

LOYOLA UNIVERSITY CHICAGO



Preparing people to lead extraordinary lives

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

For the years ended June 30, 2020 and 2019

INDEPENDENT AUDITORS' REPORT

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

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, 2020 and 2019, and the related consolidated statements of activities and changes in net assets and 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 financial position of Loyola University of Chicago as of June 30, 2020 and 2019, and the results of their activities, 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.

Deloitte & Touche LLP

September 29, 2020

LOYOLA UNIVERSITY CHICAGO

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2020 and 2019

<i>(In thousands of dollars)</i>	2020	2019
ASSETS		
Cash and cash equivalents	\$ 77,880	\$ 70,754
Short-term investments	201,806	193,824
Notes and accounts receivable, net	55,704	72,680
Other assets	7,658	7,986
Endowment and other long-term investments	811,734	800,316
Assets held in trust by others	2,290	2,682
Interest held in perpetual trust	12,899	14,102
Land, buildings and equipment, net	1,091,311	1,080,060
TOTAL ASSETS	\$ 2,261,282	\$ 2,242,404
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 50,731	\$ 54,784
Tenured faculty voluntary transition incentive program liability	22,307	-
Deferred revenue	28,967	35,320
Unexpended grants	11,388	9,880
Refundable U.S. government student loan funds	14,982	17,647
Indebtedness	373,227	388,739
Pension and other postretirement plan liabilities	63,798	63,495
Other liabilities	4,668	4,701
TOTAL LIABILITIES	570,068	574,566
NET ASSETS:		
Without donor restrictions	1,262,129	1,248,740
With donor restrictions	429,085	419,098
TOTAL NET ASSETS	1,691,214	1,667,838
TOTAL LIABILITIES AND NET ASSETS	\$ 2,261,282	\$ 2,242,404

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, 2020 and 2019

(In thousands of dollars)	2020			2019		
	Without donor restrictions	With donor restrictions	Total 2020	Without donor restrictions	With donor restrictions	Total 2019
OPERATING REVENUES:						
Tuition and fees, net of scholarships \$245,234 (2020) and \$226,257 (2019)	\$ 417,224	\$	\$ 417,224	\$ 403,284	\$	\$ 403,284
Auxiliary services	57,014		57,014	72,566		72,566
Academic support	24,646		24,646	24,417		24,417
Other	26,498		26,498	30,222		30,222
Grants and contracts for sponsored projects	45,249		45,249	45,540		45,540
Gifts	940		940	3,012		3,012
Return on short-term investments and interest income	8,545		8,545	7,673		7,673
Investment income designated for operations	10,711		10,711	7,607		7,607
Net assets utilized or released from restrictions for operations	13,422		13,422	17,390		17,390
Net assets released - board designated	7,200		7,200	2,444		2,444
TOTAL OPERATING REVENUES	611,449		611,449	614,155		614,155
OPERATING EXPENSES:						
Salaries and wages	274,160		274,160	264,442		264,442
Fringe benefits	67,845		67,845	70,298		70,298
Non-salary operating expenses	133,404		133,404	138,283		138,283
Depreciation and amortization	57,950		57,950	61,421		61,421
Insurance and utilities	14,821		14,821	15,103		15,103
Interest	13,242		13,242	13,962		13,962
Tenured faculty voluntary transition incentive program	22,307		22,307	-		-
TOTAL OPERATING EXPENSES	583,729		583,729	563,509		563,509
RESULTS OF OPERATIONS	27,720		27,720	50,646		50,646
NON-OPERATING ACTIVITIES:						
Gifts		29,029	29,029		25,626	25,626
Investment gain, net of amounts designated for operations	(6,661)	5,076	(1,585)	13,239	15,841	29,080
Net periodic pension and post retirement plan cost	(2,643)		(2,643)	(7,953)		(7,953)
Retirement plan related changes other than net periodic retirement plan cost	(7,105)		(7,105)	(947)		(947)
Other	264	(1,682)	(1,418)	2,796	(703)	2,093
Net assets transferred or released from restrictions	9,014	(22,436)	(13,422)	4,152	(21,542)	(17,390)
Net assets released - board designated	(7,200)		(7,200)	(2,444)		(2,444)
TOTAL NON-OPERATING ACTIVITIES	(14,331)	9,987	(4,344)	8,843	19,222	28,065
CHANGE IN NET ASSETS	13,389	9,987	23,376	59,489	19,222	78,711
Total net assets, beginning of year	1,248,740	419,098	1,667,838	1,189,251	399,876	1,589,127
TOTAL NET ASSETS, END OF YEAR	\$ 1,262,129	\$ 429,085	\$ 1,691,214	\$ 1,248,740	\$ 419,098	\$ 1,667,838

See notes to the consolidated financial statements.

LOYOLA UNIVERSITY CHICAGO

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2020 and 2019

<i>(In thousands of dollars)</i>	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 23,376	\$ 78,711
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	57,950	61,421
Provision for bad debt expense	3,506	2,318
Retirement plan related changes	7,105	947
Provision for retirement costs	2,643	8,671
Pension plan contributions	(6,751)	(4,863)
Net realized and unrealized gain on investments	(6,481)	(31,087)
Contributions restricted for long-term investment	(14,838)	(8,284)
Other	(1,528)	(3,396)
Changes in assets and liabilities:		
Notes and accounts receivable, net	11,669	(5,208)
Other assets	127	(623)
Accounts payable and accrued expenses	(3,500)	(3,195)
Tenured faculty voluntary transition incentive program liability	22,307	-
Deferred revenue and unexpended grants	(4,845)	(851)
Interest held in perpetual trust	1,203	(790)
Refundable U.S. government student loan funds	(2,665)	381
Other liabilities	(77)	107
NET CASH PROVIDED BY OPERATING ACTIVITIES	89,201	94,259
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	167,678	226,269
Purchases of investments	(175,645)	(265,935)
Sales (purchases) of short-term investments, net	(4,952)	4,812
Proceeds from sale of property and equipment	-	6,780
Expenditures for land, buildings and equipment	(70,721)	(60,252)
Student loans issued	(1,567)	(2,652)
Student loans collected	3,368	3,404
NET CASH USED BY INVESTING ACTIVITIES	(81,839)	(87,574)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for long-term investment	14,838	8,284
Issuance of new debt	74,040	-
Retirement of debt	(89,114)	(14,830)
NET CASH USED BY FINANCING ACTIVITIES	(236)	(6,546)
INCREASE IN CASH AND CASH EQUIVALENTS	7,126	139
Cash and cash equivalents, beginning of year	70,754	70,615
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 77,880	\$ 70,754

See notes to the consolidated financial statements.

LOYOLA UNIVERSITY CHICAGO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2020 and 2019

(1) Overview of Loyola University of Chicago

Loyola University of Chicago (referred to as Loyola University Chicago, the University, 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. The year 2020 marks the University's 150th anniversary.

LUC is one of the largest Jesuit, Catholic universities in the United States and provides educational services to approximately seventeen 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. LUC operates on four campuses: Lake Shore, Water Tower, Health Sciences, and the John Felice Rome Center in Italy. LUC is home to 14 schools, colleges, and institutes; features course locations in Ho Chi Minh City, Vietnam; Vernon Hills, Illinois; and offers a Retreat and Ecology Campus in Woodstock, Illinois.

The accompanying consolidated financial statements include the accounts of Loyola University Chicago and Mundelein College (Mundelein). Mundelein exists to provide limited services for the benefit of LUC. All intercompany transactions have been eliminated.

(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.

(3) Summary of Significant Accounting Policies

a) Basis of Presentation

The consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles (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. Actual results could differ from these estimates. The following notes may include reference to specific GAAP pronouncements including the Financial Accounting Standards Board's (FASB) Accounting Standards Updates (ASU) or Accounting Standards Codifications (ASC).

b) 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.

c) Short-term Investments

Short-term investments are comprised of investments in securities or funds whose maturities and duration 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.

d) Other Assets

Other assets are mostly comprised of prepaid expenses and the net book value of a capital lease asset of \$68 thousand.

e) 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. Purchases and sales of long-term investment securities are recorded on a trade-date basis.

f) Derivative Financial Instruments

LUC may use derivative financial instruments in the management of its treasury and investment portfolio. In addition, investment managers engaged 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.

g) Assets Held in Trust by Others

A third party holds escrow funds on behalf of LUC for the purpose of improvement and restoration costs for the Cuneo Mansion and Gardens campus in Vernon Hills, Illinois. The escrow was established under a preservation agreement between LUC and the Village of Vernon Hills and Lake County.

h) 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 programs. Funds are recognized at the estimated fair value of future cash flows, which is estimated to equal the fair value of the trust assets.

i) Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost or fair value at the date of purchase or gift to the University. Depreciation is calculated on a straight-line method using the following useful lives: building shell, 40-50 years; building improvements, 10-25 years; furniture, 10-20 years; and equipment, 3-10 years. LUC capitalizes assets with a purchase price or fair value of \$5,000 or greater and with a useful life of over 1 year. LUC uses the component method of capitalization. Management continually reviews its long-lived assets for evidence of potential impairment. No impairment adjustments were recorded as of June 30, 2020.

j) Net Asset Classes

Net assets are classified based on the existence or absence of donor-imposed restrictions.

