LOYOLA UNIVERSITY CHICAGO

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

For the years ended June 30, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Loyola University of Chicago ("LUC"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to LUC's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the LUC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LUC as of June 30, 2018 and 2017, and results of their activities and changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

September 18, 2018

LOYOLA UNIVERSITY CHICAGO
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of June 30, 2018 and 2017 (in thousands of dollars)

	2018	2017
ASSETS		
Cash and cash equivalents	$ 70,615	$ 73,139
Short-term investments	197,244	159,779
Notes and accounts receivable, net	73,847	88,046
Receivable from Trinity Health	-	10,728
Other assets	14,516	13,674
Endowment and other long-term investments	730,955	674,242
Assets held in trust by others	1,547	1,595
Interest held in perpetual trust	13,312	12,673
Land, buildings and equipment, net	1,082,023	1,109,907
TOTAL ASSETS	**$ 2,184,059**	**$ 2,143,783**
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 58,115	$ 56,138
Deferred revenue	38,009	46,540
Unexpended grants	11,347	11,329
Refundable advances - loans	17,266	19,527
Indebtedness	404,447	446,433
Pension and other postretirement plan liabilities	61,161	79,065
Other liabilities	4,587	5,120
TOTAL LIABILITIES	594,932	664,152
NET ASSETS:		
Unrestricted	1,189,189	1,114,437
Temporarily restricted	209,691	187,396
Permanently restricted	190,247	177,798
TOTAL NET ASSETS	**1,589,127**	**1,479,631**
TOTAL LIABILITIES AND NET ASSETS	**$ 2,184,059**	**$ 2,143,783**

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, 2018 and 2017 (in thousands of dollars)

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017
OPERATING REVENUES:								
Tuition and fees, net of scholarships $207,033 (2018) and $186,195 (2017)	$ 386,553	$ -	$ -	$ 386,553	$ 381,538	$ -	$ -	$ 381,538
Grants and contracts for sponsored projects	44,793			44,793	44,410			44,410
Academic support	23,910			23,910	23,549			23,549
Gifts	1,547			1,547	3,529			3,529
Return on short-term investments and interest income	2,747			2,747	2,286			2,286
Investment income designated for operations	8,610			8,610	8,327			8,327
Other	35,308			35,308	31,052			31,052
Auxiliary services	71,829			71,829	70,108			70,108
Net assets utilized or released from restrictions for operations	19,488			19,488	17,375			17,375
TOTAL OPERATING REVENUES	**594,785**			**594,785**	**582,174**			**582,174**
OPERATING EXPENSES:								
Salaries and wages	257,114			257,114	248,426			248,426
Fringe benefits	70,670			70,670	70,540			70,540
Non-salary operating expenses	135,130			135,130	130,078			130,078
Insurance	3,325			3,325	3,008			3,008
Depreciation and amortization	60,277			60,277	58,852			58,852
Interest	14,619			14,619	16,914			16,914
Utilities	10,938			10,938	11,064			11,064
TOTAL OPERATING EXPENSES	**552,073**			**552,073**	**538,882**			**538,882**
RESULTS OF OPERATIONS	**42,712**			**42,712**	**43,292**			**43,292**
NON-OPERATING ACTIVITIES:								
Gifts		18,905	11,700	30,605		11,592	6,685	18,277
Investment gain, net of amounts designated for operations	18,655	22,748	142	41,545	28,625	29,405	224	58,254
Other	(211)	(513)	538	(186)	1,362	(474)	920	1,808
Retirement plan related changes other than net periodic retirement plan expense	14,308			14,308	4,853			4,853
Net assets transferred or released from restrictions	(712)	(18,845)	69	(19,488)	880	(18,259)	4	(17,375)
TOTAL NON-OPERATING ACTIVITIES	**32,040**	**22,295**	**12,449**	**66,784**	**35,720**	**22,264**	**7,833**	**65,817**
CHANGE IN NET ASSETS	**74,752**	**22,295**	**12,449**	**109,496**	**79,012**	**22,264**	**7,833**	**109,109**
Total net assets, beginning of year	1,114,437	187,396	177,798	1,479,631	1,035,425	165,132	169,965	1,370,522
TOTAL NET ASSETS, END OF YEAR	**$ 1,189,189**	**$ 209,691**	**$ 190,247**	**$ 1,589,127**	**$ 1,114,437**	**$ 187,396**	**$ 177,798**	**$ 1,479,631**

See notes to the consolidated financial statements.

LOYOLA UNIVERSITY CHICAGO
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended June 30, 2018 and 2017 (in thousands of dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 109,496	$ 109,109
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	60,277	58,852
Provision for bad debt expense	2,228	1,735
Retirement plan related changes	(14,308)	(4,853)
Provision for retirement costs	6,127	5,155
Pension plan contributions	(7,277)	(7,763)
Net realized and unrealized gain on investments	(42,822)	(60,251)
Contributions restricted for long-term investment	(6,745)	(6,574)
Other	(3,151)	(5,144)
Changes in assets and liabilities:		
Notes and accounts receivable, net	13,737	(11,769)
Other assets	(1,925)	(284)
Accounts payable and accrued expenses	3,416	(575)
Deferred revenue and unexpended grants	(8,513)	11,578
Interest held in perpetual trust	(639)	(970)
Refundable advances - loans	(2,261)	41
Other liabilities	(637)	520
NET CASH PROVIDED BY OPERATING ACTIVITIES	**107,003**	**88,807**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	108,776	102,420
Purchases of investments	(120,941)	(102,294)
Purchases/sales of short-term investments, net	(39,191)	(42,958)
Proceeds from sale of property and equipment	619	7,638
Expenditures for land, buildings and equipment	(33,127)	(20,829)
Student loans issued	(4,959)	(3,908)
Student loans collected	3,193	3,709
NET CASH USED BY INVESTING ACTIVITIES	**(85,630)**	**(56,222)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for long-term investment	6,745	6,574
Issuance of new debt	22,646	-
Retirement of debt	(64,016)	(36,171)
NET CASH USED BY FINANCING ACTIVITIES	**(34,625)**	**(29,597)**
NET CASH PROVIDED FROM DISCONTINUED OPERATIONS	**10,728**	**3,255**
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(2,524)**	**6,243**
Cash and cash equivalents, beginning of year	73,139	66,896
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 70,615**	**$ 73,139**

See notes to the consolidated financial statements.

