>3,596</u>
Projected benefit obligation, end of year	\$ <u>97,179</u>	\$ <u>89,107</u>
Change in plan assets		
Fair value of plan assets, beginning of year	\$ 57,619	\$ 64,545
Actual return on plan assets	64	(2,353)
Employer contributions	2,436	703
Benefits paid	(6,071)	(5,276)
Fair value of plan assets, end of year	\$ <u>54,048</u>	\$ <u>57,619</u>
Funded status		
Funded status of the plans	\$(<u>43,131</u>)	\$(<u>31,488</u>)
Amounts included in the statements of financial position		
Pension and other postretirement plan liabilities	\$(<u>43,131</u>)	\$(<u>31,488</u>)
Amounts not yet recognized in net periodic pension cost and included in unrestricted net assets		
Actuarial loss	\$ <u>69,588</u>	\$ <u>56,895</u>
Pension plan changes other than net periodic pension plan expense		
	\$(<u>12,693</u>)	\$(<u>8,744</u>)
Components of net pension expense		
Service cost	\$ -	\$ -
Interest cost	3,497	3,516
Expected return on plan assets	(3,842)	(4,313)
Net amortization and deferral	1,731	1,518
Settlement expense	-	-
Net periodic pension expense	\$ <u>1,386</u>	\$ <u>721</u>
Weighted average assumptions		
Discount rate - benefit obligations	3.39%	4.11%
Discount rate - pension expense	4.11%	4.19%
Rate of compensation increase	n/a	n/a
Expected long-term return on assets	7.00%	7.00%

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

	<u>2016</u>	<u>2015</u>
Cash	2%	2%
Equity securities	26%	29%
Fixed income securities	56%	56%
Private equity investments	1%	1%
Other, including real estate	<u>15%</u>	<u>12%</u>
Total	<u>100%</u>	<u>100%</u>

In restating the LUERP investment portfolio fair value hierarchy table as of June 30, 2015 to comport with the adoption of ASU 2015-07 as discussed in Note 3, \$2.5 million in U.S. marketable equity commingled funds, \$4.0 million in non-U.S. marketable equity commingled funds, and \$4.4 million in fixed income commingled funds were reclassified from Level 2 within the fair value hierarchy to reporting under their NAV as a practical expedient. \$0.7 million in private equity investments and \$0.009 million in private real asset investments were reclassified from Level 3 to reporting under their NAV as a practical expedient.

The reconciliation for financial instruments classified as Level 3 as of June 30, 2015 was restated to reflect the Level 3 reclassifications to NAV as a practical expedient.

The table below summarizes LUC's fair value measurements of the LUERP investment portfolio by the fair value hierarchy level and NAV as a practical expedient as of June 30, 2016:

(in thousands of dollars)

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV Prac Exp</u>
<u>2016</u>					
Cash and Cash Equivalents	\$ 1,271	\$ 1,271	\$ -	\$ -	\$ -
U.S. Marketable Equity Securities	2,975	2,975			
U.S. Marketable Equity Mutual Funds	6,697	6,697			
U.S. Marketable Equity Commingled Funds	1,675				1,675
Non-U.S. Marketable Equity Securities	129	129			
Non-U.S. Marketable Equity Mutual Funds	3,465	3,465			
Non U.S. Marketable Equity Comingled Funds	3,262				3,262
Other Equity Securities	48			48	
Fixed Income Mutual Funds	6,797	6,797			
Fixed Income Collective Trusts	3,896				3,896
U.S. Treasury and Government Agency Debt Obligations	(275)	(637)	362		
U.S. State and Municipal Debt Obligations	1,196		1,196		
U.S. Corporate Debt Securities	15,643		15,643		
Non U.S. Corporate Debt Securities	2,827		2,827		
Asset Backed Securities	96		96		
Private Equity Investments	476				476
Real Assets Commingled Funds	3,861				3,861
Private Real Assets Investments	9				9
Total	<u>\$ 54,048</u>	<u>\$ 20,697</u>	<u>\$ 20,124</u>	<u>\$ 48</u>	<u>\$ 13,179</u>

