

LOYOLA UNIVERSITY CHICAGO

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

For the years ended June 30, 2015 and 2014



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, 2015 and 2014, and the related consolidated statements of activities and changes in net assets and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

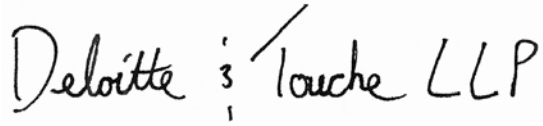
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LUC as of June 30, 2015 and 2014, and results of their activities and changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style. The word "Deloitte" is on the left, followed by an ampersand "&" in the middle, and "Touche LLP" on the right. The ink is dark and the background is a light, slightly textured surface.

Chicago, Illinois
September 18, 2015

LOYOLA UNIVERSITY CHICAGO

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2015 and 2014 (in thousands of dollars)

	2015	2014
ASSETS		
Cash and cash equivalents	\$ 60,663	\$ 91,154
Short-term investments	142,314	145,323
Notes and accounts receivable, net	73,998	73,913
Receivable from CHE Trinity	30,428	72,188
Other assets	21,811	18,495
Endowment and other long-term investments	602,642	606,071
Assets held in trust by others	10,007	10,006
Interest held in perpetual trust	11,817	11,673
Land, buildings and equipment, net	1,150,830	1,091,217
TOTAL ASSETS	\$ 2,104,510	\$ 2,120,040
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 71,624	\$ 66,941
Deferred income	31,214	32,727
Unexpended grants	11,129	12,982
Refundable advances - loans	19,177	18,926
Indebtedness	520,484	557,429
Pension and other postretirement plan liabilities	69,123	58,584
Other liabilities	4,288	4,673
TOTAL LIABILITIES	727,039	752,262
NET ASSETS:		
Unrestricted	1,036,895	1,015,555
Temporarily restricted	176,407	196,007
Permanently restricted	164,169	156,216
TOTAL NET ASSETS	1,377,471	1,367,778
TOTAL LIABILITIES AND NET ASSETS	\$ 2,104,510	\$ 2,120,040

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, 2015 and 2014 (in thousands of dollars)

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2014
OPERATING REVENUES:								
Tuition and fees, net of scholarships \$152,405 (2015) and \$143,298 (2014)	\$ 353,190	\$ -	\$ -	\$ 353,190	\$ 342,547	\$ -	\$ -	\$ 342,547
Grants and contracts for sponsored projects	57,981			57,981	57,920			57,920
Academic support	23,574			23,574	23,111			23,111
Gifts	1,658			1,658	1,948			1,948
Return on short-term investments and interest income	2,029			2,029	2,845			2,845
Investment income designated for operations	7,047			7,047	5,019			5,019
Other	30,514			30,514	28,327			28,327
Auxiliary services	65,534			65,534	61,234			61,234
Net assets utilized or released from restrictions for operations	17,534			17,534	17,087			17,087
TOTAL OPERATING REVENUES	559,061			559,061	540,038			540,038
OPERATING EXPENSES:								
Salaries and wages	236,260			236,260	231,746			231,746
Fringe benefits	66,639			66,639	60,883			60,883
Non-salary operating expenses	133,580			133,580	130,902			130,902
Insurance	2,401			2,401	3,249			3,249
Depreciation and amortization	53,245			53,245	51,431			51,431
Interest	17,768			17,768	18,324			18,324
Utilities	10,253			10,253	8,744			8,744
TOTAL OPERATING EXPENSES	520,146			520,146	505,279			505,279
RESULTS OF OPERATIONS	38,915			38,915	34,759			34,759
NON-OPERATING ACTIVITIES:								
Gifts		11,558	7,524	19,082	594	18,605	7,016	26,215
Investment gain (loss), net of amounts designated for operations	(6,187)	1,009	46	(5,132)	35,281	34,819	283	70,383
Other	(16,910)	(272)	107	(17,075)	808	(441)	1,348	1,715
Retirement plan related changes other than net periodic retirement plan expense	(8,563)			(8,563)	(4,500)			(4,500)
Net assets transferred or released from restrictions	14,085	(31,895)	276	(17,534)	12,288	(29,446)	71	(17,087)
TOTAL NON-OPERATING ACTIVITIES	(17,575)	(19,600)	7,953	(29,222)	44,471	23,537	8,718	76,726
CHANGE IN NET ASSETS	21,340	(19,600)	7,953	9,693	79,230	23,537	8,718	111,485
Total net assets, beginning of year	1,015,555	196,007	156,216	1,367,778	936,325	172,470	147,498	1,256,293
TOTAL NET ASSETS, END OF YEAR	\$ 1,036,895	\$ 176,407	\$ 164,169	\$ 1,377,471	\$ 1,015,555	\$ 196,007	\$ 156,216	\$ 1,367,778

See notes to the consolidated financial statements.

LOYOLA UNIVERSITY CHICAGO

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2015 and 2014 (in thousands of dollars)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 9,693	\$ 111,485
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	53,245	51,431
Provision for bad debt expense	2,005	2,005
Retirement plan market loss	8,563	4,500
Provision for retirement costs	4,065	6,406
Net realized and unrealized loss (gain) on investments	5,670	(67,772)
Contributions restricted for long-term investment	(6,360)	(6,155)
Other	13,906	(7,695)
Changes in assets and liabilities:		
Notes and accounts receivable	(1,840)	(1,563)
Other assets	(2,123)	(54)
Accounts payable and accrued expenses	(562)	11
Deferred income and unexpended grants	(3,366)	1,097
Interest held in perpetual trust	(144)	(1,384)
Refundable advances - loans	251	108
Other liabilities	(423)	725
NET CASH PROVIDED BY OPERATING ACTIVITIES	82,580	93,145
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	89,326	160,491
Purchase of investments	(90,643)	(195,940)
Purchases/sales of short-term investments, net	2,085	(40,628)
Proceeds on disposal of land		12,848
Expenditures for land, buildings and equipment	(128,117)	(112,132)
Student loans issued	(3,923)	(4,153)
Student loans collected	3,673	3,210
NET CASH USED BY INVESTING ACTIVITIES	(127,599)	(176,304)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for long-term investment	6,360	6,155
Retirement of debt	(33,592)	(26,805)
Withdrawal of trustee bond funds		8,488
NET CASH USED BY FINANCING ACTIVITIES	(27,232)	(12,162)
NET CASH PROVIDED FROM DISCONTINUED OPERATIONS	41,760	12,812
DECREASE IN CASH AND CASH EQUIVALENTS	(30,491)	(82,509)
Cash and cash equivalents, beginning of year	91,154	173,663
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 60,663	\$ 91,154

See notes to the consolidated financial statements.

