Audit_fn02

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS

A Component Unit of the Commonwealth of Kentucky

Auditor's Report and Financial Statements
June 30, 2017 and 2016

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS

A Component Unit of the Commonwealth of Kentucky

Table of Contents:

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
University of Louisville and Affiliated Corporations
Louisville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the University of Louisville and Affiliated Corporations (the University), a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the University of Louisville Physicians, Inc. (ULP), the University of Louisville Real Estate Foundation, Inc., (ULREF) and University of Louisville Foundation, Inc. and Affiliates (the Foundation), which make up the entire aggregate discretely presented component units of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for ULP, the Foundation and ULREF is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of ULP, the Foundation and ULREF were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 financial statements.

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

(Continued)

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate discretely presented component units of the University, as of June 30, 2017 and 2016, and the respective changes in financial position and where applicable, the cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion, Analysis on pages 3 through 17 and the Post-employment Benefit Information on page 86 to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2017 on our consideration of the University of Louisville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University of Louisville's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 19, 2017

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the University of Louisville and Affiliated Corporations (the University) for the years ended June 30, 2017 and 2016. The affiliated corporations include the University of Louisville Research Foundation, Inc. (Research Foundation) and the University of Louisville Athletic Association (Association). This discussion contains highly summarized data and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Using the Financial Statements

The University's financial report includes three financial statements: the Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; and the Statements of Cash Flows. These financial statements have been prepared by University management in accordance with the Governmental Accounting Standards Board (GASB) principles.

The Statements of Net Position present the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the University at fiscal year-end, June 30, 2017, 2016 and 2015. The change in net position is a simple snapshot of whether the university accumulated or consumed resources during the year. Items on the Statements of Net Position are generally measured using current values. Items representing cash or revenue receipts in excess of one year are discounted. Capital assets are stated at historical cost less accumulated depreciation.

The Statements of Revenues, Expenses, and Changes in Net Position present the total revenues earned and expenses incurred by the University during the fiscal year(s). The statements depict the major revenue streams of the University and expense categories supported by that revenue. Changes in net position indicate whether the University has accumulated or consumed resources during the periods reported.

The Statements of Cash Flows present cash inflows and outflows for each fiscal year. The statement reports major sources and uses of cash and assists with the assessment of the University's ability to meet cash obligations when due.

Please refer to footnote 1 for a summary of significant accounting policies.

Overview – Fiscal Year Ended June 30, 2017

The University's financial position remains strong as of June 30, 2017 with total assets reaching $1.3 billion and a $28.7 million increase in net position during the year. The University experienced operating revenue growth across nearly every source and the operating loss narrowed by $33.6 million. The following is a brief discussion of events during fiscal year 2017 that had substantial or multiple impacts on the financial performance and position of the University:

- KentuckyOne Healthcare, Inc. (KOH) – In November 2012, the University and KOH entered into an academic affiliation agreement (AAA) that called for KOH to make strategic programmatic investments in key clinical departments in addition to investments in research initiatives and academic support. At the same time, University Medical Center (UMC), the University's teaching hospital, engaged KOH to provide day-to-day management of the hospital and the Commonwealth of Kentucky, on behalf of the University, entered into a lease of the hospital to KOH. These agreements ended June 30, 2017 as UMC returned to managing the hospital and entered into a new AAA with the University and lease with the Commonwealth.

  - With the end of the AAA with KOH, the University took remaining advances, primarily related to strategic programmatic investments, into revenue. This had the effect of reducing current and long-term Advances and increasing Clinical Revenue.
  - In return for KOH waiving a termination payment, UMC agreed to assume programmatic investment payments KOH owed the University. Recognizing the new agreement with UMC had the effect of increasing Due from Affiliates and Other Operating Revenues.

- Capital Projects – During fiscal 2017, progress was made on an expansion and renovation of the Swain Student Activities Center, an expansion of Papa John's Football Stadium, and new construction of an academic building on Belknap Campus. New debt was issued to pay for a portion of the football stadium which will be repaid with private donations. This activity had the impact of increasing accounts payable (for contractor payments), restricted cash (for borrowings not yet spent), capital assets, bonds payable, capital gifts, and capital appropriations.

- New Concession Agreements – The University entered into 15 year arrangements for foodservice concessions and bookstore concessions with Aramark and Follett, respectively. These agreements had the effect of increasing short and long-term accounts receivable and deferred inflows of resources.

- Gift and Endowment Funding in fiscal 2017, the University of Louisville Foundation (Foundation) began reimbursing the University's gift and endowment-related expenses in arrears rather than funding them in advance as in fiscal year 2016. This change in funding had the effect of reducing Contributions from Foundation revenues and cash.

Statements of Net Position

Condensed Statements of Net Position
June 30, 2017, 2016, and 2015
(In Thousands)

	2017	2016	2015	2017 - 2016 Change	2016 - 2015 Change
ASSETS					
Current assets	$ 190,511	$ 232,242	$ 239,699	$ (41,731)	$ (7,457)
Long-term investments	26,840	27,940	37,912	(1,100)	(9,972)
Capital assets, net	891,944	868,398	864,686	23,546	3,712
Other	175,801	97,248	72,122	78,553	25,126
Total assets	1,285,096	1,225,828	1,214,419	59,268	11,409
DEFERRED OUTFLOWS OF RESOURCES	7,412	6,967	851	445	6,116
LIABILITIES					
Current liabilities	171,923	187,106	174,602	(15,183)	12,504
Noncurrent liabilities	322,935	326,023	330,417	(3,088)	(4,394)
Total liabilities	494,858	513,129	505,019	(18,271)	8,110
DEFERRED INFLOWS OF RESOURCES	49,436	175	3,671	49,261	(3,496)
NET POSITION					
Net investment in capital assets	660,316	632,789	612,364	27,527	20,425
Restricted-nonexpendable	1,633	1,633	1,791	-	(158)
Restricted-expendable	83,553	92,008	80,099	(8,455)	11,909
Unrestricted	2,712	(6,939)	12,326	9,651	(19,265)
Total net position	$ 748,214	$ 719,491	$ 706,580	$ 28,723	$ 12,911

Assets

Current Assets consist primarily of Cash; Loans, Accounts and Contributions Receivable; and Due from Affiliates.

In fiscal year 2017, current assets decreased $41.7 million due to a $47.1 million reduction in unrestricted Cash and Cash Equivalents, partially offset by an $11.3 million increase in Due from Affiliates. Reduction in cash was a result of a change in Foundation funding mechanics and normal operations. Whereas the University had cash reserves of approximately $20.3 million as of June 30, 2016 from prior Foundation advances, as of June 30, 2017 the University was awaiting reimbursement for approximately $16.3 million of these expenses.

In fiscal year 2016, Current Assets decreased $7.5 million, reflecting the decrease in Short-Term Investments of $9.8 million, and Cash and Cash Equivalents of $8.2 million partially offset by the $9.8 million increase in Loans, Accounts, and Contributions Receivable, Net. The decrease in cash and short-term investments was the result of an increase in operating expenses.

Capital Assets, Net of Accumulated Depreciation, represented 69% of total assets as of June 30, 2017. Other Noncurrent Long-Term Investments, Noncurrent Loans, Accounts and Contributions Receivable and Restricted Cash and Cash Equivalents comprise the remainder of assets.

Noncurrent Assets increased $101.0 million in fiscal 2017 driven by construction and related financing.

Restricted Cash and Cash Equivalents increased $34.7 million reflecting unspent construction bond proceeds. Capital Assets, Net increased $23.5 million due to construction projects. Long-Term Accounts Receivable increased $28.3 million primarily due to the addition of a $25.7 million long-term receivable related to a new foodservice concession arrangement. Due from Affiliates increased $14.6 million mainly due to a $24.4 million new receivable from UMC, partially offset by the write-off of a $10.4 million receivable from the Foundation related to an underperforming Tax Increment Financing project.

In fiscal year 2016, Noncurrent Assets increased $18.9 million. Restricted Cash and Cash Equivalents increased $11.0 million due to funds transferred for construction projects and the receipt of a $7.8 million capital appropriation to fund the Belknap Research & Technology Park, partially offset by progress payments to contractors. In addition, the University loaned $38.0 million to the University of Louisville Real Estate Foundation (ULREF) of which $9.8 million was outstanding at June 30, 2016. These increases were partially offset by a decrease in Other Long-Term Investments where matured investments were not reinvested as well as a decrease in market value for investments held with the Foundation on behalf of the Association.

Deferred Outflows of Resources

Deferred Outflows of Resources represent a consumption of net assets applicable to a future period. These balances consist primarily of losses on bond refinancing that will be amortized to interest expense over the life of the refinanced debt as well as the fair value of an interest rate swap agreement.

In fiscal year 2017 the University issued General Receipts Refunding Bonds 2016 Series F to refinance Metro Government Bonds Series 2008A and Series 2008B. The $0.4 million increase in Deferred Outflows of Resources reflects the addition of $1.7 million loss on refinancing related to the transaction, offset by a $0.4 million increase in the fair market value of an interest rate swap agreement (which has the effect of reducing Deferred Outflows of Resources), and amortization of $0.8 million of prior losses on refinance during the year.

In fiscal 2016, Deferred Outflows of Resources increased $6.1 million as the university incurred a $5.9 million loss on refinancing with the issuance of General Receipts Bonds 2016 Series A, Series B, and Series C which refunded Consolidated Educational Building Revenue Bonds (CEBRB) Series P and General Receipts Bonds Series 2007A, 2008A, and 2010A. A $0.3 million decrease in the value of an interest swap agreement had the effect of further increasing Deferred Outflows of Resources.

Liabilities

Accounts Payable and Accrued Liabilities and Advances comprise 83% of total current liabilities. Current Liabilities decreased $15.2 million in fiscal year 2017, primarily due to the expiration of agreements with KentuckyOne Health (KOH) at the end of the year. Approximately $17 million in Advances provided by KOH for strategic program investment were taken into revenue during the course of the year and the remaining $4 million balance was taken into revenue when the agreement ended June 30, 2017. This decrease was partially offset by a $8.6 million increase in Accounts Payable and Accrued Liabilities related to normal operations and a $5.9 million increase in construction-related Accounts Payable.

In fiscal year 2016, the $12.4 million increase in current liabilities related primarily to an $8.6 million increase in Advances principally from KOH.

Noncurrent liabilities consist primarily of the portion of bonds, notes, and leases payable in excess of one year. The $3.1 million decrease in Noncurrent Liabilities in fiscal year 2017 included a $29.2 million decrease in advances as KOH Advances taken into revenue at year end partially offset by $24.2 million additional long-term debt associated with stadium construction.

In fiscal year 2016, the $4.4 million decrease in noncurrent liabilities related to the decrease in bonds and notes payable from debt repayments and refinancing. Bonds, notes and leases payable decreased for maturities totaling $103.5 million partially offset by additions during the year of $99.6 million.

Deferred Inflows of Resources

Deferred Inflows of Resources represent an acquisition of net position that applies to future periods. In fiscal year 2017 the University recorded $49.4 million Deferred Inflows to reflect future receipts related to new foodservice and bookstore concession arrangements with Aramark and Follett, respectively. The fair market value of a prior forward delivery contract was reduced from $0.2 million to $0 when the associated debt was retired in December.

In fiscal 2016 the University re-bid its food service contract and selected a new provider. Due to the termination of the existing food service provider's contract, the remaining $3.4 million previously reflected as a Deferred Inflow of Resources was taken into revenue.

Net Position

The University's net position is summarized into four major categories in accordance with GASB Statement No. 35 *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities* reporting requirements as amended by GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* as follows:

- *Net Investment in Capital Assets* represents the University's investment in capital assets such as land, buildings, equipment and depreciable library materials, net of accumulated depreciation, related deferred outflows of resources reduced by related deferred inflows of resources and debt attributable to the acquisition, construction, or improvement of those assets.

- *Restricted-nonexpendable* funds include amounts that are subject to externally imposed restrictions that require the University to maintain the assets in perpetuity. These balances are the permanent endowment for scholarships and other purposes.

- *Restricted-expendable* funds are those that are subject to externally imposed restrictions governing their use for a particular purpose or period of time. The University's most significant components in this category consist of amounts restricted for capital projects debt service, research, and public service.

- *Unrestricted* net position results primarily from net operating income in excess of expenses. Although unrestricted net position is not subject to externally imposed stipulations, substantially all of the University's unrestricted net position has been designated for various academic programs, research initiatives, and capital projects.

In fiscal year 2017, Total Net Position increased $28.7 million as compared to June 30, 2016. The University's operating loss narrowed by $33.6 million as operating revenues increased more than operating expenses, in large part due to Advances from KOH being taken into revenue as that agreement ended. Revenues associated with capital projects increased $19.2 million related to three construction projects. Contributions from University of Louisville Foundation decreased $40.0 million due to a small, planned reduction in endowment and gift support as well as a change in funding mechanics. The University received and recorded as revenue approximately $20 million in fiscal 2016 in advance of related expenses. In fiscal 2017, the Foundation adopted an in-arrears funding mechanism with reimbursements beginning after the $20 million cash reserves were utilized.

