

# CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022



## **INDEPENDENT AUDITOR'S REPORT**

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

### **Opinion**

We have audited the consolidated financial statements of Loyola University of Chicago ("LUC"), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of LUC as of June 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of LUC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about LUC's ability to continue as a going concern for one year after the date that the financial statements are issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always

detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 LUC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about LUC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Deloitte & Touche LLP*

September 21, 2023

# LOYOLA UNIVERSITY CHICAGO

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

*As of June 30, 2023 and 2022*

<i>(In thousands of dollars)</i>	2023	2022
<b>ASSETS</b>		
Cash and cash equivalents	\$ 92,370	\$ 80,937
Short-term investments	136,048	200,874
Notes and accounts receivable, net	77,938	89,409
Other assets	9,860	9,202
Endowment and other long-term investments	1,149,854	1,004,715
Right of use asset - operating leases	1,158	1,261
Assets held in trust by others	1,786	2,296
Interest held in perpetual trust	14,028	13,791
Land, buildings and equipment, net	1,004,606	1,019,949
<b>TOTAL ASSETS</b>	<b>\$ 2,487,648</b>	<b>\$ 2,422,434</b>
<b>LIABILITIES AND NET ASSETS</b>		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 57,381	\$ 61,209
Deferred revenue	29,029	29,883
Unexpended grants	13,277	12,406
Refundable U.S. government student loan funds	7,533	9,038
Indebtedness	266,667	281,073
Lease liability - operating	1,197	1,291
Pension and other postretirement plan liabilities	33,451	40,394
Other liabilities	5,081	5,100
<b>TOTAL LIABILITIES</b>	<b>413,616</b>	<b>440,394</b>
NET ASSETS:		
Without donor restrictions	1,482,038	1,421,334
With donor restrictions	591,994	560,706
<b>TOTAL NET ASSETS</b>	<b>2,074,032</b>	<b>1,982,040</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,487,648</b>	<b>\$ 2,422,434</b>

*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, 2023 and 2022

(In thousands of dollars)	2023			2022		
	Without donor restrictions	With donor restrictions	Total 2023	Without donor restrictions	With donor restrictions	Total 2022
<b>OPERATING REVENUES:</b>						
Tuition and fees, net of scholarships \$280,297 (2023) and \$272,099 (2022)	\$ 416,065	\$	\$ 416,065	\$ 422,605	\$	\$ 422,605
Auxiliary services	76,804		76,804	58,884		58,884
Academic support	28,427		28,427	26,093		26,093
Other	28,734		28,734	26,578		26,578
Grants and contracts for sponsored projects	53,257		53,257	49,666		49,666
Higher Education Emergency Relief Fund Student aid	-		-	19,825		19,825
Higher Education Emergency Relief Fund Institutional aid	-		-	1,586		1,586
Gifts - cash and financial assets	6,915		6,915	4,854		4,854
Gifts - nonfinancial assets	48		48	37		37
Return on short-term investments and interest income	7,216		7,216	(7,573)		(7,573)
Investment income designated for operations	10,238		10,238	9,769		9,769
Net assets utilized or released from restrictions for operations	19,337		19,337	18,206		18,206
Net assets released - board designated	8,548		8,548	6,730		6,730
<b>TOTAL OPERATING REVENUES</b>	<b>655,589</b>		<b>655,589</b>	<b>637,260</b>		<b>637,260</b>
<b>OPERATING EXPENSES:</b>						
Salaries and wages	309,234		309,234	287,863		287,863
Fringe benefits	75,525		75,525	72,002		72,002
Non-salary operating expenses	164,157		164,157	149,069		149,069
Depreciation and amortization	57,893		57,893	58,316		58,316
Insurance and utilities	19,289		19,289	16,229		16,229
Interest	8,786		8,786	12,346		12,346
Higher Education Emergency Relief Fund Student aid	-		-	19,825		19,825
<b>TOTAL OPERATING EXPENSES</b>	<b>634,884</b>		<b>634,884</b>	<b>615,650</b>		<b>615,650</b>
<b>RESULTS OF OPERATIONS</b>	<b>20,705</b>		<b>20,705</b>	<b>21,610</b>		<b>21,610</b>
<b>NON-OPERATING INCOME (LOSS):</b>						
Gifts	-	24,889	24,889	20	79,300	79,320
Investment return, net of amounts designated for operations	32,797	33,027	65,824	(54,130)	(33,514)	(87,644)
Net periodic pension and post retirement plan cost	(2,479)		(2,479)	(1,109)		(1,109)
Retirement plan related changes other than net periodic retirement plan cost	3,609		3,609	5,235		5,235
Other	7,424	(95)	7,329	(7,183)	(2,672)	(9,855)
Net assets transferred or released from restrictions	7,196	(26,533)	(19,337)	6,329	(24,535)	(18,206)
Net assets released - board designated	(8,548)		(8,548)	(6,730)		(6,730)
Higher Education Emergency Relief Fund Institutional aid	-		-	6,232		6,232
<b>TOTAL NON-OPERATING ACTIVITIES</b>	<b>39,999</b>	<b>31,288</b>	<b>71,287</b>	<b>(51,336)</b>	<b>18,579</b>	<b>(32,757)</b>
<b>CHANGE IN NET ASSETS</b>	<b>60,704</b>	<b>31,288</b>	<b>91,992</b>	<b>(29,726)</b>	<b>18,579</b>	<b>(11,147)</b>
Total net assets, beginning of year	1,421,334	560,706	1,982,040	1,451,060	542,127	1,993,187
<b>TOTAL NET ASSETS, END OF YEAR</b>	<b>\$ 1,482,038</b>	<b>\$ 591,994</b>	<b>\$ 2,074,032</b>	<b>\$ 1,421,334</b>	<b>\$ 560,706</b>	<b>\$ 1,982,040</b>

See notes to the consolidated financial statements.

# LOYOLA UNIVERSITY CHICAGO

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2023 and 2022

<i>(In thousands of dollars)</i>	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase (decrease) in net assets	\$ 91,992	\$ (11,147)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	57,893	58,316
Provision for bad debt expense	1,439	807
Net gain upon refinance of Series 2012B tax-exempt bonds	(3,454)	-
Retirement plan related changes	(3,609)	(5,235)
Provision for retirement costs	2,479	1,109
Net realized and unrealized (gain) loss on investments	(73,221)	93,149
Net realized and unrealized (gain) loss on interest held in perpetual trust	(1,072)	2,050
Contributions restricted for long-term investment	(20,312)	(21,123)
Other	(1,794)	3,261
Changes in assets and liabilities:		
Notes and accounts receivable, net	9,155	(40,516)
Other assets	(643)	(1,112)
Accounts payable and accrued expenses	(3,819)	(2,894)
Deferred revenue and unexpended grants	17	(732)
Interest held in perpetual trust	835	223
Refundable U.S. government student loan funds	(1,505)	(3,507)
Employer contributions to pension and retiree health plan	(5,813)	(5,936)
Other liabilities	(59)	98
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>48,509</b>	<b>66,811</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investments	456,758	389,251
Purchases of investments	(529,842)	(403,424)
Decrease (Increase) of short-term investments, net	65,977	(3,785)
Expenditures for land, buildings and equipment	(40,007)	(22,886)
Student loans issued	(922)	(578)
Student loans collected	1,799	2,520
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(46,237)</b>	<b>(38,902)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Contributions restricted for long-term investment	20,312	21,123
Proceeds from 2021 term note	73,910	-
Retirement of debt	(85,061)	(74,293)
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<b>9,161</b>	<b>(53,170)</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>11,433</b>	<b>(25,261)</b>
Cash and cash equivalents, beginning of year	80,937	106,198
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 92,370</b>	<b>\$ 80,937</b>

See notes to the consolidated financial statements.

# LOYOLA UNIVERSITY CHICAGO

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*For the years ended June 30, 2023 and 2022*

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### **(1) Overview of Loyola University of Chicago**

Loyola University of Chicago (referred to as Loyola University Chicago, the University, or LUC) is a private, coeducational, not-for-profit institution of higher education and research founded in 1870 by the Society of Jesus (Jesuits). LUC's patron saint and namesake is St. Ignatius Loyola (1491-1556), the founder of the Society of Jesus. The year 2020 marked the University's 150<sup>th</sup> anniversary.

LUC is one of the largest Jesuit, Catholic universities in the United States and provides educational services to approximately seventeen thousand students primarily in undergraduate degree programs as well as graduate and professional degree programs. LUC performs research, training, and other services under grants and contracts with government agencies and other sponsoring organizations. LUC is home to 15 schools, colleges, and institutes. LUC operates four campuses: Lake Shore, Water Tower, Health Sciences, and the John Felice Rome Center in Italy, as well as the Cuneo Mansion & Gardens in Vernon Hills, Illinois and a Retreat and Ecology Campus in Woodstock, Illinois.