LOYOLA UNIVERSITY CHICAGO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2015 and 2014

(1) Overview of Loyola University of Chicago

Loyola University of Chicago (referred to as Loyola University Chicago or LUC) is a private, coeducational, not-for-profit institution of higher education and research founded in 1870 by the Society of Jesus (Jesuits). LUC's patron saint and namesake is St. Ignatius Loyola (1491-1556), the founder of the Society of Jesus, which today is the largest religious order in the Roman Catholic Church. LUC operates on eight campuses providing educational services to approximately sixteen thousand students primarily in undergraduate degree programs as well as graduate and professional degree programs. LUC performs research, training, and other services under grants and contracts with government agencies and other sponsoring organizations. The LUC consolidated financial statements are comprised of Higher Education, Mundelein College (Mundelein), and Loyola Rome Center Foundation (Foundation). Mundelein exists to provide limited services for the benefit of LUC. The Foundation fosters, promotes, disseminates, and enhances the mission and values that govern LUC's John Felice Rome Center campus and LUC's programs in Italy.

(2) Tax Status

LUC and Mundelein are Illinois not-for-profit corporations and are exempt from federal income taxes under section 501(c)(3) of the U.S. Internal Revenue Code (IRC). The Foundation is an Italian entity organized under Italian law.

(3) Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). These principles require management to make estimates and judgments affecting the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses in the reporting period. Actual results could differ from these estimates. Net assets, revenues, and investment income or loss are classified based on the existence or absence of donor-imposed restrictions, as follows:

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

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

Unrestricted - Net assets not subject to donor-imposed restrictions.

Operations

Revenues received and expenses incurred in conducting LUC's programs and services are presented in the consolidated financial statements as operating activities. Non-operating results include investment income or loss, change in pension liability, gains or losses on the sale or disposal of property, and non-recurring items.

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

Certain unrestricted net assets are designated by the Board of Trustees for specific purposes or uses under various internal agreements.

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

Cash and Cash Equivalents

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

Short-term Investments

Short-term investments are comprised of investments in securities or funds whose maturities, duration, and sector exposures extend beyond the characteristics of cash and cash equivalents but are not considered long-term investments. Short-term investments are recorded at fair value and are generally priced and available on a daily basis.

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

Other Assets

Other assets are mostly comprised of prepaid expenses and land held for resale.

Long-term Investments

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

Investments in private investment funds are recorded at estimated fair value based on LUC's share of the funds' fair value or number of units outstanding. A private investment fund's fair value is typically based on estimated asset

values as of valuation dates that precede the LUC fiscal year end by up to 180 days and are adjusted for cash flows that occur between the valuation date and year end. These funds allocate gains, losses, and expenses to partners based on their respective ownership percentages or the number of units held. Management reviews reports and financial statements and communicates regularly with fund managers to maintain oversight of their valuation processes and estimates.

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

Derivative Financial Instruments

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

Assets Held in Trust by Others

Assets held in trust by others represent proceeds of tax-exempt bonds held by a bond-trustee to be used for future capital expenditures and an escrow account funded by CHE Trinity Inc. (CHE Trinity), formerly known as Trinity Health Corporation (Trinity) resulting from the sale of Loyola University Health System (LUHS) (see note 14).

Interest Held in Perpetual Trust

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

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost. Depreciation is calculated on a straight-line method using the following useful lives: building shell, 40-50 years; building improvements, 10-25 years; furniture, 15-20 years; and equipment, 3-10 years. LUC uses the component method of capitalization. Management continually reviews its long-lived assets for evidence of potential impairment and believes all necessary impairments have been recorded as of June 30, 2015.

Accounting Pronouncements

There were no new accounting pronouncements issued that impacted the consolidated financial statements for the year ended June 30, 2015.

(4) Investments

Under authority delegated by the Board of Trustees, the Investment Policy Committee of the Board of Trustees establishes the investment policy and guidelines governing the management of LUC's investments. The strategy for long-term investments is predicated on the objective of growth and preservation of the purchasing power of invested assets, and is thus equity-oriented and includes marketable equities, private equity, and energy and real estate investments, with diversifying exposure to fixed income investments and hedged strategies. Short-term investments are primarily managed with an objective to ensure safety of principal and a high level of liquidity to meet the needs of

LUC's operations. Substantially all investments are managed by external investment managers and all are held in custody by third-party financial institutions.

Functional Composition

LUC's total endowment and other long-term investments are comprised primarily of endowed funds and board-designated funds functioning as endowment (quasi-endowments), and also include unrestricted institutional funds, split-interest agreements, and other non-endowed donor and university funds. The table below presents the functional composition of LUC's total endowment and other long-term investments at June 30, 2015 and 2014:

(in thousands of dollars)	<u>2015</u>	<u>2014</u>
Donor-restricted endowment funds	\$ 269,944	\$ 269,341
Board-designated funds functioning as endowment	<u>271,354</u>	<u>268,844</u>
Total endowment investments	541,298	538,185
Institutional reserves	<u>50,547</u>	<u>56,968</u>
Total long-term investment pool	591,845	595,153
Split-interest agreements	9,572	9,640
Other invested assets	<u>1,225</u>	<u>1,278</u>
Total endowment and other long-term investments	\$ <u>602,642</u>	\$ <u>606,071</u>

In addition to endowment and other long-term investments, LUC had short-term investments of \$142.3 million and \$145.3 million at June 30, 2015 and 2014, respectively.

Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three categories:

- Level 1 - Unadjusted quoted prices in active markets for identical instruments.
- Level 2 - Quoted prices in active markets for similar instruments, quoted prices in inactive markets for identical or similar instruments, or model-derived valuations in which all significant inputs are directly or indirectly observable.
- Level 3 - Model-derived valuations in which one or more significant inputs are unobservable, including investment managers' own assumptions about the assumptions market participants would use to price an instrument based on the best available information.