(1) Overview of Loyola University of Chicago

Loyola University of Chicago (referred to as Loyola University Chicago, the University, or LUC) is a private, coeducational, not-for-profit institution of higher education and research founded in 1870 by the Society of Jesus (Jesuits) which today is the largest religious order in the Roman Catholic Church. LUC's patron saint and namesake is St. Ignatius Loyola (1491-1556), the founder of the Society of Jesus.

LUC is one of the largest Jesuit, Catholic universities in the United States and provides educational services to approximately seventeen thousand students primarily in undergraduate degree programs as well as graduate and professional degree programs. LUC performs research, training, and other services under grants and contracts with government agencies and other sponsoring organizations. LUC operates on four campuses: Lake Shore, Water Tower, Health Sciences, and the John Felice Rome Center in Italy. LUC is home to 13 schools, colleges, and institutes; features course locations in Ho Chi Minh City, Vietnam; Vernon Hills, Illinois; and offers a Retreat and Ecology Campus in Woodstock, Illinois.

The accompanying consolidated financial statements include the accounts of Loyola University Chicago and Mundelein College (Mundelein). Mundelein exists to provide limited services for the benefit of LUC. During fiscal year 2018, LUC dissolved the Loyola Rome Center Foundation (Foundation). The Foundation previously existed to enhance the mission and values that govern the John Felice Rome Center. All intercompany transactions have been eliminated.

(2) Tax Status

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

(3) Summary of Significant Accounting Policies

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.

Net assets, revenues, and investment income or loss are classified based on the existence or absence of donor-imposed restrictions, as follows:

Permanently Restricted - Net assets subject to donor-imposed restrictions requiring that the assets be retained permanently and invested in perpetuity. Restrictions permit the use of some or all of the income earned on the invested assets for specific purposes.

Temporarily Restricted - Net assets with donor-imposed restrictions expiring with the passage of time, the occurrence of an event, or the fulfillment of certain conditions. When donor-imposed restrictions are met, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets transferred or released from restrictions.

Unrestricted - Net assets not subject to donor-imposed restrictions, including those designated by the Board of Trustees for specific purposes or uses under various internal agreements, such as funds functioning as endowment.

Operations

Revenues received and expenses incurred in conducting LUC's programs and services are presented in the consolidated financial statements as operating activities.

Tuition and fee revenue is recognized in the fiscal year in which it is earned, including pro-rata adjustments for terms crossing over fiscal years. Grant and contract revenue is recognized when the qualifying expenses or activities occur. Academic support and auxiliary service revenues are recognized when earned as unrestricted net assets.

Non-operating activities include investment gain or loss, retirement plan related changes other than net periodic retirement plan expense, gains or losses on the sale or disposal of property, and non-recurring items.

Contributions, including unconditional promises to give (pledges) that are reasonably assured to be received, are recognized as revenue in the period received and reported at present value. Gifts are reported as either temporarily or permanently restricted if they are received with donor stipulations limiting their use. The expiration or fulfillment of donor-imposed restrictions on contributions is recognized in the period in which the restrictions expire or the restrictions are fulfilled and are shown as net assets transferred or released from restrictions for operations in operating revenue.

Cash and Cash Equivalents

Cash and cash equivalents are liquid instruments having original maturities at the time of purchase of three months or less, or funds investing primarily in such instruments, excluding those held in short-term and long-term investments or which are on deposit with a trustee. Cash and cash equivalents represent short-term, highly liquid investments that convert readily to cash and carry little interest rate risk.

Short-term Investments

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

Other Assets

Other assets are mostly comprised of prepaid expenses, land held for sale and capital leases.

Long-term Investments

Long-term investments are recorded at fair value. The fair value of a financial instrument is the amount that would be received to sell an asset, or the amount that would be paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Investments in publicly-traded equity securities are valued based on quoted market prices. To the extent that quoted market prices are not readily available, fair value may be determined based on broker or dealer quotations or alternate pricing sources with reasonable levels of price transparency. Securities that trade infrequently may be valued as determined in good faith by LUC's investment managers. The fair value of fixed income securities may be determined based on yields currently available on comparable securities of issuers with similar credit ratings, dealer-supplied prices or by discounting future principal and interest payments at prevailing interest rates. The fair value of holdings of mutual funds, common collective trusts, and commingled funds are determined by reference to the funds' underlying assets, which are principally marketable equity and fixed income securities. Units held in registered mutual funds and in common collective trusts and commingled funds that do not have a readily determined market value for fund units are valued based on the funds' net asset value as supplied by the fund administrator or trustee. Estimates of fair value provided by general partners or investment managers are reviewed by management.

Investments in private investment funds are recorded at estimated fair value based on LUC's share of the funds' fair value or number of units outstanding. A private investment fund's fair value is typically based on estimated asset values as of valuation dates that precede the LUC fiscal year end by up to 180 days and are adjusted for cash flows that occur between the valuation date and year end. These funds allocate gains, losses, and expenses to partners based on their respective ownership percentages or the number of units held. Management reviews reports and financial statements and communicates regularly with fund managers to maintain oversight of their valuation processes and estimates.

Investment income is recorded on the accrual basis. Purchases and sales of long-term investment securities are recorded on a trade-date basis.

Derivative Financial Instruments

LUC may use derivative financial instruments in the management of its treasury and investment portfolio. In addition, investment managers engaged by LUC may use derivative instruments to implement their investment strategies. Investments in derivative financial instruments are not designated as hedges. All derivative financial instruments used for investment purposes are marked to market and recorded at fair value. Gains and losses realized on derivative financial instruments used for investment purposes are recorded in investment gain (loss) in the consolidated statements of activities and changes in net assets.

Interest Held in Perpetual Trust

LUC is the beneficiary of funds held in trust. LUC does not control or have possession of these funds, but receives income from the trust in support of LUC's Health Sciences Division. Funds are recognized at the estimated fair value of future cash flows, which is estimated to equal the fair value of the trust assets.