The accompanying consolidated financial statements include the accounts of Loyola University Chicago and Mundelein College (Mundelein). All intercompany transactions and balances are eliminated upon consolidation.

### **(2) Tax Status**

LUC and Mundelein are Illinois not-for-profit corporations and are exempt from federal income taxes under section 501(c)(3) of the U.S. Internal Revenue Code.

### **(3) Summary of Significant Accounting Policies**

#### **a) Basis of Presentation**

The consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP). These principles require management to make estimates and judgments affecting the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from these estimates. The following notes may include reference to specific GAAP pronouncements including the Financial Accounting Standards Board's (FASB) Accounting Standards Updates (ASU) or Accounting Standards Codifications (ASC).

#### **b) Cash and Cash Equivalents**

Cash and cash equivalents are liquid instruments having original maturities at the time of purchase of three months or less, or funds investing primarily in such instruments, excluding those held in short-term and long-term investments. 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. In addition, consistent with ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*, this asset category also includes capitalized implementation costs incurred in a cloud computing arrangement that is a service contract.

### **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 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 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 basis using the following useful lives: building shell, 40-50 years; building improvements, 10-25 years; furniture, 7-20 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.

This asset category also includes the capitalized value of library books and art collections. The University follows ASU 2019-03, *Updating the Definition of Collections (Topic 958)*, which modified the definition of the term collections (i.e., works of art, historical treasures, and similar assets) and clarifies certain accounting and disclosure guidance related to such collections.

Management continually reviews its long-lived assets for evidence of potential impairment. No impairment adjustments were recorded as of June 30, 2023.

**j) Leases**

The University recognizes rights and obligations arising from leases as assets and liabilities on the consolidated statements of financial position in accordance with ASU No. 2016-02, *Leases (Topic 842)*. LUC has elected the short-term lease exemption and therefore does not recognize a right-of-use asset or corresponding liability for lease arrangements with an original term of 12 months or less. Regarding the discount rate, LUC uses the rate implicit in the lease whenever that rate is readily determinable. In accordance with ASU 2021-09, *Discount Rate for Lessees That Are Not Public Business Entities*, LUC is permitted to use a risk-free discount rate for a lease instead of its incremental borrowing rate as an accounting policy election made by class of underlying asset. See Note 10, *Leases*, for further information regarding the University's lease-related disclosures.

## **k) 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. 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.

## **l) Revenue Recognition**

The University adheres to the following GAAP concerning revenue recognition:

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

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

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

## **m) Gifts and Contributions**

### *Contributions of cash and other financial assets*

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 gifts under 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 generally 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.

*Contributions of nonfinancial assets (gifts in kind)*

On July 1, 2021 (fiscal year 2022), the University adopted ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU improves transparency in the reporting of contributed financial assets, also known as gifts-in-kind. The University adopted this ASU on a retrospective basis.

For nonfinancial contributions which are readily consumed, the University recognizes in-kind contribution revenue and a corresponding expense in an amount approximating the estimated fair value at the time of the donation. Should the University accept a contribution of a nonfinancial asset such as real estate, the University will recognize the gift revenue, generally based on an independent appraisal, as non-operating income and will record the asset consistent with its policies for land, building and equipment, or other asset as appropriate.

The University does not rely on contributed services (services that create or enhance nonfinancial assets or provide specialized skills that would need to be purchased if they were not donated), and therefore does not recognize any revenue or expense for contributed services.

The statement of activities and changes in net assets presents the value of contributed nonfinancial assets as a separate line item apart from contributions of cash and other financial assets. During these fiscal years, the contributions of nonfinancial assets were primarily donated goods subsequently used by the University's various programs, consistent with the donors' intent.

**n) 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.

**o) Retirement Plans and Other Postretirement Benefits**

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

Effective July 1, 2021 (fiscal year 2022), the University adopted 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. Please refer to Note 12, *Retirement Plans* for disclosures required by this ASU.

#### **p) Results of Operations**

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

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

#### **q) Related Party Transactions**

The University maintains policies to identify and evaluate related party transactions. Related parties include the University's directors, officers, or key employees, any relative of such individuals, or any entity in which such individuals exceed a certain ownership or beneficial interest percent, the Society of Jesus (Jesuits), Mundelein, and the Loyola University Employees' Retirement Plan (LUERP). The University follows ASC 850, *Related Party Disclosures*. Please refer to Note 1, *Overview of Loyola University of Chicago*, for information related to the Jesuits and Mundelein and Note 12, *Retirement Plans*, for information related to the LUERP.

The University has a commitment to fund up to \$5.0 million of capital improvements for the Midwest Jesuit Province's Arrupe House Jesuit residence, located at the University's Lake Shore Campus. In exchange for this commitment, the University has a right of first refusal to acquire the property at a later date and at a price that reflects an adjustment for the improvements funded by LUC. During fiscal year 2023, the University recorded non-operating expense of approximately \$0.3 million towards this commitment. The remaining amount is expected to be incurred over the next eighteen months.

During fiscal years 2023 and 2022, there were no other material related-party transactions to disclose.

#### **r) Reclassifications**

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's presentation. The fiscal year 2023 reclassifications primarily appear in the Note 11, Financial Assets and Liquidity Resources.

#### **s) Recent Accounting Pronouncements**

Credit Losses on Financial Instruments: In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This guidance provides financial statement users with more decision-useful information about the expected credit losses on financial instruments, and other commitments to extend credit, held at each reporting date. The ASU adds to GAAP an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. For LUC, the ASU is effective beginning in fiscal year 2024. LUC is evaluating the impact of this ASU on the consolidated financial statements and the University's processes for assessing the adequacy of the allowance for credit losses on certain types of financial instruments, including notes and accounts receivable.

#### **(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 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.

##### **Fair Value Measurements**

FASB ASC Topic 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three categories:

Level 1 - Unadjusted quoted prices in active markets for identical instruments.

Level 2 - Quoted prices in active markets for similar instruments, quoted prices in inactive markets for identical or similar instruments, or model-derived valuations in which all significant inputs are directly or indirectly observable.

Level 3 - Model-derived valuations in which one or more significant inputs are unobservable.

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

## Short-term Investments

LUC had short-term investments of \$136.0 million and \$200.9 million at June 30, 2023 and 2022, respectively. During fiscal year 2023, the University transferred \$50.0 million to long-term investments from 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, 2023 and 2022:

(in thousands of dollars)

<u>2023</u>	Total	Level 1	Level 2
Cash and cash equivalents	\$ 696	\$ 696	\$ -
Fixed income mutual funds	30,555	30,555	
U.S. Treasury and government agency debt securities	41,151		41,151
Municipal debt securities	1,114		1,114
Corporate debt securities	41,230		41,230
Mortgage-related securities	6,315		6,315
Asset-backed securities	14,257		14,257
Collateralized mortgage obligations	730		730
Total	<u>\$ 136,048</u>	<u>\$ 31,251</u>	<u>\$ 104,797</u>

(in thousands of dollars)

<u>2022</u>	Total	Level 1	Level 2
Cash and cash equivalents	\$ 1,842	\$ 1,842	\$ -
Fixed income mutual funds	42,910	42,910	
U.S. Treasury and government agency debt securities	50,728		50,728
Municipal debt securities	2,802		2,802
Corporate debt securities	79,716		79,716
Mortgage-related securities	7,421		7,421
Asset-backed securities	14,376		14,376
Collateralized mortgage obligations	1,079		1,079
Total	<u>\$ 200,874</u>	<u>\$ 44,752</u>	<u>\$ 156,122</u>

## Endowment and Other Long-term Investments

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, 2023 and 2022:

(in thousands of dollars)

	2023	2022
Donor-restricted endowment funds	\$ 479,814	\$ 421,879
Board-designated funds functioning as endowment	491,438	465,636
Total endowment investments <sup>(1)</sup>	971,252	887,515
Institutional reserves <sup>(2)</sup>	167,006	107,031
Total long-term investment portfolio	1,138,258	994,546
Split-interest agreements	9,044	8,920
Other invested assets	2,552	1,249
Total endowment and other long-term investments	<u>\$ 1,149,854</u>	<u>\$ 1,004,715</u>

<sup>(1)</sup> Refer to Note 11, *Financial Assets and Liquidity Resources*, and Note 15, *Net Assets*.

<sup>(2)</sup> During fiscal year 2023, the University transferred \$50.0 million to institutional reserves in long-term investments from short-term investments.