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, 2015 and 2014:

(in thousands of dollars)	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
<u>2015</u>			
Cash and cash equivalents	\$ 641	\$ 641	\$ -
Fixed income mutual funds	44,277	44,277	
U.S. Treasury and government agency debt securities	15,422		15,422
Non-U.S. agency debt securities	1,118		1,118
Municipal debt securities	3,980		3,980
Corporate debt securities	57,586		57,586
Mortgage-related securities	8,545		8,545
Asset-backed securities	10,642		10,642
Collateralized mortgage obligations	<u>103</u>		<u>103</u>
Total	\$ <u>142,314</u>	\$ <u>44,918</u>	\$ <u>97,396</u>

(in thousands of dollars)	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
<u>2014</u>			
Cash and cash equivalents	\$ 580	\$ 580	\$ -
Fixed income mutual funds	38,261	38,261	
U.S. Treasury and government agency debt securities	23,315		23,315
Non-U.S. agency debt securities	2,109		2,109
Municipal debt securities	8,050		8,050
Corporate debt securities	45,821		45,821
Mortgage-related securities	13,529		13,529
Asset-backed securities	13,214		13,214
Collateralized mortgage obligations	444		444
Total	<u>\$ 145,323</u>	<u>\$ 38,841</u>	<u>\$ 106,482</u>

Endowment and Other Long-term Investments

The tables below summarize LUC's fair value measurements for the endowment and other long-term investments by the fair value hierarchy levels as of June 30, 2015 and 2014:

(in thousands of dollars)	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2015</u>				
Cash and cash equivalents	\$ 544	\$ 544	\$ -	\$ -
Money market mutual funds	4,633	4,633		
U.S. marketable equity securities	58,688	58,688		
U.S. marketable equity mutual funds	89,559	89,559		
Non-U.S. marketable equity securities	3,196	3,196		
Non-U.S. marketable equity mutual funds	1,814	1,814		
Marketable equity commingled funds	187,823		160,957	26,866
Other equity securities	200			200
Fixed income mutual funds	31,481	31,481		
Fixed income commingled funds	84,868		41,020	43,848
U.S. Treasury and government agency debt obligations	44,200	9,862	34,338	
Real assets commingled funds	13,376		13,376	
Real assets mutual funds	19,519	19,519		
Private equity investments	47,833			47,833
Private real assets investments	14,908			14,908
Total	<u>\$ 602,642</u>	<u>\$ 219,296</u>	<u>\$ 249,691</u>	<u>\$ 133,655</u>
<u>2014</u>				
Cash and cash equivalents	\$ 1,244	\$ 1,244	\$ -	\$ -
Money market mutual funds	3,673	3,673		
U.S. marketable equity securities	59,525	59,525		
U.S. marketable equity mutual funds	90,855	90,855		
Non-U.S. marketable equity securities	14,076	14,076		
Non-U.S. marketable equity mutual funds	1,633	1,633		
Marketable equity commingled funds	186,975		161,728	25,247
Other equity securities	626			626
Fixed income mutual funds	41,563	41,563		
Fixed income commingled funds	84,637		42,454	42,183
U.S. Treasury and government agency debt obligations	29,906	1,629	28,277	
Other fixed income	81		81	
Real assets commingled funds	18,974		18,974	
Real assets mutual funds	12,824	12,824		
Private equity investments	46,868			46,868
Private real assets investments	12,611			12,611
Total	<u>\$ 606,071</u>	<u>\$ 227,022</u>	<u>\$ 251,514</u>	<u>\$ 127,535</u>

The following table summarizes changes in fair value of the Level 3 investments in the endowment and other long-term investment portfolio for the years ended June 30, 2015 and June 30, 2014:

(in thousands of dollars)	Marketable Equity Commingled Funds	Other Equity Securities	Fixed Income Commingled Funds	Private Equity Investments	Private Real Assets Investments	Total
<u>2015</u>						
Balance at July 1, 2014	\$ 25,247	\$ 626	\$ 42,183	\$ 46,868	\$ 12,611	\$ 127,535
Realized gain (loss)		60		(1,360)	(4,683)	(5,983)
Unrealized gain (loss)	1,619	40	415	4,013	4,762	10,849
Purchases			1,250	8,986	6,998	17,234
Sales		(526)		(10,674)	(4,780)	(15,980)
Transfers to (from) Level 3						
Balance at June 30, 2015	<u>\$ 26,866</u>	<u>\$ 200</u>	<u>\$ 43,848</u>	<u>\$ 47,833</u>	<u>\$ 14,908</u>	<u>\$ 133,655</u>
<u>2014</u>						
Balance at July 1, 2013	\$ 11,545	\$ 610	\$ 33,835	\$ 41,232	\$ 13,006	\$ 100,228
Realized gain (loss)	(10)	(15)	282	3,426	528	4,211
Unrealized gain (loss)	179	107	811	4,642	(361)	5,378
Purchases	25,000		12,500	10,489	2,339	50,328
Sales	(39)	(76)	(5,245)	(12,921)	(2,901)	(21,182)
Transfers to (from) Level 3	(11,428)					(11,428)
Balance at June 30, 2014	<u>\$ 25,247</u>	<u>\$ 626</u>	<u>\$ 42,183</u>	<u>\$ 46,868</u>	<u>\$ 12,611</u>	<u>\$ 127,535</u>

All gains and losses shown above are included in reported earnings for the period. The portion of the change in unrealized gains (losses) that is attributable to assets still held at the reporting date is \$(0.2) million and \$2.2 million at June 30, 2015 and 2014. Of these amounts, at June 30, 2015, \$1.6 million was attributable to marketable equity commingled funds, \$0.4 million to fixed income commingled funds, \$(1.9) million to private equity investments, and \$(0.3) million to private real assets investments. At June 30, 2014, \$0.2 million was attributable to marketable equity commingled funds, \$0.1 million to other equity securities, \$0.8 million to fixed income commingled funds, \$1.4 million to private equity investments, and \$(0.3) million to private real assets investments.

There were no significant transfers between fair value hierarchy levels for the years ended June 30, 2015 and 2014. LUC recognizes transfers between hierarchy levels as of the beginning of the month in which a change in inputs or circumstances under which an asset is valued occurs. Significance is determined by reference to a transferred asset's fair value in relation to the aggregate value of LUC's long-term investments, with a transfer of value in excess of five percent of total long-term investments generally deemed significant.

LUC is obligated to make future capital contributions in private investment vehicles in the maximum amount of \$58.3 million over the next five years, subject to investment period modifications provided for in limited partnership agreements.

Fair value estimates for investment funds calculating net asset value per share as of June 30, 2015 and June 30, 2014 are in the table below.

