LOYOLA UNIVERSITY CHICAGO

LOYOLA
UNIVERSITY CHICAGO

AD • MAJOREM • DEI • GLORIAM

1870

Preparing people to lead extraordinary lives

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

For the years ended June 30, 2019 and 2018

Deloitte & Touche LLP
111 South Wacker Drive
Chicago, IL 60606-4301
USA

Tel: +1 312 486 1000
Fax: +1 312 486 1486
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Loyola University of Chicago ("LUC"), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, 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 consolidated financial position of LUC as of June 30, 2019 and 2018, and results of their activities and changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the consolidated financial statements, LUC adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,* during the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

September 19, 2019

LOYOLA UNIVERSITY CHICAGO
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of June 30, 2019 and 2018

(In thousands of dollars)	2019	2018
ASSETS		
Cash and cash equivalents	$ 70,754	$ 70,615
Short-term investments	193,824	197,244
Notes and accounts receivable, net	72,680	73,847
Other assets	7,986	14,516
Endowment and other long-term investments	800,316	730,955
Assets held in trust by others	2,682	1,547
Interest held in perpetual trust	14,102	13,312
Land, buildings and equipment, net	1,080,060	1,082,023
TOTAL ASSETS	**$ 2,242,404**	**$ 2,184,059**
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 54,784	$ 58,115
Deferred revenue	35,320	38,009
Unexpended grants	9,880	11,347
Refundable U.S. government student loan funds	17,647	17,266
Indebtedness	388,739	404,447
Pension and other postretirement plan liabilities	63,495	61,161
Other liabilities	4,701	4,587
TOTAL LIABILITIES	574,566	594,932
NET ASSETS:		
Without donor restrictions	1,248,740	1,189,251
With donor restrictions	419,098	399,876
TOTAL NET ASSETS	**1,667,838**	**1,589,127**
TOTAL LIABILITIES AND NET ASSETS	**$ 2,242,404**	**$ 2,184,059**

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, 2019 and 2018

(In thousands of dollars)	2019 Without donor restrictions	2019 With donor restrictions	Total 2019	2018 Without donor restrictions	2018 With donor restrictions	Total 2018
OPERATING REVENUES:						
Tuition and fees, net of scholarships $226,257 (2019) and $207,033 (2018)	$ 403,284	$	$ 403,284	$ 386,553	$	$ 386,553
Auxiliary services	72,566		72,566	71,829		71,829
Academic support	24,417		24,417	23,910		23,910
Other	30,222		30,222	35,308		35,308
Grants and contracts for sponsored projects	45,540		45,540	44,793		44,793
Gifts	3,012		3,012	1,547		1,547
Return on short-term investments and interest income	7,673		7,673	2,747		2,747
Investment income designated for operations	7,607		7,607	8,610		8,610
Net assets utilized or released from restrictions for operations	17,390		17,390	19,488		19,488
Net assets released - board designated	2,444		2,444			-
TOTAL OPERATING REVENUES	**614,155**		**614,155**	**594,785**		**594,785**
OPERATING EXPENSES:						
Salaries and wages	264,442		264,442	257,114		257,114
Fringe benefits	70,298		70,298	70,670		70,670
Non-salary operating expenses	138,283		138,283	135,130		135,130
Depreciation and amortization	61,421		61,421	60,277		60,277
Insurance and utilities	15,103		15,103	14,263		14,263
Interest	13,962		13,962	14,619		14,619
TOTAL OPERATING EXPENSES	**563,509**		**563,509**	**552,073**		**552,073**
RESULTS OF OPERATIONS	**50,646**		**50,646**	**42,712**		**42,712**
NON-OPERATING ACTIVITIES:						
Gifts		25,626	25,626		30,605	30,605
Investment gain, net of amounts designated for operations	13,239	15,841	29,080	18,655	22,890	41,545
Net periodic pension and post retirement plan cost	(7,953)		(7,953)	(2,687)		(2,687)
Retirement plan related changes other than net periodic retirement plan cost	(947)		(947)	14,308		14,308
Other	2,796	(703)	2,093	2,476	25	2,501
Net assets transferred or released from restrictions	4,152	(21,542)	(17,390)	(724)	(18,764)	(19,488)
Net assets released - board designated	(2,444)		(2,444)			-
TOTAL NON-OPERATING ACTIVITIES	**8,843**	**19,222**	**28,065**	**32,028**	**34,756**	**66,784**
CHANGE IN NET ASSETS	**59,489**	**19,222**	**78,711**	**74,740**	**34,756**	**109,496**
Total net assets, beginning of year	1,189,251	399,876	1,589,127	1,114,511	365,120	1,479,631
TOTAL NET ASSETS, END OF YEAR	**$ 1,248,740**	**$ 419,098**	**$ 1,667,838**	**$ 1,189,251**	**$ 399,876**	**$ 1,589,127**

See notes to the consolidated financial statements.