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost or fair value at the date of gift to the University. Depreciation is calculated on a straight-line method using the following useful lives: building shell, 40-50 years; building improvements, 10-25 years; furniture, 15-20 years; and equipment, 3-10 years. LUC capitalizes assets with a purchase price or fair value of $5,000 or greater and with a useful life of over 1 year. LUC uses the component method of capitalization. Management continually reviews its long-lived assets for evidence of potential impairment and believes all necessary impairments have been recorded as of June 30, 2018.

Reclassifications

Certain fiscal year 2017 amounts have been reclassified to conform to fiscal year 2018 financial statement presentation.

Accounting Pronouncements

Accounting Pronouncements Adopted for Fiscal Year 2018

Changes to the Disclosure Requirements for Fair Value Measurement: In August 2018, the FASB issued Accounting Standards Update (ASU) No. 2018-13, *Fair Value Measurement (Topic 820) – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This guidance eliminates, modifies, and adds certain disclosures on fair value measurements. LUC adopted the eliminated or modified disclosure requirements beginning with the fiscal year 2018 consolidated financial statements. As allowed under the new guidance, the additional disclosure requirements are effective for LUC's annual reporting period beginning July 1, 2020 (Fiscal Year 2021). LUC is evaluating the impact of the additional disclosure requirements on the consolidated financial statements.

Accounting Pronouncements Adopted Effective July 1, 2018 (Fiscal Year 2019)

Revenue from Contracts with Customers: In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance requires an entity to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance uses a principles based approach for determining revenue recognition and eliminates the transaction and industry-specific guidance. The new guidance establishes a five-step approach for the recognition of revenue.

LUC's revenue is derived primarily from academic programs taught to students. Tuition and related fees are recognized as revenue over the course of the academic term or program for which it is earned. Non-tuition related revenue is recognized as services are performed or goods are delivered.

LUC adopted ASU No. 2014-09 effective July 1, 2018. LUC obtained an understanding of ASU No. 2014-09 and has performed a high-level analysis of the impact of the new guidance on its financial results. LUC assessed the various contractual arrangements and performance obligations for major revenue streams, the impacts to internal processes, the control environment, disclosures, and determined that the adoption of ASU No. 2014-09 will not result in a material change to the timing of when revenue is recognized.

While Topic 606 is generally applied to an individual contract with a customer, as a practical expedient, LUC may apply 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 example, LUC may apply this portfolio approach for purposes of assessing collectability or estimating refunds.

As a result of the implementation of ASU 2014-09, LUC expects modifications to the presentation of the consolidated financial statements and the disclosures in the accompanying notes, including disclosures related to contract assets and liabilities, presentation of advanced cash payments, receivables, and refund liability.

The guidance allows for both retrospective and modified retrospective methods of adoption. LUC plans to adopt this new guidance using the modified retrospective method applied to contracts that have remaining obligations as of July 1, 2018. Under the modified retrospective approach, LUC will not restate comparative periods in the consolidated financial statements.

Reporting Revenue Gross versus Net: In March 2016, the FASB issued 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. LUC adopted ASU No. 2016-08 effective July 1, 2018 and determined that the adoption will result in reclassifications within the statement of activities, but will not impact the results of operations or change in net assets.

Presentation of Financial Statements of Not-for-Profit Entities: In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The first of a two-phase project, this guidance addresses net asset classifications, reporting and disclosures related to liquidity, expense reporting by function and nature, financial performance measures, and the presentation of operating cash flows. LUC adopted ASU No. 2016-14 effective July 1, 2018. LUC assessed the new guidance and determined the impact to its fiscal year 2019 financial statements will include a reduction in net asset classes from three to two, additional liquidity risk disclosures, the availability of financial assets to meet operational cash needs within one year, and additional disclosures related to the allocation of functional expenses.

Classification of Certain Cash Receipts and Cash Payments: In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, to clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. LUC adopted ASU 2016-15 effective July 1, 2018 (Fiscal Year 2019) and determined that the adoption will not result in a material change to the consolidated statements of cash flows.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost: In March 2017, the FASB issued ASU 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 benefit expense in the 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 will be reported as non-operating activity in the consolidated statements of activities. LUC adopted ASU No. 2017-07 effective July 1, 2018, and will reclassify the non-service components of the net periodic postretirement benefit cost to non-operating activities in the fiscal year 2019 statement of activities.

Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made: In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The ASU provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also helps determine whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. LUC adopted ASU No. 2018-08 effective July 1, 2018 and determined that the adoption will not result in a material change to how it accounts for revenue from gifts, grants and contracts for sponsored projects.

Recent Accounting Pronouncements

Leases: In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This guidance requires recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the statement of financial position. For LUC, the guidance is effective beginning July 1, 2019 (fiscal year 2020). LUC is evaluating the impact of the new guidance on the consolidated financial statements.

Changes to the Disclosure Requirements for Defined Benefit Plans: In August 2018, the FASB issued ASU No. 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*. This guidance eliminates and adds certain disclosures related to defined benefit plans. For LUC, the guidance is effective beginning July 1, 2020 (Fiscal Year 2021). LUC is evaluating the impact of the new guidance on the consolidated financial statements.

(4) Investments

Under authority delegated by the Board of Trustees, the Investment Policy Committee of the Board of Trustees establishes the investment policy and guidelines governing the management of LUC's investments. The strategy for long-term investments is predicated on the objectives of growth and preservation of the purchasing power of invested assets; therefore, it is equity-oriented and includes marketable equities, private equity investments, and energy and real estate investments, with diversifying exposure to fixed income investments and hedging strategies. Short-term investments are primarily managed with an objective to ensure safety of principal and a high level of liquidity to meet the needs of LUC's operations. Substantially all investments are managed by external investment managers and all are held in custody by third-party financial institutions.