(in thousands of dollars)

<u>Investment Type</u>	<u>2015</u>	<u>2014</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>	<u>Other Redemption Restrictions</u>
Equity hedge fund of funds	\$ 46	\$ 57	Directed by investment manager	N/A	N/A
Private real estate commingled funds	2,765	1,412	Directed by investment manager	N/A	None
Listed equity securities commingled funds	41,120	46,887	Daily	Thirty days	None
Listed equity securities commingled funds	6,605	6,284	Quarterly	Forty-five days	None
Listed equity securities commingled funds	6,062	5,641	Monthly	Forty-five days	None
Listed equity securities commingled funds	22,407	24,504	Semimonthly	Five business days	None
Listed equity securities commingled funds	9,819	10,428	Quarterly	Sixty days	None
Listed equity securities commingled funds	9,199	7,640	Semiannually	Forty-five days	None
Listed equity securities commingled funds	10,212	10,417	Annually	Forty-five days	None
Listed equity securities commingled funds	7,409	7,133	Triannually	Forty-five days	10% of shares redeemable annually despite lockup
Fixed income securities commingled funds	30,126	31,573	Monthly	Ten business days	None
Fixed income securities commingled funds	10,894	10,881	Monthly	Ninety days	5% redemption fee during first year and on balances over 25% of assets thereafter
Fixed income securities commingled funds	10,685	9,113	Annually	Ninety days	None
Total	<u>\$ 167,349</u>	<u>\$ 171,970</u>			

There were unfunded commitments totaling \$3.8 million to investment funds that calculate a net asset value per share at June 30, 2015, and none at June 30, 2014. The equity hedge fund of funds category consists of a liquidating investment in a fund of funds with a single remaining underlying fund investment with holdings in various Asian markets. Liquidating investments cannot be redeemed but generate periodic distributions at the direction of the funds' managers as underlying investments are sold.

The private real estate commingled funds category consists of a fund making direct real estate investments. The listed equity securities commingled funds categories are 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 securities commingled funds categories are comprised of funds that invest in primarily US high yield bonds, sovereign debt issues of various countries, and global corporate debt securities, including structured products.

Interest Held in Perpetual Trust

LUC's interest held in perpetual trust is considered Level 3 in the fair-value hierarchy, based on guidance in the FASB ASC. The table below summarizes the changes in LUC's fair value measurements for the interest held in perpetual trust as of June 30, 2015 and 2014:

(in thousands of dollars)	<u>2015</u>	<u>2014</u>
Balance at July 1	\$ 11,673	\$ 10,289
Realized gain	547	503
Unrealized (loss) gain	(245)	1,091
Sales	(158)	(210)
Balance at June 30	\$ <u>11,817</u>	\$ <u>11,673</u>

Derivative Financial Instruments

Derivative financial instruments may be used in the management of the LUC investment portfolio, generally to assist in rebalancing its asset mix and to invest cash that would otherwise earn a low rate of return. As of June 30, 2015 and 2014, the investment portfolio held futures contracts with a notional value of \$9.9 million and \$20.4 million, respectively. The net impact of the futures held at June 30, 2015 is to reduce the proportion of cash in the endowment portfolio by 1.7% while increasing fixed income exposure by 1.7%. Futures contracts are exchange-traded and subject to the market risk of the underlying indexes from which their prices are derived.

At June 30, 2015, one call option was written (as part of the strategy of an investment manager) on stock held in the investment portfolio. At June 30, 2014, two call options were written (as part of the strategy of an investment manager) on stock held in the investment portfolio. Call options written are subject to the risk of loss from an obligation to sell underlying securities at a price below the then-current market price.

The fair value of derivative instruments as of June 30, 2015 and 2014 is as follows:

(in thousands of dollars)			
<u>Derivative Type</u>	<u>Consolidated Statements of Financial Position Location</u>	<u>2015</u>	<u>2014</u>
Equity options contracts	Endowment and other long-term investments	(24)	(30)
Total derivatives		\$ (24)	\$ (30)

The effect of derivative instruments on the consolidated statements of activities and changes in net assets as of June 30, 2015 and 2014 is as follows:

(in thousands of dollars)			
<u>Derivative Type</u>	<u>Location of Gain (Loss) Recognition in Consolidated Statements of Activities and Changes in Net Assets</u>	<u>2015</u>	<u>2014</u>
Equity, fixed income, and currency futures	Investment gain (loss) – non-operating	\$ 208	\$ 4,547
Equity options contracts	Investment gain (loss) – non-operating	30	\$ 63
Total derivatives		\$ <u>238</u>	\$ <u>4,610</u>

Investment Returns

Investment returns, net of management fees, for short-term and long-term investments, for the years ended June 30, 2015 and 2014 were:

(in thousands of dollars)	<u>2015</u>	<u>2014</u>
Interest and dividend income (net of fees)	\$ 9,614	\$ 10,475
Net realized gains	11,757	21,178
Net unrealized (losses) gains	(17,427)	46,594
Total net return on investment	\$ <u>3,944</u>	\$ <u>78,247</u>

Endowment Net Assets

The endowment consists of over 700 individual funds established for a variety of purposes supporting LUC operations. Endowment fund balances, including funds functioning as endowment (quasi-endowments), are classified and reported as unrestricted, temporarily restricted or permanently restricted net assets in accordance with donor specifications and GAAP. While funds functioning as endowment (quasi-endowment) are not subject to permanent restrictions, approval by the Board of Trustees is required to spend from or otherwise alter the designated principal of these unrestricted funds.

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

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

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

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

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

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

The following table summarizes the asset allocation targets as of June 30, 2015 for the endowment portfolio (which also applies uniformly to the total investment pool):

Target <u>Asset Class</u>	<u>Allocation</u>
Global equity	50.0%
Private capital	12.5%
Real assets	10.0%
Credit	12.5%
Fixed income	15.0%
Cash	0%

Current endowment spending policy establishes a maximum spending rate in any given year of 5.0% of an endowment fund's net assets. Proposals for endowed funds to apply a spending rate in excess of 5.0% must be approved as part of the annual budget approval process. In absence of donor stipulations to the contrary, annual appropriations from an endowment fund are determined by application of an annually-determined base budget calculation to the endowment funds' net asset value as of a measurement date preceding the beginning of the fiscal year in which the appropriated amounts are to be drawn.

Endowment net assets at June 30, 2015 and 2014 are classified as follows:

(in thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2015</u>				
Donor-restricted endowment funds	\$ (102)	\$ 125,436	\$ 145,571	\$ 270,905
Board-designated funds functioning as endowment	<u>270,762</u>	<u> </u>	<u> </u>	<u>270,762</u>
Total endowment net assets	\$ <u>270,660</u>	\$ <u>125,436</u>	\$ <u>145,571</u>	\$ <u>541,667</u>
<u>2014</u>				
Donor-restricted endowment funds	\$ (73)	\$ 132,206	\$ 137,813	\$ 269,946
Board-designated funds functioning as endowment	<u>268,577</u>	<u> </u>	<u> </u>	<u>268,577</u>
Total endowment net assets	\$ <u>268,504</u>	\$ <u>132,206</u>	\$ <u>137,813</u>	\$ <u>538,523</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires LUC to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets and totaled \$0.1 million as of June 30, 2015 and 2014.