The following table summarizes the changes in fair value of the LUERP Level 3 investments for the year ended June 30, 2016:

(in thousands of dollars)	<u>Other Equity Securities</u>	<u>Total</u>
Balance at July 1, 2015	\$ 48	\$ 48
Realized gain		
Unrealized loss		
Sales		
Balance at June 30, 2016	<u>\$ 48</u>	<u>\$ 48</u>

The table below summarizes LUC's fair value measurements of the LUERP investment portfolio by the fair value hierarchy level and NAV as a practical expedient as of June 30, 2015:

(in thousands of dollars)

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV Prac Exp</u>
<u>2015</u>					
Cash and Cash Equivalents	\$ 1,089	\$ 1,089	\$ -	\$ -	\$ -
U.S. Marketable Equity Securities	2,843	2,843			
U.S. Marketable Equity Mutual Funds	5,991	5,991			
U.S. Marketable Equity Commingled Funds	2,499				2,499
Non-U.S. Marketable Equity Securities	139	139			
Non-U.S. Marketable Equity Mutual Funds	4,365	4,365			
Non U.S. Marketable Equity Comingled Funds	3,989				3,989
Other Equity Securities	48			48	
Fixed Income Mutual Funds	7,453	7,453			
Fixed Income Collective Trusts	4,418				4,418
U.S. Treasury and Government Agency Debt Obligations	6	(640)	646		
U.S. State and Municipal Debt Obligations	1,076		1,076		
U.S. Corporate Debt Securities	16,614		16,614		
Non U.S. Corporate Debt Securities	6,377	3,829	2,548		
Asset Backed Securities	21		21		
Private Equity Investments	682				682
Private Real Assets Investments	9				9
Total	<u>\$ 57,619</u>	<u>\$ 25,069</u>	<u>\$ 20,905</u>	<u>\$ 48</u>	<u>\$ 11,597</u>

The following table summarizes the changes in fair value of the LUERP Level 3 investments for the year ended June 30, 2015:

(in thousands of dollars)	<u>Other Equity Securities</u>	<u>Total</u>
Balance at July 1, 2014	\$ 95	\$ 95
Realized gain	8	8
Unrealized loss	3	3
Sales	(58)	(58)
Balance at June 30, 2015	<u>\$ 48</u>	<u>\$ 48</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:

<u>Fiscal Year</u>	<u>Payments</u>
2017	\$ 17,655
2018	7,682
2019	7,086
2020	6,790
2021	6,816
2022-2026	29,197

LUC expects to make an employer contribution of \$6.9 million in fiscal year 2017.

(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, 2016 and 2015 were:

(in thousands of dollars)

	<u>2016</u>	<u>2015</u>
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 37,635	\$ 35,858
Service cost	2,352	2,407
Interest cost	1,356	1,197
Participant contributions	915	1,046
Benefits paid	(2,704)	(2,432)
Actuarial loss/ (gain)	<u>5,867</u>	<u>(441)</u>
Benefit obligation, end of year	\$ <u>45,421</u>	\$ <u>37,635</u>
Change in plan assets		
Fair value of plan assets, beginning of year	\$ -	\$ -
Employer contributions	1,789	1,386
Participant contributions	915	1,046
Benefits paid	<u>(2,704)</u>	<u>(2,432)</u>
Fair value of plan assets, end of year	\$ <u>-</u>	\$ <u>-</u>
Funded status		
Funded status of plan	\$ (<u>45,421</u>)	\$ (<u>37,635</u>)
Amounts included in the statements of financial position		
Pension and other postretirement plan liabilities	\$ (<u>45,421</u>)	\$ (<u>37,635</u>)
Amounts not yet recognized in net periodic benefit cost and included in unrestricted net assets		
Actuarial loss/ (gain)	\$ 663	\$ (5,431)
Prior service benefit	<u>(17)</u>	<u>(55)</u>
Total	\$ <u>646</u>	\$ (<u>5,486</u>)
Retirement plan changes other than net periodic retirement plan expense	\$ (<u>6,132</u>)	\$ <u>181</u>
Components of net periodic postretirement benefit cost		
Service cost	\$ 2,352	\$ 2,407
Interest cost	1,356	1,197
Amortization of unrecognized prior service benefit and actuarial gain	<u>(265)</u>	<u>(260)</u>
Net periodic postretirement benefit cost	\$ <u>3,443</u>	\$ <u>3,344</u>
Discount rate	2.98%	3.69%
Assumed health care cost trend rates		
HMO plans	5.00%	5.00%
Non-HMO plans	5.00%	5.00%

Net actuarial gain and prior service benefits of \$0.02 million for the plan will be amortized from unrestricted net assets into net periodic postretirement benefit cost during the 2017 fiscal year.