For fiscal year 2016 net position increased $12.9 million as compared to June 30, 2015. Operating revenues increased $42.4 million, including $16.9 million in Clinical Services and Practice Plan revenue and $15.9 million in Nongovernmental and Federal Grants and Contracts. A $9.0 million increase in Medicaid related patient revenue and intergovernmental transfers and an $8.2 million increase in revenue from the KOH agreement contributed to Clinical Revenues. Revenues from grants and contracts reflected increases in awards and timing of payments.

Operating expenses for fiscal year 2016 increased by $47.5 million (5%) including $26.8 million in institutional support and $13.9 million in public service. These increases are mainly the result of increases of $13.1 million of administrative expenses formerly accounted for by the Foundation and $9.5 million of expense funded from the KOH agreement. Administration costs funded by the Foundation were reported on separate Foundation financial statements for fiscal year 2015.

Net non-operating revenues and other revenue increased $5.2 million. Net assets contributed by the Foundation increased $28.8 million for transfer of gift revenue and funding supporting University administrative programs. An $8.6 million gift and an $8.7 million grant received in fiscal 2015 and not repeated resulted in lower Other Non-operating and Gift revenue.

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position
Years ended June 30, 2017, 2016, and 2015
(In Thousands)

	2017	2016	2015	2017 - 2016 Change	2016 - 2015 Change
OPERATING REVENUES					
Student tuition and fees, net	$ 221,626	$ 209,503	$ 209,834	$ 12,123	$ (331)
Clinical services and practice plan	335,065	269,420	252,446	65,645	16,974
Grants and contracts	90,158	103,417	90,135	(13,259)	13,282
Facilities and administrative cost recoveries	25,064	24,611	22,596	453	2,015
Other	132,149	103,831	93,329	28,318	10,502
Total operating revenues	804,062	710,782	668,340	93,280	42,442
OPERATING EXPENSES					
Depreciation	48,503	51,295	53,339	(2,792)	(2,044)
Other	1,023,034	960,583	911,024	62,451	49,559
Total operating expenses	1,071,537	1,011,878	964,363	59,659	47,515
NONOPERATING REVENUES (EXPENSES)					
State appropriations	134,508	142,213	140,744	(7,705)	1,469
Other nonoperating revenues	161,690	171,794	168,052	(10,104)	3,742
Total nonoperating revenues	296,198	314,007	308,796	(17,809)	5,211
Increase/(decrease) in net position	28,723	12,911	12,773	15,812	138
Net position - beginning of year	719,491	706,580	693,807	12,911	12,773
Net position - end of year	$ 748,214	$ 719,491	$ 706,580	$ 28,723	$ 12,911

Operating Revenues

Revenues from tuition, clinical services, and certain grants and contracts are classified as operating revenues as defined by GASB Statement No. 35, Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities. While still an important source of support for University academic programs, other revenue sources, such as state appropriations and Contributions from University of Louisville Foundation are considered non-operating revenues.

Student tuition and fees, net of allowances for scholarships and fellowships were $221.6 million and $209.5 million, or 28% and 29% of total operating revenues for the years ended June 30, 2017 and 2016, respectively. The University adopted a 5% gross tuition rate increase in both fiscal years. Rates of scholarship and fellowship assistance provided by the University generally change at the same rate as tuition, though the types and number of students accepting financial aid can vary. In fiscal 2017, scholarship and financial aid expense was slightly lower than prior year resulting in an overall 5.8% increase in net tuition revenue. In fiscal year 2016, scholarship and financial aid expense increased by approximately the same dollar amount as gross tuition resulting in overall flat net tuition growth.

Clinical services and practice plan revenue amounted to $335.1 million and $269.4 million, or 42% and 38% of total operating revenues for fiscal years 2017 and 2016, respectively. These revenues relate to patient care performed in clinics under contractual arrangements with governmental and private insurers, laboratory services and clinical support provided by affiliated hospitals and the University's professional practice plan. Strategic programming revenues from an Academic Affiliation Agreement with KOH has contributed approximately 35% of the growth in Clinical Revenues over the last two fiscal years with additional growth related to increased patient volumes and expanded Medicaid revenues.

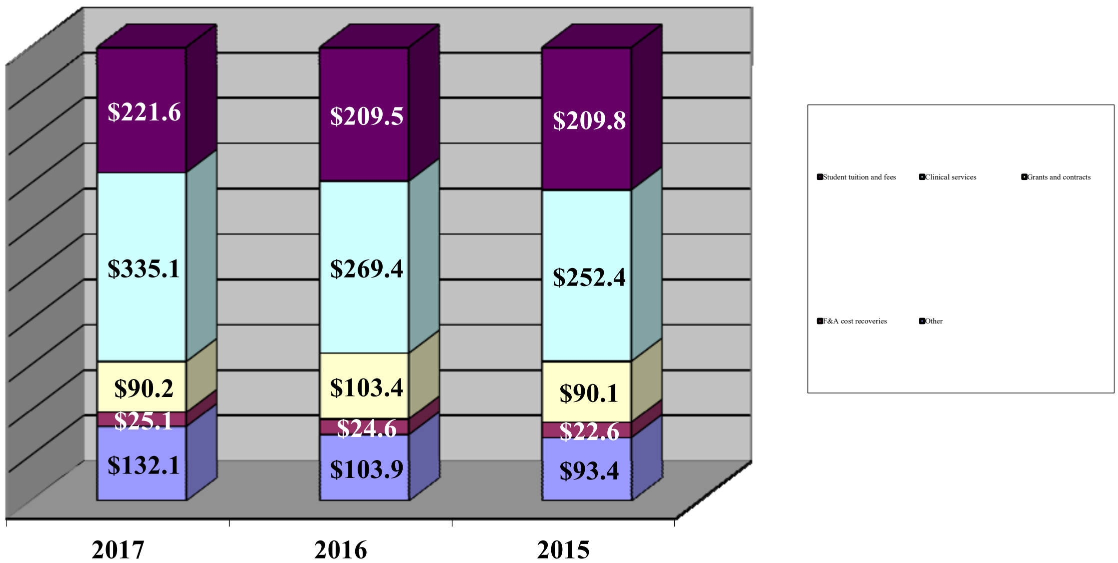
Revenue from grants and contracts were $90.2 million and $103.4 million for the years ended June 30, 2017 and 2016, respectively. This decrease reflects lower revenue from Federal and Nongovernmental sources. Changes in revenue can also reflect timing of start-up or reimbursement of expenses. In fact, the number and dollar amount of grants and contracts awarded in fiscal 2017 exceeded fiscal year 2016.

The University's contracts from government and private sources normally provide for the recovery of indirect or overhead costs. Facilities and administrative (F&A) cost recoveries were $25.1 million and $24.6 million for the years ended June 30, 2017 and 2016, respectively. F&A cost recovery revenues generally follow the trend in direct cost revenues and expenditures.

Other Operating Revenue increased $28.3 million in fiscal year 2017. This primarily related to the transfer of an obligation University Medical Center (UMC), the University teaching hospital, had to KOH to the University after the dissolution of the KOH agreement.

The following is a graphic illustration of revenues by source that are used to fund the University's operating activities for the years ended June 30, 2017, 2016 and 2015 (in millions):

Operating Revenues
Years ended June 30, 2017, 2016, and 2015

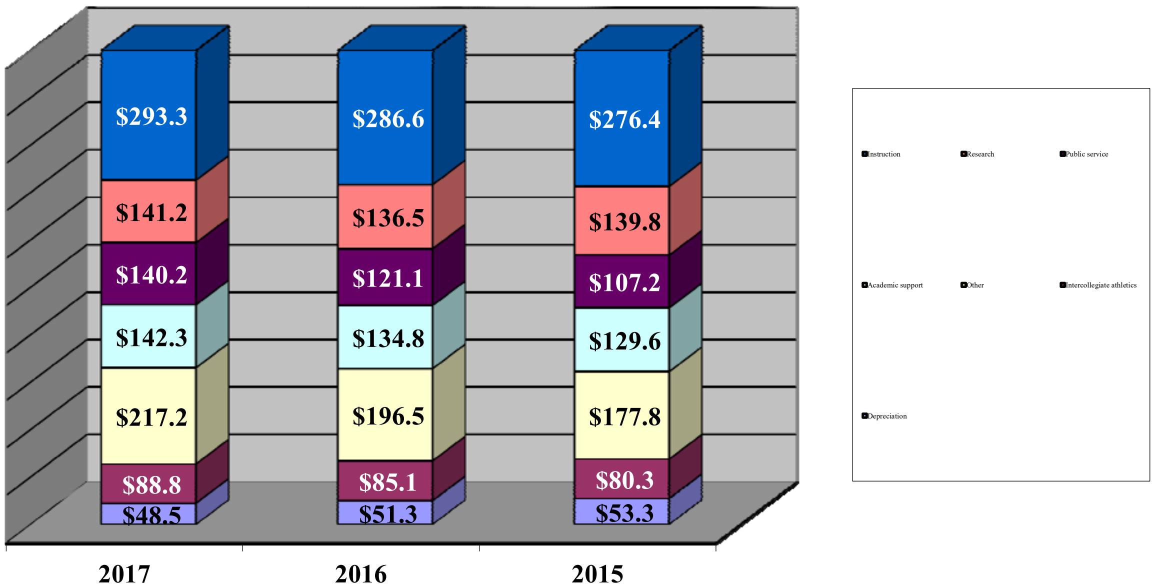


Operating Expenses

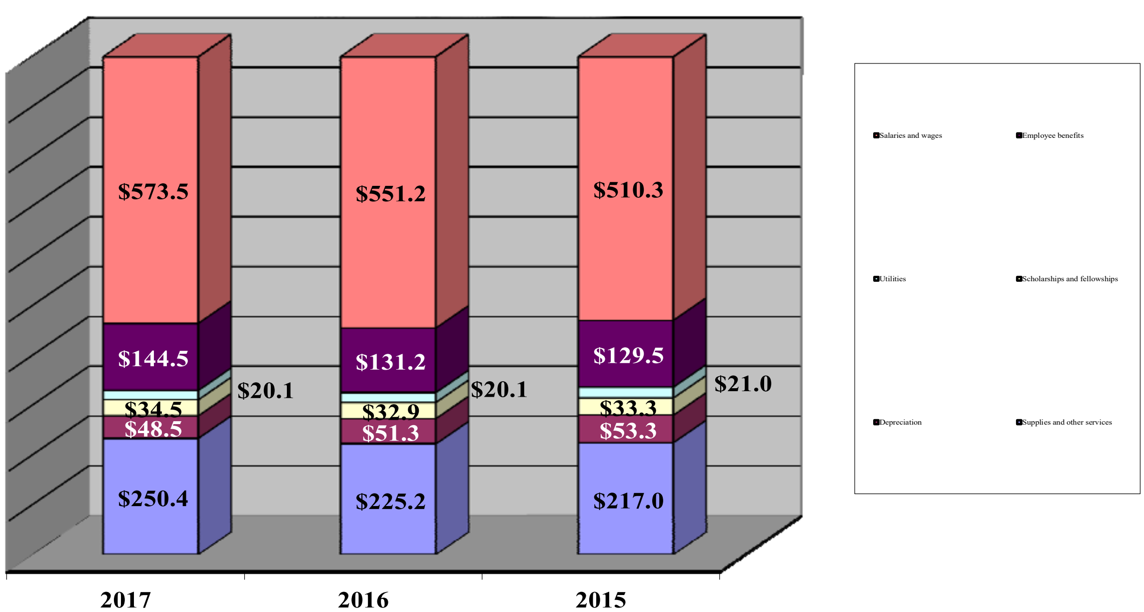
Operating expenses were $1.1 billion and $1.0 billion and exceeded operating revenues by $267.5 million and $301.1 million for the years ended June 30, 2017 and 2016, respectively. In fiscal 2017, operating expenses increased $59.7 million or 6%. Among functional classifications, public service increased $19.2 million, mainly due to programs funded by KOH under the Academic Affiliation Agreement, and institutional support increased $16.0 million including a $10.4 million write-off of a receivable for an underperforming Tax Increment Financing project.

Graphic illustrations of total expenses by functional and natural classifications for the years ended June 30, 2017, 2016 and 2015 (in millions) are summarized on the following pages:

Operating Expenses by Functional Classification
Years ended June 30, 2017, 2016, and 2015



Operating Expenses by Natural Classification
Years ended June 30, 2017, 2016, and 2015



Nonoperating Revenues (Expenses)

Net Non-Operating Revenues and Other Revenues decreased $17.8 million in fiscal 2017, primarily due to reduced State Appropriations and Contributions from University of Louisville Foundation. State appropriations decreased $7.7 million in fiscal 2017, slightly more than expected. Contributions from the Foundation were down $39.5 million in fiscal 2017 as a result of a change in funding mechanics. The University received and recorded as revenue approximately $20 million in fiscal 2016 in advance of related expenses. In fiscal 2017, the Foundation adopted an in-arrears funding mechanism with reimbursements beginning after the $20 million cash reserves were utilized. Non-Operating Revenue decreases were partially offset by a $19.2 million increase in Capital Gifts and Appropriations related to three construction projects underway on campus.