Net assets not subject to donor-imposed restrictions include those designated by the Board of Trustees such as funds functioning as endowment (quasi-endowments) and board-designated net assets.

Net assets that are subject to donor-imposed restrictions include those restricted for a particular use, expiring with the passage of time, or the occurrence of an event, such as contributions restricted for future capital projects. When donor restrictions are met or the restrictions expire, net assets with donor restrictions are released as net assets without donor restrictions. Net assets subject to donor-imposed restrictions may also require assets to be retained permanently and invested in perpetuity. These restrictions permit the use of some or all of the income earned on the invested assets for specific purposes.

k) Revenue Recognition

The University adheres to the following GAAP concerning revenue recognition:

Revenue from Contracts with Customers. The University follows ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and recognizes revenue to depict the transfer of promised goods and services in an amount that reflects the consideration to which LUC expects to be entitled in exchange for those goods or services.

Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made: The University follows ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU provides a framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also helps determine whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction.

Reporting Revenue Gross versus Net: The University applies ASU No. 2016-08, *Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which provides guidance on assessing whether an entity is a principal or an agent in a revenue transaction and whether an entity reports revenue on a gross or net basis.

l) Gifts and Contributions

Unconditional gifts and contributions, including unconditional promises to give (pledges) that are reasonably assured to be received, are recognized in the period received and reported at present value in the appropriate category of net assets.

Gifts and contributions received with donor stipulations restricting their use are reported as non-operating activities and classified as net assets with donor restrictions. The expiration or fulfillment of donor-imposed restrictions on contributions is recognized in the period in which the restriction is fulfilled and are shown as net assets released from restrictions for operations.

Gifts and contributions received without donor stipulations restricting their use are reported as operating revenue and classified as net assets without donor restrictions.

m) Grants and Contracts for Sponsored Projects

Grant and contract revenue is recognized when the conditions upon which they depend are substantially met, which primarily is when qualifying expenses or activities occur.

n) Retirement Plans and Other Post Retirement Benefits

LUC follows ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The guidance requires the service cost component of net periodic pension cost and net periodic postretirement benefit cost to be presented as a part of fringe benefits expense in the consolidated statements of activities. The other components of net periodic benefit cost such as interest cost, expected return on plan assets, net prior service cost or credit amortization, and net actuarial gain or loss amortization are reported under net periodic pension and post retirement plan cost in the non-operating activities section of the consolidated statements of activities and changes in net assets.

o) Results of Operations

As part of the consolidated statements of activities and changes in net assets, the University presents results of operations as an operating measure. This operating measure represents operating revenues in excess of operating expenses that are an integral part of LUC's academic programming and supporting activities. Net assets utilized or released from donor restrictions to support operating expenditures, transfers from board-designated net assets to support current operating activities, and investment income designated for operations, are also included in determining this measure of operations.

The measure of operations excludes investment returns (other than those designated for operations), retirement plan related changes (other than the service cost associated with pension and postretirement benefit plans), gains or losses on the sale or disposal of property, and certain non-recurring items.

p) Recent Accounting Pronouncements

Accounting pronouncements to be adopted in fiscal year 2021

The following accounting pronouncements are effective starting with the University's fiscal year 2021, which begins on July 1, 2020:

Leases: In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This guidance requires recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the consolidated statements of financial position. The University has elected the option to defer the implementation of Topic 842 that has been made available to not-for-profit organizations that have issued public

debt. The University has evaluated this pronouncement and anticipates the adoption will primarily impact the presentation of LUC's consolidated statements of financial position and financial statement disclosures, but will not significantly impact the University's consolidated statements of activities.

Credit Losses on Financial Instruments: In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This guidance provides financial statement users with more decision-useful information about the expected credit losses on financial instruments, and other commitments to extend credit, held at each reporting date. The ASU adds to GAAP an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. LUC is evaluating the impact on the consolidated financial statements.

Changes to the Disclosure Requirements for Fair Value Measurement: In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820) – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This guidance eliminates, modifies, and adds certain disclosures on fair value measurements. LUC is evaluating the impact of the additional disclosure requirements on the consolidated financial statements.

Cloud Computing: In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*, which helps entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement (CCA) by providing guidance for determining when an arrangement includes a software license and when an arrangement is solely a hosted CCA service. Under ASU No. 2018-15, customers will apply the same criteria for capitalizing implementation costs as they would for an arrangement that has a software license. The new guidance also prescribes the financial statement classifications associated with the capitalized implementation costs and related amortization expense and requires additional quantitative and qualitative disclosures. LUC is evaluating the impact of adopting ASU No. 2018-15 on the consolidated financial statements.

Financial Instruments: In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. The codification improvements to ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, removes the requirement of disclosing fair value and related disclosures for financial liabilities that are measured at amortized cost within the consolidated statements of financial position. The codification improvements also clarify how an entity should value equity securities without readily determinable fair value, when an orderly transaction is identified for an identical or similar investment of the same issuer. LUC is evaluating the impact of the new guidance on the consolidated financial statements.

Accounting pronouncements to be adopted after fiscal year 2021

Changes to the Disclosure Requirements for Defined Benefit Plans: In August 2018, the FASB issued ASU No. 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*. This guidance eliminates and adds certain disclosures related to defined benefit plans. The guidance is effective for LUC's annual reporting period beginning July 1, 2021 (Fiscal Year 2022). LUC is evaluating the impact of the new guidance on the consolidated financial statements.

Contributed Nonfinancial Assets: In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The update is intended to improve transparency in the reporting of contributed financial assets, also known as gifts-in-kind, for not-for-profit organizations. The guidance is effective for LUC's annual reporting period beginning July 1, 2021 (Fiscal Year 2022). LUC is evaluating the impact of the new guidance on the consolidated financial statements.

(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 objectives of growth and preservation of the purchasing power of invested assets; therefore, it is equity-oriented and includes marketable equities, private equity investments, 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). It also includes 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, 2020 and 2019:

(in thousands of dollars)

	<u>2020</u>	<u>2019</u>
Donor-restricted endowment funds	\$ 348,886	\$ 336,865
Board-designated funds functioning as endowment	<u>353,801</u>	<u>353,930</u>
Total endowment investments	702,687	690,795
Institutional reserves	<u>98,309</u>	<u>98,548</u>
Total long-term investment portfolio	800,996	789,343
Split-interest agreements	9,581	9,985
Other invested assets	<u>1,157</u>	<u>988</u>
Total endowment and other long-term investments	\$ <u>811,734</u>	\$ <u>800,316</u>

In addition, LUC had short-term investments of \$201.8 million and \$193.8 million at June 30, 2020 and 2019, respectively.

Fair Value Measurements

FASB ASC Topic 820, *Fair Value Measurement*, 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.

Fair value of 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 as well as 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.

Short-term Investments

The tables below summarize LUC's fair value measurements of short-term investments by the fair value hierarchy levels as of June 30, 2020 and 2019:

(in thousands of dollars)

<u>2020</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Cash and cash equivalents	\$ 3,370	\$ 3,370	\$ -
Fixed income mutual funds	54,034	54,034	
U.S. Treasury and government agency debt securities	31,202		31,202
Non-U.S. government debt securities	1,686		1,686
Municipal debt securities	3,823		3,823
Corporate debt securities	68,336		68,336
Mortgage-related securities	20,181		20,181
Asset-backed securities	18,407		18,407
Collateralized mortgage obligations	767		767
Total	\$ <u>201,806</u>	\$ <u>57,404</u>	\$ <u>144,402</u>

<u>2019</u>			
Cash and cash equivalents	\$ 5,349	\$ 5,349	\$ -
Fixed income mutual funds	52,227	52,227	
U.S. Treasury and government agency debt securities	30,767		30,767
Non-U.S. government debt securities	1,970		1,970
Municipal debt securities	1,310		1,310
Corporate debt securities	70,009		70,009
Mortgage-related securities	13,330		13,330
Asset-backed securities	18,131		18,131
Collateralized mortgage obligations	731		731
Total	\$ <u>193,824</u>	\$ <u>57,576</u>	\$ <u>136,248</u>

Endowment and Other Long-term Investments

The tables below summarize endowment and other long-term investments' fair value measurements by fair value hierarchy level and NAV (or its equivalent) as a practical expedient, as of June 30, 2020 and 2019:

(in thousands of dollars)

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>
<u>2020</u>					
Cash and cash equivalents	\$ 16,797	\$ 16,797	\$ -	\$ -	\$ -
U.S. marketable equity securities	60,477	60,477			
U.S. marketable equity mutual funds	78,020	78,020			
Non-U.S. marketable equity securities	11,177	11,177			
Non-U.S. marketable equity mutual funds	78,660	78,660			
Marketable equity commingled funds	283,674				283,674
Other equity securities	200			200	
Fixed income mutual funds	22,666	22,666			
Fixed income commingled funds	55,582				55,582
U.S. Treasury and government agency debt obligations	79,446	4,401	75,045		
Private equity investments	92,409				92,409
Real assets mutual funds	6,371	6,371			
Private real assets investments	<u>26,255</u>				<u>26,255</u>
Total	<u>\$ 811,734</u>	<u>\$ 278,569</u>	<u>\$ 75,045</u>	<u>\$ 200</u>	<u>\$ 457,920</u>
<u>2019</u>					
Cash and cash equivalents	\$ 819	\$ 819	\$ -	\$ -	\$ -
U.S. marketable equity securities	69,812	69,812			
U.S. marketable equity mutual funds	67,415	67,415			
Non-U.S. marketable equity securities	13,363	13,363			
Non-U.S. marketable equity mutual funds	82,749	82,749			
Marketable equity commingled funds	280,846				280,846
Other equity securities	200			200	
Fixed income mutual funds	30,215	30,215			
Fixed income commingled funds	73,185				73,185
U.S. Treasury and government agency debt obligations	62,959	483	62,476		
Private equity investments	80,291				80,291
Real assets mutual funds	6,843	6,843			
Private real assets investments	<u>31,619</u>				<u>31,619</u>
Total	<u>\$ 800,316</u>	<u>\$ 271,699</u>	<u>\$ 62,476</u>	<u>\$ 200</u>	<u>\$ 465,941</u>

There were no changes in the fair value of the Level 3 investments in the endowment and other long-term investment portfolio during the years ended June 30, 2020 and 2019. There were no significant transfers between fair value hierarchy levels for the years ended June 30, 2020 and 2019.