The following tables provide a summary of the changes in the endowment net assets for the years ended June 30, 2015 and 2014:

(in thousands of dollars)

<u>2015</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ 268,504	\$ 132,206	\$ 137,813	\$ 538,523
Gifts and transfers				
Contributions (excluding pledges)		12	6,360	6,372
Transfers	<u>6,920</u>	<u>(245)</u>	<u>1,398</u>	<u>8,073</u>
Total gifts and transfers	6,920	(233)	7,758	14,445
Investment income				
Interest and dividends (net of fees)	2,942	2,820		5,762
Realized gain	5,671	5,431		11,102
Unrealized loss	<u>(7,829)</u>	<u>(7,616)</u>		<u>(15,445)</u>
Total investment income	784	635		1,419
Income distributed for operating purposes				
Scholarships	(2,572)	(2,862)		(5,434)
Endowed chairs	(922)	(2,211)		(3,133)
Research	(177)	(437)		(614)
Other	<u>(1,877)</u>	<u>(1,662)</u>		<u>(3,539)</u>
Total income distributed for operating purposes	<u>(5,548)</u>	<u>(7,172)</u>		<u>(12,720)</u>
Net assets, end of year	\$ <u>270,660</u>	\$ <u>125,436</u>	\$ <u>145,571</u>	\$ <u>541,667</u>
<u>2014</u>				
Net assets, beginning of year	\$ 224,831	\$ 105,675	\$ 131,443	\$ 461,949
Gifts and transfers				
Contributions (excluding pledges)		7	6,155	6,162
Transfers	<u>13,148</u>	<u>(366)</u>	<u>215</u>	<u>12,997</u>
Total gifts and transfers	13,148	(359)	6,370	19,159
Investment income				
Interest and dividends (net of fees)	3,410	3,314		6,724
Realized gain	9,233	8,957		18,190
Unrealized gain	<u>21,618</u>	<u>20,996</u>		<u>42,614</u>
Total investment income	34,261	33,267		67,528
Income distributed for operating purposes				
Scholarships	(1,227)	(2,365)		(3,592)
Endowed chairs	(637)	(2,066)		(2,703)
Research	(162)	(438)		(600)
Other	<u>(1,710)</u>	<u>(1,508)</u>		<u>(3,218)</u>
Total income distributed for operating purposes	<u>(3,736)</u>	<u>(6,377)</u>		<u>(10,113)</u>
Net assets, end of year	\$ <u>268,504</u>	\$ <u>132,206</u>	\$ <u>137,813</u>	\$ <u>538,523</u>

Split-Interest Agreements

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

The assets held under split-interest agreements (charitable trusts for which LUC is the trustee and assets held in respect to gift annuity contracts) were \$9.6 million at June 30, 2015 and 2014 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 \$4.5 million and \$4.6 million as of June 30, 2015 and 2014, respectively. The discount rate used is 6.5% in both fiscal years 2015 and 2014.

During fiscal year 2015, the discounted present values of new gifts subject to split-interest agreements, net of the income beneficiary share, were \$0.3 million, and were included in gifts on the consolidated statements of activities and changes in net assets.

Actuarial gains or (losses) on split-interest agreements are included in other in the non-operating activities section of the consolidated statements of activities and changes in net assets, and were \$(0.3) million and \$(0.5) million in fiscal years 2015 and 2014, respectively.

Net assets corresponding to LUC's interest that are subject to donor-imposed restrictions requiring that distributions be invested in perpetuity are classified as permanently restricted net assets in the consolidated statements of financial position; all others are classified as temporarily restricted net assets in the consolidated statements of financial position until the expiration of the donor-imposed restrictions, at which point they will be reclassified as unrestricted net assets unless otherwise subject to donor-imposed spending conditions.

(5) Notes and Accounts Receivable, Net

Notes and accounts receivable at June 30, 2015 and 2014 consisted of:

(in thousands of dollars)

	<u>2015</u>	<u>2014</u>
Student loan notes (less allowance for doubtful accounts of \$1,986 (2015) and \$1,831 (2014))	\$ 21,508	\$ 21,943
Contributions receivable (less discount of \$14,843 (2015) and \$16,678 (2014) and allowance for doubtful accounts of \$258 (2015) and \$357 (2014))	27,209	28,397
Student receivables (less allowance for doubtful accounts of \$4,867 (2015) and \$4,735 (2014))	11,886	10,002
Grant receivables	4,964	4,566
Other receivables (less allowance for doubtful accounts of \$90 (2015) and \$81 (2014))	8,431	9,005
Total notes and accounts receivable, net	<u>\$ 73,998</u>	<u>\$ 73,913</u>

Contributions receivable at June 30, 2015 and 2014 are due in the following periods:

(in thousands of dollars)

	<u>2015</u>	<u>2014</u>
In one year or less	\$ 1,484	\$ 1,673
Between one year and five years	10,736	12,060
More than five years	30,090	31,699
Discount of \$14,843 (2015) and \$16,678 (2014) and allowance for doubtful accounts of \$258 (2015) and \$357 (2014)	<u>(15,101)</u>	<u>(17,035)</u>
Total contributions receivable	<u>\$ 27,209</u>	<u>\$ 28,397</u>

Credit Quality of Student Loan Notes

LUC makes uncollateralized loans to students based on financial need. Student loan notes are funded through federal government loan programs or institutional/other resources. At June 30, 2015 and 2014, student loan notes represented 1.0% of total assets.

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

(in thousands of dollars)

	<u>2015</u>	<u>2014</u>
Federal government programs	\$ 21,125	\$ 21,424
Institutional/other programs	<u>2,369</u>	<u>2,350</u>
Total student loan notes	23,494	23,774
Less allowance for doubtful accounts:		
Beginning of year	(1,831)	(1,669)
Increase to reserve	(250)	(250)
Write-offs	<u>95</u>	<u>88</u>
End of year	<u>(1,986)</u>	<u>(1,831)</u>
Student loan notes, net	\$ <u>21,508</u>	\$ <u>21,943</u>

LUC participates in the Perkins federal revolving loan program, among other government revolving loan programs. The availability of funds for loans under these programs is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the federal government of \$19.2 million and \$18.9 million at June 30, 2015 and 2014, respectively, are ultimately refundable to the government and are classified as refundable advances – loans on the consolidated statements of financial position. At June 30, 2015 and 2014, LUC had past due loans of \$3.5 million and \$3.3 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, 2015 and 2014 were:

(in thousands of dollars)

	<u>2015</u>	<u>2014</u>
Land and land improvements	\$ 209,837	\$ 221,076
Buildings	1,135,697	1,108,528
Equipment	128,795	123,860
Library books and art	31,913	31,136
Construction in progress	<u>173,212</u>	<u>87,159</u>
Total	1,679,454	1,571,759
Accumulated depreciation	<u>(528,624)</u>	<u>(480,542)</u>
Land, buildings, and equipment, net	\$ <u>1,150,830</u>	\$ <u>1,091,217</u>

As of June 30, 2015, LUC had commitments of \$21.1 million related to various capital projects.