LOYOLA UNIVERSITY CHICAGO
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended June 30, 2019 and 2018

(In thousands of dollars)	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 78,711	$ 109,496
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	61,421	60,277
Provision for bad debt expense	2,318	2,228
Retirement plan related changes	947	(14,308)
Provision for retirement costs	8,671	6,127
Pension plan contributions	(4,863)	(7,277)
Net realized and unrealized gain on investments	(31,087)	(42,822)
Contributions restricted for long-term investment	(8,284)	(6,745)
Other	(3,396)	(3,151)
Changes in assets and liabilities:		
Notes and accounts receivable, net	(5,208)	13,737
Other assets	(623)	(1,925)
Accounts payable and accrued expenses	(3,195)	3,416
Deferred revenue and unexpended grants	(851)	(8,513)
Interest held in perpetual trust	(790)	(639)
Refundable U.S. government student loan funds	381	(2,261)
Other liabilities	107	(637)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**94,259**	**107,003**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	226,269	108,776
Purchases of investments	(265,935)	(120,941)
Sales (purchases) of short-term investments, net	4,812	(39,191)
Proceeds from sale of property and equipment	6,780	619
Expenditures for land, buildings and equipment	(60,252)	(33,127)
Student loans issued	(2,652)	(4,959)
Student loans collected	3,404	3,193
NET CASH USED BY INVESTING ACTIVITIES	**(87,574)**	**(85,630)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for long-term investment	8,284	6,745
Issuance of new debt	-	22,646
Retirement of debt	(14,830)	(64,016)
NET CASH USED BY FINANCING ACTIVITIES	**(6,546)**	**(34,625)**
NET CASH PROVIDED FROM DISCONTINUED OPERATIONS	**-**	**10,728**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**139**	**(2,524)**
Cash and cash equivalents, beginning of year	70,615	73,139
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 70,754**	**$ 70,615**

See notes to the consolidated financial statements.

(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, which today is the largest male religious order in the Roman Catholic Church.

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.

On July 1, 2018, the University adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958).* ASU 2016–14 provides for additional disclosure requirements and modifies net asset reporting. The standard requires the University to reclassify its net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) into two categories: net assets without donor restrictions and net assets with donor restrictions, among other requirements. As a result of adopting this standard, certain prior year amounts, including less than $0.1 million of underwater endowment funds, were reclassified to conform to the presentation requirements.

On July 1, 2018, the University adopted ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. The ASU addresses the classification of certain cash receipts and payments in the statement of cash flows. The adoption did not impact the consolidated statements of cash flows.

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 capital leases.

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, 2019.

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:

<u>Revenue from Contracts with Customers</u>: Effective July 1, 2018, LUC adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance requires that the University recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which LUC expects to be entitled in exchange for those goods or services. The guidance uses a principles-based approach for determining revenue recognition, eliminates the transaction and industry-specific guidance, and establishes a five-step approach for the recognition of revenue.

LUC adopted this guidance using the modified retrospective approach, which applies to contracts that have remaining obligations as of July 1, 2018 and new contracts entered into subsequent to July 1, 2018. This guidance did not significantly impact the timing of the University's revenue recognition but did impact the classification of certain assets and liabilities in the consolidated statements of financial position and required new disclosures. See Note 5, Revenue Recognition, for more information.

Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made: On July 1, 2018, the University adopted 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 more robust 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: On July 1, 2018, the University adopted 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. The adoption of this guidance did not have a significant impact on the University's consolidated financial statements.

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

On July 1, 2018, LUC adopted 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. The adoption of this guidance did not have a significant impact on the University's consolidated financial statements.

o) Results of Operations

As part of the consolidated statements of activities, 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 non-recurring items.

p) Reclassifications

Certain fiscal year 2018 amounts have been reclassified to conform to fiscal year 2019 financial statement presentation, primarily related to the adoption of ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. Please see Note 3 a), Basis of Presentation, for additional information.

q) Recent Accounting Pronouncements

Accounting guidance to be adopted in fiscal year 2020

<u>Leases</u>: In February 2016, the Financial Accounting Standards Board (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. For LUC, the guidance is effective beginning July 1, 2019 (fiscal year 2020). The University has evaluated this guidance 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.

Accounting guidance to be adopted after fiscal year 2020

<u>Financial Instruments</u>: In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The guidance revises an entity's accounting related to the classification of and measurement of investments in equity securities. The guidance 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. For LUC, the guidance is effective beginning July 1, 2020 (Fiscal Year 2021). LUC is evaluating the impact of the new guidance on the consolidated financial statements.

<u>Changes to the Disclosure Requirements for Fair Value Measurement</u>: 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 adopted the eliminated or modified disclosure requirements beginning with the fiscal year 2018 consolidated financial statements. As allowed under the new guidance, the additional disclosure requirements are effective for LUC's annual reporting period beginning July 1, 2020 (Fiscal Year 2021). LUC is evaluating the impact of the additional disclosure requirements on the consolidated financial statements.

<u>Changes to the Disclosure Requirements for Defined Benefit Plans</u>: 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. For LUC, the guidance is effective beginning July 1, 2020 (Fiscal Year 2021). LUC is evaluating the impact of the new guidance 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. The new standard is effective for LUC on July 1, 2020 (Fiscal Year 2021). LUC is evaluating the impact of adopting ASU No. 2018-15 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, 2019 and 2018:

(in thousands of dollars)

	2019	2018
Donor-restricted endowment funds	$ 336,865	$ 315,756
Board-designated funds functioning as endowment	353,930	320,313
Total endowment investments	690,795	636,069
Institutional reserves	98,548	84,197
Total long-term investment portfolio	789,343	720,266
Split-interest agreements	9,985	9,743
Other invested assets	988	946
Total endowment and other long-term investments	$ 800,316	$ 730,955

In addition, LUC had short-term investments of $193.8 million and $197.2 million at June 30, 2019 and 2018, respectively.