LUC is obligated to make future capital contributions in private investment vehicles in the maximum amount of \$113.9 million over the next several years, subject to investment period modifications provided for in fund offering documents or limited partnership agreements.

Fair value estimates, commitment and redemption information for investment funds valued at NAV (or its equivalent) as a practical expedient at June 30, 2020 are in the table below:

(in thousands of dollars)

<u>Investment Type</u>	<u>2020 Fair Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>	<u>Other Redemption Restrictions</u>
Marketable equity commingled funds	\$ 283,674	\$ -	Weekly to triannually	Three 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	55,582	-	Quarterly to annually	Sixty-five to ninety days	Certain limits on redeemable proportion of outstanding balances
Private equity investments	92,409	91,998	Directed by investment manager	n/a	None
Private real assets investments	26,255	21,917	Monthly to only at direction of investment manager	Ten business days where applicable	None
Total	\$ <u>457,920</u>	\$ <u>113,915</u>			

The marketable equity commingled funds category is comprised of investments in funds primarily holding publicly-traded U.S. and non-U.S. 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 U.S. high yield bonds and global corporate debt securities, including structured products. The private equity investments and private real assets investments are comprised of closed-end fund investments primarily holding controlling equity stakes in private firms and real estate assets, respectively.

Interest Held in Perpetual Trust

LUC's interest held in perpetual trust is classified as Level 3 in the fair-value hierarchy. The table below summarizes the changes in LUC's fair value measurements for the interest held in perpetual trust as of June 30, 2020 and 2019:

(in thousands of dollars)

	<u>2020</u>	<u>2019</u>
Beginning of year	\$ 14,102	\$ 13,312
Contributions	-	-
Realized gain	263	2,903
Unrealized loss	(364)	(1,867)
Sales	(1,102)	(246)
End of year	<u>\$ 12,899</u>	<u>\$ 14,102</u>

Derivative Financial Instruments

Derivative financial instruments may be used in the management of the LUC investment portfolio. This is generally done to assist in rebalancing its asset mix and to invest cash that would otherwise earn a low rate of return. As of June 30, 2020 and 2019, the investment portfolio held futures contracts with a notional value of \$4.9 million and \$9.7 million, respectively. The net impact of the futures held at June 30, 2020 is to reduce the proportion of cash in the endowment portfolio by 0.6% while increasing equity exposure by 0.1% and fixed income exposure by 0.5%. Futures contracts are exchange-traded and subject to the market risk of the underlying indexes from which their prices are derived.

The effect of derivative instruments on the consolidated statements of activities and changes in net assets as of June 30, 2020 and 2019 is as follows:

(in thousands of dollars)

<u>Derivative Type</u>	<u>Location of Gain Recognition in the Consolidated Statements of Activities and Changes in Net Assets</u>	<u>2020</u>	<u>2019</u>
Equity, fixed income, and currency futures	Investment gain – non-operating	\$ 3,585	\$ 6,533
Equity options contracts	Investment gain – non-operating	<u>91</u>	<u>-</u>
Total		<u>\$ 3,676</u>	<u>\$ 6,533</u>

Investment Returns

Investment returns, net of investment and management fees, for short-term and long-term investments, for the years ended June 30, 2020 and 2019 are as follows:

(in thousands of dollars)

	<u>2020</u>	<u>2019</u>
Interest and dividend income, net of fees	\$ 11,189	\$ 13,273
Net realized gains	10,396	26,466
Net unrealized (loss) gain	(3,914)	<u>4,621</u>
Total net return on investment	<u>\$ 17,671</u>	<u>\$ 44,360</u>

Returns earned on long-term investments are classified as non-operating activities in the consolidated statements of activities and changes in net assets, while returns earned on short-term investments and operating cash are classified as 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 deducted from non-operating investment returns, within net assets without donor restrictions.

The table below reconciles total net return on investment with the amounts presented in the consolidated statements of activities and changes in net assets:

	<u>2020</u>	<u>2019</u>
Changes in net assets without donor restrictions		
Return on short-term investments and interest income	\$ 8,545	\$ 7,673
Investment income designated for operations	10,711	7,607
Non-operating investment gain	4,050	20,846
Less: Amounts designated for operations	(10,711)	(7,607)
Non-operating investment gain, net of amounts designated for operations	(6,661)	<u>13,239</u>
Changes in net assets with donor restrictions		
Non-operating investment gain	<u>5,076</u>	<u>15,841</u>
Total net return on investment	\$ <u>17,671</u>	\$ <u>44,360</u>

Endowment Net Assets

LUC's endowment consists of hundreds of individual funds established for a variety of purposes supporting LUC operations. Donor restricted endowment fund balances are classified and reported as net assets in accordance with donor specifications and GAAP. While funds functioning as endowment (quasi-endowments) are not subject to donor restrictions, approval by the Board of Trustees is required to spend from or otherwise alter the designated principal of these 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 net assets with donor restrictions (a) the original value of gifts contributed to a donor-restricted endowment fund, and (b) the original value of subsequent gifts to a donor-restricted endowment fund.

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 fund 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.

The primary objective of the endowment 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, 2020 for the endowment and long-term investment portfolio:

Target <u>Asset Class</u>	<u>Allocation</u>
Global equity	55%
Private capital	20%
Real assets	5%
Credit	10%
Fixed income	<u>10%</u>
Total	<u>100%</u>

Current endowment spending policy establishes a maximum budgeted spending rate in any given year of 5% of an endowment fund's net assets. Proposals for endowed funds to apply a spending rate in excess of 5% must be approved as part of the annual budget approval process. Absent donor stipulations to the contrary, annual appropriations from an endowment fund are determined by application of an annually determined base budget calculation as of a measurement date preceding the beginning of the fiscal year in which the appropriated amounts are to be drawn.

Endowment net assets as of June 30, 2020 and 2019 are classified as follows:

(in thousands of dollars)	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
<u>2020</u>			
Donor-restricted endowment funds	\$ -	\$ 348,704	\$ 348,704
Underwater endowments	-	(99)	(99)
Board-designated funds functioning as endowment funds	<u>352,751</u>	-	<u>352,751</u>
Total endowment net assets	<u>\$ 352,751</u>	<u>\$ 348,605</u>	<u>\$ 701,356</u>
<u>2019</u>			
Donor-restricted endowment funds	\$ -	\$ 336,674	\$ 336,674
Underwater endowments	-	(59)	(59)
Board-designated funds functioning as endowment funds	<u>353,713</u>	-	<u>353,713</u>
Total endowment net assets	<u>\$ 353,713</u>	<u>\$ 336,615</u>	<u>\$ 690,328</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the University has determined is required to be maintained as a fund of perpetual duration. Deficiencies of this nature, referred to as underwater endowments, are reported in net assets with donor restrictions. In the event an endowment falls underwater, current management practice is to allow spending so long as the fair value is at least 95% of the contributed gift value. A balance between 90 to 95% of gift value will allow for reduced spending, and at a fair value of 90% or below gift value, spending is not allowed until the fair value recovers above 90%.

At June 30, 2020 and 2019, the amount by which funds were underwater was calculated as follows:

(in thousands of dollars)	<u>2020</u>	<u>2019</u>
Aggregate fair value	\$ 3,002	\$ 70
Aggregate original value	<u>3,101</u>	<u>129</u>
Aggregate deficiency	<u>\$(99)</u>	<u>\$(59)</u>

The following tables provide a summary of the changes in the endowment net assets for the years ended June 30, 2020 and 2019:

(in thousands of dollars)	Without donor restrictions	With donor restrictions	Total
<u>2020</u>			
Endowment net assets, beginning of year	\$ 353,713	\$ 336,615	\$ 690,328
Contributions and other additions			
Contributions (excluding pledges)	-	18,140	18,140
Board-designated funds functioning as endowment	<u>5,458</u>	<u>-</u>	<u>5,458</u>
Total contributions and other additions	5,458	18,140	23,598
Total investment return, net	3,091	3,576	6,667
Income distributed for operating purposes			
Scholarships	(2,987)	(4,439)	(7,426)
Endowed Chairs	(1,779)	(2,691)	(4,470)
Research	(912)	(526)	(1,438)
Other	<u>(3,833)</u>	<u>(2,070)</u>	<u>(5,903)</u>
Total income distributed for operating purposes	<u>(9,511)</u>	<u>(9,726)</u>	<u>(19,237)</u>
Endowment net assets, end of year	<u>\$ 352,751</u>	<u>\$ 348,605</u>	<u>\$ 701,356</u>

Contributions of \$18.1 million in fiscal year 2020 include \$14.8 million received during fiscal year 2020 and \$2.3 million received in prior years but designated to the endowment during fiscal year 2020.