The tables below summarize endowment and other long-term investments' fair value measurements by fair value hierarchy level and NAV (or its equivalent) as a practical expedient, as of June 30, 2023 and 2022:

(in thousands of dollars)

<u>2023</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>
Cash and cash equivalents <sup>(1)</sup>	\$ 12,100	\$ 12,100	\$ -	\$ -	\$ -
U.S. marketable equity securities	22,203	22,203			
U.S. marketable equity mutual funds	133,908	133,908			
Non-U.S. marketable equity securities	22,326	22,326			
Non-U.S. marketable equity mutual funds	62,582	62,582			
Marketable equity commingled funds	508,502				508,502
Other equity securities	74			74	
Fixed income mutual funds	2,785	2,785			
Fixed income commingled funds	48,174				48,174
Municipal debt securities	638		638		
U.S. Treasury and government agency debt obligations	107,344		107,344		
Private equity investments	195,104				195,104
Real assets mutual funds	7,574	7,574			
Private real assets investments	26,540				26,540
Total	<u>\$ 1,149,854</u>	<u>\$ 263,478</u>	<u>\$ 107,982</u>	<u>\$ 74</u>	<u>\$ 778,320</u>

<sup>(1)</sup> Amounts are net of pending trade settlements and derivative offsets.

(in thousands of dollars)

<u>2022</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>
Cash and cash equivalents <sup>(1)</sup>	\$ (16,910)	\$ (16,910)	\$ -	\$ -	\$ -
U.S. marketable equity securities	96,751	96,751			
U.S. marketable equity mutual funds	83,548	83,548			
Non-U.S. marketable equity securities	18,880	18,880			
Non-U.S. marketable equity mutual funds	58,605	58,605			
Marketable equity commingled funds	374,934				374,934
Other equity securities	74			74	
Fixed income mutual funds	2,753	2,753			
Fixed income commingled funds	73,186				73,186
U.S. Treasury and government agency debt obligations	89,968		89,968		
Private equity investments	193,732				193,732
Real assets mutual funds	8,066	8,066			
Private real assets investments	21,128				21,128
Total	<u>\$ 1,004,715</u>	<u>\$ 251,693</u>	<u>\$ 89,968</u>	<u>\$ 74</u>	<u>\$ 662,980</u>

<sup>(1)</sup> Amounts are net of pending trade settlements and derivative offsets.

For the years ended June 30, 2023 and 2022, there were no significant transfers between fair value hierarchy levels and there were no changes in the fair value of the Level 3 investments in endowment and other long-term investments.

LUC is obligated to make future capital contributions in private investment vehicles in the maximum amount of \$143.2 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, 2023 are as follows:

(in thousands of dollars)

Investment Type	2023 Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period	Other Redemption Restrictions
Marketable equity commingled funds <sup>(1)</sup>	\$ 508,502	\$ -	Weekly to triennially	Three business days to eighty days	Various initial lockup periods, potential redemption fees, And limits on redeemable proportion of outstanding balances
Fixed income commingled funds <sup>(2)</sup>	48,174	7,500	Quarterly to only at the direction of investment managers	Seventy-five to ninety days	Certain limits on redeemable proportion of outstanding balances
Private equity Investments <sup>(3)</sup>	195,104	105,453	Directed by investment managers	n/a	None
Private real assets investments <sup>(3)</sup>	26,540	30,285	Directed by investment managers	n/a	None
<b>Total</b>	<b>\$ 778,320</b>	<b>\$ 143,238</b>			

<sup>(1)</sup> 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.

<sup>(2)</sup> The fixed income commingled funds category is comprised of funds that invest primarily in U.S. high yield bonds and global corporate debt securities, including structured products.

<sup>(3)</sup> 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.

### 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, 2023 and 2022, the investment portfolio held futures contracts with a notional value of \$20.9 million and \$25.5 million, respectively. The net impact of the futures held at June 30, 2023 is to reduce the proportion of cash in the endowment portfolio by 1.8% while increasing equity exposure by 1.8%. 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, 2023 and 2022 is as follows:

(in thousands of dollars)

Derivative Type	Location in the Consolidated Statements of Activities and Changes in Net Assets	2023	2022
Equity, equity options contracts, fixed income, and currency futures	Non-operating: Investment return, net of amounts designated for operations	\$ 2,907	\$ (4,525)

### Investment Returns

Investment returns, net of investment and management fees, for short-term and long-term investments, for the years ended June 30, 2023 and 2022 are as follows:

(in thousands of dollars)

	2023	2022
Interest and dividend income, net of fees	\$ 10,057	\$ 7,701
Net realized gains	64,370	94,601
Net unrealized gain (loss)	8,851	(187,750)
Total net return on investment	<u>\$ 83,278</u>	<u>\$ (85,448)</u>

Returns earned on long-term investments are classified as non-operating activities in the consolidated statements of activities and changes in net assets, while returns earned on short-term investments and operating cash are classified as operating revenues. In addition, expenditures of accumulated investment return earned on board-designated funds functioning as endowment funds are classified as investment income designated for operations under operating revenues, and are deducted from non-operating investment returns, within net assets without donor restrictions.

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

(in thousands of dollars)

	2023	2022
<b>Changes in net assets without donor restrictions</b>		
Return on short-term investments and interest income	\$ 7,216	\$ (7,573)
Investment income designated for operations	10,238	9,769
Non-operating investment gain (loss)	43,035	(44,361)
Less: Amounts designated for operations	<u>(10,238)</u>	<u>(9,769)</u>
Non-operating investment return, net of amounts designated for operations	<u>32,797</u>	<u>(54,130)</u>
<b>Changes in net assets with donor restrictions</b>		
Non-operating investment return, net of amounts designated for operations	33,027	(33,514)
Total net return on investment	<u>\$ 83,278</u>	<u>\$ (85,448)</u>

## Endowment Net Assets

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

The LUC Board of Trustees has reviewed the Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA or the Act) and, having considered its rights and obligations thereunder, has determined that it is desirable for LUC to preserve, on a long-term basis, the original value of a contribution of a donor-restricted endowment fund as of the gift date, subject to any express language in the applicable endowment agreement indicating otherwise and pursuant to UPMIFA. Notwithstanding the foregoing, this determination is not intended to, and shall not, affect LUC's authority under UPMIFA to spend any amounts from an endowment fund on a short-term basis even if the market value of the endowment fund is below the original value of the contributions by the donor. As a result of this determination, LUC classifies as net assets with donor restrictions (a) the original value of gifts contributed to a donor-restricted endowment fund, and (b) the original value of subsequent gifts to a donor-restricted endowment fund.

In accordance with the Act, LUC considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The purposes of LUC and of the donor-restricted endowment fund;
- The duration and preservation of the fund;
- General economic conditions;
- The possible effects of inflation and deflation;
- The investment policies of LUC;
- The expected total return from income and the appreciation of investments;
- Other LUC resources

LUC uses a total return-linked spending policy designed to preserve the value of the endowment fund in real terms (i.e., after inflation) and to generate a predictable stream of income to support spending. Endowment spending can consist of interest, dividends or accumulated capital gains, and the proportion of each varies from year to year.

The primary objective of the endowment investment policy is to provide a stable source of funding for LUC programs, financial aid, and faculty support that will maintain and expand the purchasing power of endowment payout over a long-term time horizon.

Target allocations, and acceptable ranges of deviation from them, are established in order to achieve a diversified investment portfolio that can adapt to changing market environments and investment opportunities. The endowment portfolio is also managed to ensure that, within the constraints of its asset allocation targets, sufficient liquidity is maintained to fund ongoing spending draws and the periodic funding requirements of its various investments.