Fair Value Measurements

FASB Accounting Standards Codification (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, 2019 and 2018:

(in thousands of dollars)

2019	Total	Level 1	Level 2
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	$ 193,824	$ 57,576	$ 136,248

2018	Total	Level 1	Level 2
Cash and cash equivalents	$ 310	$ 310	$ -
Fixed income mutual funds	95,824	95,824	
U.S. Treasury and government agency debt securities	29,478		29,478
Non-U.S. government debt securities	893		893
Municipal debt securities	3,390		3,390
Corporate debt securities	54,757		54,757
Mortgage-related securities	4,868		4,868
Asset-backed securities	7,119		7,119
Collateralized mortgage obligations	605		605
Total	$ 197,244	$ 96,134	$ 101,110

Endowment and Other Long-term Investments

The tables below summarize the endowment and other long-term investment portfolio's fair value measurements by fair value hierarchy level and NAV (or its equivalent) as a practical expedient, as of June 30, 2019 and 2018:

(in thousands of dollars)

2019	Total	Level 1	Level 2	Level 3	NAV
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	31,619				31,619
Total	$ 800,316	$ 271,699	$ 62,476	$ 200	$ 465,941

2018	Total	Level 1	Level 2	Level 3	NAV
Cash and cash equivalents	$ 15,833	$ 15,833	$ -	$ -	$ -
U.S. marketable equity securities	71,848	71,848			
U.S. marketable equity mutual funds	54,240	54,240			
Non-U.S. marketable equity securities	14,993	14,993			
Non-U.S. marketable equity mutual funds	1,818	1,818			
Marketable equity commingled funds	296,891				296,891
Other equity securities	200			200	
Fixed income mutual funds	27,896	27,896			
Fixed income commingled funds	52,370				52,370
Other fixed income securities	13,665	13,665			
U.S. Treasury and government agency debt obligations	57,252	17,033	40,219		
Private equity investments	73,537				73,537
Real assets mutual funds	24,245	24,245			
Private real assets investments	26,167				26,167
Total	$ 730,955	$ 241,571	$ 40,219	$ 200	$ 448,965

The table below summarizes the changes in fair value of the Level 3 investments in the endowment and other long-term investment portfolio for the years ended June 30, 2019 and 2018:

(in thousands of dollars)

	2019	2018
Beginning of year	$ 200	$ 200
Realized loss	-	(73)
Unrealized gain	-	73
End of year	$ 200	$ 200

Gains and losses shown above are included in reported earnings for the fiscal year 2018.

There were no significant transfers between fair value hierarchy levels for the years ended June 30, 2019 and 2018.

LUC is obligated to make future capital contributions in private investment vehicles in the maximum amount of $113.7 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, 2019 are in the table below.

(in thousands of dollars)

Investment Type	2019 Fair Value	2019 Unfunded Commitment	Redemption Frequency	Redemption Notice Period	Other Redemption Restrictions
Marketable equity commingled funds	$ 280,846	$ -	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	73,185	-	Semimonthly to annually	Five business days to ninety days	Certain limits on redeemable proportion of outstanding balances
Private equity investments	80,291	88,672	Directed by investment manager	n/a	None
Private real assets investments	31,619	25,030	Directed by investment manager	n/a	None
Total	$ 465,941	$ 113,702			

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, sovereign debt issues of various countries, 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, 2019 and 2018:

(in thousands of dollars)

	2019	2018
Beginning of year	$ 13,312	$ 12,673
Contributions	-	17
Realized gain	2,903	308
Unrealized (loss) gain	(1,867)	690
Sales	(246)	(376)
End of year	$ 14,102	$ 13,312

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, 2019 and 2018, the investment portfolio held futures contracts with a notional value of $9.7 million and $35.1 million, respectively. The net impact of the futures held at June 30, 2019 is to reduce the proportion of cash in the endowment portfolio by 1.2% while increasing equity exposure by 1.1% and fixed income exposure by 0.1%. 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, 2019 and 2018 is as follows:

(in thousands of dollars)

Derivative Type	Location of Gain Recognition in Consolidated Statements of Activities and Changes in Net Assets	2019	2018
Equity, fixed income, and currency futures	Investment gain – non-operating	$ 6,533	$ 835

Investment Returns

Investment returns, net of investment and management fees, for short-term and long-term investments, for the years ended June 30, 2019 and 2018 are as follows:

(in thousands of dollars)

	2019	2018
Interest and dividend income (net of fees)	$ 13,273	$ 10,080
Net realized gains	26,466	17,155
Net unrealized gains	4,621	25,667
Total net return on investment	$ 44,360	$ 52,902

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:

	2019	2018
Changes in net assets without donor restrictions		
Return on short-term investments and interest income	$ 7,673	$ 2,747
Investment income designated for operations	7,607	8,610
Non-operating investment gain, net of amounts designated for operations	13,239	18,655
Changes in net assets with donor restrictions		
Non-operating investment gain	15,841	22,890
Total net return on investment	$ 44,360	$ 52,902

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, 2019 for the endowment and long-term investment portfolio:

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

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, 2019 and 2018 are classified as follows:

(in thousands of dollars)	Without donor restrictions	With donor restrictions	Total
2019			
Donor-restricted endowment funds	$ -	$ 336,674	$ 336,674
Underwater endowments	-	(59)	(59)
Board-designated funds functioning as endowment funds	353,713	-	353,713
Total endowment net assets	$ 353,713	$ 336,615	$ 690,328
2018			
Donor-restricted endowment funds	$ -	$ 315,719	$ 315,719
Underwater endowments	-	(62)	(62)
Board-designated funds functioning as endowment funds	324,646	-	324,646
Total endowment net assets	$ 324,646	$ 315,657	$ 640,303

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, 2019 and 2018, the amount by which funds were underwater was calculated as follows:

(in thousands of dollars)	2019	2018
Aggregate original value	$ 129	$ 204
Aggregate fair value	70	142
Aggregate deficiency	$(59)	$(62)

The following tables provide a summary of the changes in the endowment net assets for the years ended June 30, 2019 and 2018:

(in thousands of dollars) 2019	Without donor restrictions	With donor restrictions	Total
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	19,135	-	19,135
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	(2,107)	(1,945)	(4,052)
Total income distributed for operating purposes	(6,356)	(8,925)	(15,281)
Endowment net assets, end of year	$ 353,713	$ 336,615	$ 690,328

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.

(in thousands of dollars) 2018	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$ 299,326	$ 294,124	$ 593,450
Contributions and other additions			
Contributions (excluding pledges)	4	8,265	8,269
Board-designated funds functioning as endowment	10,379	-	10,379
Total contributions and other additions	10,383	8,265	18,648
Total investment return, net	22,357	21,635	43,992
Income distributed for operating purposes			
Scholarships	(3,530)	(3,800)	(7,330)
Endowed Chairs	(1,573)	(2,311)	(3,884)
Research	(201)	(442)	(643)
Other	(2,116)	(1,814)	(3,930)
Total income distributed for operating purposes	(7,420)	(8,367)	(15,787)
Endowment net assets, end of year	$ 324,646	$ 315,657	$ 640,303

Contributions of $8.3 million in fiscal year 2018 include $6.8 million received during fiscal year 2018 and $1.5 million received in prior years but designated to the endowment during fiscal year 2018.

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 $10.0 million and $9.7 million, respectively, at June 30, 2019 and 2018 and are reported in endowment and other long-term investments in the consolidated statements of financial position at fair value. The discounted present value of any income beneficiary interest is included in accounts payable and other accrued expenses on the consolidated statements of financial position, and was $5.3 million and $4.1 million, respectively, at June 30, 2019 and 2018. The discount rate used is 6.5% in both fiscal years 2019 and 2018.

During fiscal year 2019, the discounted present values of new gifts subject to split-interest agreements, net of the income beneficiary share, total $0.3 million, and are included in non-operating gifts on the consolidated statements of activities and changes in net assets.

Actuarial losses on split-interest agreements in the amount of $1.6 million and $0.4 million in fiscal year 2019 and 2018, respectively, are included in other in the non-operating activities section of the consolidated statements of activities and changes in net assets.

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

Disaggregation of Revenue

As presented in the consolidated statement of activities, the University has various sources of operating revenue. The following revenues are presented in accordance with ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*:

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 body. 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 $2.0 million were included as a reduction in auxiliary services revenue as of June 30, 2019.

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, 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, 2019, the University fully collected the academic support payment for fiscal years 2019 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. Prior to the adoption of ASC Topic 606, the University recorded a student receivable at the time of billing. As of the June 30th fiscal year end, the University would record a liability for deferred revenue, representing that portion of the amounts billed for which academic or room and board services had not yet been delivered. Upon adoption of ASC Topic 606, 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 following table presents the impact of the adoption of ASC Topic 606 on previously reported balances:

	June 30, 2018	Impact of Modified Retrospective Adoption of ASC Topic 606	July 1, 2018 Post ASC Topic 606 Adoption
Notes and accounts receivable, net	$ 73,847	$ (3,305)	$ 70,542
Deferred revenue	$ 38,009	$ (3,305)	$ 34,704

Except programs in the Summer academic term, 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 2019 Summer term, no contract assets were recorded as of June 30, 2019.

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, 2019 and July 1, 2018 (post adoption of ASC Topic 606) 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, 2019	$ 24,018	$ 5,445	$ 5,857	$ 35,320
Deferred revenue as of July 1, 2018 (post ASC Topic 606 adoption)	$ 23,346	$ 5,066	$ 6,292	$ 34,704

The deferred revenue related to contracts greater than one year was $5.9 million and $6.3 million as of June 30, 2019 and 2018, respectively. The deferred revenue will be recognized on a straight-line basis over the remaining term of the contract which continues 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 students can be grouped into a single portfolio for 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.

For contracts with customers not pertaining to tuition and fees, room, and board, the University generally assesses collectability on an individual contract basis.