As of June 30, 2015 and 2014, LUC included \$0.9 million and \$1.1 million of capitalized asset retirement costs, net of accumulated depreciation, within buildings. Additionally, \$2.9 million and \$2.8 million of conditional asset retirement obligations were included within other liabilities in the consolidated statements of financial position for fiscal years 2015 and 2014.

As of June 30, 2015 and 2014, expenditures for land, buildings and equipment of \$21.9 million and \$17.2 million included in accounts payable and accrued expenses in the consolidated statements of financial position are reflected as noncash items in the consolidated statements of cash flows, respectively.

(7) Indebtedness

Notes and bonds payable as of June 30, 2015 and 2014 are shown below:

(in thousands of dollars)	Final Maturity	Interest Rate	2015	Interest Rate	2014
Fixed rate:					
Illinois Finance Authority (IFA) (formerly Illinois Educational Facilities Authority (IEFA)):					
Series 2003B taxable bonds	2022	5.60%	\$ 37,520	5.60%	\$ 37,520
Series 2007 tax-exempt bonds	2025	4.38-5.00%	23,335	4.00-5.00%	23,625
Series 2012B tax-exempt bonds	2043	3.00-5.00%	90,975	3.00-5.00%	91,600
Series 2003C taxable direct obligation bonds	2019	5.20-5.30%	26,900	4.90-5.30%	34,020
Series 2012A taxable bonds	2043	3.20-4.63%	157,220	3.20-4.63%	157,220
Medium-term notes	2018	7.52%	21,100	7.52%	21,100
2012 term note	2018	2.36%	69,438	2.36%	94,688
Mortgage notes:					
6542-48 N. Sheridan Road	2016	9.50%	9	9.50%	115
Rome Center ⁽¹⁾	2029	1.51%	9,986	1.51%	12,504
Total fixed rate			<u>436,483</u>		<u>472,392</u>
Variable rate:					
IFA 2008 tax-exempt commercial paper ^{(2) (3)}	2038	0.08%	<u>74,040</u>	0.09%	<u>74,040</u>
Total variable rate			<u>74,040</u>		<u>74,040</u>
Total indebtedness		3.74% ⁽⁴⁾	<u>510,523</u>	3.68% ⁽⁴⁾	<u>546,432</u>
Adjustment for unamortized bond premium/(discount)			<u>9,961</u>		<u>10,997</u>
Total indebtedness net of unamortized premium/(discount)			<u>\$ 520,484</u>		<u>\$ 557,429</u>

⁽¹⁾ Principal amount outstanding is subject to currency (euro) fluctuations.

⁽²⁾ Interest rates shown in the variable rate section of this chart represent the weighted average outstanding interest rate at June 30.

⁽³⁾ The commercial paper is fully backed by a direct-pay letter of credit from PNC Bank, National Association, pursuant to an agreement that expires on August 15, 2017.

⁽⁴⁾ Weighted average interest rate on all outstanding debt as of June 30, 2015, and June 30, 2014, respectively.

Effective February 23, 2015, LUC renewed and extended to February 22, 2016, a 364-day credit agreement with PNC Bank, National Association, which has been in place since 2011 and under which LUC may borrow up to \$20 million on a revolving loan basis. Borrowings under the line of credit may bear interest at rates based on LIBOR, PNC's Prime Rate, or other negotiated rates. During the fiscal year ended June 30, 2015, there was no balance outstanding nor any interest paid on the line of credit.

In 2015 and 2014, LUC recorded capitalized interest of \$0.8 million and \$1.2 million, respectively. Bond discounts, premiums, and costs incurred in connection with the issuance of bonds are deferred and amortized over the life of the related indebtedness.

Interest paid for the years ended June 30, 2015 and 2014 was:

(in thousands of dollars)	2015	2014
Interest paid	\$19,791	\$22,076

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, 2015.

Repayments and Classification

Total scheduled maturities for the next five fiscal years are:

(in thousands of dollars)

2016	\$ 35,397
2017	35,886
2018	41,221
2019	14,402
2020	14,873
Thereafter	<u>368,744</u>
	\$ <u>510,523</u>

Disclosure of Fair Value of Long-term Debt

The fair value of the outstanding long-term debt as of June 30, 2015 and 2014 was:

(in thousands of dollars)

2015		2014	
Fair Value	Carrying Value	Fair Value	Carrying Value
\$538,543	\$520,484	\$567,663	\$557,429

The fair value of long-term debt is determined based on discounted cash flows or market prices for comparable borrowings as of June 30, 2015 and 2014.

(8) Retirement Plans

Substantially all personnel participate in either a defined contribution retirement plan or a defined benefit pension plan (LUERP). LUC froze pension benefits in LUERP effective March 31, 2004 for all but a grandfathered group of "ameliorated" participants. This group was allowed to continue to earn additional Adjusted Benefit Credited Service accruals for a period of up to five years. The LUERP plan is governed by ERISA. Effective April 1, 2004, LUC established a new defined contribution plan. LUC's expense under this plan was \$20.6 million and \$19.8 million for 2015 and 2014, respectively. Summary information for the defined benefit pension plan, LUERP, follows:

(in thousands of dollars)

	2015	2014
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	\$ 87,271	\$ 80,212
Interest cost	3,516	3,683
Benefits paid	(5,276)	(7,794)
Actuarial loss	<u>3,596</u>	<u>11,170</u>
Projected benefit obligation, end of year	\$ <u>89,107</u>	\$ <u>87,271</u>
Change in plan assets		
Fair value of plan assets, beginning of year	\$ 64,545	\$ 63,487
Actual return on plan assets	(2,353)	8,217
Employer contributions	703	635
Benefits paid	(<u>5,276</u>)	(<u>7,794</u>)
Fair value of plan assets, end of year	\$ <u>57,619</u>	\$ <u>64,545</u>
Funded status		
Funded status of the plans	\$ (<u>31,488</u>)	\$ (<u>22,726</u>)