The following table summarizes the asset allocation targets as of June 30, 2023 for the endowment and long-term investment portfolio:

Target Asset Class	Allocation
Global equity	45.0%
Private capital	20.0%
Real assets	2.5%
Opportunistic credit	2.5%
Marketable alternatives	20.0%
Fixed income	10.0%
Total	<u>100.0%</u>

Current endowment spending policy establishes a maximum budgeted spending rate in any given year of 5% of an endowed 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 endowed 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, 2023 and 2022 are classified as follows:

(in thousands of dollars)

	Without donor restrictions	With donor restrictions	Total
<u>2023</u>			
Donor-restricted endowment funds	\$ -	\$ 481,244	\$ 481,244
Underwater endowments		(63)	(63)
Board-designated funds functioning as endowments	490,174		490,174
Total endowment net assets	<u>\$ 490,174</u>	<u>\$ 481,181</u>	<u>\$ 971,355</u>
<u>2022</u>			
Donor-restricted endowment funds	\$ -	\$ 436,135	\$ 436,135
Underwater endowments	-	(857)	(857)
Board-designated funds functioning as endowments	464,792	-	464,792
Total endowment net assets	<u>\$ 464,792</u>	<u>\$ 435,278</u>	<u>\$ 900,070</u>

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

At June 30, 2023 and 2022, the amount by which funds were underwater was calculated as follows:

(in thousands of dollars)

	2023	2022
Aggregate fair value	\$ 2,648	\$ 19,541
Aggregate original value	2,711	20,398
Aggregate deficiency	<u>\$ (63)</u>	<u>\$ (857)</u>

The following table provides a summary of the changes in the endowment net assets for the year ended June 30, 2023:

(in thousands of dollars)

<u>2023</u>	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ 464,792	\$ 435,278	\$ 900,070
Contributions and other additions			
Contributions (excluding pledges)		26,839	26,839
Board-designated funds functioning as endowment	2,699		2,699
Total contributions and other additions	<u>2,699</u>	<u>26,839</u>	<u>29,538</u>
Total investment return, net	32,921	31,280	64,201
Income distributed for operating purposes			
Scholarships	(3,397)	(5,790)	(9,187)
Endowed Chairs	(1,903)	(2,597)	(4,500)
Research	(527)	(716)	(1,243)
Other	(4,411)	(3,113)	(7,524)
Total income distributed for operating purposes	<u>(10,238)</u>	<u>(12,216)</u>	<u>(22,454)</u>
Endowment net assets, end of year	<u>\$ 490,174</u>	<u>\$ 481,181</u>	<u>\$ 971,355</u>

Contributions of \$26.8 million in fiscal year 2023 include \$20.3 million received during fiscal year 2023 and \$6.5 million received in prior years but designated to the endowment during fiscal year 2023.

The following table provides a summary of the changes in the endowment net assets for the year ended June 30, 2022:

(in thousands of dollars)

<u>2022</u>	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ 471,331	\$ 457,371	\$ 928,702
Contributions and other additions			
Contributions (excluding pledges)	-	21,331	21,331
Board-designated funds functioning as endowment	39,397	-	39,397
Total contributions and other additions	39,397	21,331	60,728
Total investment return, net	(36,167)	(32,218)	(68,385)
Income distributed for operating purposes			
Scholarships	(3,130)	(5,052)	(8,182)
Endowed Chairs	(1,751)	(2,661)	(4,412)
Research	(590)	(537)	(1,127)
Other	(4,298)	(2,956)	(7,254)
Total income distributed for operating purposes	(9,769)	(11,206)	(20,975)
Endowment net assets, end of year	\$ 464,792	\$ 435,278	\$ 900,070

Contributions of \$21.3 million in fiscal year 2022 include \$21.1 million received during fiscal year 2022 and \$0.2 million received in prior years but designated to the endowment during fiscal year 2022.

### 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.

The assets held under split-interest agreements (charitable trusts for which LUC is the trustee and assets held in respect to gift annuity contracts) were \$9.0 million and \$8.9 million at June 30, 2023 and 2022, respectively, and are reported at fair value in endowment and other long-term investments in the consolidated statements of financial position. The discounted present value of any income beneficiary interest is included in accounts payable and other accrued expenses in the consolidated statements of financial position, and was \$4.6 million and \$4.8 million, respectively, at June 30, 2023 and 2022. The discount rate used is 5.5% in fiscal years 2023 and 2022.

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.

As of June 30, 2023 and 2022, the amounts related to split-interest agreements, in the non-operating activities section of the consolidated statements of activities and changes in net assets, are as follows:

(in thousands of dollars)

Description	Location in the Consolidated Statements of Activities and Changes in Net Assets	2023	2022
Actuarial losses on split-interest agreements	Non-Operating: With Donor Restrictions - Other	<u>\$ (375)</u>	<u>\$ (422)</u>

#### **(5) 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, 2023 and 2022:

(in thousands of dollars)

	2023	2022
Beginning of year	\$ 13,791	\$ 16,064
Contributions	-	-
Realized gain	352	511
Unrealized gain (loss)	720	(2,561)
Distributions	(835)	(223)
End of year	<u>\$ 14,028</u>	<u>\$ 13,791</u>

#### **(6) Revenue from Contracts with Customers (Revenue Recognition)**

##### **Disaggregation of Revenue**

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

##### *Tuition and fees, net of scholarships*

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

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

Academic terms are determined by regulatory requirements mandated by the federal government and/or applicable accrediting bodies. LUC's academic terms generally consist of Fall, Winter, 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 \$3.2 million and \$2.5 million were included as a reduction in auxiliary services revenue as of June 30, 2023 and 2022, respectively.

In addition to room and board, auxiliary services include revenue earned for various conference services offered by the University. Revenue from conference services is recognized once the performance obligations are complete. Due to the pandemic, conference services activity was limited during fiscal year 2022.

#### *Academic support*

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

The University's education and research mission and programs, including the University's Stritch School of Medicine, Marcella Niehoff School of Nursing, the Parkinson School of Health Sciences and Public Health, and other health science and research programs, represent an integral part of and support the delivery of health care and related clinical services operated by LUHS and LUMC. The academic support amount of \$22.5 million established in 2011 has been adjusted annually based on the consumer price index. The University collects the payment monthly. As of June 30, 2023, the University fully collected the academic support payment for fiscal years 2023 and prior. LUC reported \$28.4 million and \$26.1 million of academic support in the consolidated statements of activities and changes in net assets in fiscal years 2023 and 2022, respectively.

LUHS and LUMC are owned and operated by Trinity Health. See Note 18, *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 and fitness center membership fees, and royalties. Revenue from these activities is generally recognized as services are performed.

### **Contract Assets and Deferred Revenue**

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

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

Due to the start and end dates for programs in the Summer academic term in relation to the University's fiscal year end, the University recognizes a contract asset and corresponding revenue for tuition, fees, room, and board services which have been delivered as of June 30<sup>th</sup>, 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 Summer terms, no contract assets were recorded as of June 30, 2023 or June 30, 2022, respectively.

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, 2023 and 2022, 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, 2023	\$ 22,126	\$ 3,034	\$ 3,869	\$ 29,029
Deferred revenue as of June 30, 2022	\$ 23,299	\$ 2,408	\$ 4,176	\$ 29,883

The deferred revenue related to contracts greater than one year will primarily be recognized on a straight-line basis over the remaining term of a 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 contracts for these services can be grouped into a portfolio, specific to each of these three performance obligations. Based on the University's experience, students at different campuses or in different programs have similar characteristics concerning the University's approach to revenue recognition. Agreements concerning enrollment, student financial responsibility, housing, and dining plans each contain terms, which clarify the performance obligations and eligibility for refunds or fee adjustments. These agreements are fundamentally the same regardless of the program of study.

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

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

See Note 7, *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.

## (7) Notes and Accounts Receivable, Net

Notes and accounts receivable, net, at June 30, 2023 and 2022 consist of the following:

(in thousands of dollars)	June 30, 2023			June 30, 2022
	Notes and Accounts Receivable	Allowance for doubtful accounts	Notes and Accounts Receivable, net	Notes and Accounts Receivable, net
Student receivables	\$ 6,993	\$ (2,905)	\$ 4,088	\$ 4,423
Student loan notes				
Federal government programs	6,833	(366)	6,467	7,791
Institutional/other programs	2,128	(737)	1,391	1,341
Contributions receivable	48,732	(1,089)	47,643	59,074
Grants receivable	11,127	-	11,127	11,098
Other receivables	7,285	(63)	7,222	5,682
Total	\$ 83,098	\$ (5,160)	\$ 77,938	\$ 89,409

### Student receivables

These balances represent amounts billed to students related to their academic experience at LUC, and for which the University has an unconditional right to receive payment because the programs have reached the point at which the amount billed is no longer refundable to the student. The student receivables allowance for doubtful accounts is established based on collection experience. The following table summarizes the change in the student receivables allowance for doubtful accounts during fiscal years 2023 and 2022:

(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, 2023	\$ (2,597)	\$ (2,113)	\$ 1,805	\$ (2,905)
For the year ended June 30, 2022	\$ (4,415)	\$ (1,631)	\$ 3,449	\$ (2,597)

### 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, 2023 and 2022, student loan notes represented less than 1% of total assets.

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

The liability for refundable U.S. government student loan funds in the consolidated statements of financial position was \$7.5 million and \$9.0 million at June 30, 2023 and 2022, respectively.