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, 2019 and 2018 consisted of the following:

(in thousands of dollars)		June 30, 2019						June 30, 2018
		Notes and Accounts Receivable		Allowance for doubtful accounts		Notes and Accounts Receivable, net		Notes and Accounts Receivable, net
Student receivables	$	13,078	$	(4,818)	$	8,260	$	11,750
Student loan notes								
Federal government programs		16,315		(2,080)		14,235		16,765
Institutional/other programs		2,798		(688)		2,110		2,185
Contributions receivable		33,159		(1,478)		31,681		28,286
Grants receivable		6,987		-		6,987		5,342
Other receivables		10,357		(950)		9,407		9,519
Total	$	82,694	$	(10,014)	$	72,680	$	73,847

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 prior collection experience. The following table summarizes the change in the student receivables allowance for doubtful accounts during fiscal years 2019 and 2018:

(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, 2019	$	(4,444)	$	(1,325)	$	951	$	(4,818)
For the year ended June 30, 2018	$	(4,443)	$	(1,823)	$	1,822	$	(4,444)

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, 2019 and 2018, 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 loans funds in the consolidated statements of financial position was $17.6 million and $17.3 million at June 30, 2019 and 2018, respectively.

At June 30, 2019 and 2018, LUC had past due student loans of $3.7 million and $3.6 million, respectively. The allowance for doubtful accounts is established based on prior collection experience.

The following table summarizes the change in the student loan notes' allowance for doubtful accounts during fiscal years 2019 and 2018:

(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, 2019	$ (2,598)	$ (322)	$ 152	$ (2,768)
For the year ended June 30, 2018	$ (2,417)	$ (319)	$ 138	$ (2,598)

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, 2019 and June 30, 2018 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, 2019 and 2018 are due in the following periods:

(in thousands of dollars)	2019	2018
In one year or less	$ 5,118	$ 4,602
Between one year and five years	21,508	12,353
More than five years	17,066	21,771
Present value discount	(10,533)	(10,159)
Total	33,159	28,567
Allowance for uncollectible contributions	(1,478)	(281)
Total contributions receivable, net	$ 31,681	$ 28,286

Grants receivable

Grants receivable consists of amounts from federal and local government agencies and private entities related to sponsored programs. The balance of $7.0 million as of June 30, 2019 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 $5.4 million of the $9.4 million balance as of June 30, 2019 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, 2019 and 2018 are as follows:

(in thousands of dollars)

	2019	2018
Land and land improvements	$ 219,263	$ 215,218
Buildings	1,380,718	1,358,158
Equipment	146,903	150,446
Library books and art	19,404	32,397
Construction in progress	32,347	16,934
Total	1,798,635	1,773,153
Accumulated depreciation	(718,575)	(691,130)
Land, buildings, and equipment, net	$ 1,080,060	$ 1,082,023

During fiscal year 2019, LUC acquired a new residence hall on the University's Lake Shore campus for $16.1 million. Also during fiscal year 2019, LUC disposed of certain assets from its fixed asset records, primarily for assets which had been fully depreciated or were no longer in use throughout the University's campuses. These disposals were the main drivers for the decrease in the cost basis of equipment and library books and art categories in the table above. Accumulated depreciation was also reduced as the majority of these assets were fully depreciated.

At June 30, 2019 and 2018, LUC included $0.3 million and $0.4 million of capitalized asset retirement costs within net land, buildings, and equipment. LUC had $3.0 million and $3.1 million of conditional asset retirement obligations included within other liabilities in the consolidated statements of financial position at June 30, 2019 and 2018, respectively.

Liabilities of $6.2 million and $6.0 million related to purchases of land, buildings and equipment are included in accounts payable and accrued expenses in the consolidated statements of financial position as of June 30, 2019 and 2018, respectively.

At June 30, 2019, LUC had commitments of $48.3 million related to various capital projects.

(8) Indebtedness

Notes and bonds payable at June 30, 2019 and 2018 are shown below:

(in thousands of dollars)	Final Maturity (Fiscal Year)	Interest Rate	2019	Interest Rate	2018
Fixed rate:					
Illinois Finance Authority (IFA) (formerly Illinois Educational Facilities Authority (IEFA)):					
Series 2003B taxable bonds	2022	5.60%	$ 37,520	5.60%	$ 37,520
Series 2012B tax-exempt bonds	2043	5.00%	83,520	5.00%	85,880
Series 2003C taxable direct obligation bonds	2019	5.30%	-	5.30%	11,540
Series 2012A taxable bonds	2043	3.20-4.63%	157,220	3.20-4.63%	157,220
2017 term note [1]	2024	2.56%	22,080	2.56%	22,390
Rome Center mortgage note [2]	2029	1.51%	9,468	1.51%	9,929
Total fixed rate			309,808		324,479
Variable rate:					
IFA 2008 tax-exempt commercial paper [3] [4]	2038	1.83%	74,040	1.33%	74,040
Total variable rate			74,040		74,040
Total principal debt		3.86%[5]	383,848	3.81%[5]	398,519
Unamortized debt premium			5,935		6,732
Unamortized debt issuance costs			(1,308)		(1,467)
Total bonds and notes payable			388,475		403,784
Capital lease obligations			264		663
Total indebtedness			$ 388,739		$ 404,447

(1) In August 2017, LUC entered into a Term Loan Agreement with PNC Bank, National Association, in the amount of $22.4 million at a fixed interest rate of 2.56%, payable semi-annually. The purpose of the loan was to call and retire the Illinois Finance Authority Series 2007 tax-exempt bonds. The Series 2007 bonds were called in August 2017 and are no longer outstanding.