In fiscal 2016, Net Non-Operating Revenues and Other Revenues increased $5.2 million including the $28.8 million increase in Contributions from the Foundation, partially offset by decreases in Other Non-Operating revenues of $10.0 million, Gifts of $7.7 million and Capital Appropriation of $4.2 million. Contributions from the Foundation increased primarily as result of timing of the transfer of gift revenue and for funding administrative programs reported by the University during fiscal year 2016 previously reported by the Foundation. Gifts and Other Non-Operating Revenue decreased as the University received an $8.6 million gift and an $8.7 million grant in fiscal 2015 that were not repeated. Capital Appropriation revenue reimbursed expenses related to development of a new Belknap Campus research park.

Statements of Cash Flows

The statements of cash flows provide additional information about the University's financial results by reporting the major sources and uses of cash. The condensed statements of cash flows for the years ended June 30, 2017, 2016 and 2015 are summarized below:

Condensed Statements of Cash Flows
Years ended June 30, 2017, 2016, and 2015
(In Thousands)

	2017	2016	2015	2017 - 2016 Change	2016 - 2015 Change
Cash (used)/provided by:					
Operating activities	$ (237,803)	$ (251,278)	$ (205,947)	$ 13,475	$ (45,331)
Noncapital financing activities	230,658	290,621	293,610	(59,963)	(2,989)
Capital and related financing activities	(15,058)	(53,059)	(48,846)	38,001	(4,213)
Investing activities	9,730	16,523	14,545	(6,793)	1,978
Net (decrease)/increase in cash and cash equivalents	(12,473)	2,807	53,362	(15,280)	(50,555)
Cash and cash equivalents, beginning of year	151,849	149,042	95,680	2,807	53,362
Cash and cash equivalents, end of year	$ 139,376	$ 151,849	$ 149,042	$ (12,473)	$ 2,807

Total Cash and Cash Equivalents decreased by $12.5 million during fiscal year 2017. Operating activities consumed $13.5 million less cash during the year compared to prior year as increased receipts from nearly every source were higher than increased payments for supplies, employees, and scholarships. Notable increased receipts included $11.4 million increased clinical receipts, $13.9 million auxiliary receipts, and $7.4 million higher receipts for research grants and contracts.

Lower Noncapital Financing Activity Receipts related to a change in Foundation funding mechanics which resulted in $59.7 million lower receipts during the year together with $2.2 million lower State Appropriations.

The University consumed $15.1 million in cash for capital and related financing, $38.0 million less than prior year. Cash used decreased $45.0 million for principal repayments. Interest payments were also favorable by $4.6 million compared to prior year. Cash provided by Capital Appropriations and Capital Gifts increased $13.0 million during the year. Offsetting these cash sources, purchases of Capital Assets increased $21.0 million in fiscal 2017 as the University engaged in three construction projects. Debt refinancing continued at a slower pace in fiscal 2017 compared to prior year with $13.0 million lower proceeds from debt.

Investing activities produced $9.7 million in cash during fiscal year 2017, $6.8 million less than fiscal 2016. Lower proceeds from maturing investments were slightly offset by lower purchases of new investments.

Cash used by operating activities for fiscal year 2016 increased $45.3 million due to an increase in cash used for payments to employees of $37.5 million, payments to suppliers of $19.6 million and decreased cash provided by clinical services and practice plan of $12.4 million. Increased cash provided by grants and contracts of $6.8 million and intercollegiate athletics of $7.5 million partially offset the decreases.

Net cash provided by noncapital financing activities decreased $3.0 million due to the receipt of a grant in 2015 from the Pediatric Foundation of $8.7 million that was not repeated in 2016 and decreased cash provided by gifts and grants totaling $5.6 million. Partially offsetting these decreases is an increase in cash provided by contributions from related entities of $12.2 million.

Cash used for capital and related financing activities increased $4.2 million. The increase is the result of increased cash used for principal payments of $79.3 million, increased cash used for payment of issuance costs of $7.8 million, increased cash used for purchases of capital assets of $5.5 million, and decreased cash provided from capital appropriations of $4.2 million. Partially offsetting these cash uses was an increase in cash provided by proceeds from issuance of long-term liabilities totaling $92.6 million.

Cash from investing activities increased $2.0 million due mainly to the reduction in the purchase of investments from working capital.

Capital Asset and Debt Administration

The University continues to invest in new and renovated facilities to meet the needs of students, faculty and staff. Significant projects completed, in process and approved but not started are listed below.

COMPLETED IN 2017

MDR Building Masonry Restoration	$	1,288,000
Ekstrom Library 3rd Floor Delphi Renovation		2,750,000
Thornton Academic Center @ PJCS		19,300,000
Baxter I Supplemental Chiller		617,000
Ekstrom Delphi HVAC Upgrade		550,000
Donald Baxter Building Cardiology GMP Facility		2,079,000

COMPLETED IN 2016

Ekstrom Library 1st Floor Renovation	2,200,000
MDR 4th Floor Renovation - Phase 5	705,000
K-Wing 2nd Floor Classroom Renovation	1,075,000
Resurface Running Track at Cardinal Park	910,000

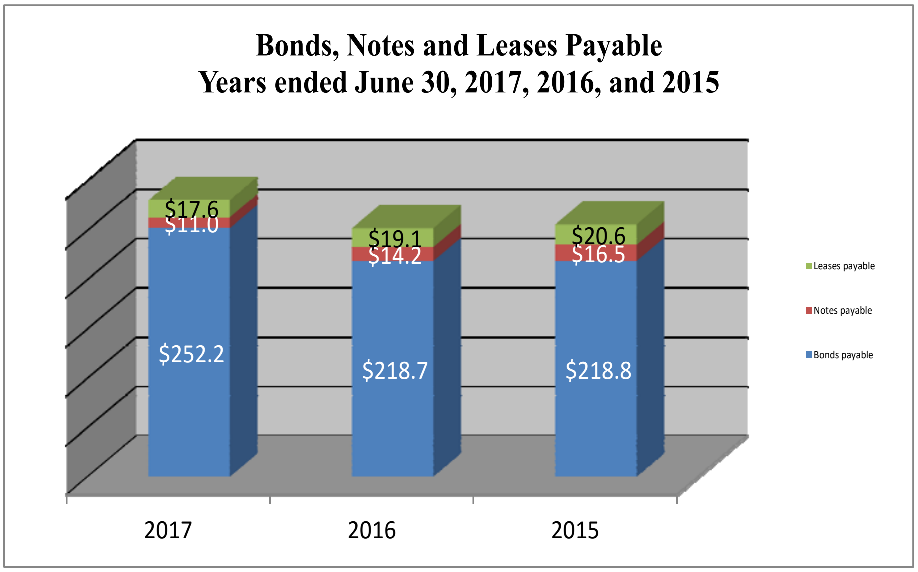
IN PROGRESS OR APPROVED AND NOT STARTED

Belknap Classroom Building	83,560,000
Student Activity Center Renovation	38,500,000
PJCS Stadium North End Zone Expansion	63,250,000
Vivarium Study	105,064
ULAA AV Production Studio	8,000,000

Debt and Financing Activities

At the end of fiscal year 2017, the University had outstanding $280.8 million of bonds, leases and notes payable (inclusive of discounts/premiums) as compared to $252.0 million and $255.9 million in 2016 and 2015, respectively. The 2017 increase includes the issuance of General Receipts Bonds 2016 Series D, Series E and Series F including funding $55.2 million of football stadium expansion cost and the refunding of Metro Government Series 2008 A and B bonds. The 2016 decrease represents the normal pay down of long term bonds and the refunding of certain bonds by the issuance of General Receipts Bonds 2016 Series A, Series B and Series C. The issuance of General Receipts Bonds, 2016 Series A included $9.6 million to expand and renovate the student activity center.

Graphic illustrations of bonds, notes and leases payable for the years ended June 30, 2017, 2016 and 2015 (in millions) are summarized below:



A complete discussion of bonds, notes and leases payable is included in Note 9.

Component Units

The University of Louisville Foundation, Inc. (Foundation), University of Louisville Real Estate Foundation, Inc. (ULREF), and University of Louisville Physicians, Inc. (ULP) are included as discretely presented component units of the University. The Foundation acts primarily as a fundraising organization to supplement the resources available to the University in support of its programs. The majority of the Foundation's assets relate to investments held for the benefit of the University. Investments at June 30, 2017, were $719.0 million, an increase of $79.0 million from the June 30, 2016 balance of $640.0 million.

The ULREF is a nonprofit corporation with the purpose to acquire, maintain, improve, leverage, manage, lease and convey real and personal property for the benefit of the University.

ULP is a private, nonprofit corporation that functions as the corporate structure for the clinical practices of the faculty of the University's School of Medicine and maintains close financial and operational relationships with the University.

All discretely presented component units have separate and independent governing boards. The University's Board of Trustees does not provide governance or administrative oversight for the discretely presented component units.

Economic Factors That May Affect the Future

The University is committed to achieving preeminence as a nationally recognized metropolitan research university. Senior leadership continues to believe the University is financially well-positioned to educate and serve its community through:

- Teaching diverse undergraduate, graduate, and professional students in order to develop engaged citizens, leaders, and scholars,

- Practicing and applying research, scholarship and creative activity, and
- Providing engaged service and outreach that improve the quality of life for local and global communities.

The following is a brief discussion of economic and other factors that could have an impact on the University in the future:

- At the national level, moderate growth in gross domestic product and a relatively improved unemployment picture suggest a stable near-term economic outlook for the country. However, proposed decreases in funding to the National Institutes of Health, which funds many research projects across the country including at UofL, and the amount of overhead that universities can recover for supporting federally-funded research, could have a negative impact on UofL if approved. The University continues to monitor the situation.
- The economic outlook for the Commonwealth of Kentucky is mixed. Personal income could grow 4.4 percent in FY 2018 compared to an expected 4.2 percent for the nation. Employment, though, continues to lag the country following the Great Recession. While national unemployment rates have dropped below 4.5 percent after peaking at 10 percent in 2009, Kentucky's unemployment rate was 5.1 percent in June 2017.
- The state ended FY 2017 with a $138 million revenue shortfall. Although the state balanced its books using a variety of short-term mechanisms, uncertainty exists about state finances for FY 2018 and beyond. In order to avoid further reductions in spending, state revenues will have to increase at a higher-than-anticipated pace. Persistent pressure to increase funding to the state's public pension system—which remains one of the lowest funded in the nation—could affect state appropriations to public universities, even if revenues increase. The University does not participate in these pension plans and is subject only to indirect effects of their funding shortfall.
- To help reduce the state's pension liability, Governor Matt Bevin has expressed a strong desire to modernize the state's tax code and increase tax revenues. Expected legislative action could occur as early as this fall. Approved changes could influence the development of the state's 2018-2020 biennial budget. The legislature must adopt a biennial budget by April 2018.
- Relatedly, a performance-funding model for public universities and colleges, first implemented in FY 2017, remains in place. Under existing statute, FY 2019 is a hold-harmless year; public universities and colleges will not lose state funds based on performance. In FY 2020 and beyond, a portion of each university's state appropriation will depend upon how it performs on several student and operational metrics relative to the other universities.
- Despite continued funding challenges at both the state and federal levels, the University has made significant progress in meeting its 2020 goals. Student enrollment remains steady. Demand, as measured by student applications, is strong.
- The University continues to support its mission through strategic construction projects:
    - A $39 million renovation of Swain Student Activity Center, including updated lobbies, lounges, and restaurants and a 32,775 square foot expansion to the current 365,000 square feet.
    - An $84 million, 161,000 square foot new academic building housing 17 state-of-the art classrooms as well as science labs, group study areas, gathering spaces and food service options.
    - The $60 million, 170,000 square foot, Novak Center for Children's Health to house UofL Physician's pediatric specialty clinical practices. When complete, it will be the largest outpatient center for pediatric care in the nation.
    - A $63 million, 70,000 square foot expansion of Papa John's football stadium funded entirely through private donations.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the University's finances and to show the University's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Controller, University of Louisville, Louisville, KY 40292.