At June 30, 2023 and 2022, LUC had past due student loans of \$1.1 million and \$1.8 million, respectively. The allowance for doubtful accounts is established based on collection experience. The following table summarizes the change in the student loan notes allowance for doubtful accounts during fiscal years 2023 and 2022:

(in thousands of dollars)	Balance, Beginning of Period	Allowance Decrease (Increase)	Amounts Written-off	Balance, End of Period
Allowance for doubtful accounts - Student loan notes				
For the year ended June 30, 2023	\$ (1,614)	\$ (203)	\$ 714	\$ (1,103)
For the year ended June 30, 2022	\$ (2,342)	\$ (97)	\$ 825	\$ (1,614)

### 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. The weighted average discount rate was 4.1% at June 30, 2023 and June 30, 2022. An allowance for uncollectible contributions is established based upon management's judgment of the collectability of outstanding pledges.

During fiscal year 2022, the University received a pledge of \$40 million as part of a comprehensive capital campaign. The University collected \$10 million towards this pledge during fiscal year 2023. The remainder of the pledge is expected to be collected over the next three fiscal years.

Contributions receivable at June 30, 2023 and 2022 are due in the following periods:

(in thousands of dollars)	2023	2022
In one year or less	\$ 16,471	\$ 15,356
Between one year and five years	31,414	45,332
More than five years	6,951	8,025
Present value discount	(6,104)	(8,477)
Total	48,732	60,236
Allowance for uncollectible contributions	(1,089)	(1,162)
Total contributions receivable, net	\$ 47,643	\$ 59,074

### Grants receivable

Grants receivable consists of amounts from federal and local government agencies and private entities related to sponsored programs. Substantially all of the balance of \$11.1 million as of June 30, 2023 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. Within the upcoming fiscal year, LUC expects to collect \$5.4 million of the \$7.2 million receivable as of June 30, 2023. The University regularly assesses the adequacy of the allowance for doubtful accounts, and balances are written off when deemed uncollectible.

## (8) Land, Buildings and Equipment, Net

Components of land, buildings, and equipment at June 30, 2023 and 2022 are as follows:

(in thousands of dollars)

	2023	2022
Land and land improvements	\$ 224,098	\$ 221,534
Buildings	1,509,801	1,487,219
Equipment	165,500	162,190
Library books and art	19,470	19,470
Construction in progress	23,031	14,755
Total	1,941,900	1,905,168
Accumulated depreciation	(937,294)	(885,219)
Land, buildings, and equipment, net	<u>\$ 1,004,606</u>	<u>\$ 1,019,949</u>

At June 30, 2023 and 2022, respectively, LUC included \$0.2 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, 2023 and 2022, respectively.

Liabilities of \$6.0 million and \$5.5 million related to building construction and renovations and purchases of equipment are included in accounts payable and accrued expenses in the consolidated statements of financial position as of June 30, 2023 and 2022, respectively.

At June 30, 2023, LUC had commitments of \$63.5 million related to various capital projects.

In addition, during fiscal year 2023, the University entered into two real estate purchase agreements for properties located near the University's Lake Shore Campus, representing a total purchase commitment of approximately \$36.0 million. These transactions are expected to be completed during fiscal year 2024. Refer to Note 20, *Subsequent Events*, for additional information.

## (9) Indebtedness

Notes and bonds payable at June 30, 2023 and 2022 are shown below:

(in thousands of dollars)	Final Maturity (Fiscal Year)	Interest Rate	2023	Interest Rate	2022
Fixed rate:					
Illinois Finance Authority (IFA)					
Series 2012B tax-exempt bonds <sup>(1)</sup>	-	-	\$ -	5.00%	\$ 76,615
Series 2012A taxable bonds	2043	4.63%	100,000	4.63%	100,000
2017 term loan	2024	2.56%	13,470	2.56%	21,065
2020 term loan	2035	2.79%	74,040	2.79%	74,040
2021 term loan <sup>(1)</sup>	2036	2.16%	73,910	-	-
Rome Center mortgage note <sup>(2)</sup>	2029	1.51%	5,615	1.51%	6,247
Total fixed rate principal debt <sup>(3)</sup>		3.26%	<u>267,035</u>	4.01%	<u>277,967</u>
Unamortized debt premium <sup>(1)</sup>			-		3,729
Unamortized debt issuance costs			<u>(368)</u>		<u>(623)</u>
Total indebtedness			<u>\$ 266,667</u>		<u>\$ 281,073</u>

<sup>(1)</sup> On July 7, 2022, the University executed a term note under the Term Loan Agreement (the "Term Loan Agreement") entered into as of September 17, 2021 with Wintrust and borrowed approximately \$73.9 million at a fixed rate of 2.16% per annum. Funds drawn under the Term Loan Agreement were used to refinance all of the \$73.9 million of LUC's IFA Series 2012B tax-exempt bonds outstanding as of July 7, 2022.

In conjunction with the refinancing, the University recorded a non-cash gain of approximately \$3.5 million primarily for the unamortized premium related to the IFA Series 2012B tax-exempt bonds. This net gain is reported as non-operating income – other in the consolidated statements of activities and changes in net assets.

<sup>(2)</sup> Principal amount outstanding is subject to currency (euro) fluctuations.

<sup>(3)</sup> Interest rate represents the weighted average interest rate on all outstanding principal debt as of June 30, 2023 and June 30, 2022, respectively.

A \$50 million 364-day bank credit facility expired in August 2022. In October 2022, LUC entered into two bank credit facilities, for a total of \$75 million, from which LUC may borrow on a revolving basis. The credit facilities expire in October 2023. Borrowings under these facilities bear interest based on the Secured Overnight Financing Rate (SOFR) or other negotiated rates. As of June 30, 2023, and for the fiscal year then ended, no balances were outstanding nor any interest paid on either of these facilities.

LUC did not record any capitalized interest at June 30, 2023 and 2022, respectively. Bond discounts, premiums, and costs incurred in connection with the issuance of bonds are deferred and amortized over the life of the related indebtedness.

Interest paid during the years ended June 30, 2023 and 2022 was \$9.2 million and \$14.4 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, 2023.

## Debt Maturities

As of June 30, 2023, total scheduled maturities for the next five fiscal years are as follows:

(in thousands of dollars)

Fiscal Year	
2024	\$ 19,346
2025	16,030
2026	23,399
2027	19,243
2028	16,307
Thereafter	172,710
	\$ 267,035

## (10) Leases

The University has contractual arrangements where it is a lessee. Separately, the University has contractual agreements where the University is a lessor. A lessee is generally defined as the entity paying for the use of specific property from a lessor. A lessor is defined as an entity that provides the right to use an asset for a period of time in exchange for consideration.

### Lessee Disclosures

As a lessee, LUC analyzes each lease agreement to determine whether it should be classified as an operating or finance lease. In addition, LUC evaluates service contracts that involve the use of an identified asset (such as property, plant, or equipment) to determine if the contract contains a lease. As of June 30, 2023, LUC has no financing leases. For operating leases, the University recognizes in the consolidated statement of financial position a right-of-use asset and a corresponding lease liability, initially measured at the present value of the lease payments. Payments made on the lease liability, as well as the amortization of the right-of-use asset are recognized as rent expense over the term of the lease on a straight-line basis in the consolidated statements of activities and changes in net assets. The cash payments for operating leases are classified within operating activities in the statements of cash flows.

LUC has a land lease for which it is the lessee. As of June 30, 2023 and 2022, LUC's right-of-use asset was \$1.2 million and \$1.3 million, respectively. The corresponding lease liability was \$1.2 million and \$1.3 million at June 30, 2023 and 2022, respectively. The future obligations of this lease were valued using LUC's estimated incremental borrowing rate of 2.0% as of July 1, 2020.

The table below summarizes the undiscounted cash flows for future lease payments corresponding to the lease liability as of June 30, 2023:

(in thousands of dollars)

Fiscal Year	Payments
2024	\$ 123
2025	127
2026	131
2027	135
2028	139
Thereafter	677
Total minimum lease payments	1,332
Present value discount	(135)
Total lease liability	\$ 1,197

### **Lessor Disclosures**

The University is the lessor for residential and commercial lease arrangements.

LUC leases residential apartments, which are in proximity to the University's Lake Shore and Water Tower campuses, to students and other residents in the local community. Residential leases primarily contain terms of 12 months or less. The lease payments are fixed and not variable. Any desire by a tenant to extend a lease beyond the term of the original lease results in a new lease. All rent revenue is recognized on a straight-line basis over the term of the lease.

LUC also leases portions of certain buildings to commercial tenants. Commercial lease terms range from 5 to 10 years, with options to extend in 5 year increments. Five year leases typically consist of a fixed base rent along with the addition of common area maintenance (CAM) charges and real estate tax reimbursements.