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

(3) Interest rates shown in the variable rate section of this chart represent the weighted average outstanding interest rate at June 30, 2019 and 2018, respectively.

(4) The commercial paper is fully backed by a direct-pay letter of credit from PNC Bank, National Association, pursuant to an agreement that expires on April 14, 2021.

(5) Weighted average interest rate on all outstanding principal debt at June 30, 2019 and June 30, 2018, respectively.

LUC did not record any capitalized interest at June 30, 2019 and 2018, respectively. Bond discounts, premiums, and costs incurred in connection with the issuance of bonds are deferred and amortized over the life of the related indebtedness.

Interest paid for the years ended June 30, 2019 and 2018 was $14.8 million and $16.5 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, 2019.

Debt Maturities

Total scheduled maturities for the next five fiscal years are:

(in thousands of dollars)

2020	$ 14,894
2021	16,183
2022	17,056
2023	68,445
2024	17,254
Thereafter	250,016
	$ 383,848

Disclosure of Fair Value of Long-term Debt

The fair value of the outstanding long-term debt as of June 30, 2019 and 2018 is as follows:

(in thousands of dollars)	2019		2018	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	$410,627	$388,475	$409,728	$403,784

The fair value of long-term debt is determined based on discounted cash flows or market prices for comparable borrowings as of June 30, 2019 and 2018. Long-term debt is classified as Level 2 in the fair value hierarchy.

Lease Obligations

LUC leases equipment under arrangements classified as capital leases. Future minimum lease payments as of June 30, 2019 are as follows:

(in thousands of dollars)

2020	$ 224
2021	43
2022	4
Total minimum lease payments	271
Less: interest	(7)
Capital lease obligations	$ 264

(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.

As of June 30, 2019, approximately $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, 2019:		
Cash and cash equivalents	$	70,754
Short-term investments		193,824
Notes and accounts receivable, net		72,680
Endowment and other long-term investments		800,316
Assets held in trust by others		2,682
Total financial assets at June 30, 2019	$	1,140,256
Less amounts not available for general expenditures within one year:		
Student loan notes – Federal government programs and other restricted loans		(16,345)
Contributions receivable due in more than one year or restricted by donor with time or purpose restrictions		(31,681)
Notes and accounts receivable due in more than one year		(3,920)
Donor restricted endowment funds, net of appropriation for the following fiscal year		(324,441)
Board designated endowment funds, net of appropriation for the following fiscal year		(342,265)
Split interest agreements		(9,985)
Assets held in trust by others		(2,682)
Total financial assets not available to meet general expenditures within one year of June 30, 2019	$	(731,319)
Total financial assets available to meet general expenditures within one year of June 30, 2019	$	408,937

In addition to financial assets available to meet general expenditures in the year following June 30, 2019, LUC operates with a balanced budget and anticipates collecting sufficient revenue to cover operating expenses not covered by donor-restricted resources. The consolidated statements of cash flows presents the sources and uses of LUC's cash and shows net cash provided by operating activities of $94.3 million and $107.0 million for fiscal years 2019 and 2018, respectively.

(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 $23.0 million and $22.6 million for fiscal years 2019 and 2018, 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)

	2019	2018
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	$ 83,753	$ 92,295
Interest cost	3,237	3,112
Benefits paid	(3,655)	(5,922)
Settlements	(6,135)	-
Actuarial loss (gain)	8,098	(5,732)
Projected benefit obligation, end of year	$ 85,298	$ 83,753
Change in plan assets		
Fair value of plan assets, beginning of year	$ 60,467	$ 57,817
Actual return on plan assets	3,876	1,295
Employer contributions	4,862	7,277
Settlements	(6,135)	-
Benefits paid	(3,655)	(5,922)
Fair value of plan assets, end of year	$ 59,415	$ 60,467
Funded status of the plan		
Pension liability included in the consolidated statements of financial position	$(25,883)	$(23,286)

The accumulated benefit obligation for the defined benefit retirement plan was $85.3 million and $83.8 million for fiscal years 2019 and 2018, respectively.

	2019	2018
Change in amounts not yet recognized in net periodic pension cost and included in net assets without donor restrictions		
Beginning of year	$ 60,300	$ 66,904
Current year actuarial loss (gain)	7,080	(4,260)
Amortization of actuarial loss	(6,557)	(2,344)
End of year	$ 60,823	$ 60,300
Components of net pension expense		
Service cost	$ -	$ -
Interest cost	3,237	3,112
Expected return on plan assets	(2,857)	(2,767)
Net amortization and deferral	2,182	2,344
Settlement expense	4,375	-
Net periodic pension expense	$ 6,937	$ 2,689

Net actuarial loss of $2.2 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 2020.