Functional Composition

LUC's total endowment and other long-term investments are comprised primarily of endowed funds and board-designated funds functioning as endowment (quasi-endowments). It also includes unrestricted institutional funds, split-interest agreements, and other non-endowed donor and university funds. The table below presents the functional composition of LUC's total endowment and other long-term investments at June 30, 2018 and 2017:

(in thousands of dollars)

	2018	2017
Donor-restricted endowment funds	$ 315,756	$ 294,180
Board-designated funds functioning as endowment	320,313	299,686
Total endowment investments	636,069	593,866
Institutional reserves	84,197	69,885
Total long-term investment portfolio	720,266	663,751
Split-interest agreements	9,743	9,603
Other invested assets	946	888
Total endowment and other long-term investments	$ 730,955	$ 674,242

In addition, LUC had short-term investments of $197.2 million and $159.8 million at June 30, 2018 and 2017, respectively.

Fair Value Measurements

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

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

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

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

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

Short-term Investments

The tables below summarize LUC’s fair value measurements for short-term investments by the fair value hierarchy levels as of June 30, 2018 and 2017:

(in thousands of dollars)

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

2017	Total	Level 1	Level 2
Cash and cash equivalents	$ 691	$ 691	$ -
Fixed income mutual funds	64,315	64,315	
U.S. Treasury and government agency debt securities	24,504		24,504
Non-U.S. agency debt securities	275		275
Municipal debt securities	4,759		4,759
Corporate debt securities	53,293		53,293
Mortgage-related securities	5,655		5,655
Asset-backed securities	6,138		6,138
Collateralized mortgage obligations	149		149
Total	$ 159,779	$ 65,006	$ 94,773

Endowment and Other Long-term Investments

The tables below summarize the endowment and other long-term investment portfolio's fair value measurements by fair value hierarchy level and NAV (or its equivalent) as a practical expedient as of June 30, 2018 and 2017:

(in thousands of dollars)

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

2017	Total	Level 1	Level 2	Level 3	NAV
Cash and cash equivalents	$ 3,017	$ 3,017	$ -	$ -	$ -
U.S. marketable equity securities	87,566	87,566			
U.S. marketable equity mutual funds	48,525	48,525			
Non-U.S. marketable equity securities	6,348	6,348			
Non-U.S. marketable equity mutual funds	1,929	1,929			
Marketable equity commingled funds	241,531				241,531
Other equity securities	200			200	
Fixed income mutual funds	27,974	27,974			
Fixed income commingled funds	67,685				67,685
Other fixed income securities	15,895	15,895			
U.S. treasury and government agency debt obligations	58,568	17,927	40,641		
Private equity investments	66,413				66,413
Real assets mutual funds	23,700	23,700			
Private real assets investments	24,891				24,891
Total	$ 674,242	$ 232,881	$ 40,641	$ 200	$ 400,520

The table below summarizes the changes in fair value of the Level 3 investments in the endowment and other long-term investment portfolio for the years ended June 30, 2018 and 2017:

(in thousands of dollars)

	2018	2017
Beginning of year	$ 200	$ 200
Realized loss	(73)	(10)
Unrealized gain	73	10
End of year	$ 200	$ 200

Gains and losses shown above are included in reported earnings for the fiscal year 2018 and 2017, respectively. There is no change in unrealized gains (losses) that is attributable to assets held as of June 30, 2018 and 2017.

There were no significant transfers between fair value hierarchy levels for the years ended June 30, 2018 and 2017.

LUC is obligated to make future capital contributions in private investment vehicles in the maximum amount of $85.6 million over the next several years, subject to investment period modifications provided for in fund offering documents or limited partnership agreements.

Fair value estimates for investment funds valued at NAV (or its equivalent) as a practical expedient at June 30, 2018 are in the table below.

(in thousands of dollars)

Investment Type	2018 Fair Value	2018 Unfunded Commitment	Redemption Frequency	Redemption Notice Period	Other Redemption Restrictions
Marketable equity commingled funds	$ 296,891	$ -	Weekly to triannually	Three business days to ninety days	Various initial lockup periods, potential redemption fees, limits on redeemable proportion of outstanding balances, and provisions allowing partial redemptions despite lockups
Fixed income commingled funds	52,370	-	Semimonthly to annually	Five business days to ninety days	Certain limits on redeemable proportion of outstanding balances
Private equity investments	73,537	66,990	Directed by investment manager	n/a	None
Private real assets investments	26,167	18,610	Directed by investment manager	n/a	None
Total	$ 448,965	$ 85,600			

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

Interest Held in Perpetual Trust

LUC’s interest held in perpetual trust is classified as Level 3 in the fair-value hierarchy. The table below summarizes the changes in LUC's fair value measurements for the interest held in perpetual trust as of June 30, 2018 and 2017:

(in thousands of dollars)

	2018	2017
Beginning of year	$ 12,673	$ 11,703
Contributions	17	-
Realized gain	308	301
Unrealized gain	690	832
Sales	(376)	(163)
End of year	$ 13,312	$ 12,673

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, 2018 and 2017, the investment portfolio held futures contracts with a notional value of $35.1 million and $23.1 million, respectively. The net impact of the futures held at June 30, 2018 is to reduce the proportion of cash in the endowment portfolio by 4.8% while increasing equity exposure by 2.4% and fixed income exposure by 2.4%. 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, 2018 and 2017 is as follows:

(in thousands of dollars)

Derivative Type	Location of Gain Recognition in Consolidated Statements of Activities and Changes in Net Assets	2018	2017
Equity, fixed income, and currency futures	Investment gain – non-operating	$ 835	$ 1,117
Equity options contracts	Investment gain – non-operating	-	10
Total derivatives		$ 835	$ 1,127

Investment Returns

Investment returns, net of management fees, for short-term and long-term investments, for the years ended June 30, 2018 and 2017 were:

(in thousands of dollars)

	2018	2017
Interest and dividend income (net of fees)	$ 10,080	$ 8,616
Net realized gains	17,155	605
Net unrealized gains	25,667	59,646
Total net return on investment	$ 52,902	$ 68,867

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

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

	2018	2017
Changes in unrestricted net assets		
Return on short-term investments and interest income	$ 2,747	$ 2,286
Investment income designated for operations	8,610	8,327
Non-operating investment gain, net of amounts designated for operations	18,655	28,625
Changes in temporarily restricted net assets		
Non-operating investment gain	22,748	29,405
Changes in permanently restricted net assets		
Non-operating investment gain	142	224
Total net return on investment	$ 52,902	$ 68,867

Endowment Net Assets

LUC's endowment consists of hundreds of individual funds established for a variety of purposes supporting LUC operations. Endowment fund balances, including funds functioning as endowment (quasi-endowments), are classified and reported as unrestricted, temporarily restricted or permanently restricted net assets in accordance with donor specifications and GAAP. While funds functioning as endowment (quasi-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 unrestricted funds.