(in thousands of dollars)	Without donor restrictions	With donor restrictions	Total
<u>2019</u>			
Endowment net assets, beginning of year	\$ 324,646	\$ 315,657	\$ 640,303
Contributions and other additions			
Contributions (excluding pledges)	-	14,821	14,821
Board-designated funds functioning as endowment	<u>19,135</u>	<u>-</u>	<u>19,135</u>
Total contributions and other additions	19,135	14,821	33,956
Total investment return, net	16,288	15,062	31,350
Income distributed for operating purposes			
Scholarships	(2,337)	(4,034)	(6,371)
Endowed Chairs	(1,713)	(2,484)	(4,197)
Research	(199)	(462)	(661)
Other	<u>(2,107)</u>	<u>(1,945)</u>	<u>(4,052)</u>
Total income distributed for operating purposes	<u>(6,356)</u>	<u>(8,925)</u>	<u>(15,281)</u>
Endowment net assets, end of year	<u>\$ 353,713</u>	<u>\$ 336,615</u>	<u>\$ 690,328</u>

Contributions of \$14.8 million in fiscal year 2019 include \$8.3 million received during fiscal year 2019 and \$6.5 million received in prior years but designated to the endowment during fiscal year 2019.

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 \$9.6 million and \$10.0 million, respectively, at June 30, 2020 and 2019 and are reported at fair value in endowment and other long-term investments in the consolidated statements of financial position. 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 \$5.2 million and \$5.3 million, respectively, at June 30, 2020 and 2019. The discount rate used is 6.0% and 6.5% in fiscal years 2020 and 2019, respectively.

As of June 30, 2020 and 2019, the amounts related to split interest agreements, in the non-operating activities section of the consolidated statements of activities and changes in net assets, are as follows:

(in thousands of dollars)

<u>Description</u>	<u>Location in the Consolidated Statements of Activities and Changes in Net Assets</u>	<u>2020</u>	<u>2019</u>
Discounted present value of new gifts subject to split-interest agreements	With Donor Restrictions Non-Operating - Gifts	\$ 41	\$ 250
Actuarial losses on split-interest agreements	With Donor Restrictions Non-Operating - Other	\$ (521)	\$ (1,551)

(5) Revenue from Contracts with Customers (Revenue Recognition)

Disaggregation of Revenue

As presented in the consolidated statement of activities and changes in net assets, the University has various sources of operating revenue described below:

Tuition and fees, net of scholarships

LUC's operating revenue is primarily derived from academic programs provided to students, including undergraduate, graduate, and professional degree granting programs. Tuition and fees revenue is earned by the University for these educational services delivered during an academic term. Tuition is charged at different rates depending on the program in which the student is enrolled. As part of a student's course of instruction, certain fees, such as technology fees and laboratory fees, are billed to students. Tuition and fees are earned over the applicable academic term and are not considered separate performance obligations.

Tuition scholarships awarded by LUC represent a reduction of the tuition transaction price. LUC awards both need-based and merit-based scholarships. Scholarships are generally awarded for the academic year, and are applied to the students' account during each academic term.

Academic terms are determined by regulatory requirements mandated by the federal government and/or applicable accrediting bodies. LUC's academic terms generally consist of Fall, January, Spring, and Summer terms. Academic terms are determined by start dates, which vary by program and are generally 8-16 weeks in length. Except for certain programs in the Summer term, the academic terms generally have start and end dates that fall within the University's fiscal year.

The University bills tuition and fees in advance of each academic term, and recognizes the tuition and fees revenue on a straight-line basis, as the educational services are performed, over the academic term or program. Students are typically entitled to a partial refund through approximately the first third of an academic term. Once a student reaches the point in the academic term where no refund is given, generally no refunds are due if the student withdraws subsequent to that date.

Students pay tuition and fees (net of scholarships) through a variety of funding sources, including among others, federal loan and grant programs, state grant programs, institutional payment plans, employer reimbursement, Veterans' Administration and other military funding and grants, private and institutional scholarships and borrowings, and cash payments.

Auxiliary services

Auxiliary services revenue consists primarily of fees for room and dining services (board) during the student's education. The University considers that room fees and dining services are each separate performance obligations.

Room fees are charged at different rates depending on the residence hall and room accommodations. Room fees are billed in advance of each academic term, and recognized as revenue on a straight-line basis over the period housing is provided. While the University believes the residential experience is an integral part of a student's education and the Loyola experience, the University considers the residential arrangement to be a distinct performance obligation from the academic services. Although first- and second-year students are expected to live on campus, exemptions are possible, primarily for students living with family or married students.

Dining service fees are charged at different rates depending on the level of access to dining services during the term of the agreement. Dining services are billed in advance of each academic term, and are recognized as revenue ratably over the period during which the dining services are offered.

Some scholarships may be applied against room and board and therefore represent a reduction of the transaction price. Such awards are generally granted for the academic year, and are applied to the student's account during

each academic term. Room and board scholarships of \$1.6 million and \$2.0 million were included as a reduction in auxiliary services revenue as of June 30, 2020 and 2019, respectively.

In response to the coronavirus pandemic and the national emergency declared in March 2020, the University closed its residence halls for the remainder of the Spring semester. The University issued approximately \$13.0 million of credits to student accounts for the unearned portion of the Spring semester's room and board fees. Refer to Note 14, *Contingencies*, and Note 18, *Subsequent Events*, for additional information concerning the impact of the coronavirus pandemic on University operations.

In addition to room and board, auxiliary services includes revenue earned for various conference services offered by the University. Revenue from conference services is recognized once the performance obligations are complete.

Academic support

Revenue in this category pertains to revenue earned by the University under the Academic Affiliation Agreement with Loyola University Health System (LUHS) and Loyola University Medical Center (LUMC).

The University's education and research mission and programs, including the University's Stritch School of Medicine, Marcella Niehoff School of Nursing, the Parkinson School of Health Sciences and Public Health, and other health science and research programs, represent an integral part of and support the delivery of health care and related clinical services operated by LUHS and LUMC. The academic support amount of \$22.5 million established in 2011 is adjusted annually based on the consumer price index. The University collects the payment monthly. As of June 30, 2020, the University fully collected the academic support payment for fiscal years 2020 and prior.

LUHS and LUMC are owned and operated by Trinity Health. See Note 15, *Relationship with Trinity Health*, for additional information.

Other operating revenue

This category consists of revenue generated by the University under contractual arrangements deemed to be exchange transactions. Major revenue streams in this category include rental income generated by various residential and commercial properties owned by the University, revenue from seminars and workshops, athletic-related ticket sales and sponsorships, health center membership fees, and royalties. Revenue from these activities is generally recognized as services are performed.

Contract Assets and Deferred Revenue

The University bills for tuition, fees, room and board in advance of the academic term. The student receivable is recognized only once the University has an unconditional right to receive payment because the programs have reached the point at which the amount billed is no longer refundable to the student. A liability for deferred revenue is recognized for the portion of tuition, fees, room and board, whether recognized as a receivable or collected, for which the University has not completed the performance obligations.

The University's academic terms generally have start and end dates that fall within the University's fiscal year. As a result, the substantial majority of tuition, fee, room, and board performance obligations are fulfilled prior to the University's fiscal year end.

Due to the start and end dates for programs in the Summer academic term in relation to the University's fiscal year end, the University recognizes a contract asset and corresponding revenue for tuition, fees, room, and board services which have been delivered as of June 30th, but for which the University does not yet have the unconditional right to receive payment as the students have not reached the point in the academic term at which the amount billed is no longer refundable to the student. Due to the timing of programs during the 2020 Summer term, no contract assets were recorded as of June 30, 2020.

As the academic terms are typically measured in weeks, contract asset and deferred revenue balances which exist at the end of a fiscal year will generally become a student receivable or revenue, respectively, within the following fiscal year. As of the end of each fiscal year, the University determines a new contract asset or deferred revenue balance for those programs which overlap the University's fiscal year end and are not yet unconditional or earned.

The deferred revenue balances as of June 30, 2020 and June 30, 2019 are presented below:

(in thousands of dollars)	Contracts Performed Within One Year		Contracts Greater than One Year	
	Tuition, fees, room, and board	Other	Other	Total
Deferred revenue as of June 30, 2020	\$ 19,886	\$ 3,058	\$ 6,023	\$ 28,967
Deferred revenue as of June 30, 2019	\$ 24,018	\$ 5,445	\$ 5,857	\$ 35,320

The deferred revenue and deposits related to contracts greater than one year was \$6.0 million and \$5.9 million as of June 30, 2020 and 2019, respectively. The deferred revenue will be recognized on a straight-line basis over the remaining term of the contract which continues primarily through fiscal year 2030.