University of Louisville and Affiliated Corporations
A Component Unit of the Commonwealth of Kentucky
Statements of Net Position
June 30, 2017 and 2016
(In Thousands)

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	$ 76,669	$ 123,803
Deposit with bond trustee and escrow agent	47	5,754
Short-term investments	2,242	918
Loans, accounts and contributions receivable, net	77,023	78,821
Due from affiliate	23,602	12,340
Inventories	853	883
Other assets	10,075	9,723
Total current assets	190,511	232,242
Noncurrent Assets		
Restricted cash and cash equivalents	62,707	28,046
Deposit with bond trustee and escrow agent	6,700	5,242
Loans, accounts and contributions receivable, net	71,748	43,455
Due from affiliate	34,333	19,762
Investments held with University of Louisville Foundation, Inc.	25,280	25,952
Other long-term investments	1,560	1,988
Other long-term assets	313	743
Capital assets, net	891,944	868,398
Total noncurrent assets	1,094,585	993,586
Total assets	1,285,096	1,225,828
DEFERRED OUTFLOWS OF RESOURCES	7,412	6,967
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	94,869	86,275
Unearned compensation and wages payable	1,686	1,686
Advances	47,537	75,962
Bonds and notes payable	27,831	23,183
Total current liabilities	171,923	187,106
Noncurrent Liabilities		
Due to University of Louisville Foundation, Inc.	316	316
Note payable to University of Louisville Foundation, Inc.	1,000	1,000
Unearned compensation and wages payable	4,688	7,895
Deposits	1,451	918
Advances	3,351	32,591
Amounts due to federal government for student loan programs	15,348	16,199
Other long-term liabilities	43,804	38,283
Bonds and notes payable	252,977	228,821
Total noncurrent liabilities	322,935	326,023
Total liabilities	494,858	513,129
DEFERRED INFLOWS OF RESOURCES	49,436	175
NET POSITION		
Net investment in capital assets	660,316	632,789
Restricted for:		
Nonexpendable		
Scholarships and fellowships	1,633	1,633
Expendable		
Scholarships and fellowships	1,263	2,587
Research	18,622	18,682
Instruction	6,272	5,158
Public service	12,922	13,333
Academic support	200	1,303
Institutional support	7,999	8,668
Loans	2,761	2,848
Capital projects	5,081	20,146
Debt service	28,433	19,283
Unrestricted	2,712	(6,939)
Total net position	$ 748,214	$ 719,491

See notes to the financial statements

University of Louisville Foundation, Inc. and Affiliates

Consolidated Statements of Financial Position
(In Thousands)

	June 30	
	2017	**2016**
Assets		
Cash	**$ 8,632**	$ 8,595
Accounts and notes receivable, net	**4,893**	4,038
Loans receivable, net	**15,720**	16,320
Contributions receivable, net	**24,600**	39,204
Due from University of Louisville Real Estate Foundation, Inc., net	**24,080**	28,906
Investments	**682,922**	640,478
Funds held in trust by others	**55,293**	50,798
Restricted investments	**6,100**	4,619
Prepaid expenses and other assets	**7,500**	7,169
Capital assets, net	**93,987**	97,241
Total assets	**$ 923,727**	$ 897,368
Liabilities and net assets		
Liabilities:		
Accounts payable	**$ 3,252**	$ 2,098
Funds held in trust for others	**33,757**	34,187
Other liabilities	**13,865**	22,118
Bonds and notes payable	**81,463**	86,969
Due to the University of Louisville	**18,256**	21,769
Total liabilities	**150,593**	167,141
Net assets:		
Unrestricted	**8,883**	3,298
Temporarily restricted	**308,513**	277,411
Permanently restricted	**455,738**	449,518
Total net assets	**773,134**	730,227
Total liabilities and net assets	**$ 923,727**	$ 897,368

See notes to the financial statements

University of Louisville Real Estate Foundation, Inc.

Consolidated Statements of Financial Position
(In Thousands)

	June 30 2017	June 30 2016
Assets		
Cash	$ 6,182	$ 3,467
Accounts receivable, net	455	343
Prepaids and other assets	198	120
Investments	5,997	264
Notes receivable	204	–
Due from UL AMCC	–	1,500
Investments in joint ventures	7,812	7,214
Tax incremental financing intangibles, net	108,634	112,998
In-place lease intangibles, net	747	1,024
Above market lease intangibles, net	2,715	2,876
Capital assets, net	102,672	100,505
Total assets	$ 235,616	$ 230,311
Liabilities and net assets		
Liabilities:		
Accounts payable	$ 679	$ 1,194
Unearned ground lease revenue	4,297	4,401
Unearned grant revenue	1,244	1,937
Other liabilities	598	463
Below market rate lease intangibles	–	–
Below market lease intangibles, net	984	1,247
Debt	35,747	27,680
Due to the University of Louisville	9,896	9,803
Due to the University of Louisville Foundation, Inc.	28,917	28,906
Total liabilities	82,362	75,631
Net assets:		
Unrestricted	152,259	153,703
Noncontrolling interest	995	977
Total net assets	153,254	154,680
Total liabilities and net assets	$ 235,616	$ 230,311

University of Louisville Physicians, Inc.
Statements of Financial Position
June 30, 2017 and 2016
(In Thousands)

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,452	$ 196
Assets limited as to use	-	-
Patient accounts receivable, less allowance for uncollectible accounts of $37,815 and $27,941 for 2017 and 2016, respectively	13,029	11,649
Receivables, related parties	2,248	3,742
Other receivables	2,599	1,680
Prepaid expenses and other current assets	2,449	1,636
Total current assets	21,777	18,903
Investment in Kentuckiana Medical Reciprocal Risk Retention Group (KMRRRG)	18,773	16,482
Property and equipment:		
Furniture, fixtures, and equipment	2,973	2,062
Leasehold improvements	1,445	1,435
Information technology	12,720	12,239
	17,138	15,736
Accumulated depreciation and amortization	(9,633)	(7,053)
Total property and equipment, net	7,505	8,683
Total assets	$ 48,055	$ 44,068
LIABILITIES AND NET DEFICIT		
Current liabilities		
Accounts payable	$ 7,631	$ 13,893
Accrued payroll and related expenses	6,320	7,152
Line of credit	2,500	16,368
Current portion of capital lease obligations	615	1,769
Current portion of long-term debt	4,530	-
Total current liabilities	21,596	39,182
Long-term liabilities:		
Deferred gain on sale-leaseback of equipment	186	269
Capital lease obligations, net of current portion	-	615
Long-term accrual of University distributions (Dean's Tax)	5,627	-
Long-term debt, net of current portion	12,750	280
Total long-term liabilities	18,563	1,164
Total liabilities	40,159	40,346
Net assets (deficit):		
Unrestricted:		
Net deficit	1,193	(2,308)
Invested in property and equipment, net of related debt	6,703	6,030
Total net assets (deficit)	7,896	3,722
Total liabilities and net assets (deficit)	$ 48,055	$ 44,068

See notes to the financial statements

University of Louisville and Affiliated Corporations
A Component Unit of the Commonwealth of Kentucky
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016
(In Thousands)

	2017	2016
OPERATING REVENUES		
Student tuition and fees, net of scholarship allowance of $89,937 in 2017 and $91,190 in 2016	$ 221,626	$ 209,503
Clinical services and practice plan	335,065	269,420
Federal grants and contracts	68,587	69,910
State and local grants and contracts	8,881	8,734
Nongovernmental grants and contracts	12,690	24,773
Sales and services of educational departments	9,438	8,431
Facilities and administrative cost recoveries	25,064	24,611
Auxiliary enterprises, net of discount of $2,138 in 2017 and $2,045 in 2016	13,842	12,135
Intercollegiate athletics	72,756	71,335
Other operating revenues	36,113	11,930
Total operating revenues	804,062	710,782
OPERATING EXPENSES		
Instruction	293,306	286,627
Research	141,177	136,477
Public service	140,221	121,062
Academic support	142,253	134,838
Student services	31,942	30,625
Institutional support	94,167	78,192
Operation and maintenance of plant	51,404	48,935
Scholarships and fellowships	32,278	30,842
Auxiliary enterprises	7,443	7,912
Intercollegiate athletics	88,843	85,073
Depreciation and amortization	48,503	51,295
Total operating expenses	1,071,537	1,011,878
Operating loss	(267,475)	(301,096)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	134,508	142,213
Gifts	29,657	30,551
Nonexchange grants and contracts	44,629	43,418
Investment income	1,394	1,938
Realized and unrealized loss on investments	106	(4,657)
Interest on capital asset-related debt	(8,900)	(9,961)
Other nonoperating revenues	5,740	707
Net nonoperating revenues	207,134	204,209
Loss before other revenues, expenses, gains and losses	(60,341)	(96,887)
Capital appropriations	21,608	9,741
Capital gifts	17,000	9,623
Contributions to Affiliate	(2,491)	(3,088)
Contributions from University of Louisville Foundation, Inc.	52,947	93,522
Total other revenues	89,064	109,798
Increase in net position	28,723	12,911
NET POSITION		
Net position - beginning of year	719,491	706,580
Net position - end of year	$ 748,214	$ 719,491

See notes to the financial statements

University of Louisville Foundation, Inc. and Affiliates

Consolidated Statements of Activities and Changes in Net Assets

Years Ended June 30, 2017 and 2016
(In Thousands)

	Unrestricted		Temporarily Restricted		Permanently Restricted		Totals	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
				(In Thousands)				
Revenues, gains and other support:								
Gifts	**$ 18,957**	$ 24,334	**$ 4,566**	$ 24,619	**$ 3,227**	$ 5,483	**$ 26,750**	$ 54,436
Net investment return (loss)	**18,180**	(18,568)	**56,976**	13,473	**–**	–	**75,156**	(5,095)
Changes in funds held in trust	**–**	–	**–**	–	**5,647**	(1,240)	**5,647**	(1,240)
Net rental revenues	**12,751**	11,653	**–**	–	**–**	–	**12,751**	11,653
Actuarial loss on annuity and trust obligations	**–**	–	**32**	171	**–**	–	**32**	171
Other gains	**12,213**	–	**–**	–	**–**	–	**12,213**	–
Other revenues	**5,565**	4,976	**–**	–	**–**	–	**5,565**	4,976
Tax incremental financing revenues	**–**	17	**–**	–	**–**	–	**–**	17
Reclassifications	**–**	–	**–**	(9,000)	**–**	9,000	**–**	–
Net assets released from restrictions:	**27,113**	48,868	**(27,168)**	(48,628)	**55**	(240)	**–**	–
Total revenues, gains and other support	**94,779**	71,280	**34,406**	(19,365)	**8,929**	13,003	**138,114**	64,918
Expenses:								
Contributions and allocations to University of Louisville departments	**52,236**	97,494	**–**	–	**–**	–	**52,236**	97,494
Contributions to ULREF and related organizations:								
Contribution expense	**1,130**	37,237	**–**	–	**–**	–	**1,130**	37,237
Loss on disposal of capital assets	**–**	2,784	**–**	–	**–**	–	**–**	2,784
Loss on deconsolidation	**–**	99	**–**	–	**–**	–	**–**	99
Salaries	**6,082**	4,486	**–**	–	**–**	–	**6,082**	4,486
Utilities	**1,970**	2,135	**–**	–	**–**	–	**1,970**	2,135
General and administrative	**5,093**	6,743	**–**	–	**–**	–	**5,093**	6,743
Professional services	**3,792**	4,180	**–**	–	**–**	–	**3,792**	4,180
Repairs and maintenance	**3,100**	2,933	**–**	–	**–**	–	**3,100**	2,933
Depreciation and amortization	**5,719**	6,834	**–**	–	**–**	–	**5,719**	6,834
Interest expense	**3,716**	4,312	**–**	–	**–**	–	**3,716**	4,312
Other expenses	**5,156**	2,069	**–**	–	**–**	–	**5,156**	2,069
Total expenses	**87,994**	171,306	**–**	–	**–**	–	**87,994**	171,306
Loss on contributions receivable, net	**1,200**	–	**3,304**	–	**2,709**	–	**7,213**	–
Net change in assets	**5,585**	(100,026)	**31,102**	(19,365)	**6,220**	13,003	**42,907**	(106,388)
Net assets, beginning of year	**3,298**	103,324	**277,411**	296,776	**449,518**	436,515	**730,227**	836,615
Net assets, end of year	**$ 8,883**	$ 3,298	**$ 308,513**	$ 277,411	**$ 455,738**	$ 449,518	**$ 773,134**	$ 730,227

See notes to the financial statements

University of Louisville Real Estate Foundation, Inc.