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

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

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

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

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

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

The following table summarizes the asset allocation targets as of June 30, 2018 for the endowment and long-term investment portfolio:

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

Current endowment spending policy establishes a maximum budgeted spending rate in any given year of 5.0% of an endowment fund's net assets. Proposals for endowed funds to apply a spending rate in excess of 5.0% must be approved as part of the annual budget approval process. In absence of donor stipulations to the contrary, annual appropriations from an endowment fund are determined by application of an annually determined base budget calculation 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, 2018 and 2017 are classified as follows:

(in thousands of dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2018				
Donor-restricted endowment funds	$(62)	$ 148,658	$ 167,061	$ 315,657
Board-designated funds functioning as endowment funds	324,646			324,646
Total endowment net assets	$ 324,584	$ 148,658	$ 167,061	$ 640,303
2017				
Donor-restricted endowment funds	$(74)	$ 135,194	$ 159,004	$ 294,124
Board-designated funds functioning as endowment funds	299,326			299,326
Total endowment net assets	$ 299,252	$ 135,194	$ 159,004	$ 593,450

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires LUC to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets and were less than $0.1 million as of June 30, 2018 and 2017.

The following tables provide a summary of the changes in the endowment net assets for the years ended June 30, 2018 and 2017:

(in thousands of dollars)

2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ 299,252	$ 135,194	$ 159,004	$ 593,450
Gifts and transfers				
Contributions (excluding pledges)	4	3	6,745	6,752
Transfers	10,391	193	1,312	11,896
Total gifts and transfers	10,395	196	8,057	18,648
Investment income				
Interest and dividends (net of fees)	2,281	2,525		4,806
Realized gain	7,987	7,596		15,583
Unrealized gain	12,089	11,514		23,603
Total investment income	22,357	21,635	-	43,992
Income distributed for operating purposes				
Scholarships	(3,530)	(3,800)		(7,330)
Endowed chairs	(1,573)	(2,311)		(3,884)
Research	(201)	(442)		(643)
Other	(2,116)	(1,814)		(3,930)
Total income distributed for operating purposes	(7,420)	(8,367)	-	(15,787)
Net assets, end of year	$ 324,584	$ 148,658	$ 167,061	$ 640,303
2017				
Net assets, beginning of year	$ 266,882	$ 115,393	$ 151,339	$ 533,614
Gifts and transfers				
Contributions (excluding pledges)		4	6,574	6,578
Transfers	9,611	(213)	1,091	10,489
Total gifts and transfers	9,611	(209)	7,665	17,067
Investment income				
Interest and dividends (net of fees)	2,409	2,284		4,693
Realized gain	302	267		569
Unrealized gain	27,086	25,798		52,884
Total investment gain	29,797	28,349	-	58,146
Income distributed for operating purposes				
Scholarships	(3,266)	(3,719)		(6,985)
Endowed chairs	(1,490)	(2,248)		(3,738)
Research	(224)	(483)		(707)
Other	(2,058)	(1,889)		(3,947)
Total income distributed for operating purposes	(7,038)	(8,339)	-	(15,377)
Net assets, end of year	$ 299,252	$ 135,194	$ 159,004	$ 593,450

Split-Interest Agreements

Split-interest agreements consist of arrangements with donors in which LUC shares an interest in the assets held and the benefits received with other beneficiaries. Split-interest agreements for which LUC is not the trustee may or may not be reported on the consolidated statements of financial position, depending on whether a donor or trustee has made LUC aware of the existence of LUC's beneficial interest. Known split-interest agreements for which LUC is not a trustee are reported as other assets in the consolidated statements of financial position.

The assets held under split-interest agreements (charitable trusts for which LUC is the trustee and assets held in respect to gift annuity contracts) were $9.7 million and $9.6 million, respectively, at June 30, 2018 and 2017 and are reported in endowment and other long-term investments in the consolidated statements of financial position at fair value. The discounted present value of any income beneficiary interest is included in accounts payable and other accrued expenses on the consolidated statements of financial position, and was $4.1 million and $4.3 million, respectively, at June 30, 2018 and 2017. The discount rate used is 6.5% in both fiscal years 2018 and 2017.

During fiscal year 2018, the discounted present values of new gifts subject to split-interest agreements, net of the income beneficiary share, total $0.03 million, and are included in non-operating gifts on the consolidated statements of activities and changes in net assets.

Actuarial losses on split-interest agreements in the amount of $0.4 million and $0.5 million in fiscal year 2018 and 2017, respectively, are included in other in the non-operating activities section of the consolidated statements of activities and changes in net assets.

(5) Notes and Accounts Receivable, Net

Notes and accounts receivable, net, at June 30, 2018 and 2017 consisted of:

(in thousands of dollars)

	2018	2017
Student loan notes (less allowance for doubtful accounts of $2,598 (2018) and $2,417 (2017))	$ 18,950	$ 19,407
Contributions receivable (less discount of $10,159 (2018) and $11,080 (2017) and allowance for doubtful accounts of $281 (2018) and $347 (2017))	28,286	25,261
Student receivables (less allowance for doubtful accounts of $4,444 (2018) and $4,443 (2017))	11,750	20,825
Grant receivables	5,342	5,576
Other receivables (less allowance for doubtful accounts of $194 (2018) and $120 (2017))	9,519	16,977
Total notes and accounts receivable, net	$ 73,847	$ 88,046

Contributions receivable at June 30, 2018 and 2017 are due in the following periods:

(in thousands of dollars)

	2018	2017
In one year or less	$ 4,602	$ 3,143
Between one year and five years	12,353	9,646
More than five years	21,771	23,899
Discount and allowance for doubtful accounts	(10,440)	(11,427)
Total contributions receivable	$ 28,286	$ 25,261

Credit Quality of Student Loan Notes

LUC makes uncollateralized loans to students based on financial need. Student loan notes are funded through federal government loan programs or institutional/other programs. At June 30, 2018 and 2017, student loan notes represented less than 1% of total assets.