Significant Judgments

Significant judgment is required in determining the appropriate approach to applying the revenue recognition criteria. While ASC Topic 606 is generally applied to an individual contract with a customer, as a practical expedient, LUC applies this guidance to a portfolio of contracts (or performance obligations) with similar characteristics. LUC reasonably expects that the effects of applying this guidance to the portfolio would not differ materially from applying the guidance to the individual contracts (or performance obligations) within the portfolio.

For tuition and fees, room, and dining services, the University has determined that contracts for these services can be grouped into a portfolio, specific to each of these three performance obligations. Based on the University's experience, students at different campuses or in different programs have similar characteristics concerning the University's approach to revenue recognition. Agreements concerning enrollment, student financial responsibility, housing, and dining plans each contain terms, which clarify the performance obligations and eligibility for refunds or fee adjustments. These agreements are fundamentally the same regardless of the program of study.

For contracts with customers not pertaining to tuition and fees, room, and board, the University generally applies the revenue recognition guidance on an individual contract basis.

Significant judgment is also required to assess collectability. For the majority of tuition and fees, the University receives cash receipts for tuition payments from various federal and state of Illinois government agencies. Students are required to provide documentation to the Department of Education to be eligible and approved for funding. The University monitors the progress of students through the eligibility and approval process for these financial aid programs. These cash receipts represent a substantial portion of overall billings and have an expected low risk of collectability. For the remainder of tuition and fees, room, and board, the University monitors for situations which would require a reassessment of collectability.

See Note 6, *Notes and Accounts Receivable, net*, for additional information concerning student and other receivables and related allowance for doubtful accounts. Given the nature of the University's contracts with customers, there are no incremental costs of obtaining a contract and no significant financing components. During the fiscal year, there were no significant changes in the judgements affecting the determination of the amount and timing of revenue from contracts with customers.

(6) Notes and Accounts Receivable, Net

Notes and accounts receivable, net, at June 30, 2020 and 2019 consist of the following:

(in thousands of dollars)	June 30, 2020			June 30, 2019
	Notes and Accounts Receivable	Allowance for doubtful accounts	Notes and Accounts Receivable, net	Notes and Accounts Receivable, net
Student receivables	\$ 13,166	\$ (4,444)	\$ 8,722	\$ 8,260
Student loan notes				
Federal government programs	13,718	(1,914)	11,804	14,235
Institutional/other programs	2,350	(700)	1,650	2,110
Contributions receivable	22,279	(961)	21,318	31,681
Grants receivable	5,711	-	5,711	6,987
Other receivables	7,307	(808)	6,499	9,407
Total	\$ 64,531	\$ (8,827)	\$ 55,704	\$ 72,680

Student receivables

These balances represent amounts billed to students related to their academic experience at LUC, and for which the University has an unconditional right to receive payment because the programs have reached the point at which the amount billed is no longer refundable to the student. The student receivables' allowance for doubtful accounts is established based on collection experience. The following table summarizes the change in the student receivables allowance for doubtful accounts during fiscal years 2020 and 2019:

(in thousands of dollars)	Balance, Beginning of Period	Allowance Increase	Amounts Written-off	Balance, End of Period
Allowance for doubtful accounts - Student receivables				
For the year ended June 30, 2020	\$ (4,818)	\$ (2,431)	\$ 2,805	\$ (4,444)
For the year ended June 30, 2019	\$ (4,444)	\$ (1,325)	\$ 951	\$ (4,818)

Student loan notes

Student loan notes consist of uncollateralized loans to students based on financial need. Student loan notes are primarily funded through federal government loan programs and to a lesser extent by institutional or other programs. At June 30, 2020 and 2019, student loan notes represented less than 1% of total assets.

The student loan notes funded through the federal government consist primarily of loan notes related to the federal Perkins revolving loan program, which provided low-interest loans to students with financial need. This federal program expired on September 30, 2017, with final loan disbursements allowed through June 30, 2018. Although no new Perkins loans are permitted, recipients of the Perkins loans have an obligation to repay the University, which in turn pays the federal government. LUC participates in other government revolving loan programs that function in a similar manner. The availability of funds for loans under federal programs other than Perkins is dependent on reimbursements to the pool from repayments on outstanding loans.

The liability for refundable U.S. government student loan funds in the consolidated statements of financial position was \$15.0 million and \$17.6 million at June 30, 2020 and 2019, respectively.

At June 30, 2020 and 2019, LUC had past due student loans of \$3.3 million and \$3.7 million, respectively. The allowance for doubtful accounts is established based on collection experience. The following table summarizes the change in the student loan notes' allowance for doubtful accounts during fiscal years 2020 and 2019:

(in thousands of dollars)	Balance, Beginning of Period	Allowance increase	Amounts Written-off	Balance, End of Period
Allowance for doubtful accounts - Student loan notes				
For the year ended June 30, 2020	\$ (2,768)	\$ (135)	\$ 289	\$ (2,614)
For the year ended June 30, 2019	\$ (2,598)	\$ (322)	\$ 152	\$ (2,768)

Contributions receivable

Contributions receivable represent unconditional promises to give from donors, collectible in future years. Contributions receivable are recorded after discounting to the present value of the expected future cash flows. Significant fluctuation in the discount rates utilized in this calculation could result in a material change. The discount is computed using an estimated market interest rate that approximates the expected return of an intermediate term bond portfolio for a similar time horizon. Discount rates utilized at June 30, 2020 and June 30, 2019 range from 3.5%-8.5%. An allowance for uncollectible contributions is established based upon management's judgment of the collectability of outstanding pledges.

Contributions receivable at June 30, 2020 and 2019 are due in the following periods:

(in thousands of dollars)	<u>2020</u>	<u>2019</u>
In one year or less	\$ 4,572	\$ 5,118
Between one year and five years	13,934	21,508
More than five years	10,534	17,066
Present value discount	(6,761)	(10,533)
Total	22,279	33,159
Allowance for uncollectible contributions	(961)	(1,478)
Total contributions receivable, net	\$ <u>21,318</u>	\$ <u>31,681</u>

Grants receivable

Grants receivable consists of amounts from federal and local government agencies and private entities related to sponsored programs. The balance of \$5.7 million as of June 30, 2020 is expected to be collected within the next fiscal year.

Other receivables

Other receivables consist of amounts expected to be collected from third parties related to the University's operations and programs. LUC expects to collect \$2.7 million of the \$6.5 million balance as of June 30, 2020 within the upcoming fiscal year. The University regularly assesses the adequacy of the allowance for doubtful accounts, and balances are written off when deemed uncollectible.

(7) Land, Buildings and Equipment, Net

Components of land, buildings, and equipment at June 30, 2020 and 2019 are as follows:

(in thousands of dollars)

	<u>2020</u>	<u>2019</u>
Land and land improvements	\$ 221,269	\$ 219,263
Buildings	1,413,985	1,380,718
Equipment	150,251	146,903
Library books and art	19,404	19,404
Construction in progress	<u>57,062</u>	<u>32,347</u>
Total	1,861,971	1,798,635
Accumulated depreciation	<u>(770,660)</u>	<u>(718,575)</u>
Land, buildings, and equipment, net	<u>\$ 1,091,311</u>	<u>\$ 1,080,060</u>

At June 30, 2020 and 2019, LUC included \$0.3 million of capitalized asset retirement costs within net land, buildings, and equipment. LUC had \$3.0 million of conditional asset retirement obligations included within other liabilities in the consolidated statements of financial position at June 30, 2020 and 2019, respectively.

Liabilities of \$5.8 million and \$6.2 million related to building construction and renovations and purchases of equipment are included in accounts payable and accrued expenses in the consolidated statements of financial position as of June 30, 2020 and 2019, respectively.

At June 30, 2020, LUC had commitments of \$23.3 million related to various capital projects.

(8) Indebtedness

Notes and bonds payable at June 30, 2020 and 2019 are shown below:

(in thousands of dollars)	Final Maturity (Fiscal Year)	Interest Rate	2020	Interest Rate	2019
Fixed rate:					
Illinois Finance Authority (IFA) (formerly Illinois Educational Facilities Authority (IEFA)):					
Series 2003B taxable bonds	2022	5.60%	\$ 25,710	5.60%	\$ 37,520
Series 2012B tax-exempt bonds	2043	5.00%	81,640	5.00%	83,520
Series 2012A taxable bonds	2043	3.20-4.63%	157,220	3.20-4.63%	157,220
2017 term note	2024	2.56%	21,760	2.56%	22,080
2020 term note ⁽¹⁾	2035	2.79%	74,040	-	-
Rome Center mortgage note ⁽²⁾	2029	1.51%	<u>8,482</u>	1.51%	<u>9,468</u>
Total fixed rate			<u>368,852</u>		<u>309,808</u>
Variable rate:					
IFA 2008 tax-exempt commercial paper ^{(1) (3)}			-	1.83% ⁽⁴⁾	74,040
Total principal debt		3.99% ⁽⁵⁾	<u>368,852</u>	3.86% ⁽⁵⁾	<u>383,848</u>
Unamortized debt premium			5,164		5,935
Unamortized debt issuance costs			(857)		(1,308)
Total bonds and notes payable			373,159		388,475
Capital lease obligations			<u>68</u>		<u>264</u>
Total indebtedness			<u>\$ 373,227</u>		<u>\$ 388,739</u>

⁽¹⁾ In March 2020, LUC entered into a Term Loan Agreement with PNC Bank, National Association, in the amount of \$74.0 million at a fixed interest rate of 2.79%, payable semi-annually. The purpose of the loan was to refinance the IFA 2008 tax-exempt commercial paper which was paid in full in March 2020.