(in thousands of dollars)

	<u>2015</u>	<u>2014</u>
Amounts included in the statements of financial position		
Pension and other postretirement plan liabilities	\$ <u>(31,488)</u>	\$ <u>(22,726)</u>
Amounts not yet recognized in net periodic pension cost and included in unrestricted net assets		
Actuarial loss	\$ <u>56,895</u>	\$ <u>48,151</u>
Pension plan changes other than net periodic pension plan expense		
	\$ <u>(8,744)</u>	\$ <u>(3,313)</u>
Components of net pension expense		
Service cost	\$ -	\$ -
Interest cost	3,516	3,683
Expected return on plan assets	(4,313)	(4,223)
Net amortization and deferral	1,518	1,361
Settlement expense	-	2,502
Net periodic pension expense	\$ <u>721</u>	\$ <u>3,323</u>
Weighted average assumptions		
Discount rate - benefit obligations	4.11%	4.19%
Discount rate - pension expense	4.19%	4.78%
Rate of compensation increase	n/a	n/a
Expected long-term return on assets	7.00%	7.00%

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

	<u>2015</u>	<u>2014</u>
Cash	2%	2%
Equity securities	29%	30%
Fixed income securities	56%	52%
Private equity investments	1%	2%
Other, including real estate	<u>12%</u>	<u>14%</u>
Total	<u>100%</u>	<u>100%</u>

The table below summarizes LUC's fair value measurements of the LUERP investment portfolio by the fair value hierarchy levels as of June 30, 2015:

(in thousands of dollars)	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 628	\$ 628	\$ -	\$ -
Short term investment funds	461	461		
U.S. marketable equity securities	2,843	2,843		
U.S. marketable equity mutual funds	5,991	5,991		
U.S. marketable equity commingled funds	2,499		2,499	
Non-U.S. marketable equity securities	139	139		
Non-U.S. marketable mutual funds	4,365	4,365		
Non-U.S. marketable equity commingled funds	3,989		3,989	
Other equity securities	48			48
Fixed income mutual funds	7,453	7,453		
Fixed income commingled funds	4,418		4,418	
U.S. Treasury and government agency debt obligations	6	(640)	646	
U.S. state and municipal debt obligations	1,076		1,076	
U.S. corporate debt securities	16,614		16,614	
Non-U.S. corporate debt securities	6,377	3,829	2,548	
Asset-backed securities	21		21	
Private equity investments	682			682
Private real assets investments	9			9
Total	\$ <u>57,619</u>	\$ <u>25,069</u>	\$ <u>31,811</u>	\$ <u>739</u>

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

(in thousands of dollars)	Other Equity Securities	Private Equity Investments	Private Real Assets Investments	Total
Balance at July 1, 2014	\$ 95	\$ 1,273	\$ 12	\$ 1,380
Realized gain (loss)	8	(781)	(595)	(1,368)
Unrealized gain (loss)	3	829	594	1,426
Sales	(58)	(639)	(2)	(699)
Balance at June 30, 2015	\$ <u>48</u>	\$ <u>682</u>	\$ <u>9</u>	\$ <u>739</u>

The table below summarizes LUC's fair value measurements of the LUERP investment portfolio by the fair value hierarchy levels as of June 30, 2014:

(in thousands of dollars)	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 672	\$ 672	\$ -	\$ -
Short term investment funds	572	572		
U.S. marketable equity securities	4,904	4,904		
U.S. marketable equity mutual funds	4,080	4,080		
U.S. marketable equity commingled funds	4,708		4,708	
Non-U.S. marketable equity securities	261	261		
Non-U.S. marketable mutual funds	4,518	4,518		
Non-U.S. marketable equity commingled funds	4,943		4,943	
Other equity securities	95			95
Fixed income mutual funds	8,610	8,610		
Fixed income commingled funds	4,993		4,993	
U.S. Treasury and government agency debt obligations	(243)	(648)	405	
U.S. state and municipal debt obligations	942		942	
U.S. corporate debt securities	16,126		16,126	
Non-U.S. corporate debt securities	8,008	5,092	2,916	
Asset-backed securities	71		71	
Private equity investments	1,273			1,273
Private real assets investments	12			12
Total	\$ <u>64,545</u>	\$ <u>28,061</u>	\$ <u>35,104</u>	\$ <u>1,380</u>

The following table summarizes the changes in fair value of the LUERP Level 3 investments for the year ended June 30, 2014:

(in thousands of dollars)	Other Equity Securities	Private Equity Investments	Private Real Assets Investments	Total
Balance at July 1, 2013	\$ 112	\$ 1,678	\$ 25	\$ 1,815
Realized loss	(7)	(687)		(694)
Unrealized gain (loss)	19	832	(4)	847
Purchases		11		11
Sales	(29)	(561)	(9)	(599)
Balance at June 30, 2014	\$ <u>95</u>	\$ <u>1,273</u>	\$ <u>12</u>	\$ <u>1,380</u>

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

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

(in thousands of dollars)	Fiscal Year	Payments
	2016	\$ 8,105
	2017	7,480
	2018	7,407
	2019	6,973
	2020	6,821
	2021-2025	30,182

LUC expects to make an employer contribution of \$1.9 million in fiscal year 2016.

(9) Other Postretirement Benefits

LUC has a defined benefit retiree health plan covering eligible employees upon their retirement. Health benefits are provided subject to various cost-sharing features and are not prefunded.

Defined benefit retiree health plan costs included in the consolidated statements of activities and changes in net assets for LUC for the years ended June 30, 2015 and 2014 were:

(in thousands of dollars)

	2015	2014
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 35,858	\$ 32,700
Service cost	2,407	2,195
Interest cost	1,197	1,298
Participant contributions	1,046	1,030
Benefits paid	(2,432)	(2,142)
Actuarial (gain) loss	(441)	777
Benefit obligation, end of year	\$ 37,635	\$ 35,858
Change in plan assets		
Fair value of plan assets, beginning of year	\$ -	\$ -
Employer contributions	1,386	1,112
Participant contributions	1,046	1,030
Benefits paid	(2,432)	(2,142)
Fair value of plan assets, end of year	\$ -	\$ -
Funded status		
Funded status of plan	\$ (37,635)	\$ (35,858)
Amounts included in the statements of financial position		
Pension and other postretirement plan liabilities	\$ (37,635)	\$ (35,858)
Amounts not yet recognized in net periodic benefit cost and included in unrestricted net assets		
Actuarial gain	\$ (5,431)	\$ (5,211)
Prior service benefit	(55)	(94)
Total	\$ (5,486)	\$ (5,305)
Retirement plan changes other than net periodic retirement plan expense		
	\$ 181	\$ (1,187)
Components of net periodic postretirement benefit cost		
Service cost	\$ 2,407	\$ 2,195
Interest cost	1,197	1,298
Amortization of unrecognized prior service benefit and actuarial gain	(260)	(410)
Net periodic postretirement benefit cost	\$ 3,344	\$ 3,083

(in thousands of dollars)

	<u>2015</u>	<u>2014</u>
Discount rate	3.69%	3.42%
Assumed health care cost trend rates		
HMO plans	5.00%	5.00%
Non-HMO plans	5.00%	5.00%

Net actuarial gain and prior service benefits of \$0.3 million for the plan will be amortized from unrestricted net assets into net periodic postretirement benefit cost during the 2016 fiscal year.