Consolidated Statements of Activities and Changes in Net Assets

(In Thousands)

	Year Ended June 30	
	2017	**2016**
Revenues, gains, and other support:		
Rental revenue	$ 4,393	$ 2,928
Gift revenues	269	–
Contributions	1,173	175,717
Net investment return (loss)	259	(203)
Tax incremental financing revenues	6,388	1,722
Other revenue	1,603	969
Total revenues, gains, and other support	14,085	181,133
Expenses:		
Contribution expense	1,071	840
Salaries	710	848
General and administrative	1,253	623
Professional services	1,721	616
Utilities	721	605
Repairs and maintenance	936	704
Depreciation and amortization	7,279	5,409
Goodwill impairment	–	24,201
Interest expense	1,071	417
Property taxes	539	123
Loss on asset disposal	103	–
Other expenses	125	–
Total expenses	15,529	34,386
Change in net assets attributable to the University of Louisville Real Estate Foundation, Inc.	(1,444)	146,747
Capital contributions from noncontrolling interest	18	645
Total change in net assets	(1,426)	147,392
Net assets, beginning of year	154,680	7,288
Net assets, end of year	$ 153,254	$ 154,680

See notes to the financial statements

UNIVERSITY OF LOUISVILLE PHYSICIANS, INC.
Statements of Activities
Years Ended June 30, 2017 and 2016

	2017	2016
Unrestricted revenues, gains and other support:		
Net patient service revenue	$ 146,450	$ 148,423
Provision for bad debts	(39,833)	(46,403)
Net patient service revenue less provision for bad debts	106,617	102,020
University of Louisville	35,534	31,277
University Physicians Associates, Inc. (UPA)	178	184
Academic programmatic support - related parties	19,281	16,640
Academic programmatic support	3,348	3,682
Meaningful use income	2,230	3,117
Medical directorship	872	407
Other revenue	2,740	2,722
Gain on investment in KMRRRG	2,290	4,137
Interest income	153	87
Total unrestricted revenues, gains and other support	173,243	164,273
Expenses:		
Program services	141,518	138,820
Management and general	27,551	24,219
Total expenses	169,069	163,039
Change in net deficit	4,174	1,234
Net deficit, beginning of year	3,722	2,488
Net assets (deficit), end of year	$ 7,896	$ 3,722

See notes to the financial statements

University of Louisville and Affiliated Corporations
A Component Unit of the Commonwealth of Kentucky
Statements of Cash Flows
Years Ended June 30, 2017 and 2016
(In Thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 219,318	$ 214,472
Clinical services and practice plan	280,413	269,000
Grants and contracts	101,682	94,255
Sales and services of educational departments	12,412	5,900
Payments to suppliers	(245,933)	(224,987)
Payments for utilities	(19,842)	(20,297)
Payments to employees	(567,080)	(547,059)
Payments for benefits	(136,053)	(129,031)
Payments for scholarships and fellowships	(34,743)	(32,410)
Loans issued to students and employees	(1,055)	618
Auxiliary enterprises	25,431	11,552
Facilities and administrative cost recoveries	25,064	24,611
Intercollegiate athletics	68,082	71,024
Other receipts	34,501	11,074
Net cash used by operating activities	(237,803)	(251,278)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	137,290	139,443
Gifts	28,678	32,994
Nonexchange grants and contracts	44,628	43,417
Contributions from related entities	16,878	78,003
Contributions to related entities	(2,000)	(5,088)
Other noncapital financing activities	5,184	1,852
Net cash provided by noncapital financing activities	230,658	290,621
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations received	21,222	9,741
Capital gifts received	10,778	9,269
Purchases of capital assets	(71,775)	(50,776)
Proceeds from issuance of bonds and notes payables	86,564	99,536
Payments of issuance costs	(570)	(7,798)
Principal paid on bonds and notes payable	(57,003)	(101,453)
Interest paid on bonds and notes payable	(8,523)	(12,408)
Deposits with bond trustee and escrow agent	4,249	830
Net cash used by capital and related financing activities	(15,058)	(53,059)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	10,504	18,463
Purchase of investments	(2,333)	(3,555)
Interest on investments	1,559	1,615
Net cash provided by investing activities	9,730	16,523
Net increase/(decrease) in cash and cash equivalents	(12,473)	2,807
Cash and cash equivalents - beginning of year	151,849	149,042
Cash and cash equivalents - end of year	$ 139,376	$ 151,849

See notes to the financial statements

University of Louisville and Affiliated Corporations
A Component Unit of the Commonwealth of Kentucky
Statements of Cash Flows
Years Ended June 30, 2017 and 2016
(In Thousands)

	2017	2016
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (267,475)	$ (301,096)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	48,503	51,295
Loss on equipment disposals	2,037	121
Change in assets and liabilities:		
Loans, accounts and contributions receivable, net	(23,062)	(9,593)
Inventories	30	65
Other assets	(323)	(134)
Other long-term assets	250	250
Accounts payable and accrued liabilities	5,562	(926)
Advances	(56,325)	3,289
Deposits	533	16
Due from Affiliates	1,814	5,474
Unearned compensation and wages payable	(3,543)	1,444
Other long-term liabilities	5,280	1,950
Deferred inflows of resources	48,916	(3,433)
Net cash used by operating activities	$ (237,803)	$ (251,278)
Non cash transactions:		
Capital lease additions	$ 373	$ 33
Capital asset additions in accounts payable	$ 9,739	$ 8,150
Capital asset additions in other assets	$ 30	$ -
Gifts of capital assets	$ 380	$ 364

See notes to the financial statements

1. Nature of Operations, Basis of Presentation and Summary of Significant Accounting Policies

The University of Louisville (University) is a state supported metropolitan research university located in Kentucky's largest city and is a component unit of the Commonwealth of Kentucky.

The University has three campuses. The Belknap Campus is three miles from downtown Louisville and houses eight of the University's twelve colleges and schools. The Health Sciences Center is situated in downtown Louisville's medical complex and houses the University's health related programs and the University of Louisville Hospital (Hospital). On the Shelby Campus, located in eastern Jefferson County, are the National Crime Prevention Institute, the Center for Predictive Medicine regional biosafety lab and the Division of Distance and Continuing Education. In recent years, the University has also offered expanded campus courses at both off-site and international locations.

a. Basis of Presentation

The financial statements include the combined financial position and operations of the University, the University of Louisville Athletic Association, and the University of Louisville Research Foundation. The following affiliated corporations are included as blended component units since they are separate legal entities but are related through certain common management and trustees and exist exclusively for the benefit of the University:

University of Louisville Athletic Association, Inc. (Association) - The Association is a Kentucky not-for-profit corporation organized in 1984 for the purpose of promoting the intercollegiate athletic activities of the University of Louisville. The Association's mission to provide quality intercollegiate athletic programs through a comprehensive sports program requires a major financial commitment of both operating and capital resources. In addition, the Association is committed to achieving athletic excellence for its student athletes, maintaining National Collegiate Athletic Association (NCAA) compliance, ensuring full implementation of gender equity plans and offering a wide variety of sports and recreational outlets for the University community, alumni, and visitors.

University of Louisville Research Foundation, Inc. (Research Foundation) - The Research Foundation was established in 1989 for the purpose of promoting and supporting research projects, investigations, and other activities relating to the educational, scientific, literary, artistic, health care and public service missions of the University.

Under the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, the University reports the University of Louisville Foundation, Inc. (Foundation), the University of Louisville Real Estate Foundation, Inc. (ULREF) and the University of Louisville Physicians, Inc. (ULP) as discretely presented component units. Further descriptions of the Foundation, the ULREF and ULP may be found in footnote 21 Component Units.

All discretely presented component units have separate and independent governing boards. The University's Board of Trustees does not provide governance or administrative oversight for the discretely presented component units.

The financial statement presentation required by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities,* as amended by GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, is intended to provide a comprehensive, entity-wide perspective of the University's assets, deferred outflow of resources, liabilities, deferred inflow of resources, net position, revenues, expenses, changes in net position and cash flows.

The separate financial statements of the Association, the Research Foundation and the consolidated financial statements of the University can be found at the following:

http://louisville.edu/finance/controller/univacct/finst-1

b. Cash and Cash Equivalents

The University considers all investments (not held for long-term purposes) with original maturities of three months or less to be cash equivalents.

c. Deposits With Bond Trustee and Escrow Agent

As of June 30, 2017 and 2016, deposits with bond trustee consist of cash and investments in governmental securities and repurchase agreements of $47,000 and $5.8 million, respectively, for the Stadium Project Revenue Bonds, and $6.7 million and $5.2 million for the Educational Building Bonds.

Investments in governmental securities are stated at market value. Repurchase agreements are stated at cost.

d. Contributions Receivable

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended by GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, the University records operating and capital pledges as revenue when all eligibility requirements have been met. Endowment pledges are not recognized as revenue until the gifts are received.

e. Investments and Investment Income

Investments in marketable debt and equity securities are stated at current fair value. Fair value is determined using quoted market prices. Real estate is stated at fair value if acquired for resale or otherwise used as an investment as determined on the date of acquisition. Certificates of deposit are stated at cost plus accrued interest, which approximates fair value. Investment income consists of interest and dividend income, realized gains and losses and the net change for the year in the fair value of investments carried at fair value.

Investments held with the Foundation are invested under the policies and objectives established for the Foundation's general endowment pool. In an effort to mitigate market risk, the Foundation has adopted a policy of maintaining a diverse investment pool through the use of target asset allocation guidelines. These guidelines require the Foundation's investment pool be made up of a mix of publicly traded fixed income and equity securities, private equities and other nonmarketable securities and real estate investments.

The market risk inherent in certain of the Foundation's investments is primarily the potential loss arising from adverse changes in quoted market prices on equity securities and in interest rates on fixed income securities.

The Association's permanent endowment funds, held by the Foundation and invested in the Foundation's general endowment pool, are administered under the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the Commonwealth of Kentucky. The Foundation's board of directors has interpreted UPMIFA as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The investment objectives of the Foundation are to preserve the principal of the endowment funds in both absolute and real terms while maximizing, over the long-term, the total rate of return (yield and appreciation) within reasonable risk parameters.

The Foundation invests in various corporate debt, equity, partnerships, marketable alternatives, mutual fund securities, U.S. Government securities, certificates of deposit, land and buildings. Investment securities, in general, are exposed to various risks, such as interest rates, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Foundation's consolidated statements of financial position.

f. Loans to Students

The University makes loans to students under various federal and other loan programs. Such loans receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible loans netted against loans to students was approximately $0.8 million at June 30, 2017 and 2016, respectively.

g. Inventories

Inventories are valued at the lower of cost or market, under the first-in, first-out method.

h. Capital Assets

Capital assets are stated principally at cost, or estimated acquisition value at date of receipt from donors. Capital assets are depreciated using the straight-line basis over the estimated useful lives of the assets as follows: buildings – 40 years or componentized using 15-50 years, infrastructure – 60 years, land improvements – 40 years, equipment – 3-15 years, leasehold improvements – 20 years and library materials – 10 years. Assets under capital leases are amortized on the straight-line basis over the estimated useful life of the asset, or the lease term, whichever is shorter.

The University has elected to capitalize collections which include art, rare books, photographs, letters, journals, manuscripts and musical instruments. These items are capitalized at cost, or if a gift, at the acquisition value on the date of the gift.

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing, net of interest earned on investments acquired with the proceeds of the borrowing.

Total interest incurred was (in thousands):

	2017	2016
Total interest expense incurred on borrowings for project	$ 5,192	$ 945
Interest income from investment of proceeds of borrowings for project	(299)	(35)
Net interest cost on borrowings for project	$ 4,893	$ 910
Interest capitalized	$ 1,290	$ 223
Interest charged to expense	8,900	9,961
Total interest incurred	$ 10,190	$ 10,184

i. Deferred Outflows and Inflows of Resources

In accordance with GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, the University reports deferred outflows of resources, deferred inflows of resources and net position in its statements of net position and related disclosures.

Deferred outflows of resources of $7.4 million and $7.0 million for the years ended June 30, 2017 and 2016, respectively, consist primarily of loss on bond refinancing of $7.4 million and $6.5 million as of June 30, 2017 and 2016, respectively and fair value of derivatives of $19,000 and $0.5 million as of June 30, 2017 and 2016. As the derivatives are considered effective hedging instruments, changes in the fair value of derivatives are recognized as deferred outflows of resources. Deferred outflows of resources related to the loss on bond refinancing will be amortized to interest expense using the effective interest method over the remaining life of the refinanced debt.

Deferred inflows of resources consist of $49.4 million of service concession arrangements as of June 30, 2017 and $.2 million of fair value of derivatives for the year ended June 30, 2016. As the derivatives are effective hedging instruments, changes in fair value are recognized as deferred inflows of resources. Deferred inflows of resources related to service concession arrangements were recorded during 2017 related to the net contributions from providers under a food service and a book store contract.

The University entered into 15 year arrangements for foodservice and bookstore concessions that meet the definition of service concession arrangements under GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The impact to the Statement of Net Position as of June 30, 2017, include $49.4 million of deferred inflows of resources, $10.9 million of cash and cash equivalents, $36.3 million of long-term receivables and $5.8 million of capital assets recorded. Under the agreement, the University maintains ownership of the facilities, while the 3rd parties will manage and operate the food service and bookstore operations. There is no on-going liability to the University. The University's objectives for entering the agreements include improving the infrastructure surrounding these operations as well as to improve experience for customers.

j. Unearned Compensation Expenses

Unearned compensation expenses are recognized as expense over the term of the related employment agreements.

k. Advances

Revenues of summer school academic terms are recognized in the fiscal year earned.

Advances related to amounts received from individual and season ticket holders for subsequent year intercollegiate athletic activities, suite rentals, parking and sponsorship revenue are recognized over the term of the related athletic activities.

The University receives revenues related to sponsored agreements via grants, contracts, cooperative agreements, or other agreements. The flow of funds relative to these sponsored agreements is in the form of cost reimbursement or advanced funding.

In the case of cost reimbursement, the University incurs costs on behalf of the granting authority and is then reimbursed for such costs pursuant to the terms of the sponsored agreement. Grant revenues are recognized as reimbursable costs are incurred.