⁽²⁾ Principal amount outstanding is subject to currency (euro) fluctuations.

⁽³⁾ Prior to its full repayment in March 2020, the IFA 2008 tax-exempt commercial paper was backed by a direct-pay letter of credit from PNC Bank, National Association.

⁽⁴⁾ Represents the weighted average interest rate at June 30, 2019.

⁽⁵⁾ Weighted average interest rate on all outstanding principal debt at June 30, 2020 and June 30, 2019, respectively.

Effective as of June 12, 2020, LUC entered into a 364-day credit facility with Wintrust Bank, N.A. under which LUC may borrow up to \$75 million on a revolving basis and which terminates on June 11, 2021. Borrowings under the facility may bear interest at rates based on LIBOR, the Federal Funds Rate or other negotiated rates. As of June 30, 2020, and during the fiscal year then ended, there was no balance outstanding nor any interest payable on this facility.

LUC did not record any capitalized interest at June 30, 2020 and 2019, 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 during the years ended June 30, 2020 and 2019 was \$14.3 million and \$14.8 million, respectively.

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, 2020.

Debt Maturities

Total scheduled maturities for the next five fiscal years are:

(in thousands of dollars)

2021	\$	16,172
2022		17,045
2023		68,434
2024		17,243
2025		13,927
Thereafter		<u>236,031</u>
	\$	<u>368,852</u>

Disclosure of Fair Value of Long-term Debt

The fair value of the outstanding long-term debt as of June 30, 2020 and 2019 is as follows:

(in thousands of dollars)

2020		2019	
Fair Value	Carrying Value	Fair Value	Carrying Value
\$406,674	\$373,159	\$410,627	\$388,475

The fair value of long-term debt is determined based on discounted cash flows or market prices for comparable borrowings as of June 30, 2020 and 2019. Long-term debt is classified as Level 2 in the fair value hierarchy.

(9) Financial Assets and Liquidity Resources

LUC actively monitors liquidity required to meet its general expenditures. General expenditures include operating expenses, principal and interest payments on debt, pension and post-retirement plan payments, and internally funded capital projects. The annual cash cycle has seasonal variations primarily related to the timing of tuition billings and the receipt of gifts and pledge payments. Cash in excess of daily requirements is invested in short-term investment and money market funds to ensure adequate liquidity.

The following table reflects financial assets as of June 30, 2020 and 2019, reduced by amounts not available for general expenditures within one year. Approximately \$423.4 million and \$408.9 million of financial assets could readily be made available within one year of that date to meet general expenditures, as follows:

(in thousands of dollars)

Financial assets at June 30:	2020	2019
Cash and cash equivalents	\$ 77,880	\$ 70,754
Short-term investments	201,806	193,824
Notes and accounts receivable, net	55,704	72,680
Endowment and other long-term investments	811,734	800,316
Assets held in trust by others	2,290	2,682
Total financial assets at June 30	\$ 1,149,414	\$ 1,140,256
Less amounts not available for general expenditures within one year:		
Student loan notes – Federal government programs and other restricted loans	(13,454)	(16,345)
Contributions receivable due in more than one year or restricted by donor with time or purpose restrictions	(20,307)	(31,681)
Other receivables due in more than one year	(3,790)	(3,920)
Donor restricted endowment funds, net of appropriation for the following fiscal year	(335,870)	(324,441)
Board designated endowment funds, net of appropriation for the following fiscal year	(340,700)	(342,265)
Split interest agreements	(9,581)	(9,985)
Assets held in trust by others	(2,290)	(2,682)
Total financial assets not available to meet general expenditures within one year	\$ (725,992)	\$ (731,319)
Total financial assets available to meet general expenditures within one year	\$ 423,422	\$ 408,937

In addition to the financial assets available to meet general expenditures in the year following June 30, 2020, LUC has a total of \$100 million available in unsecured lines of credit. Refer to Note 8, *Indebtedness*, and Note 18, *Subsequent Events*, for more information regarding the lines of credit.

LUC has generally operated with a balanced budget and collects sufficient revenue to cover operating expenses not covered by donor-restricted resources. The consolidated statements of cash flows present the sources and uses of LUC's cash and shows net cash provided by operating activities of \$89.2 million and \$94.3 million for fiscal years 2020 and 2019, respectively. Refer to Note 14, *Contingencies*, and Note 18, *Subsequent Events*, for information regarding COVID-19 and the impact on University operations.

(10) Retirement Plans

Substantially all personnel of LUC participate in either a defined contribution retirement plan or a defined benefit retirement plan (LUERP).

Defined Contribution Retirement Plan

Effective April 1, 2004, LUC established a defined contribution retirement plan. LUC's expense under this plan was \$22.4 million and \$23.0 million for fiscal years 2020 and 2019, respectively.

Defined Benefit Retirement 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.

Summary information for the defined benefit retirement plan is as follows:

(in thousands of dollars)

	<u>2020</u>	<u>2019</u>
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	\$ 85,298	\$ 83,753
Interest cost	2,652	3,237
Benefits paid	(6,341)	(3,655)
Settlements	-	(6,135)
Actuarial loss	<u>8,924</u>	<u>8,098</u>
Projected benefit obligation, end of year	\$ <u>90,533</u>	\$ <u>85,298</u>
Change in plan assets		
Fair value of plan assets, beginning of year	\$ 59,415	\$ 60,467
Actual return on plan assets	5,307	3,876
Employer contributions	6,751	4,862
Settlements	-	(6,135)
Benefits paid	(6,341)	(3,655)
Fair value of plan assets, end of year	\$ <u>65,132</u>	\$ <u>59,415</u>
Funded status of the plan		
Pension liability included in the consolidated statements of financial position	\$ <u>(25,401)</u>	\$ <u>(25,883)</u>

The accumulated benefit obligation for the defined benefit retirement plan was \$90.5 million and \$85.3 million for fiscal years 2020 and 2019, respectively.

Change in amounts not yet recognized in net periodic pension cost and included in net assets without donor restrictions

Beginning of year	\$ 60,823	\$ 60,300
Current year actuarial loss	6,473	7,080
Amortization of actuarial loss	(2,249)	(6,557)
End of year	\$ <u>65,047</u>	\$ <u>60,823</u>

Components of net periodic pension expense

Service cost	\$ -	\$ -
Interest cost	2,652	3,237
Expected return on plan assets	(2,855)	(2,857)
Net amortization and deferral	2,249	2,182
Settlement expense	-	4,375
Net periodic pension expense	\$ <u>2,046</u>	\$ <u>6,937</u>

Net actuarial loss of \$2.5 million for the plan will be amortized as non-operating activities from net assets without donor restrictions in the consolidated statements of activities during fiscal year 2021.

Estimated future benefit payments

Estimated future benefit payments for the years ended June 30 are as follows:

<u>Fiscal Year</u>	<u>Payments</u>
2021	\$13,613
2022	6,550
2023	6,307
2024	6,215
2025	6,131
Thereafter	26,429

LUC expects to make employer contributions of \$2.4 million to the defined benefit retirement plan in fiscal year 2021.

Actuarial Assumptions

The weighted average assumptions used in the accounting for the defined benefit retirement plan are as follows:

	<u>2020</u>	<u>2019</u>
Discount rate - benefit obligations	2.50%	3.38%
Discount rate - pension expense	3.38%	4.20%
Rate of compensation increase	n/a	n/a
Expected long-term return on assets	4.00%	5.00%

University management develops the estimate of the expected long-term rate of return on plan assets based upon the investment mix and the expected rates of return for the various investment strategies employed. Return assumptions for the LUERP portfolio are based upon expectations developed for each asset class in which the plan invests, along with the asset allocation targets employed in management of the portfolio. Asset class expectations are the result of models incorporating historical performance, correlation across assets, and economic and market forecasts.

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. Investments are made for the exclusive purpose of providing benefits to plan beneficiaries, with consideration given to preservation of capital and such long-term growth in the plan's assets as may fairly balance the need for reasonable return against investment risk. The investment objective is to achieve an asset growth rate through capital appreciation and current income approximately equal to or in excess of the growth in the liabilities of the plan. The LUERP portfolio maintains diversified exposure across asset classes that are intended to mitigate the impact of changes in interest rates on plan liabilities and to provide growth in the portfolio value over time.