Effect of a 1% change in the health care cost trend rates

(in thousands of dollars)

	<u>2016</u>	<u>2015</u>
<u>1% increase</u>		
On year-end postretirement benefit obligations	\$ 899	\$ 1,911
On total of service and interest cost components	81	124
<u>1% decrease</u>		
On year-end postretirement benefit obligations	\$ (847)	\$ (1,830)
On total of service and interest cost components	(83)	(128)

Estimated future benefit payments

(in thousands of dollars)

Fiscal <u>Year</u>	<u>Payments</u>
2017	\$ 2,306
2018	2,753
2019	3,145
2020	3,462
2021	3,682
2022-2026	17,126

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, 2016 and 2015 were:

(in thousands of dollars)

	<u>2016</u>	<u>2015</u>
Instruction	\$ 185,572	\$ 179,412
Research and other sponsored programs	43,476	46,611
Academic support	70,912	71,721
Student services	56,313	54,531
Institutional support	113,606	109,078
Auxiliary services	<u>58,740</u>	<u>58,793</u>
Total operating expenses	\$ <u>528,619</u>	\$ <u>520,146</u>

(11) Restricted Net Assets

The program restrictions for temporarily and permanently restricted net assets at June 30, 2016 and 2015 were:

(in thousands of dollars)

	<u>2016</u>	<u>2015</u>
Temporarily Restricted		
Academic or program support and student financial aid	\$ 125,541	\$ 135,499
Research	6,741	6,330
Student loans	3,267	3,223
Construction	5,376	6,367
Other	<u>24,207</u>	<u>24,988</u>
Total temporarily restricted net assets	\$ <u>165,132</u>	\$ <u>176,407</u>
Permanently Restricted		
Academic or program support and student financial aid	\$ 166,855	\$ 161,059
Research	1,962	1,962
Student loans	<u>1,148</u>	<u>1,148</u>
Total permanently restricted net assets	\$ <u>169,965</u>	\$ <u>164,169</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) Relationship with Trinity Health

During fiscal year 2011, LUC completed a transaction with Trinity Health, 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 Health 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 Health 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 and \$8.9 million that was reported as discontinued operations at June 30, 2011 and 2012, respectively.

LUC entered into the following agreements with Trinity Health as part of the transaction:

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 Health 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 Health). The annual academic support payment amount was set at \$22.5 million in fiscal year 2012 (subject to an inflation adjustment) for an initial term of ten years. LUC reported \$23.4 million and \$23.6 million of academic support in the consolidated statements of activities and changes in net assets in fiscal years 2016 and 2015, respectively.

Indemnification Escrow Agreement

On July 1, 2011, Trinity Health 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. LUC received \$10.0 million in fiscal year 2014 and \$10.0 million in fiscal year 2016 from the indemnification escrow account, which is reported as net cash provided from discontinued operations in the consolidated statements of cash flows.

Research Facility Funding Agreement

Pursuant to the Definitive Agreement, Trinity Health 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 Health payment for the construction and related start-up expenses. In fiscal year 2016, LUC received \$16.4 million from Trinity Health, which is reported as net cash provided from discontinued operations in the consolidated statements of cash flows. The remaining \$14.0 million is reported as a receivable from Trinity Health in the consolidated statements of financial position. LUC anticipates to receive this amount in fiscal year 2017 as the construction of the research enterprise facility is completed.

(14) Subsequent Events

LUC has evaluated subsequent events through September 16, 2016, the date the consolidated financial statements were issued. LUC did not identify any subsequent events to be disclosed.

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