The standard policy for commercial rent is to establish for each tenant a schedule with incremental increases based on various factors including location, tenant needs, and expected real estate tax obligations. Rent revenue is recognized on a straight-line basis over the term of the lease, inclusive of concessions such as tenant improvement allowances and rent abatements. Most concessions to rent payments are in the form of abatements and are generally negotiated on a per tenant basis. In the event concessions are ongoing and change the overall terms and obligations of the lease, a lease modification is negotiated.

As a lessor, LUC has certain leases that have terms different than described above. These include land leases with initial lease terms that range from 15 to 99 years, with options to extend beyond the initial term. One land lease is set to expire in calendar year 2100 and provides for a base rent that is subject to an annual adjustment referenced to the consumer price index. For another land lease, rents are calculated as a percent of the lessee's revenue.

During the years ended June 30, 2023 and 2022, LUC recognized rental revenue (net of rent concessions) of \$12.9 million and \$11.5 million, respectively, for its residential and commercial leases. Rent revenue is included in other operating revenue in the consolidated statements of activities and changes in net assets.



The table below summarizes the expected future annual lease revenue for both residential and commercial leases:

(in thousands of dollars)

Fiscal Year	Expected Lease Revenue
2024	\$ 12,075
2025	11,931
2026	11,696
2027	11,218
2028	9,924
Thereafter	211,574

Expected residential lease revenue of \$5.8 million is included in the table above for each of the fiscal years 2024 to 2028. Although residential leases are 12-month leases, there is historical evidence to support that these leases are renewed or new leases are signed each year.

The net book value of the building assets related to LUC's leasing activities is \$38.4 million and \$39.0 million as of June 30, 2023 and 2022, respectively, or approximately 3.8% of the net book value of the University's total land, building, and equipment. The majority of this value is for buildings that are fully occupied by residential or commercial tenants. The amount also includes that portion of the net book value of buildings leased to commercial tenants in buildings primarily used for University academic and administrative activities.

#### **(11) 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 postretirement plan payments, and internally funded capital projects. The annual cash cycle has seasonal variations primarily related to the timing of tuition billings and the receipt of gifts and pledge payments. Cash in excess of daily requirements is invested in short-term investment and money market funds to ensure adequate liquidity.

The following table reflects financial assets as of June 30, 2023 and 2022, reduced by amounts not available for general expenditures within one year. As of June 30, 2023, approximately \$449.2 million of financial assets could readily be made available within one year of that date to meet general expenditures, compared with \$424.9 million as of June 30, 2022, as follows:

(in thousands of dollars)

Financial assets at June 30:	2023	2022
Cash and cash equivalents	\$ 92,370	\$ 80,937
Short-term investments	136,048	200,874
Notes and accounts receivable, net	77,938	89,409
Endowment and other long-term investments	1,149,854	1,004,715
Assets held in trust by others	1,786	2,296
Total financial assets	\$ 1,457,996	\$ 1,378,231
Less amounts not available for general expenditures within one year:		
Student loan notes – Federal government programs and other restricted loans	(7,858)	(9,132)
Contributions receivable due in more than one year or restricted by donor with time or purpose restrictions	(46,631)	(58,062)
Other receivables due in more than one year	(1,933)	(2,080)
Donor restricted endowment investments, net of appropriation for the following fiscal year	(462,913)	(406,641)
Board designated endowment investments, net of appropriation for the following fiscal year	(474,477)	(452,002)
Amounts with donor time or purpose restrictions pending transfer to endowment and long-term investments	(4,133)	(14,200)
Split-interest agreements	(9,044)	(8,920)
Assets held in trust by others	(1,786)	(2,296)
Total financial assets not available to meet general expenditures within one year	\$ (1,008,775)	\$ (953,333)
Total financial assets available to meet general expenditures within one year	\$ 449,221	\$ 424,898

In addition to the available financial assets noted above, LUC also had unsecured lines of credit available to meet general expenditures within one year of June 30, 2023 and 2022, respectively, as follows:

(in thousands of dollars)

	2023	2022
Total available lines of credit	\$ 75,000	\$ 50,000

Refer to Note 9, *Indebtedness*, for more information regarding the lines of credit.

LUC has generally operated with a balanced budget and collects sufficient revenue to cover operating expenses not covered by donor-restricted resources. The consolidated statements of cash flows present the sources and uses of LUC's cash and shows net cash provided by operating activities of \$48.5 million and \$66.8 million for fiscal years 2023 and 2022, respectively.

## (12) Retirement Plans

LUC maintains a defined contribution retirement plan and a defined benefit retirement plan (LUERP).

### Defined Contribution Retirement Plan

LUC's expense for the defined contribution retirement plan was \$23.2 million and \$22.7 million for fiscal years 2023 and 2022, respectively.

### Defined Benefit Retirement Plan (LUERP)

LUERP is a frozen qualified defined benefit plan governed by ERISA. Summary information for the defined benefit retirement plan is as follows:

(in thousands of dollars)

	2023	2022
<b>Change in projected benefit obligation</b>		
Projected benefit obligation, beginning of year	\$ 56,253	\$ 69,896
Interest cost	2,393	1,695
Benefits paid	(2,931)	(2,439)
Settlements	-	(2,166)
Actuarial gain	(3,120)	(10,733)
Projected benefit obligation, end of year	<u>\$ 52,595</u>	<u>\$ 56,253</u>
<b>Change in plan assets</b>		
Fair value of plan assets, beginning of year	\$ 45,330	\$ 54,785
Actual return on plan assets	(369)	(7,618)
Employer contributions	2,806	2,768
Settlements	-	(2,166)
Benefits paid	(2,931)	(2,439)
Fair value of plan assets, end of year	<u>\$ 44,836</u>	<u>\$ 45,330</u>
<b>Funded status of the plan</b>		
Pension liability included in the consolidated statements of financial position	<u>\$ (7,759)</u>	<u>\$ (10,923)</u>

The accumulated benefit obligation for the defined benefit retirement plan was \$52.6 million and \$56.3 million for fiscal years 2023 and 2022, respectively.

(in thousands of dollars)

	2023	2022
<b>Change in amounts not yet recognized in net periodic pension cost and included in net assets without donor restrictions</b>		
Beginning of year	\$ 40,454	\$ 44,352
Actuarial gain	(966)	(851)
Settlements	-	(1,558)
Amortization of actuarial loss	(1,419)	(1,489)
End of year	<u>\$ 38,069</u>	<u>\$ 40,454</u>
<b>Components of net periodic pension expense</b>		
Service cost	\$ -	\$ -
Interest cost	2,393	1,695
Expected return on plan assets	(1,785)	(2,264)
Net amortization	1,419	1,489
Net periodic pension expense	<u>2,027</u>	<u>920</u>
Settlement expense	-	1,558
Disclosed net periodic pension expense	<u>\$ 2,027</u>	<u>\$ 2,478</u>

Net actuarial loss of \$1.4 million for the plan will be amortized during fiscal year 2024 as non-operating activities from net assets without donor restrictions in the consolidated statements of activities and changes in net assets.

#### Estimated future benefit payments

Estimated future benefit payments are as follows:

(in thousands of dollars)

Fiscal Year	Payments
2024	\$ 12,173
2025	4,888
2026	4,932
2027	4,777
2028	4,298
Thereafter	17,530

LUC expects to make an employer contribution of \$2.6 million to the defined benefit retirement plan in fiscal year 2024.

## Actuarial Assumptions

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

	2023	2022
Discount rate - benefit obligations	5.44%	4.72%
Discount rate - pension expense	4.72%	2.65%
Rate of compensation increase	n/a	n/a
Expected long-term return on assets	4.25%	4.50%

University management develops the estimate of the expected long-term rate of return on plan assets based upon the portfolio's investment mix, expectations developed for each asset class in which the plan invests, and expected rates of return for investment strategies the portfolio employs. Return assumptions are net of expenses charged to the plan. Asset class expectations are the result of models incorporating historical performance, correlations across assets, and economic and market forecasts.

## LUERP Plan Assets

LUERP assets are held in trust by an external trustee. The trust portfolio is managed in accordance with 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. In pursuing this objective, the LUERP portfolio maintains allocations both to investments employed for the primary purpose of generating growth in plan assets and to investments employed to maintain a target hedge ratio against the impact of changes in interest rates on plan liabilities and to provide growth in the portfolio value over time. The portfolio's liability-hedging allocation utilizes a combination of U.S. Treasury securities and Treasury futures that is matched to the duration of expected payments to plan beneficiaries in aggregate and is intended to increase over time as a proportion of the portfolio in tandem with improvements in the plan's funded status. LUERP investment policy provides for staged increases in the liability-hedging allocation, with concomitant reductions in the allocation to return-seeking assets, as progressively higher plan funded status levels are achieved.