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents, net ⁽¹⁾	(1)%	2%
Equity securities	37%	37%
Fixed income securities	45%	49%
Diversifying Strategies	9%	-
Other, including real estate	10%	12%
Total	<u>100.0%</u>	<u>100.0%</u>

⁽¹⁾ Amounts are net of pending trade settlements and derivative offsets.

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, 2020:

(in thousands of dollars)

<u>2020</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>
Cash and cash equivalents, net ⁽¹⁾	\$ (728)	\$ (728)	\$ -	\$ -	\$ -
U.S. marketable equity securities	4,798	4,798			
U.S. marketable equity mutual funds	3,477	3,477			
U.S. marketable equity commingled funds	3,653				3,653
Non-U.S. marketable equity securities	1,681	1,681			
Non-U.S. marketable equity mutual funds	5,053	5,053			
Non-U.S. marketable equity commingled funds	5,544				5,544
Other equity securities	48			48	
Fixed income mutual funds	2,228	2,228			
Fixed income commingled funds	5,191				5,191
U.S. Treasury and government agency debt obligations	21,990	3,812	18,178		
Multi-strategy commingled funds	5,452				5,452
Private equity investments	68				68
Real assets commingled funds	6,671				6,671
Private real assets investments	6				6
Total	\$ <u>65,132</u>	\$ <u>20,321</u>	\$ <u>18,178</u>	\$ <u>48</u>	\$ <u>26,585</u>

⁽¹⁾ Amounts are net of pending trade settlements and derivative offsets.

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, 2019:

(in thousands of dollars)

<u>2019</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>
Cash and cash equivalents	\$ 943	\$ 943	\$ -	\$ -	\$ -
U.S. marketable equity securities	5,160	5,160			
U.S. marketable equity mutual funds	3,270	3,270			
U.S. marketable equity commingled funds	3,000				3,000
Non-U.S. marketable equity securities	1,251	1,251			
Non-U.S. marketable equity mutual funds	5,325	5,325			
Non-U.S. marketable equity commingled funds	4,146				4,146
Other equity securities	48			48	
Fixed income mutual funds	3,362	3,362			
Fixed income commingled funds	6,442				6,442
U.S. Treasury and government agency debt obligations	19,406	2,711	16,695		
Private equity investments	167				167
Real assets commingled funds	6,888				6,888
Private real assets investments	7				7
Total	\$ <u>59,415</u>	\$ <u>22,022</u>	\$ <u>16,695</u>	\$ <u>48</u>	\$ <u>20,650</u>

There were no changes in fair value of the LUERP Level 3 investments for the years ended June 30, 2020 and 2019. There were no significant transfers between fair value hierarchy levels for the years ended June 30, 2020 and 2019.

(11) Other Postretirement Benefits

LUC has a defined benefit retiree health plan covering eligible employees upon their retirement. In June 2018, the University announced the Retiree Health Reimbursement Account (RHRA) will be closed to new participants not age 50 as of January 1, 2019. Retirees are eligible for an annual allocation of \$1,500 to be used by the retiree or spouse towards qualified medical expenses and for purchasing supplemental Medicare coverage. Participants in the plan will be able to earn additional service needed to meet the age 60 and 10 years of continuous service requirement to receive a benefit at retirement. Also beginning January 1, 2019, employees and retirees with RHRA balances will no longer receive future accruals or annual interest credits towards the RHRA.

Summary information for the defined benefit retiree health plan is as follows:

(in thousands of dollars)

	<u>2020</u>	<u>2019</u>
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 37,612	\$ 37,875
Service cost	-	718
Interest cost	1,044	1,463
Participant contributions	32	47
Benefits paid	(2,726)	(2,469)
Actuarial loss (gain)	<u>2,435</u>	<u>(22)</u>
Benefit obligation, end of year	\$ <u>38,397</u>	\$ <u>37,612</u>
Change in plan assets		
Fair value of plan assets, beginning of year	\$ -	\$ -
Employer contributions	2,694	2,422
Participant contributions	32	47
Benefits paid	(2,726)	(2,469)
Fair value of plan assets, end of year	\$ <u>-</u>	\$ <u>-</u>
Funded status of the plan		
Other post retirement liability included in the consolidated statements of financial position	\$ (<u>38,397</u>)	\$ (<u>37,612</u>)
Change in amounts not yet recognized in net periodic benefit cost and included in net assets without donor restrictions		
Beginning of year	\$ (6,070)	\$ (6,495)
Net prior service credit amortization	447	447
Current year actuarial loss (gain)	<u>2,435</u>	<u>(22)</u>
End of year	\$ (<u>3,188</u>)	\$ (<u>6,070</u>)

	<u>2020</u>	<u>2019</u>
Components of net periodic postretirement benefit cost		
Service cost	\$ -	\$ 718
Interest cost	<u>1,044</u>	<u>1,463</u>
Net periodic postretirement benefit cost	1,044	2,181
Net prior service credit amortization	<u>(447)</u>	<u>(447)</u>
Total benefit cost	\$ <u><u>597</u></u>	\$ <u><u>1,734</u></u>
Discount rate	1.85%	2.91%

The discount rate used to calculate the benefit obligation for the year ended June 30, 2020 and the benefit cost for fiscal year 2021 is 1.85%. The discount rate used to calculate the benefit cost for fiscal year 2019 was 2.91%.

Health care cost trend rate assumptions for the plan

As a result of plan amendments announced in previous years, health care cost trend rate assumptions are no longer applicable.

Estimated future benefit payments

Estimated future benefit payments for the years ended June 30 are as follows:

(in thousands of dollars)

<u>Fiscal Year</u>	<u>Payments</u>
2021	\$ 3,828
2022	4,256
2023	4,455
2024	4,500
2025	4,380
Thereafter	15,563

(12) Functional Classification of Expenses

The University's primary program services are academic, instruction, and research. Student services, auxiliary and institutional support expenses are incurred in support of primary activities. The University allocates the operation and maintenance of University facilities, interest, and depreciation and amortization expenses attributable to more than one functional expense category using various cost allocation methodologies such as square footage, direct usage, and employee headcount.

Expenses by functional classification for the year ended June 30, 2020, including \$22.3 million related to the Tenured Faculty Voluntary Transition Incentive Program, described in Note 16 to these consolidated financial statements, were as follows:

(in thousands of dollars)	Academic, Instruction & Research	Student Services & Auxiliary	Institutional Support	Total
Operating expenses:				
Salaries, wages and fringe benefits	\$ 248,252	\$ 42,692	\$ 51,061	\$ 342,005
Non-salary operating expenses	52,942	48,891	31,571	133,404
Depreciation and amortization	32,731	15,711	9,508	57,950
Insurance and utilities	5,161	3,765	5,895	14,821
Interest	2,853	8,170	2,219	13,242
Tenured Faculty Voluntary Transition Incentive Program	22,307	-	-	22,307
Total	\$ <u>364,246</u>	\$ <u>119,929</u>	\$ <u>100,254</u>	\$ <u>583,729</u>

Expenses by functional classification for the year ended June 30, 2019 were as follows:

(in thousands of dollars)	Academic, Instruction & Research	Student Services & Auxiliary	Institutional Support	Total
Operating expenses:				
Salaries, wages and fringe benefits	\$ 241,058	\$ 42,412	\$ 51,270	\$ 334,740
Non-salary operating expenses	48,499	52,103	37,681	138,283
Depreciation and amortization	33,440	15,633	12,348	61,421
Insurance and utilities	5,476	4,050	5,577	15,103
Interest	3,201	8,372	2,389	13,962
Total	\$ <u>331,674</u>	\$ <u>122,570</u>	\$ <u>109,265</u>	\$ <u>563,509</u>

Fundraising expenses of \$12.2 million and \$12.7 million are included primarily in institutional support for fiscal years ending June 30, 2020 and 2019, respectively.

LUC receives revenue from grants and contracts for sponsored projects. Federal and local government agencies and private entities support research, training, academic programming, and other sponsored programs. Expenditures for these sponsored programs totaling \$34.5 million during fiscal year 2020 and \$38.1 million during fiscal year 2019 are included in the tables above primarily under academic, instruction, and research.

LUC is generally not subject to federal and state income taxes. However, LUC is subject to unrelated business income taxes on income that is derived from a trade or business that is regularly carried on and not substantially related to furtherance of the purpose for which the exemption was granted. The University's estimated unrelated business income tax liability is included in student services and auxiliary and was \$0.1 million and \$0.4 million as of June 30, 2020 and 2019, respectively. The estimated income tax liability arises from various auxiliary services such as conference services, fitness center public memberships, and athletic sponsorships with advertising.