In the case of advanced funding, the University receives funds prior to incurring costs pursuant to the sponsored agreement, with the stipulation that these funds may have to be returned to the sponsor. Grant revenues are recognized as the related grant costs are incurred.

l. Compensated Absences

University policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation or sick benefits are earned, whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

m. Net Bond Premium

The University amortizes the net bond premium using the effective interest method over the life of the bond.

n. Net Position

The net position of the University is classified in four components. Net investment in capital assets consists of the net amount of capital assets, accumulated depreciation, related deferred outflows and deferred inflows of resources, reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted-nonexpendable net position is subject to externally imposed restrictions that require the University to maintain the assets in perpetuity. Restricted-expendable net position consists of the amount of assets and deferred outflows that must be used for a particular purpose as specified by creditors, grantors or donors external to the University, reduced by the outstanding balances of any related liabilities or deferred inflows of resources. Unrestricted net position is the remaining net amount of assets, related deferred outflows and deferred inflows of resources less liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted.

o. Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues - Operating revenues include activities that have the characteristics of exchange transactions, such as tuition, clinical operations, grants and contracts and intercollegiate activities.

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as state appropriations, capital appropriations, Pell and other grants and contracts, gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* such as investment income.

p. Student Tuition and Fees

Student tuition and fees are presented net of scholarship allowances in the statements of revenues, expenses and changes in net position. Scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and third parties making payments on the behalf of students. To the extent that revenues from such programs are used to satisfy tuition and fees, the University has recorded a scholarship allowance. Stipends and other payments made directly to students are presented as scholarships and fellowships expense.

q. Clinical Services and Practice Plan Revenue

The University has agreements with third-party payers that provide for payments to the University at amounts different from its established rates. Net clinical services and practice plan revenues are reported at the estimated net realizable amounts from patients, third-party payers and others for the services rendered and include estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

r. Government and Nongovernment Grants

Support funded by grants is recognized as the University performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be made.

s. Tax Status

As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income.

t. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and deferred inflows and outflows of resources at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

u. Reclassification of Prior Years' Financial Statements

In the statements of net position, revenues expenses and changes in net position, and cash flows certain prior year balances have been reclassified to conform to current year presentation. The reclassifications more accurately represent revenue and expense activities in the categories presented on the statements. These reclassifications had no effect on the change in net position.

2. Cash on Deposit and Investments

The University invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment amounts reported in the statements of net position. The risks related to deposits and investments held by the University are described within this disclosure.

a. Summary of Carrying Values

The value of deposits and investments as of June 30, 2017 and 2016 are as follows (in thousands):

	2017	2016
Deposits	$ 139,376	$ 151,849
Investments		
U.S. Treasury obligations	87	3,290
Other government obligations	2,242	421
Repurchase agreements	6,660	7,706
Investments held with the Foundation	25,280	25,952
Certificates of deposit	-	497
Annuities	1,558	1,986
Other long-term investments	2	2
	$ 175,205	$ 191,703

The deposits and investments shown are included in the statements of net position as follows (in thousands):

	2017	2016
Cash and cash equivalents	$ 76,669	$ 123,803
Deposit with bond trustee-current	47	5,754
Short-term investments	2,242	918
Restricted cash and cash equivalents	62,707	28,046
Deposit with bond trustee-noncurrent	6,700	5,242
Investments held with the Foundation	25,280	25,952
Other long-term investments	1,560	1,988
	$ 175,205	$ 191,703

b. Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, a government's deposits or collateral securities may not be returned to it. The University currently uses commercial banks and the Commonwealth of Kentucky (Commonwealth) as its depositories. Deposits with commercial banks are substantially covered by federal depository insurance or collateral held by the bank in the University's name. At the Commonwealth, the University's accounts are pooled with other agencies of the Commonwealth. These Commonwealth-pooled deposits are substantially covered by federal depository insurance or by collateral held by the Commonwealth in the Commonwealth's name. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments in variable rate demand notes are substantially covered by collateral held by the financial agent. The University does not have a formal policy addressing custodial credit risk.

At June 30, 2017 and 2016, the University had deposits subject to custodial credit risk as follows (in thousands):

June 30, 2017	State Deposits	Overnight Investments	Total
Collateralized with securities held by pledging financial institution	$ -	$ 7,555	$ 7,555
Collateralized with securities held by the Commonwealth in the Commonwealth's name	72,153	-	72,153
Total	$ 72,153	$ 7,555	$ 79,708

June 30, 2016	State Deposits	Overnight Investments	Total
Collateralized with securities held by pledging financial institution	$ -	$ 7,429	$ 7,429
Collateralized with securities held by the Commonwealth in the Commonwealth's name	58,398	-	58,398
Total	$ 58,398	$ 7,429	$ 65,827

c. Interest Rate Risk

Interest rate risk is the risk a government may face should interest rate variances affect the fair value of investments. The University's policy is to invest in U.S. government and U.S. government agency securities, commercial paper, banker's acceptances, and variable rate demand notes with a maturity not greater than three years.

The University has entered into a repurchase agreement for the investment of bond fund reserves. The provider financial institution agrees to deliver U.S. Treasury obligations yielding a guaranteed rate at an amount equal to the scheduled bond fund reserve in exchange for payment from the available reserve. The final maturity under this agreement is March 1, 2027.

As of June 30, 2017 and 2016, the University had investments subject to interest rate risk as reflected in schedules presented as follows and on the following page (in thousands):

		Maturities in years			
June 30, 2017	Total	Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	$ 87	$ 87	$ -	$ -	$ -
Other government obligations	2,242	2,242	-	-	-
Repurchase agreements	6,660	-	-	-	6,660
	$ 8,989	$ 2,329	$ -	$ -	$ 6,660

		Maturities in years			
June 30, 2016	Total	Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	$ 3,290	$ 1,860	$ 1,430	$ -	$ -
Other government obligations	421	421	-	-	-
Repurchase agreement	7,706	628	203	1,350	5,525
Certificates of deposit	497	497	-	-	-
	$ 11,914	$ 3,406	$ 1,633	$ 1,350	$ 5,525

d. Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. By University policy, commercial paper must be rated the highest (A-1/P-1) by at least one Nationally Recognized Statistical Rating Organization (NRSRO). Banker's acceptances must be issued by a bank having a short-term rating of the underlying bank rated the highest (A-1/P-1). Variable rate demand notes must be backed by an unconditional letter of credit issued by a domestic bank having outstanding commercial paper rated the highest (A-1/P-2) by at least one rating service and by each rating service rating said credit. All commercial paper and banker's acceptances must be issued by domestic entities. The Commonwealth investment pool can invest in U.S. treasuries and agencies; commercial paper or asset backed securities rated in the highest category by a nationally recognized rating agency; certificates of deposit, banker's acceptances, state or local government securities and corporate, Yankee and Eurodollar securities rated in one of the three highest categories by a nationally recognized rating agency; shares of mutual funds (up to 10%) and state and local property tax certificates of delinquency secured by interests in real estate.

As of June 30, 2017 and 2016, the University had the following investments exposed to credit risk as reflected in schedules presented below (in thousands):

June 30, 2017	Aaa	Not Rated	Total
Annuities	$ 1,558	$ -	$ 1,558
Investments held with the Foundation	-	25,280	25,280
	$ 1,558	$ 25,280	$ 26,838

June 30, 2016	Aaa	Not Rated	Total
Annuities	$ 1,986	$ -	$ 1,986
Investments held with the Foundation	-	25,952	25,952
	$ 1,986	$ 25,952	$ 27,938

e. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer, excluding investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments. At June 30, 2017 and 2016, the University has no investments in any one issuer as defined above that represent 5% or more of total investments.

The asset allocation for investments held with the Foundation as of June 30, 2017 and 2016 is as follows on the following page:

	2017	2016
Investment in partnerships	60%	60%
Marketable alternatives	13%	14%
Preferred and common stock	13%	13%
Mutual funds	12%	10%
Fixed income	2%	2%
Equity method investments	0%	1%
	100%	100%

The Foundation's investments do not have a significant concentration of credit risk within any industry or specific institution.

f. Foreign Currency Risk

This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The University had no investments denominated in foreign currency at June 30, 2017 and 2016.

3. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The table that follows and on the following page presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements as prescribed by *GASB 72, Fair Value Measurement and Application*, as of June 30, 2017 and 2016 (in thousands):

	Balance as of 6/30/2017	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Measured at NAV
Investments					
US Treasury obligations	$ 87	$ 87	$ -	$ -	$ -
Other governmental obligations	2,242	-	2,242	-	-
University of Louisville Foundation, Inc. investment fund	25,280	-	-	-	25,280
Investment derivative instruments					
Interest rate swap	19	-	19	-	-
Total investments measured at fair value	$ 27,628	$ 87	$ 2,261	$ -	$ 25,280

	Balance as of 6/30/2016	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Measured at NAV
Investments					
Certificates of deposit	$ 497	$ 497	$ -	$ -	$ -
US Treasury obligations	3,290	3,290	-	-	-
Other governmental obligations	421	-	421	-	-
University of Louisville Foundation, Inc. investment fund	25,952	-	-	-	25,952
Investment derivative instruments					
Interest rate swap	434	-	434	-	-
Forward delivery agreement	(175)	-	-	(175)	-
Total investments measured at fair value	$ 30,419	$ 3,787	$ 855	$ (175)	$ 25,952

a. Investments

Certificates of deposit securities and US Treasury obligations classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Other governmental obligations and U.S. agency obligations classified in Level 2 of the fair value hierarchy are valued using a pricing matrix technique.

b. Investment Derivative Instruments

Derivative instruments classified in Level 2 of the fair value hierarchy are valued using standard pricing models using current forward rate assumptions and/or volatilities to predict cash flows. Derivative instruments classified in Level 3 of the fair value hierarchy are valued using a market approach to assess future cash flows.

Investments measured at net asset value (NAV) (in thousands):

	Fair Value as of 6/30/17	Redemption Frequency	Redemption Notice Period
University of Louisville Foundation, Inc. investment fund	$ 25,280	Various from any valuation day to quarterly	Various from 5 to 90 days

	Fair Value as of 6/30/16	Redemption Frequency	Redemption Notice Period
University of Louisville Foundation, Inc. investment fund	$ 25,952	Various from any valuation day to quarterly	Various from 5 to 90 days

Investments within the University of Louisville Foundation, Inc. investment fund consist of money market mutual funds, common and preferred stock, corporate bonds, mutual funds, investments in partnerships and funds of funds, equity method investments, U.S. Government securities, U.S. Treasuries and U.S. agency obligations. The Foundation has adopted a policy of maintaining a diverse investment pool through the use of targeted asset allocation guidelines. The fair value of the investments in the fund have been determined using the NAV per share (or its equivalent) of the investments.

4. Loans, Accounts and Contributions Receivable, Net

Loans, accounts and contributions receivable, net as of June 30, 2017 and 2016 are as follows (in thousands):

	2017		
	Gross Receivable	Allowance	Net Receivable
Student tuition and fees	$ 38,101	$ (12,097)	$ 26,004
Patient care	69,072	(48,148)	20,924
Contributions receivable	39,341	(5,289)	34,052
Sponsored agreements	18,528	(1,763)	16,765
Rent from University Medical Center, Inc.	5,306	-	5,306
Trade receivables	6,699	-	6,699
Other	40,289	(488)	39,801
Total	$ 217,336	$ (67,785)	149,551
Less discount			(780)
Current portion			77,023
Noncurrent portion			$ 71,748

	2016		
	Gross Receivable	Allowance	Net Receivable
Student tuition and fees	$ 34,825	$ (9,739)	$ 25,086
Patient care	72,043	(42,071)	29,972
Contributions receivable	33,405	(2,071)	31,334
KOH affiliation agreement	1,406	-	1,406
Sponsored agreements	22,618	(2,740)	19,878
Rent from University Medical Center, Inc.	4,905	-	4,905
Trade receivables	2,432	-	2,432
Other	8,586	(513)	8,073
Total	$ 180,220	$ (57,134)	123,086
Less discount			(810)
Current portion			78,821
Noncurrent portion			$ 43,455

Contributions receivable consist primarily of charitable gifts totaling $39.3 million pledged from individual and corporate donors that are associated with the construction projects of the Association. Receivables with payment schedules in excess of one year are stated at their discounted present value, using discount rates ranging from 0.2% to 5.4% as of June 30, 2017.

Other receivables consist primarily of service concession receivables as of June 30, 2017.

Contributions receivable as of June 30, 2017 and 2016 are due to be received as follows (in thousands):

	2017	2016
Less than one year	$ 12,070	$ 5,463
One to three years	14,788	16,998
Greater than three years	12,483	10,944
Subtotal	39,341	33,405
Less discount	(780)	(810)
Less allowance	(5,289)	(2,071)
Net contributions receivable	$ 33,272	$ 30,524

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended by GASB Statement No. 36 *Recipient Reporting for Certain Shared Nonexchange Revenues*, the University records operating and capital pledges as revenue when all eligibility requirements have been met. Endowment pledges are not recognized as revenue until the gifts are received.

5. Due From Affiliates

a. University of Louisville Foundation, Inc.