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

	2023	2022
Cash and cash equivalents, net <sup>(1)</sup>	1%	14%
Equity securities	42%	26%
Fixed income securities	57%	38%
Diversifying strategies	-	12%
Other, including real estate	-	10%
Total	100%	100%

<sup>(1)</sup> Amounts are net of pending trade settlements and derivative offsets.

The table below summarizes LUC's fair value measurements of the LUERP investment portfolio by the fair value hierarchy level and NAV as a practical expedient as of June 30, 2023. Fair values in certain categories include the value of notional exposure to related index futures.

(in thousands of dollars)

<u>2023</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>
Cash and cash equivalents, net <sup>(1)</sup>	\$ 591	\$ 591	\$	\$	\$
U.S. marketable equity securities	18,901	18,901			
Other equity securities	18			18	
Fixed income commingled funds	15,308				15,308
Private equity investments	3				3
Private real assets investments	5				5
Liability-hedge U.S. Treasury debt obligations	24,826	15,445	9,381		
Futures offset for liability hedge positions	(15,445)	(15,445)			
Liability-hedge cash and cash equivalents	629	629			
Total	<u>\$ 44,836</u>	<u>\$ 20,121</u>	<u>\$ 9,381</u>	<u>\$ 18</u>	<u>\$ 15,316</u>

<sup>(1)</sup> Amounts are net of pending trade settlements and derivative offsets.

The table below summarizes the changes in fair value of the LUERP Level 3 investments for the years ended June 30, 2023 and 2022:

(in thousands of dollars)

	<u>2023</u>	<u>2022</u>
Beginning of year	\$ 18	\$ 17
Realized loss	-	(20)
Unrealized gain	-	21
Sales	-	-
End of year	<u>\$ 18</u>	<u>\$ 18</u>

The table below summarizes LUC's fair value measurements of the LUERP investment portfolio by the fair value hierarchy level and NAV as a practical expedient as of June 30, 2022. Fair values in certain categories include the value of notional exposure to related index futures.

(in thousands of dollars)

<u>2022</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>
Cash and cash equivalents, net <sup>(1)</sup>	\$ 6,198	\$ 6,198	\$ -	\$ -	\$ -
U.S. marketable equity securities	3,366	3,366			
Non-U.S. marketable equity securities	69	69			
Non-U.S. marketable equity mutual funds	8,348	8,348			
Other equity securities	18			18	
Fixed income commingled funds	2,224				2,224
Multi-strategy commingled funds	5,660				5,660
Private equity investments	38				38
Real assets commingled funds	4,469				4,469
Private real assets investments	5				5
Liability-hedge U.S. Treasury debt obligations	38,936	27,441	11,495		
Futures offset for liability hedge positions	(27,441)	(27,441)			
Liability-hedge cash and cash equivalents	3,440	3,440			
<b>Total</b>	<u>\$ 45,330</u>	<u>\$ 21,421</u>	<u>\$ 11,495</u>	<u>\$ 18</u>	<u>\$ 12,396</u>

<sup>(1)</sup> Amounts are net of pending trade settlements and derivative offsets.

There were no significant transfers between fair value hierarchy levels for the years ended June 30, 2023 and 2022.

### (13) Other Postretirement Benefits

LUC has a defined benefit retiree health plan covering eligible employees upon their retirement. As of January 1, 2019, the plan was frozen to new participants. Also as of that date, participants with Retiree Health Reimbursement Account (RHRA) balances no longer receive allocations or annual interest credits towards the RHRA. Certain eligible retirees receive \$1,500 annually to be used by the retiree or spouse towards qualified medical expenses and for purchasing supplemental Medicare coverage.

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

(in thousands of dollars)

	2023	2022
<b>Change in benefit obligation</b>		
Benefit obligation, beginning of year	\$ 29,471	\$ 35,345
Service cost	-	-
Interest cost	1,228	636
Participant contributions	3	9
Benefits paid	(3,010)	(3,177)
Actuarial gain	(2,000)	(3,342)
Benefit obligation, end of year	<u>\$ 25,692</u>	<u>\$ 29,471</u>
<b>Change in plan assets</b>		
Fair value of plan assets, beginning of year	\$ -	\$ -
Employer contributions	3,007	3,168
Participant contributions	3	9
Benefits paid	(3,010)	(3,177)
Fair value of plan assets, end of year	<u>\$ -</u>	<u>\$ -</u>
<b>Funded status of the plan</b>		
Other postretirement liability included in the consolidated statements of financial position	<u>\$ (25,692)</u>	<u>\$ (29,471)</u>
<b>Change in amounts not yet recognized in net periodic benefit cost and included in net assets without donor restrictions</b>		
Beginning of year	\$ (6,148)	\$ (3,253)
Net prior service credit amortization	447	447
Net gain amortization	329	-
Actuarial gain during the year	(2,000)	(3,342)
End of year	<u>\$ (7,372)</u>	<u>\$ (6,148)</u>
<b>Components of net periodic postretirement benefit cost</b>		
Service cost	\$ -	\$ -
Interest cost	1,228	636
Net prior service credit amortization	(447)	(447)
Net gain amortization	(329)	-
Net periodic postretirement benefit cost	<u>\$ 452</u>	<u>\$ 189</u>
Discount Rate	5.67%	4.52%



The discount rate used to calculate the benefit obligation for the year ended June 30, 2023 and the benefit cost for fiscal year 2024 is 5.67%. The discount rate used to calculate the benefit cost for fiscal year 2022 was 4.52%. The increase in the discount rate was the primary reason for the \$2.0 million actuarial gain, reducing the benefit obligation as of June 30, 2023.

**Health care cost trend rate assumptions for the plan**

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

**Estimated future benefit payments**

Estimated future benefit payments for the each of the next five fiscal years and thereafter are as follows:

(in thousands of dollars)

<u>Fiscal Year</u>	<u>Payments</u>
2024	\$ 4,677
2025	4,660
2026	4,414
2027	3,986
2028	3,402
Thereafter	8,925

#### (14) Functional Classification of Expenses

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

Expenses by functional classification for the years ended June 30, 2023 and 2022 are as follows:

(in thousands of dollars)	Academic, Instruction & Research	Student Services & Auxiliary	Institutional Support	Total
<u>2023</u>				
Operating expenses:				
Salaries, wages and fringe benefits	\$ 271,436	\$ 47,141	\$ 66,182	\$ 384,759
Non-salary operating expenses	59,209	69,583	35,365	164,157
Depreciation and amortization	30,750	17,299	9,844	57,893
Insurance and utilities	4,539	4,656	10,094	19,289
Interest	99	7,032	1,655	8,786
Total	<u>\$ 366,033</u>	<u>\$ 145,711</u>	<u>\$ 123,140</u>	<u>\$ 634,884</u>
<u>2022</u>				
Salaries, wages and fringe benefits	\$ 255,685	\$ 41,439	\$ 62,741	\$ 359,865
Non-salary operating expenses	55,230	61,845	31,994	149,069
Depreciation and amortization	31,234	17,915	9,167	58,316
Insurance and utilities	5,168	4,431	6,630	16,229
Interest	2,611	7,718	2,017	12,346
Higher Education Emergency Relief Fund Student aid <sup>(1)</sup>	-	19,825	-	19,825
Total	<u>\$ 349,928</u>	<u>\$ 153,173</u>	<u>\$ 112,549</u>	<u>\$ 615,650</u>

<sup>(1)</sup> See Note 16, *COVID-19 and the Higher Education Emergency Relief Fund*, for further information.

For fiscal years ending June 30, 2023 and 2022, respectively, fundraising expenses (before certain expense allocations) of \$15.3 million and \$10.9 million, are included primarily in Institutional Support.

LUC receives revenue from grants and contracts for sponsored projects. Federal and local government agencies and private entities support research, training, academic programming, and other sponsored programs. Expenditures for these sponsored programs, totaling \$41.1 million during fiscal year 2023 and \$37.8 million during fiscal year 2022, are included in the tables above primarily under Academic, Instruction, and Research.

LUC is generally not subject to federal and state income taxes. However, LUC is subject to tax on unrelated business income (UBIT), as defined by the Internal Revenue Code. The estimated income tax liability arises from various auxiliary services such as conference services, fitness center public memberships, athletic sponsorships with advertising, and certain service agreements. Earnings from certain investments may also give rise to UBIT. As of June 30, 2023 and June 30, 2022 the University's estimated UBIT liability was less than \$0.2 million.