(13) Net Assets

Net assets as of June 30, 2020 were as follows:

(in thousands of dollars)	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Perpetual:			
Endowment	\$ -	\$ 198,576	\$ 198,576
Underwater endowments	-	(99)	(99)
Endowment – board designated	352,751	-	352,751
Other	-	17,399	17,399
Subtotal	<u>352,751</u>	<u>215,876</u>	<u>568,627</u>
Time or purpose:			
Endowment returns subject to future appropriation	-	148,352	148,352
Academic or program support and student financial aid	-	42,022	42,022
Research	-	9,768	9,768
Student loans	-	3,554	3,554
Construction	-	4,501	4,501
Subtotal	<u>-</u>	<u>208,197</u>	<u>208,197</u>
Annuity	-	2,889	2,889
Life income funds	-	347	347
Term endowments	-	1,776	1,776
Board designated	38,578	-	38,578
Subtotal	<u>38,578</u>	<u>213,209</u>	<u>251,787</u>
Undesignated	<u>870,800</u>	<u>-</u>	<u>870,800</u>
Total net assets	<u>\$ 1,262,129</u>	<u>\$ 429,085</u>	<u>\$ 1,691,214</u>

Net assets as of June 30, 2019 were as follows:

(in thousands of dollars)	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Perpetual:			
Endowment	\$ -	\$ 181,441	\$ 181,441
Underwater endowments	-	(59)	(59)
Endowment – board designated	353,713	-	353,713
Other	-	29,604	29,604
Subtotal	<u>353,713</u>	<u>210,986</u>	<u>564,699</u>
Time or purpose:			
Endowment returns subject to future appropriation	-	155,233	155,233
Academic or program support and student financial aid	-	37,088	37,088
Research	-	3,686	3,686
Student loans	-	3,523	3,523
Construction	-	4,967	4,967
Annuity and life income funds	-	3,615	3,615
Board designated	23,556	-	23,556
Subtotal	<u>23,556</u>	<u>208,112</u>	<u>231,668</u>
Undesignated	<u>871,471</u>	<u>-</u>	<u>871,471</u>
Total net assets	<u>\$ 1,248,740</u>	<u>\$ 419,098</u>	<u>\$ 1,667,838</u>

The University's Board of Trustees periodically designates net assets for the benefit of specific schools and academic or research activities. In fiscal year 2020, the University's Board of Trustees designated \$18.9 million of net assets for various schools and academic programs. In fiscal year 2019, the University's Board of Trustees designated

approximately \$26.0 million related to the Stritch School of Medicine and other University research activities. Approximately \$3.9 million and \$2.4 million of these net assets were utilized during fiscal years 2020 and 2019, respectively.

Net Assets with donor restrictions include contributions receivable of \$21.3 million and \$31.7 million as of June 30, 2020 and 2019, respectively. See Note 6, *Notes and Accounts Receivable, net* for further information on contributions receivable.

(14) 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.

COVID-19

The coronavirus pandemic is an ongoing global pandemic of coronavirus disease 2019 (COVID-19). In March 2020, a national emergency concerning COVID-19 was declared in the United States. At that time, the University suspended in-person classes at Loyola campuses and moved the curriculum online, asked students to return home with the closure of campus residence halls, and requested University faculty and staff to work remotely where possible.

Loyola University Chicago's emergency response, planning, and decision making process, which began early in calendar year 2020, is on-going, continues to evolve, and remains focused on the University's top priorities of health and safety, academic continuity (teaching, research and learning), and student recruitment and retention.

As the COVID-19 pandemic is complex and rapidly evolving, the University cannot reasonably estimate the duration and severity of this pandemic, which could have an adverse impact on the University's results of operations, financial position and cash flows. The University is taking prudent financial measures to mitigate the impact of COVID-19 in order to realize assets and satisfy liabilities in the normal course of business. In April 2020, the University announced a multi-phased approach to balance fiscal realities with data and information available throughout the summer months. In May 2020, the University announced Phase I budget reductions, expected to generate approximately \$21 million of expense savings against an anticipated revenue shortfall for the upcoming fiscal / academic year.

Refer to Note 18, *Subsequent Events*, for more information related to COVID-19 and the continued disruption to the University's operations.

(15) Relationship with Trinity Health

On June 30, 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 Loyola University Health System (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 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 entered into an Academic Affiliation Agreement, which includes negotiated terms and conditions and provides for an annual academic support payment to LUC from LUHS and LUMC. Trinity Health guarantees the academic support payment. 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 \$24.6 million and \$24.4 million of academic support in the consolidated statements of activities and changes in net assets in fiscal years 2020 and 2019, respectively.

(16) Tenured Faculty Voluntary Transition Incentive Program

In August 2019, the University announced a one-time voluntary transition incentive program for eligible tenured faculty. Under the terms of the program, eligible tenured faculty who chose to voluntarily terminate their employment with the university would receive a cash incentive payment of two times their academic base salary as of December 31, 2019. Approximately 80 tenured faculty chose to participate in the program and continued their service to the University primarily through June 30, 2020. As of June 30, 2020, the University recognized a liability of \$22.3 million in the consolidated statement of financial position for payments due under the plan. The consolidated statement of activities and changes in net assets for the fiscal year ended June 30, 2020 includes the corresponding expense. The majority of payments under this plan were made in July 2020.

(17) Information Used in the Determining Department of Education’s Financial Responsibility Composite Score

Section 498(c) of the Higher Education Act of 1965, as amended, requires for-profit and non-profit institutions to annually submit audited financial statements to the Department of Education (ED) to demonstrate they are maintaining the standards of financial responsibility necessary to participate in the Title IV programs. One of many standards which ED utilizes to gauge the financial responsibility of an institution is a composite of three ratios derived from an institution's audited financial statements.

The financial information below provides the correspondence between certain values presented in LUC’s consolidated financial statements and the values as they are included in the determination of the ratios used by ED to gauge the University’s financial responsibility at June 30, 2020:

(in thousands of dollars)

Land, buildings and equipment, net	<u>2020</u>
Net book value of assets existing as of June 30, 2019 (Pre-implementation):	
Land and land improvements	\$ 178,119
Buildings	754,213
Equipment	39,657
Library books and art	19,404
Total	<u>\$ 991,393</u>
Net book value of assets in service after June 30, 2019 (Post Implementation):	
Land and land improvements	\$ 1,446
Buildings	36,087
Equipment	5,323
Library books and art	-
Total	<u>\$ 42,856</u>
Construction in progress	<u>\$ 57,062</u>
Land, buildings and equipment, net	<u><u>\$ 1,091,311</u></u>

(in thousands of dollars)

Indebtedness	<u>2020</u>
Pre-implementation, for long term purposes	\$ 373,227
Post-implementation, for long term purposes	-
Post-implementation for construction in progress	-
Not for the purchase of land, building and equipment	-
Amount in excess of net book value of designated land, building, and equipment	-
Indebtedness	<u>\$ 373,227</u>

(in thousands of dollars)

Non-Operating Activities Without Donor Restriction - Other	<u>2020</u>
For purposes of the Financial Responsibility Ratios, amounts considered Other Revenue	\$ 1,704
For purposes of the Financial Responsibility Ratios, amounts considered Other Expenses	(1,440)
Non-Operating Activities Without Donor Restriction - Other	<u>\$ 264</u>

(18) Subsequent Events

LUC has evaluated subsequent events through September 29, 2020, the date the consolidated financial statements were issued.

COVID-19

As COVID-19 infection rates and deaths continue to increase, Loyola University Chicago's emergency response, planning, and decision making remains focused on the University's top priorities of health and safety, academic continuity (teaching, research and learning), and student recruitment and retention.

In July 2020, the University decided to shift most class offerings online for the fall semester. In August 2020 the University announced the decision to suspend plans to host students in on-campus residence halls. The University continues to monitor developments, including government requirements and recommendations at the national, state, and local level to evaluate possible extensions to all or part of such decisions.

In light of the continued disruption to the University's operations due to the coronavirus pandemic, the impact primarily to the University's auxiliary services revenue streams, and expenses related to changes to the delivery of instruction, the University continues to take prudent steps to maintain financial liquidity and flexibility, including, reducing operating expenses, deferring certain capital expenditures, and securing a second credit facility.

Consistent with the University's phased approach to balance fiscal realities with available data and information, in July and September 2020 the University announced an additional \$43 million of expense reductions to offset anticipated lower revenue.

Credit Facility

Effective as of August 19, 2020, LUC entered into a 364-day credit facility with PNC Bank, National Association, under which LUC may borrow up to \$25 million on a revolving basis and which terminates on August 18, 2021. Borrowings under this facility may bear interest at rates based on LIBOR, the Federal Funds Rate, the Prime Rate, or other negotiated rates. As of September 29, 2020, there was no balance outstanding nor any interest payable on this facility or the \$75 million facility with Wintrust Bank N.A.. Refer to Note 8, Indebtedness, for additional information about the University's indebtedness.

Higher Education Emergency Relief Fund

The federal government's Coronavirus Aid, Relief, and Economic Security Act establishes and funds a Higher Education Emergency Relief Fund ("HEERF"). The University is eligible to receive approximately \$10 million of HEERF funds of which at least half, or approximately \$5 million, must go directly to eligible students in the form of emergency financial aid grants for expenses related to the disruption of campus operations due to the COVID-19 crisis ("HEERF Student Share Grant Funds"). The University may use the remaining HEERF funds to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus ("HEERF Institutional Share Grant Funds").

Subsequent to June 30, 2020, the University distributed approximately \$3.5 million of HEERF Student Share Grant Funds to approximately 2,300 eligible students, and will continue to make the remaining HEERF Student Share Grant funds available to eligible students. The University anticipates receiving the HEERF Institutional Share Grant Funds in fiscal year 2021.

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¹ As of September 29, 2020

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