The Foundation receives, invests, manages and administers private gifts, bequests and endowments donated for the benefit of the University. The Foundation acts in a fiduciary capacity, distributing the donated and earned funds as required by the terms of the gifts and consistent with the donor's intent. The Foundation owed $18.3 million and $1.9 million to the University as of June 30, 2017 and 2016, respectively, to fund spending of these donations and earnings and is recorded in current Due from Affiliate.

The University allocated a portion of its postemployment healthcare benefit liability to the Foundation for covered employees. As of July 1, 2016 the $1.8 million allocated to the Foundation was removed as Foundation employees were no longer University employees.

The Foundation owed $8.1 million to the University for a certificate of deposit being held as collateral. As of June 30, 2017 the certificate of deposit had matured and the funds were remitted to the University.

b. University of Louisville Real Estate Foundation, Inc.

By memorandum of agreement dated July 1, 2015, the University agreed to loan a total of $38.0 million to the ULREF. The receivable shall be repaid in full or satisfied through other financial instruments within 3 years of the effective date of the agreement, with effective date defined as the date on which the University transfers funds to the ULREF. The unpaid balance on the receivable bears simple interest equal to 75 basis points greater than the University's cash sweep rate. The repayment schedule calls for interest only payments semi-annually and a balloon repayment of any unpaid receivable and interest at the end of the term. The transfer of funding was completed August 7, 2015. The ULREF repaid $0 million of the loan during fiscal 2017 leaving a balance of $9.8 million as of June 30, 2017 that is included in noncurrent Due from Affiliates on the statement of net position.

c. University of Louisville Physicians, Inc.

In June 2016, the Research Foundation received a $5.9 million unsecured, noninterest bearing note from University of Louisville Physicians, Inc., an affiliate entity, for past due fees owed the Research Foundation. The outstanding note balance is $5.9 million as of June 2017, with $0.3 million recorded in current Due from Affiliate and the remaining $5.6 million in noncurrent Due from Affiliate.

d. University Medical Center, Inc.

KentuckyOne Healthcare, Inc. in relation to terminating its academic affiliation agreement with the University, assigned a receivable to the University from University Medical Center, Inc. (UMC) in exchange for release of funds due under the academic affiliation agreement. The University recorded a receivable of $23.9 million from UMC. As of June 30, 2017, $5.0 million is recorded in current Due from Affiliates and the remaining $18.9 is recorded in noncurrent Due from Affiliates.

6. Capital Assets, Net

Capital assets as of June 30, 2017 and 2016 are as follows and on the following page (in thousands):

	2017				
	Beginning Balance	Additions	Retire-ments	Transfers	Ending Balance
Cost - Nondepreciable					
Land	$ 44,204	$ 473	$ -	$ -	$ 44,677
Rare books	44,502	571	-	-	45,073
Construction in progress	67,016	55,558	-	(69,032)	53,542
Subtotal	155,722	56,602	-	(69,032)	143,292
Cost - Depreciable					
Buildings	1,131,843	7,881	(4,372)	26,882	1,162,234
Infrastructure	11,238	251	-	42,026	53,515
Land improvements	19,628	97	-	124	19,849
Equipment	199,284	7,459	(5,804)	-	200,939
Leasehold improvements	2,117	-	-	-	2,117
Library materials	170,045	1,797	-	-	171,842
Subtotal	1,534,155	17,485	(10,176)	69,032	1,610,496
Total capital assets-cost	1,689,877	74,087	(10,176)	-	1,753,788
Accumulated depreciation					
Buildings	489,274	34,489	(2,459)	-	521,304
Infrastructure	3,383	517	-	-	3,900
Land improvements	3,557	565	-	-	4,122
Equipment	174,956	8,578	(5,679)	-	177,855
Leasehold improvements	1,499	64	-	-	1,563
Library materials	148,810	4,290	-	-	153,100
Total accumulated depr.	821,479	48,503	(8,138)	-	861,844
Capital assets, net	$ 868,398	$ 25,584	$ (2,038)	$ -	$ 891,944

	2016				
	Beginning Balance	Additions	Retire-ments	Transfers	Ending Balance
Cost - Nondepreciable					
Land	$ 44,204	$ -	$ -	$ -	$ 44,204
Rare books	43,618	884	-	-	44,502
Construction in progress	32,035	41,706	-	(6,725)	67,016
Subtotal	119,857	42,590	-	(6,725)	155,722
Cost - Depreciable					
Buildings	1,124,951	906	-	5,986	1,131,843
Infrastructure	11,238	-	-	-	11,238
Land improvements	18,531	358	-	739	19,628
Equipment	197,399	8,826	(6,941)	-	199,284
Leasehold improvements	2,117	-	-	-	2,117
Library materials	167,598	2,447	-	-	170,045
Subtotal	1,521,834	12,537	(6,941)	6,725	1,534,155
Total capital assets-cost	1,641,691	55,127	(6,941)	-	1,689,877
Accumulated depreciation					
Buildings	454,835	34,439	-	-	489,274
Infrastructure	3,196	187	-	-	3,383
Land improvements	3,021	536	-	-	3,557
Equipment	171,123	10,654	(6,821)	-	174,956
Leasehold improvements	1,435	64	-	-	1,499
Library materials	143,395	5,415	-	-	148,810
Total accumulated depr.	777,005	51,295	(6,821)	-	821,479
Capital assets, net	$ 864,686	$ 3,832	$ (120)	$ -	$ 868,398

7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following at June 30, 2017 and 2016 (in thousands):

	2017	2016
Salaries and benefits	$ 46,667	$ 43,299
Payroll taxes	16,339	15,945
Construction	9,588	3,686
Accrued interest	3,828	3,155
Other	18,447	20,190
	$ 94,869	$ 86,275

8. Amounts Payable to University of Louisville Foundation, Inc.

In January 1999, the Association obtained an $8.5 million unsecured, noninterest bearing loan from the Foundation for the construction of Cardinal Park. The Association is obligated to repay the loan upon collection of contributions receivable. Certain contributions receivable are held by the University and collections are transferred to the Association for the repayment of the loan. No payments were made during the years June 30, 2017 and 2016. The outstanding balance was approximately $1.0 million for each of the years ended June 30, 2017 and 2016.

In July 2001, the Association obtained a $347,000 unsecured, noninterest bearing loan with no specific repayment terms from the Foundation for the refurbishing of the Cardinal Basketball offices. The outstanding loan balance is approximately $316,000 for each of the years ended June 30, 2017 and 2016.

9. Bonds, Notes and Capital Leases

Long-term debt, net of discount, of the University consisted of the following at June 30, 2017 and 2016 (in thousands):

	Interest Rate	Fiscal Year of Maturity	2017	2016
General Receipts Bonds:				
Series A of 2007	4.0%	2018	$ 1,960	$ 3,840
Series A of 2008	4.0%	2019	7,955	11,700
Series B of 2010	5.5%	2028	20,942	20,942
Series A of 2011	4.0% to 5.0%	2032	27,940	29,200
Series A of 2012	5.0%	2023	8,715	9,940
Series A of 2016	2.0% to 5.0%	2036	13,310	14,050
Series B of 2016	2.0% to 5.0%	2028	23,630	23,725
Series C of 2016	2.0% to 4.0%	2029	51,460	51,650
Series D of 2016	3.0% to 5.0%	2036	45,295	-
Series E of 2016	2.2% to 3.0%	2023	5,390	-
Series F of 2016	5.00%	2028	25,440	-
Metro Government Revenue Bonds:				
Series 2008 A	4.0% to 5.0%	2018	-	10,540
Series 2008 B	4.0% to 4.8%	2028	-	29,460
Notes payable	2.3% to 2.9%	2020	10,988	14,171
Energy leases	2.6% to 4.8%	2033	17,043	18,791
Capital lease obligations	2.5% to 10.7%	2020	540	326
Total long-term debt			260,608	238,335
Net unamortized premium			20,200	13,669
Long-term debt, net			$ 280,808	$ 252,004

The change in bonds, notes and capital leases is summarized as follows (in thousands):

	2017					
	Beginning Balance	Additions	Retire-ments	Ending Balance	Current Portion	Noncurrent Portion
Bonds payable	$ 205,047	$ 78,310	$ (51,320)	$ 232,037	$ 12,255	$ 219,782
Notes payable	14,171	-	(3,183)	10,988	10,988	-
Energy leases	18,791	-	(1,748)	17,043	1,839	15,204
Capital leases	326	373	(159)	540	194	346
Total	238,335	78,683	(56,410)	260,608	25,276	235,332
Less unamortized net (discount)/premium	13,669	8,254	(1,723)	20,200	2,555	17,645
Net bonds payable	$ 252,004	$ 86,937	$ (58,133)	$ 280,808	$ 27,831	$ 252,977

	2016					
	Beginning Balance	Additions	Retire-ments	Ending Balance	Current Portion	Noncurrent Portion
Bonds payable	$ 214,774	$ 89,425	$ (99,152)	$ 205,047	$ 17,420	$ 187,627
Note payable	16,549	-	(2,378)	14,171	2,188	11,983
Energy lease	20,212	-	(1,421)	18,791	1,748	17,043
Capital leases	357	33	(64)	326	159	167
Total	251,892	89,458	(103,015)	238,335	21,515	216,820
Less unamortized net discount	4,026	10,111	(468)	13,669	1,668	12,001
Net bonds payable	$ 255,918	$ 99,569	$ (103,483)	$ 252,004	$ 23,183	$ 228,821

Principal maturities and interest on bonds, notes and capital leases for the next five years and in subsequent five-year periods are as follows (in thousands):

For the year ended June 30	Principal	Interest	Total
2018	$ 25,276	$ 10,985	$ 36,261
2019	15,848	10,113	25,961
2020	15,854	9,543	25,397
2021	16,972	8,961	25,933
2022	17,581	8,351	25,932
2023 - 2027	78,235	32,002	110,237
2028 - 2032	66,187	11,927	78,114
2033 - 2036	24,655	2,796	27,451
Total	$ 260,608	$ 94,678	$ 355,286

The University has capitalized leased equipment with a net book value of $0.6 million and $0.8 million as of June 30, 2017 and 2016, respectively.

The General Receipts Bonds are collateralized by mortgages on certain University properties. Association revenue totaling $2.0 million annually is to be available for amounts owed by the Association under the Arena lease agreement. The remaining operating and nonoperating income of the University, excluding income which as a condition of receipt is not available for payment of debt service charges, are pledged for the General Receipts Bonds. Total principal and interest remaining on the debt is $322.9 million, with annual requirements ranging from $6.7 million in 2036 to $32.1

million in 2028. For the current year, principal and interest paid by the University and the total pledged revenue recognized were $19.6 million and $545.7 million, respectively

As of June 30, 2017 and 2016, investments at fair value totaling approximately $6.7 million and $11.0 million, respectively, for retirement of indebtedness funds have been deposited with the bond trustees and escrow agents as required under the various bond indentures and capital lease agreements.

CEBRB Series P of 2005

In June 2005, the University issued approximately $4.2 million in revenue bonds, the proceeds of which funded the acquisition of the Home of the Innocents property to be subsequently renovated for use by the School of Public Health and Information Sciences. Delivery of the Series P Bonds took place on June 15, 2005. The bonds mature incrementally on May 1 of each year beginning May 1, 2007 until May 1, 2025. The interest on the bonds is paid semiannually, on May 1 and November 1, commencing November 1, 2005. The interest rate on the bonds ranges from 3.7% to 4.0%. The CEBRB Series P Bonds were currently refunded by the issuance of General Receipts Bonds 2016 Series A and as a result the liability for the prior bonds have been removed from the University's statement of net position.

University of Louisville General Receipts Bond, 2007 Series A

In April 2007, the University issued the $41.0 million General Receipts Bond 2007 Series A to provide permanent fixed rate financing for the renovation of the Home of the Innocents property, to provide office space to be used by the University's School of Public Health and Information Sciences; land acquisition for and construction of Patterson Baseball Stadium; construction of Trager Field House for use by intercollegiate teams; construction of the YUM Practice Facility, to be used by the basketball and volleyball teams; and construction of the Center for Predictive Medicine, a Level 3 Regional Bio-safety Laboratory. Security for the bonds includes a pledge of the general receipts of the University and includes the imposition of a state intercept. These bonds were partially refunded by the issuance of General Receipts Bonds 2016 Series B. The final maturity due to the refunding is September 1, 2017. The balance remaining of the General Receipts Bonds 2007 Series A is $2.0 million as of June 30, 2017.

University of Louisville General Receipts Bonds, 2008 Series A

In July 2008, the University issued $86.1 million of University of Louisville, General Receipts Bonds, 2008 Series A at a net interest cost of 4.4%. The bond proceeds were used for the construction of a second Health Sciences Center parking garage, to fully fund the construction of a Clinical and Translational Research Building, and for renovation of the School of Dentistry. Security for the bonds includes a pledge of the general receipts of the University and the imposition of a state intercept. These bonds were partially refunded by the issuance of General Receipts Bonds 2016 Series C. The final maturity due to the refunding is September 1, 2018. The balance remaining of the General Receipts Bonds 2008 Series A is $8.0 million as of June 30, 2017.