At June 30, 2018 and 2017, student loan notes consisted of the following:

(in thousands of dollars)

	2018	2017
Federal government programs	$ 18,777	$ 19,319
Institutional/other programs	2,771	2,505
Total student loan notes	21,548	21,824
Less allowance for doubtful accounts:		
Beginning of year	(2,417)	(2,322)
Increase to reserve	(319)	(373)
Write-offs	138	278
End of year	(2,598)	(2,417)
Student loan notes, net	$ 18,950	$ 19,407

LUC participates in the Perkins federal revolving loan program, among other government revolving loan programs. The availability of funds for loans under these programs is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the federal government of $17.3 million and $19.5 million at June 30, 2018 and 2017, respectively, are ultimately refundable to the government and classified as refundable advances – loans on the consolidated statements of financial position. At June 30, 2018 and 2017, LUC had past due student loans of $3.6 million and $3.5 million, respectively. Allowance for doubtful accounts are established based on prior collection experience.

(6) Land, Buildings and Equipment, Net

Components of land, buildings, and equipment at June 30, 2018 and 2017 are as follows:

(in thousands of dollars)

	2018	2017
Land and land improvements	$ 215,218	$ 214,566
Buildings	1,358,158	1,338,687
Equipment	150,446	149,671
Library books and art	32,397	32,380
Construction in progress	16,934	11,184
Total	1,773,153	1,746,488
Accumulated depreciation	(691,130)	(636,581)
Land, buildings, and equipment, net	$ 1,082,023	$ 1,109,907

At June 30, 2018, LUC had commitments of $19.7 million related to various capital projects.

At June 30, 2018 and 2017, LUC included $0.4 million and $0.5 million of capitalized asset retirement costs, net of accumulated depreciation, within land, buildings, and equipment, net. Additionally, $3.1 million of conditional asset retirement obligations were included within other liabilities in the consolidated statements of financial position at June 30, 2018 and 2017. Liabilities for expenditures for land, buildings and equipment of $6.0 million and $7.3 million are included in accounts payable and accrued expenses in the consolidated statements of financial position as of June 30, 2018 and 2017, respectively.

(7) Indebtedness

Notes and bonds payable at June 30, 2018 and 2017 are shown below:

(in thousands of dollars)	Final Maturity	Interest Rate	2018	Interest Rate	2017
Fixed rate:					
Illinois Finance Authority (IFA) (formerly Illinois Educational Facilities Authority (IEFA)):					
Series 2003B taxable bonds	2022	5.60%	$ 37,520	5.60%	$ 37,520
Series 2007 tax-exempt bonds [1]	2025		-	4.38-5.00%	22,720
Series 2012B tax-exempt bonds	2043	5.00%	85,880	3.00-5.00%	86,545
Series 2003C taxable direct obligation bonds	2019	5.30%	11,540	5.30%	11,540
Series 2012A taxable bonds	2043	3.20-4.63%	157,220	3.20-4.63%	157,220
Medium-term notes	2018		-	7.52%	21,100
2012 term note	2018		-	2.36%	18,938
2017 term note [1]	2024	2.56%	22,390	-	-
Rome Center mortgage note [2]	2029	1.51%	9,929	1.51%	9,905
Total fixed rate			324,479		365,488
Variable rate:					
IFA 2008 tax-exempt commercial paper [3] [4]	2038	1.33%	74,040	0.89%	74,040
Total variable rate			74,040		74,040
Total principal debt		3.81%[5]	398,519	3.97%[5]	439,528
Unamortized debt premium			6,732		8,064
Unamortized debt issuance costs			(1,467)		(1,955)
Total bonds and notes payable			403,784		445,637
Capital lease obligations			663		796
Total indebtedness			$ 404,447		$ 446,433

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

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

[3] Interest rates shown in the variable rate section of this chart represent the weighted average outstanding interest rate at June 30, 2018 and 2017, respectively.

[4] The commercial paper is fully backed by a direct-pay letter of credit from PNC Bank, National Association, pursuant to an agreement that expires on April 14, 2019.

[5] Weighted average interest rate on all outstanding principal debt at June 30, 2018 and June 30, 2017, respectively.

LUC did not record any capitalized interest at June 30, 2018 and 2017, respectively. Bond discounts, premiums, and costs incurred in connection with the issuance of bonds are deferred and amortized over the life of the related indebtedness.

Interest paid for the years ended June 30, 2018 and 2017 was $16.5 million and $18.0 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, 2018.

Debt Maturities

Total scheduled maturities for the next five fiscal years are:

(in thousands of dollars)

2019	$ 14,412
2020	14,918
2021	16,207
2022	17,081
2023	68,470
Thereafter	267,431
	$ 398,519

Disclosure of Fair Value of Long-term Debt

The fair value of the outstanding long-term debt as of June 30, 2018 and 2017 is as follows:

(in thousands of dollars)	2018		2017	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	$409,728	$403,784	$463,924	$445,637

The fair value of long-term debt is determined based on discounted cash flows or market prices for comparable borrowings as of June 30, 2018 and 2017. Long-term debt is classified as Level 2 in the fair value hierarchy.

Lease Obligations

LUC leases equipment under arrangements classified as capital leases. As of June 30, 2018, total accumulated amortization related to the leased equipment was $0.8 million and the interest rate was between 4.49% and 5.03%. Capital lease obligations at June 30, 2018 and June 30, 2017 of $0.7 million and $0.8 million, respectively, are included as part of Indebtedness in the consolidated statements of financial position.

Future minimum lease payments as of June 30, 2018 are as follows:

(in thousands of dollars)

2019	$ 425
2020	221
2021	43
2022	4
Total minimum lease payments	693
Less: interest	(30)
Capital lease obligations	$ 663

(8) Retirement Plans

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

Defined Contribution Retirement Plan
Effective April 1, 2004, LUC established a new defined contribution plan. LUC's expense under this plan was $22.6 million and $22.1 million for fiscal year 2018 and 2017, respectively.