Actuarial Assumptions

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

	2019	2018
Discount rate - benefit obligations	3.38%	4.20%
Discount rate - pension expense	4.20%	3.67%
Rate of compensation increase	n/a	n/a
Expected long-term return on assets	5.00%	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:

	2019	2018
Cash	1.6%	1.0%
Equity securities	37.4%	35.0%
Fixed income securities	49.1%	50.0%
Private equity investments	0.3%	1.0%
Other, including real estate	11.6%	13.0%
Total	100.0%	100.0%

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)

2019	Total	Level 1	Level 2	Level 3	NAV
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 collective trusts	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	$ 59,415	$ 22,022	$ 16,695	$ 48	$ 20,650

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, 2018:

(in thousands of dollars)

2018	Total	Level 1	Level 2	Level 3	NAV
Cash and cash equivalents	$ 407	$ 407	$ -	$ -	$ -
U.S. marketable equity securities	5,461	5,461			
U.S. marketable equity mutual funds	5,618	5,618			
U.S. marketable equity commingled funds	2,610				2,610
Non-U.S. marketable equity securities	1,473	1,473			
Non-U.S. marketable equity mutual funds	6,263	6,263			
Non-U.S. marketable equity commingled funds	3,891				3,891
Other equity securities	48			48	
Fixed income mutual funds	3,680	3,680			
Fixed income collective trusts	6,246				6,246
U.S. Treasury and government agency debt obligations	20,435	4,038	16,397		
Private equity investments	354				354
Real assets commingled funds	3,974				3,974
Private real assets investments	7				7
Total	$ 60,467	$ 26,940	$ 16,397	$ 48	$ 17,082

There were no changes in fair value of the LUERP Level 3 investments for the years ended June 30, 2019 and 2018.

Estimated future benefit payments

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

Fiscal Year	Payments
2020	$ 13,815
2021	6,709
2022	6,366
2023	6,106
2024	6,034
Thereafter	26,560

LUC expects to make employer contributions of $6.8 million to the defined benefit retirement plan in fiscal year 2020.

(11) Other Postretirement Benefits

LUC has a defined benefit retiree health plan covering eligible employees upon their retirement. Prior to January 1, 2018, health benefits were provided subject to various cost-sharing features and were not prefunded.

Effective January 1, 2018, LUC eliminated the subsidized medical and Medicare Part D coverage option for retirees. Retirees before July 2006, who were previously eligible for a subsidized medical plan, now receive a Retiree Health Reimbursement Account (RHRA). 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. This new plan design resulted in a prior service credit of $2.7 million recorded in fiscal year 2018.

In June 2018, the University announced the Retiree Health Reimbursement Account will be closed to new participants not age 50 as of January 1, 2019. 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. This plan amendment resulted in a prior service credit of $3.1 million and a curtailment of $2.7 million recorded in fiscal year 2018.

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

(in thousands of dollars)

	2019	2018
Change in benefit obligation		
Benefit obligation, beginning of year	$ 37,875	$ 44,587
Service cost	718	1,928
Interest cost	1,463	1,510
Participant contributions	47	501
Plan amendments	-	(5,851)
Benefits paid	(2,469)	(2,947)
Actuarial gain	(22)	(1,853)
Benefit obligation, end of year	$ 37,612	$ 37,875
Change in plan assets		
Fair value of plan assets, beginning of year	$ -	$ -
Employer contributions	2,422	2,446
Participant contributions	47	501
Benefits paid	(2,469)	(2,947)
Fair value of plan assets, end of year	$ -	$ -
Funded status of the plan		
Pension liability included in the consolidated statements of financial position	$ (37,612)	$ (37,875)
Change in amounts not yet recognized in net periodic benefit cost and included in net assets without donor restrictions		
Beginning of year	$ (6,495)	$ (1,523)
Net prior service credit amortization	447	-
Current year prior service credit	-	(5,851)
Current year actuarial gain	(22)	(1,853)
Curtailments	-	2,732
End of year	$ (6,070)	$ (6,495)

		2019		2018
Components of net periodic postretirement benefit cost				
Service cost	$	718	$	1,928
Interest cost		1,463		1,510
Net periodic postretirement benefit cost		2,181		3,438
Net prior service credit amortization		(447)		-
Curtailments included in retirement plan changes other than net periodic retirement plan expense		-		(2,732)
Total benefit cost	$	1,734	$	706
Discount rate		2.91%		3.96%

The discount rate used to calculate the benefit obligation for the year ended June 30, 2019 and the benefit cost for fiscal year 2020 is 2.91%. The discount rate used to calculate the benefit cost for fiscal year 2019 was 3.96%.

Health care cost trend rate assumptions for the plan

As a result of the January 1, 2018 plan amendment, 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)

Fiscal Year		Payments
2020	$	3,481
2021		3,939
2022		4,229
2023		4,366
2024		4,372
Thereafter		17,200

(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 plant, 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 years 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	$ 331,674	$ 122,570	$ 109,265	$ 563,509

In fiscal year 2019, fundraising expenses of $12.7 million are included primarily in institutional support.

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 is not substantially related to furtherance of the purpose for which the exemption was granted. The University's estimated unrelated business income tax liability for fiscal year 2019 was $0.4 million. The estimated income tax liability arises from various auxiliary services such as conference services, fitness center public memberships, athletic sponsorships with advertising, and qualified transportation fringe benefit expenses.

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. Research, training, academic programming, and other sponsored program expenditures totaling $38.1 million during fiscal year 2019 are included in the table above under academic, instruction, and research.