**(15) Net Assets**

Net assets as of June 30, 2023 were as follows:

(in thousands of dollars)	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
<b>Perpetual:</b>			
Endowments	\$ -	\$ 248,603	\$ 248,603
Underwater endowments		(63)	(63)
Endowments – board designated	490,174		490,174
Other, primarily academic or program support and student financial aid		46,634	46,634
Subtotal	490,174	295,174	785,348
<b>Time or purpose:</b>			
Endowments and returns subject to future appropriation		230,430	230,430
Academic or program support and student financial aid		54,112	54,112
Research		2,485	2,485
Student loans		3,630	3,630
Construction		1,528	1,528
Subtotal		292,185	292,185
Annuity		2,219	2,219
Life income funds		205	205
Term endowments		2,211	2,211
Board designated	43,934		43,934
Subtotal	43,934	296,820	340,754
<b>Undesignated</b>	947,930		947,930
Total net assets	\$ 1,482,038	\$ 591,994	\$ 2,074,032

Net assets as of June 30, 2022 were as follows:

(in thousands of dollars)	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
<b>Perpetual:</b>			
Endowments	\$ -	\$ 226,678	\$ 226,678
Underwater endowments	-	(857)	(857)
Endowments – board designated	464,792	-	464,792
Other, primarily academic or program support and student financial aid	-	55,327	55,327
Subtotal	464,792	281,148	745,940
<b>Time or purpose:</b>			
Endowments and returns subject to future appropriation	-	207,333	207,333
Academic or program support and student financial aid	-	53,489	53,489
Research	-	7,931	7,931
Student loans	-	3,572	3,572
Construction	-	2,494	2,494
Subtotal	-	274,819	274,819
Annuity	-	2,363	2,363
Life income funds	-	252	252
Term endowments	-	2,124	2,124
Board designated	41,238	-	41,238
Subtotal	41,238	279,558	320,796
<b>Undesignated</b>	915,304	-	915,304
Total net assets	\$ 1,421,334	\$ 560,706	\$ 1,982,040

The University's Board of Trustees periodically designates net assets for the benefit of specific schools and academic or research activities. During fiscal years 2023 and 2022, the University's Board of Trustees designated \$11.4 million and \$8.7 million, respectively, of net assets for various schools and academic programs. Approximately \$8.7 million and \$6.7 million of these net assets were utilized during fiscal years 2023 and 2022, respectively.

Net Assets with donor restrictions include contributions receivable of \$47.6 million and \$59.1 million as of June 30, 2023 and 2022, respectively. See Note 7, *Notes and Accounts Receivable, Net* for further information on contributions receivable.

## (16) COVID-19 and the Higher Education Emergency Relief Fund

In March 2020, a national emergency concerning COVID-19 was declared in the United States. While the University ensured academic continuity (teaching, research, and learning) throughout the pandemic, with the availability of surveillance testing, COVID-19 vaccines, and other health protocols, the University returned to its campuses fully in fall 2021 with in-person classes and residence hall occupancy. Other on-campus activities, such as conference services, also resumed. The public health emergency expired in May 2023.

In response to the COVID-19 national emergency, the federal government established and funded a Higher Education Emergency Relief Fund (HEERF). In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) created HEERF I. In December 2020, HEERF II was authorized by the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA). In March 2021, the American Rescue Plan (ARP) provided funding for HEERF III. The HEERF allocations provided funding for both students (Student Share) as well as for the higher education institution (Institutional Share).

The University did not record any HEERF-related funding during fiscal year 2023. Following is a summary of the HEERF-related funding recorded by the University during fiscal year 2022:

(in thousands of dollars)	Emergency Grants to Students	Institutional Share
Funding Source:		
HEERF III	\$ 13,857	\$ 13,786
Emergency grants to students funded from the University's HEERF III Institutional Share	5,968	(5,968)
Total HEERF Grant Fund Utilization	\$ 19,825	\$ 7,818

The fiscal year 2022 consolidated statements of activities and changes in net assets includes \$19.8 million of grant revenue and a corresponding operating expense related to the emergency grants disbursed to students. The amount distributed to students includes approximately \$6.0 million which the University allocated from its \$13.8 million Institutional Share.

Of the remaining Institutional Share of \$7.8 million, \$1.6 million is classified as operating revenue and \$6.2 million is classified as non-operating income. Amounts classified as operating revenue were designated to partially offset certain allowable operating expenses incurred during fiscal year 2022. Amounts classified as non-operating income include \$3.2 million to partially offset fiscal year 2022 lost revenue and \$3.0 million for allowable expenses, including lost revenue, related to fiscal year 2021.

## (17) 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.

## (18) Relationship with Trinity Health

On June 30, 2011, LUC completed a transaction with Trinity Health, an Indiana not-for-profit corporation located in Livonia, Michigan, pursuant to a Definitive Agreement dated March 31, 2011 (the Definitive Agreement). As part of the transaction, Trinity Health replaced LUC as the sole member of Loyola University Health System (LUHS) and all of its affiliates including Loyola University Medical Center (LUMC), Gottlieb Health Resources (GHR), Gottlieb Memorial Hospital (GMH), and Loyola University of Chicago Insurance Company Ltd (LUCIC). Trinity Health assumed control of all the assets of LUHS and retained all of the liabilities of LUHS.

The education and research components of LUC's health sciences, including the Medical School and the Nursing School, remain with LUC following the Trinity Health transaction. LUC, LUHS, and LUMC entered into an Academic Affiliation Agreement (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) during the initial term of the Affiliation Agreement. The Affiliation Agreement had an initial term of ten years, however, beginning in the fifth year (fiscal year 2016), subject to certain limitations set forth in the Affiliation Agreement, the term is automatically extended for additional one-year periods. Refer to Note 6, *Revenue from Contracts with Customers (Revenue Recognition)*, for additional information regarding the academic support payment.

**(19) Information Used in Determining the Department of Education's Financial Responsibility Composite Score**

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

The financial information below provides the correspondence between certain values presented in LUC's consolidated financial statements and the values as they are included in the determination of the ratios used by ED to gauge the University's financial responsibility at June 30, 2023 and 2022.

(in thousands of dollars)

<b>Land, buildings and equipment, net</b>	2023	2022
Net book value of assets existing as of June 30, 2019 (Pre-implementation):		
Land and land improvements	\$ 169,535	\$ 171,205
Buildings	627,217	667,867
Equipment	19,244	25,130
Library books and art	19,404	19,404
Total	\$ 835,400	\$ 883,606
Net book value of assets in service after June 30, 2019 (Post-implementation):		
Land and land improvements	\$ 4,325	\$ 2,566
Buildings	123,301	104,398
Equipment	18,483	14,558
Library books and art	66	66
Total	\$ 146,175	\$ 121,588
Construction in progress	\$ 23,031	\$ 14,755
Land, buildings and equipment, net	\$ 1,004,606	\$ 1,019,949

<b>Indebtedness</b>	<u>2023</u>	<u>2022</u>
Pre-implementation, for long term purposes	\$ 266,667	\$ 281,073
Post-implementation, for long term purposes	-	-
Post-implementation for construction in progress	-	-
Not for the purchase of land, building and equipment	-	-
Amount in excess of net book value of designated land, building, and equipment	-	-
Indebtedness	<u>\$ 266,667</u>	<u>\$ 281,073</u>
<b>Non-Operating Activities Without Donor Restriction - Other</b>	<u>2023</u>	<u>2022</u>
For purposes of the financial responsibility ratios, amounts considered Other Revenue	\$ 8,027	\$ 2,074
For purposes of the financial responsibility ratios, amounts considered Other Expenses	(603)	(9,257)
Non-Operating Activities Without Donor Restriction - Other	<u>\$ 7,424</u>	<u>\$ (7,183)</u>
<b>Right of Use Asset and Liability Designation</b>	<u>2023</u>	<u>2022</u>
Right of Use Asset - Post-implementation	\$ 1,158	\$ 1,261
Lease liability – operating – Post-implementation	\$ 1,197	\$ 1,291

## **(20) Subsequent Events**

LUC has evaluated subsequent events through September 21, 2023, the date the consolidated financial statements were issued.

In July 2023, the University acquired the property commonly known as the Arcade Residences located near the University's Lake Shore Campus. The property consists of residential, parking, and commercial space. The purchase price of \$35 million was funded from the University's cash, cash equivalents, and short-term investments.

In August 2023, the University entered into a purchase agreement for real estate located near the University's Lake Shore Campus, for a purchase price of approximately \$3.1 million. The University expects to close on this purchase during fiscal year 2024.

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<sup>1</sup> As of September 14, 2023



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<sup>1</sup> As of September 14, 2023



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