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

1% increase

On year-end postretirement benefit obligations	\$ 1,911	\$ 1,607
On total of service and interest cost components	124	124

1% decrease

On year-end postretirement benefit obligations	\$ (1,830)	\$ (1,558)
On total of service and interest cost components	(128)	(128)

Estimated future benefit payments

(in thousands of dollars)	<u>Fiscal Year</u>	<u>Payments</u>
	2016	\$ 1,815
	2017	2,391
	2018	2,947
	2019	3,486
	2020	3,994
	2021-2025	23,828

Effective July 1, 2004, LUC changed its plan for retiree health benefits. New retirees after 2006 will receive an account-based retiree medical subsidy. The subsidy will be an annual allocation of \$2,750 (not indexed) towards an interest-bearing account. The allocations will be given for each year of active employment after age 50, up to a maximum of 15 years. The accounts cannot be accessed until after age 60 and 10 years of continuous service. Accounts will continue to earn interest during retirement and can be used by the retiree or spouse to pay qualified retiree medical expenses, including monthly premiums for coverage under LUC's health plan.

(10) Functional Classification of Expenses

Expenses are reported in the consolidated statements of activities and changes in net assets in natural classifications. Expenses by functional classification for the years ended June 30, 2015 and 2014 were:

(in thousands of dollars)	<u>2015</u>	<u>2014</u>
Instruction	\$ 179,412	\$ 175,649
Research and other sponsored programs	46,611	47,235
Academic support	71,721	71,099
Student services	54,531	51,865
Institutional support	109,078	102,315
Auxiliary services	<u>58,793</u>	<u>57,116</u>
Total operating expenses	\$ <u>520,146</u>	\$ <u>505,279</u>

(11) Restricted Net Assets

The program restrictions for temporarily and permanently restricted net assets at June 30, 2015 and 2014 were:

(in thousands of dollars)

	<u>2015</u>	<u>2014</u>
Temporarily Restricted		
Academic or program support and student financial aid	\$ 135,499	\$ 141,547
Research	6,330	5,745
Student loans	3,223	3,111
Construction	6,367	7,163
Other	<u>24,988</u>	<u>38,441</u>
Total temporarily restricted net assets	\$ <u>176,407</u>	\$ <u>196,007</u>

(in thousands of dollars)

	<u>2015</u>	<u>2014</u>
Permanently Restricted		
Academic or program support and student financial aid	\$ 161,059	\$ 154,118
Research	1,962	950
Student loans	<u>1,148</u>	<u>1,148</u>
Total permanently restricted net assets	\$ <u>164,169</u>	\$ <u>156,216</u>

(12) Commitments and Contingencies

Various lawsuits, claims, and other contingent liabilities occasionally arise in the ordinary course of LUC's education and research activities. In the opinion of management, all such matters have been adequately provided for, are without merit, or are of such kind that if disposed of unfavorably, would not have a material effect on LUC's financial position or results of operations. Commitments for capital projects are disclosed in note 6.

(13) Relationship with CHE Trinity

During fiscal year 2011, LUC completed a transaction with CHE Trinity, 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, CHE Trinity replaced LUC as the sole member of LUHS and all of its affiliates including Loyola University Medical Center (LUMC), Gottlieb Health Resources (GHR), Gottlieb Memorial Hospital (GMH), and Loyola University of Chicago Insurance Company Ltd (LUCIC). CHE Trinity assumed control of all the assets of LUHS and retained all of the liabilities of LUHS. The closing date of the transaction was June 30, 2011. The transaction resulted in a gain of \$42.3 million and \$8.9 million that was reported as discontinued operations at June 30, 2011 and 2012, respectively.

LUC entered into the following agreements with CHE Trinity 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 CHE Trinity transaction. LUC, LUHS, and LUMC have entered into an Academic Affiliation Agreement which includes negotiated terms and conditions and which provides for an annual academic support payment to LUC from LUHS and LUMC (which payment is guaranteed by CHE Trinity). 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 \$23.6 million and \$23.1 million of academic support in the consolidated statements of activities and changes in net assets in fiscal years 2015 and 2014, respectively.

Indemnification Escrow Agreement

On July 1, 2011, CHE Trinity made a payment of \$20.0 million to establish an escrow account. The escrow was established in order to secure LUC's obligations under the Definitive Agreement, including, without limitation, the payment of any unrecorded, misstated or under-reserved pre-closing liabilities or the breach of any representations, warranties or covenants made by LUC in the Definitive Agreement. The escrow account will also be credited for any unnecessarily recorded, overstated or over-reserved pre-closing liabilities or other gain contingencies. In fiscal year 2014, LUC received \$10.0 million from the indemnification escrow account, which is reported as net cash provided from discontinued operations in the consolidated statements of cash flows. The remaining \$10.0 million is reported as assets held in trust by others in the consolidated statements of financial position. This amount was scheduled to be released to LUC on June 30, 2015 and is currently under review and pending final settlement.

Research Facility Funding Agreement

Pursuant to the Definitive Agreement, CHE Trinity is required to make a \$75.0 million payment to LUC for the construction and related start-up expenses of a new research enterprise facility that will be owned by LUC. LUC will also invest \$75.0 million to match the CHE Trinity payment for the construction and related start-up expenses. In fiscal year 2015, LUC received \$41.8 million from CHE Trinity, which is reported as net cash provided from discontinued operations in the consolidated statements of cash flows. The remaining \$30.4 million is reported as a receivable from CHE Trinity in the consolidated statements of financial position. LUC anticipates to receive this amount in fiscal years 2016 and 2017 as the construction of the research enterprise facility is completed.

(14) Subsequent Events

LUC has evaluated subsequent events through September 18, 2015, the date the consolidated financial statements were issued. LUC did not identify any subsequent events to be disclosed.

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