(13) Net Assets

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	353,713	210,986	564,699
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	23,556	208,112	231,668
Undesignated	871,471	-	871,471
Total net assets	$ 1,248,740	$ 419,098	$ 1,667,838

Net assets as of June 30, 2018 were as follows:

(in thousands of dollars)	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Perpetual:			
Endowment	$ -	$ 167,086	$ 167,086
Underwater endowments	-	(62)	(62)
Endowment – board designated	324,646	-	324,646
Other	-	23,161	23,161
Subtotal	324,646	190,185	514,831
Time or purpose:			
Endowment returns subject to future appropriation	-	148,633	148,633
Academic or program support and student financial aid	-	41,801	41,801
Research	-	3,785	3,785
Student loans	-	3,406	3,406
Construction	-	7,539	7,539
Annuity and life income funds	-	4,527	4,527
Subtotal	-	209,691	209,691
Undesignated	864,605	-	864,605
Total net assets	$ 1,189,251	$ 399,876	$ 1,589,127

During fiscal year 2019, the University's Board of Trustees designated approximately $26.0 million of net assets for activities related to the Stritch School of Medicine and other University research activities, of which approximately $2.4 million was utilized during the fiscal year. Net Assets with donor restrictions include contributions receivable of $31.7 million and $28.3 million as of June 30, 2019 and 2018, 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.

(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.

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

Academic Affiliation Agreement

The education and research components of LUC’s health sciences, including the Medical School and the Nursing School, remain with LUC following the Trinity Health transaction. LUC, LUHS, and LUMC 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 $24.4 million and $23.9 million of academic support in the consolidated statements of activities and changes in net assets in fiscal years 2019 and 2018, respectively.

Research Facility Funding Agreement

Pursuant to the Definitive Agreement, Trinity Health was required to make a $75.0 million payment to LUC for the construction and related start-up expenses of a new research enterprise facility owned by LUC. LUC also invested $75.0 million to match the Trinity Health payment for the construction and related start-up expenses. In fiscal year 2018, LUC received $10.7 million from Trinity Health, which is reported as net cash provided from discontinued operations in the consolidated statements of cash flows. No further funding is expected to be received from Trinity Health under this agreement.

(16) Subsequent Events

LUC has evaluated subsequent events through September 19, 2019, the date the consolidated financial statements were issued.

In August 2019, the University announced a one-time voluntary transition incentive program for eligible tenured faculty members. Approximately 200 tenured faculty members are eligible for the voluntary program. The number of tenured faculty members who choose and are approved to participate will be finalized in November 2019. Participants in this voluntary program will continue their service to the University through June 2020. The payout is anticipated to occur in July 2020.

LOYOLA UNIVERSITY CHICAGO
PRESIDENT'S CABINET & UNIVERSITY OFFICERS[1]

Jo Ann Rooney
President

Philip D. Hale
Vice President,
Civic Engagement

Wayne Magdziarz
Senior Vice President,
Chief Financial Officer and
Chief Business Officer

John M. Schietinger
Assistant Secretary

Susan Bodin
Treasurer

Kana Henning
Associate Vice President,
Facilities

Susan Malisch
Vice President,
Chief Information Officer

Janet W. Sisler
Vice President,
Mission Integration

Margaret Faut Callahan
Interim Provost and
Senior Vice President for
Strategy and Innovation

Michael J. Kaufman
Interim Vice Provost and
Dean
School of Law

Jane F. Neufeld
Vice President,
Student Development

Stephen Watson
Director of Athletics

Pamela G. Costas
Vice President,
General Counsel and
Secretary

Thomas M. Kelly
Senior Vice President,
Administrative Services

James Prehn, S.J.
Vice President and
Chief of Staff

Winifred Williams
Vice President,
Chief Human Resources Officer
and Chief Diversity & Inclusion
Officer

Lorraine G. Fitzgerald
Special Assistant to the
President and Liaison to the
Board of Trustees

Jeremy Langford
Vice President,
University Marketing and
Communications

Paul G. Roberts
Vice President,
Enrollment Management and
Student Success

ACADEMIC DEANS

Michael F. Andrews
Director
John Felice Rome Center

Malik S. Henfield
Dean
School of Education

Sam J. Marzo
Interim Dean
Stritch School of Medicine

Kevin T. Stevens
Dean
Quinlan School of Business

Kathleen Bobay
Interim Dean
Parkinson School of Health
Sciences and Public Health

Peter Jones
Interim Dean
Institute of Pastoral Studies

Goutham M. Menon
Dean
School of Social Work

Nancy C. Tuchman
Dean
Institute of Environmental
Sustainability

Hong Cheng
Dean
School of Communication

Stephen N. Katsouros, S.J.
Dean and Executive Director,
Arrupe College

Thomas J. Regan, S.J.
Dean
College of Arts and Sciences
and The Graduate School

Jeanne Widen
Interim Dean
School of Continuing and
Professional Studies

Lorna Finnegan
Dean
Marcella Niehoff School of
Nursing

Michael J. Kaufman
Interim Vice Provost and
Dean
School of Law

Marianne P. Ryan
Dean
University Libraries

[1] As of September 12, 2019

LOYOLA UNIVERSITY CHICAGO
TRUSTEES AND THEIR AFFILIATIONS[1]

[1] As of September 12, 2019

OFFICE OF THE SENIOR VICE PRESIDENT,
CHIEF FINANCIAL OFFICER, AND
CHIEF BUSINESS OFFICER

Water Tower Campus
820 N. Michigan Avenue • Chicago, IL 60611

LUC.edu/finance

ONWARD LU