Defined Benefit Retirement Plan (LUERP)
LUC froze pension benefits in LUERP effective March 31, 2004 for all but a grandfathered group of "ameliorated" participants. This group was allowed to continue to earn additional Adjusted Benefit Credited Service accruals for a period of up to five years. The LUERP plan is governed by ERISA.

LUERP assets are held in trust by an external trustee. The trust portfolio is managed in accordance with the policies established by the LUERP Retirement Allowance Committee. Management developed the estimates of the expected long-term rates of return on plan assets based upon the investment mix and the expected rates of return for the various investment strategies employed.

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

(in thousands of dollars)

	2018	2017
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	$ 92,295	$ 97,179
Interest cost	3,112	2,997
Benefits paid	(5,922)	(6,690)
Actuarial gain	(5,732)	(1,191)
Projected benefit obligation, end of year	$ 83,753	$ 92,295
Change in plan assets		
Fair value of plan assets, beginning of year	$ 57,817	$ 54,048
Actual return on plan assets	1,295	2,696
Employer contributions	7,277	7,763
Benefits paid	(5,922)	(6,690)
Fair value of plan assets, end of year	$ 60,467	$ 57,817
Funded status of the plan		
Pension liability included in the consolidated statements of financial position	$(23,286)	$(34,478)
Change in amounts not yet recognized in net periodic pension cost and included in unrestricted net assets		
Beginning of year	$ 66,904	$ 69,588
Current year actuarial gain	(4,260)	(362)
Amortization of actuarial loss	(2,344)	(2,322)
End of year	$ 60,300	$ 66,904
Components of net pension expense		
Service cost	$ -	$ -
Interest cost	3,112	2,997
Expected return on plan assets	(2,767)	(3,525)
Net amortization and deferral	2,344	2,322
Settlement expense	-	-
Net periodic pension expense	$ 2,689	$ 1,794

	2018	2017
Weighted average assumptions		
Discount rate - benefit obligations	4.20%	3.67%
Discount rate - pension expense	3.67%	3.39%
Rate of compensation increase	n/a	n/a
Expected long-term return on assets	5.00%	7.00%

Net actuarial loss of $2.2 million for the plan will be amortized as non-operating activities from unrestricted net assets in the consolidated statements of activities during the 2019 fiscal year.

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

	2018	2017
Cash	1%	1%
Equity securities	35%	29%
Fixed income securities	50%	55%
Private equity investments	1%	1%
Other, including real estate	13%	14%
Total	100%	100%

The table below summarizes LUC's fair value measurements of the LUERP investment portfolio by the fair value hierarchy level and NAV as a practical expedient as of June 30, 2018:

(in thousands of dollars)

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

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, 2017:

(in thousands of dollars)

2017	Total	Level 1	Level 2	Level 3	NAV
Cash and cash equivalents	$ 722	$ 722	$ -	$ -	$ -
U.S. marketable equity securities	3,603	3,603			
U.S. marketable equity mutual funds	6,730	6,730			
U.S. marketable equity commingled funds	2,016				2,016
Non-U.S. marketable equity securities	152	152			
Non-U.S. marketable equity mutual funds	4,457	4,457			
Non-U.S. marketable equity commingled funds	3,722				3,722
Other equity securities	48			48	
Fixed income mutual funds	7,306	7,306			
Fixed income collective trusts	3,049				3,049
U.S. treasury and government agency debt obligations	1,731	1,099	632		
U.S. state and municipal debt obligations	1,300		1,300		
U.S. corporate debt securities	15,784		15,784		
Non U.S. corporate debt securities	2,819		2,819		
Asset backed securities	82		82		
Private equity investments	389				389
Real assets commingled funds	3,899				3,899
Private real assets investments	8				8
Total	$ 57,817	$ 24,069	$ 20,617	$ 48	$ 13,083

The table below summarizes the changes in fair value of the LUERP Level 3 investments for the years ended June 30, 2018 and 2017:

(in thousands of dollars)

	2018	2017
Beginning of year	$ 48	$ 48
Realized loss	-	(2)
Unrealized gain	-	2
End of year	$ 48	$ 48

Estimated future benefit payments

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

Fiscal Year	Payments
2019	$ 13,495
2020	7,354
2021	6,897
2022	6,793
2023	6,522
Thereafter	27,861

LUC expects to make employer contributions of $4.9 million to the defined benefit retirement plan in fiscal year 2019.

(9) Other Postretirement Benefits

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

Effective January 1, 2018, LUC eliminated the subsidized medical and Medicare Part D coverage option for retirees. Retirees before July 2006, who were previously eligible for a subsidized medical plan, now receive a Retiree Health Reimbursement Account (RHRA). Retirees are eligible for an annual allocation of $1,500 to be used by the retiree or spouse towards qualified medical expenses and for purchasing supplemental Medicare coverage. This new plan design resulted in a prior service credit of $2.7 million.

In June 2018, the University announced the defined benefit retiree health plan will be closed to participants not age 50 as of January 1, 2019. Participants in the plan will be able to earn additional service needed to meet the age 60 and 10 years of continuous service requirement to receive a benefit. Also beginning January 1, 2019, retirees with RHRA balances will no longer receive future accruals or annual interest credits towards the RHRA. This plan amendment resulted in a prior service credit of $3.1 million and a curtailment of $2.7 million.

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

(in thousands of dollars)

	2018	2017
Change in benefit obligation		
Benefit obligation, beginning of year	$ 44,587	$ 45,421
Service cost	1,928	1,999
Interest cost	1,510	1,379
Participant contributions	501	824
Plan amendments	(5,851)	-
Benefits paid	(2,947)	(2,851)
Actuarial gain	(1,853)	(2,185)
Benefit obligation, end of year	$ 37,875	$ 44,587
Change in plan assets		
Fair value of plan assets, beginning of year	$ -	$ -
Employer contributions	2,446	2,027
Participant contributions	501	824
Benefits paid	(2,947)	(2,851)
Fair value of plan assets, end of year	$ -	$ -
Funded status of the plan		
Pension liability included in the consolidated statements of financial position	$ (37,875)	$ (44,587)
Change in amounts not yet recognized in net periodic benefit cost and included in unrestricted net assets		
Beginning of year	$ (1,523)	$ 646
Current year prior service credit	(5,851)	-
Current year actuarial gain	(1,853)	(2,185)
Amortization of prior service credit	-	16
Curtailments	2,732	-
End of year	$ (6,495)	$ (1,523)

	2018	2017
Components of net periodic postretirement benefit cost		
Service cost	$ 1,928	$ 1,999
Interest cost	1,510	1,379
Amortization of unrecognized prior service benefit and actuarial gain	-	(17)
Net periodic postretirement benefit cost	$ 3,438	$ 3,361
Curtailments included in retirement plan changes other than net periodic retirement plan expense	(2,732)	-
Disclosed benefit cost	$ 706	$ 3,361
Discount rate	3.96%	3.34%

The discount rate used to calculate the benefit obligation for the year ended June 30, 2018 and the benefit cost for fiscal year 2019 is 3.96%. The discount rate used to calculate the benefit cost for fiscal year 2018 was 3.34%.

Health care cost trend rate assumptions for the plan

As a result of the January 1, 2018 plan amendment, health care cost trend rate assumptions are no longer applicable.

	2018	2017
Current health care cost trend rate		
Pre-65 medical trend	n/a	6.60%
Post-65 medical and drug trend	n/a	6.25%
Ultimate health care cost trend rate	n/a	5%
Year of Ultimate Trend Rate - Pre-65 medical	n/a	2025
Year of Ultimate Trend Rate - Post-65 medical and drug	n/a	2024

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

(in thousands of dollars)

1% increase		
On year-end postretirement benefit obligations	$ n/a	$ 748
On total of service and interest cost components	n/a	56
1% decrease		
On year-end postretirement benefit obligations	$ n/a	$ (720)
On total of service and interest cost components	n/a	(57)

Estimated future benefit payments

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

(in thousands of dollars)

Fiscal Year	Payments
2019	$ 3,313
2020	3,753
2021	4,102
2022	4,365
2023	4,473
Thereafter	19,137

(10) Functional Classification of Expenses

Expenses are reported in the consolidated statements of activities and changes in net assets in natural classifications. Expenses by functional classification for the years ended June 30, 2018 and 2017 were:

(in thousands of dollars)

	2018	2017
Instruction	$ 197,637	$ 192,419
Research and other sponsored programs	41,270	41,241
Academic support	75,459	73,862
Student services	61,449	56,859
Institutional support	116,147	114,730
Auxiliary services	60,111	59,771
Total operating expenses	$ 552,073	$ 538,882

(11) Restricted Net Assets

The program restrictions for temporarily and permanently restricted net assets at June 30, 2018 and 2017 were:

(in thousands of dollars)

	2018	2017
Temporarily Restricted		
Academic or program support and student financial aid	$ 168,385	$ 147,552
Research	7,535	7,212
Student loans	3,406	3,375
Construction	7,540	5,681
Other	22,825	23,576
Total temporarily restricted net assets	$ 209,691	$ 187,396
Permanently Restricted		
Academic or program support and student financial aid	$ 187,137	$ 174,688
Research	1,962	1,962
Student loans	1,148	1,148
Total permanently restricted net assets	$ 190,247	$ 177,798

(12) 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.

(13) Relationship with Trinity Health

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

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

Academic Affiliation Agreement

The education and research components of LUC's health sciences, including the Medical School and the Nursing School, remain with LUC following the Trinity Health transaction. LUC, LUHS, and LUMC entered into an Academic Affiliation Agreement, which includes negotiated terms and conditions and provides for an annual academic support payment to LUC from LUHS and LUMC. Trinity Health guarantees the academic support payment. The annual academic support payment amount was set at $22.5 million in fiscal year 2012 (subject to an inflation adjustment) for an initial term of ten years. LUC reported $23.9 million and $23.5 million of academic support in the consolidated statements of activities and changes in net assets in fiscal years 2018 and 2017, respectively.

Research Facility Funding Agreement

Pursuant to the Definitive Agreement, Trinity Health was required to make a $75.0 million payment to LUC for the construction and related start-up expenses of a new research enterprise facility owned by LUC. LUC also invested $75.0 million to match the Trinity Health payment for the construction and related start-up expenses. In fiscal years 2018 and 2017, LUC received $10.7 million and $3.3 million, respectively from Trinity Health, which is reported as net cash provided from discontinued operations in the consolidated statements of cash flows. No further funding is expected to be received from Trinity Health under this agreement.

(14) Subsequent Events

LUC has evaluated subsequent events through September 18, 2018, the date the consolidated financial statements were issued.

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LOYOLA UNIVERSITY CHICAGO
TRUSTEES AND THEIR AFFILIATIONS[1]

[1] As of September 13, 2018

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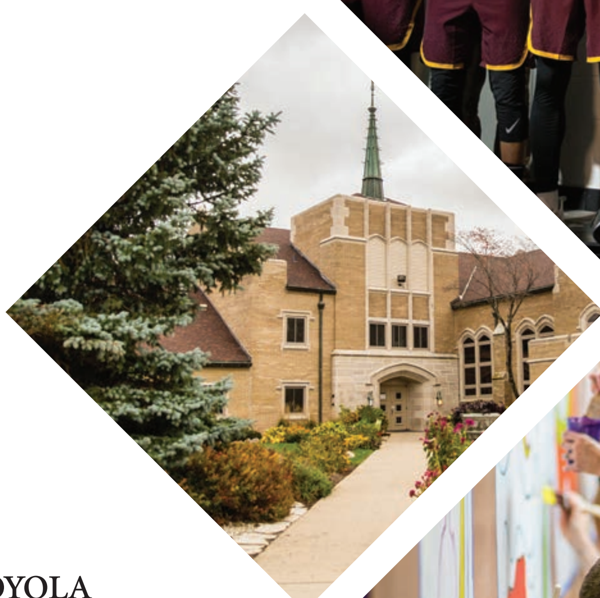

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