University of Louisville General Receipts Bonds, 2010 Series A and Series B

In December 2010, the University issued $4.1 million of University of Louisville, General Receipts Bonds, 2010 Series A at a total interest cost of 3.3% and $20.9 million of University of Louisville, General Receipts Bonds, 2010 Series B at a total interest cost of 1.8%, both net of the subsidy from the *Build America Bonds Act* (BAB). The project financed consists of multiple energy conservation measures within 17 educational and general buildings on the Health Sciences, Shelby and Belknap campuses. The project is expected to produce annual utility cost savings of over $2.0 million and is being conducted under contract to the University by an energy management company that has guaranteed the annual savings to the University under the detailed terms of the contract. Security for the bonds includes a pledge of the general receipts of the University and the imposition of a state intercept. Final maturity of the bonds is September 1, 2027.

The General Receipts Bonds, 2010 Series A were currently refunded by the issuance of General Receipts Bonds, 2016 Series A. As a result, the liability for these bonds has been removed from the University's statement of net position.

The General Receipts Bonds, 2010 Series B were issued as bonds designated as QECBs under the provisions of the *American Recovery and Reinvestment Act of 2009*. The University expects to receive a cash subsidy payment from the United States Treasury equal to approximately 71.8% of the interest payable on the General Receipts Bonds, 2010 Series B. The subsidy payment is contingent on federal regulations and may be subject to change. On March 1, 2013, the President signed an Executive Order reducing the budgetary authority in accounts subject to sequestration. As a result, the BABs subsidy is expected to be reduced to approximately 66.6%.

University of Louisville General Receipts Bonds, 2011 Series A

In August 2011, the University issued $33.8 million of University of Louisville, General Receipts Bonds, 2011 Series A at a total interest cost of 3.6%. The project financed consists of a 128,700 square foot student recreation center. Features include six basketball courts, an indoor running track, a synthetic surface multi-activity court, three aerobics studios, a fitness lab, four racquetball courts, multipurpose activity space, and nearly 20,000 square feet of weight and cardiovascular equipment. Final maturity of the bonds is September 1, 2031.

University of Louisville General Receipts Bonds, 2012 Series A

In June 2012, the University issued $14.6 million of University of Louisville, General Receipts Bonds, 2012 Series A at a total interest cost of 2.1%. The bonds were issued to advance refund $13.5 million of Consolidated Educational Buildings Revenue Bonds Series N (Series N) with a weighted average interest rate of 3.9% and $5.3 million of Consolidated Educational Buildings Revenue Bonds Series O (Series O) with a weighted average interest rate of 4.1% (combined, the prior bonds). The bond proceeds together with an issuance premium of $2.5 million and funds from the debt service reserve fund for the prior bonds of $2.8 million have been deposited in escrow and will be used to pay the interest and principal requirements of the prior bonds maturing through and including May 1, 2013, and redeem and retire the prior bonds on May 1, 2013. Final maturity on the 2012 Bonds is March 1, 2023. There were no debt service requirements on the prior bonds as of June 30, 2017 and 2016.

University of Louisville General Receipts Bonds, 2016 Series A

In April 2016, the University issued $14.1 million of University of Louisville, General Receipts Bonds, 2017 Series A at a total interest cost of 2.8%. The bonds were issued to fund the University's share of the cost of the renovation and expansion of the University of Louisville Student Activity Center and to currently refund $3.2 million of University of Louisville General Receipts Bonds, Taxable Build America Bonds, 2010 Series A with a weighted average interest rate of 3.7% and $2.6 million of Consolidated Educational Buildings Revenue Bonds Series P with a weighted average interest rate of 3.9% (combined, the prior bonds). The bond proceeds were combined with an issuance premium of $1.4 million and funds from the debt service reserve fund for the Series P bond of $0.3 million to complete the current refunding of the prior bonds. As a result the liability for the prior bonds has been removed from the University's statement of net position. Final maturity on the 2016 Series A Bonds is March 1, 2036. The University will reduce its total debt service payments over the next 12 years by $0.8 million and realize net present value savings of approximately $0.4 million as a result of the refinancing.

University of Louisville General Receipts Bonds, 2016 Series B

In April 2016, the University issued $23.7 million of University of Louisville, General Receipts Bonds,2016 Series B at a total interest cost of 2.2%. The bonds were issued to advance refund $24.6 million of University of Louisville General Receipts Bonds, 2007 Series A with a weighted average interest rate of 4.0%. The bond proceeds together with an issuance premium of $2.4 million have been deposited in escrow and will be used to pay the interest requirements of the 2007 Series A bonds maturing on and after September 1, 2018 through and including September 1, 2017, and redeem and retire the General Receipts Bonds 2007 Series A on September 1, 2017. The balance remaining of the General Receipts Bonds 2007 Series A is $2.0 million as of June 30, 2017. Final maturity on the 2016 Series B Bonds is September 1, 2027. The University will reduce its total debt service payments over the next 12 years by $2.0 million and realize net present value savings of approximately $1.8 million as a result of the refinancing.

University of Louisville General Receipts Bonds, 2016 Series C

In April 2016, the University issued $51.7 million of University of Louisville, General Receipts Bonds, 2016 Series C at a total interest cost of 2.5%. The bonds were issued to advance refund $52.0 million of University of Louisville General Receipts Bonds, 2008 Series A with a weighted average interest rate of 4.5%. The bond proceeds together with an issuance premium of $6.4 million have been deposited in escrow and will be used to pay the interest of the General Receipts Bonds 2008 Series A maturing on or after September 1, 2019 through and including September 1, 2018, and redeem and retire the prior bonds on September 1, 2018. The balance remaining of the General Receipts Bonds 2008 Series A is $8.0 million as of June 30, 2017. Final maturity on the 2016 Series C Bonds is September 1, 2028. The University will reduce its total debt service payments over the next 13 years by $3.3 million and realize net present value savings of approximately $3.1 million as a result of the refinancing.

Louisville/Jefferson County Metro Government Revenue Refunding and Improvement Bonds Series 2008 A and B

In August 2008, the Louisville Metro Government issued $39.8 million of Mortgage Revenue Refunding Bonds Series 2008 A and $43.5 million of Mortgage Revenue Bonds Series 2008 B with a maturity date of March 1, 2028. The bond proceeds were used to retire on September 1, 2008 the outstanding County of Jefferson Kentucky Governmental Lease Revenue Bonds, Series 1997, the proceeds of which financed the acquisition, construction, installation and equipping of the sports stadium known as University of Louisville Papa John's Cardinal Stadium (Cardinal Stadium). Additional funds were used to finance a portion of the costs of acquisition, construction, installation and equipping of an expansion to the Cardinal Stadium. The Metro Government Series A and B bonds were advance refunded by the issuance of General Receipts Bonds 2017 Series F and as a result the liability for the prior bonds has been removed from the University's statement of net position.

University of Louisville General Receipts Bonds, 2016 Series D and Taxable General Receipts Bonds, 2016 Series E

In December 2016, the University issued $45.3 million of University of Louisville, General Receipts Bonds, 2016 Series D at a total interest cost of 3.8% and $5.4 million of University of Louisville, Taxable General Receipts Bonds, 2016 Series E at a total interest cost of 2.5 percent. The proceeds of the 2016 Series D Bonds and the 2016 Series E Bonds will be used by the University to finance the expansion of the University's Papa John's Cardinal Stadium. Final maturity on the 2016 Series D and Series E Bonds is March 1, 2036 and March 1, 2023, respectively.

University of Louisville General Receipts Bonds, 2016 Series F

In December 2016, the University issued $27.6 million of University of Louisville, General Receipts Bonds, 2016 Series F at a total interest cost of 2.7%. The bonds were issued to advance refund $29.5 million of Metro Government Mortgage Revenue Bonds, Series 2008 B with a weighted average interest rate of 4.1%. The bond proceeds together with an issuance premium of $3.6 million have been deposited in escrow and will be used to pay the interest of the Metro Government Mortgage Revenue Bonds, Series 2008 B through and including September 1, 2018, and redeem and retire the prior bonds on September 1, 2018. Final maturity on the 2016 Series F Bonds is March 1, 2028. The University will reduce its total debt service payments over the next 11 years by $1.8 million and realize net present value savings of approximately $1.6 million as a result of the refinancing.

Note Payable

In June 2013, the Association entered into a $15.0 million Term Loan with a national banking association. The proceeds were used to partially finance the renovation of the baseball and softball stadiums and the construction of a soccer stadium (Project). The loan is secured by collateral, including funds and revenues of the Association from the Project and third-party pledges to the Association for the Project. The variable interest rate on the Term Loan is the Daily One Month LIBOR rate plus 1.1%, reset on the last day of each month. The balance of the term loan was $10.7 million and $12.0 million as of June 30, 2017 and June 30, 2016, respectively.

Energy Leases

In September 2009, the University entered into a $20.4 million master lease with a financial institution. The proceeds have been used to finance investments in certain equipment designed to reduce energy usage. The lessor receives an exclusive security interest in any and all equipment acquired. The master lease has a 4.8% fixed interest rate and a term ending 2023. The balance of leases the lease was $17.0 million and $18.8 million as of June 30, 2017 and 2016, respectively.

In May 2015, the University entered into a $5.7 million master lease to finance investments in energy saving technology with a financial institution. The lessor receives an exclusive security interest in any and all equipment acquired. The master lease has a 2.6% fixed interest rate and a term ending 2033.

10. Derivative Financial Instruments

a. Summary

At June 30, 2017, the Association has the following derivative instruments outstanding. (in thousands):

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Fair Value
Pay-fixed interest rate swap	Hedge of changes in cash flows on the Term Loan	$ 15,000	06/28/13	06/30/22	Pay 2.9%; receive LIBOR + 1.14%	$ (19)

The fair value of the Interest Rate Swap was determined using the market's current forward rate assumptions in order to predict future cash flows on the floating side and is included in other long-term liabilities on the statements of net position. As the Interest Rate Swap is an effective hedging instrument, the offsetting balance is reflected as deferred outflows of resources on the Association's statements of net position. For the year ended June 30, 2017, the increase in fair value of the Interest Rate Swap was approximately $415,000. No initial cash receipt or payment was made in relation to the Interest Rate Swap. The Association receives or pays a net amount monthly and includes the monthly settlement amount in interest expense.

b. Credit Risk

The Interest Rate Swap's fair value represented the Association's credit exposure to the counterparty as of June 30, 2017. Should the counterparty to this transaction fail to perform according to the terms of the swap agreement, the Association has a maximum possible loss equivalent to the Interest Rate Swap's fair value at that date. At June 30, 2017, the counterparty to the Interest Rate Swap had a credit rating of A3 from Moody's Investors Services.

c. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the Association's financial instruments or cash flows. The fair market values of the derivative instruments are expected to fluctuate over the life of the agreement in response to changes in interest rates. The Association does not have a formally adopted policy related to interest rate risk related to derivative instruments.

d. Termination Risk

The Association or the counterparty may terminate the Interest Rate Swap if the other party fails to perform under the terms of the contract. The contract also provides for other termination events, including if the Term Loan matures, expires, is terminated or cancelled or changes lenders. If the Interest Rate Swap terminates early and the Association is the defaulting party, the Association would be liable for the losses, if any, of the counterparty.

11. Other Liabilities

Other liabilities of the University consisted of the following at June 30, 2017 and 2016 (in thousands):

	2017					
	Beginning Balance	Additions	Retire-ments	Ending Balance	Current Portion	Noncurrent Portion
Due to University of Louisville Foundation, Inc.	$ 316	$ -	$ -	$ 316	$ -	$ 316
Note payable to University of Louisville Foundation, Inc.	1,000	-	-	1,000	-	1,000
Unearned compensation and wages payable	9,581	1,289	(4,496)	6,374	1,686	4,688
Deposits	918	584	(51)	1,451	-	1,451
Advances	108,553	5,511	(63,176)	50,888	47,537	3,351
Amounts due federal government for student loan program	16,199	-	(851)	15,348	-	15,348
Other postemployment benefits	40,742	10,509	(2,858)	48,393	4,650	43,743
Other long-term liabilities	4,427	(407)	(2,432)	1,588	1,527	61
Total	$ 181,736	$ 17,486	$ (73,864)	$125,358	$ 55,400	$ 69,958

	2016					
	Beginning Balance	Additions	Retire-ments	Ending Balance	Current Portion	Noncurrent Portion
Due to University of Louisville Foundation, Inc.	$ 316	$ -	$ -	$ 316	$ -	$ 316
Note payable to University of Louisville Foundation, Inc.	1,000	-	-	1,000	-	1,000
Unearned compensation and wages payable	8,121	2,588	(1,128)	9,581	1,686	7,895
Deposits	902	76	(60)	918	-	918
Advances	102,585	75,693	(69,725)	108,553	75,962	32,591
Amounts due federal government for student loan program	16,149	50	-	16,199	-	16,199
Other postemployment benefits	36,999	6,180	(2,437)	40,742	4,452	36,290
Other long-term liabilities	7,365	341	(3,279)	4,427	2,434	1,993
Total	$ 173,437	$ 84,928	$ (76,629)	$181,736	$ 84,534	$ 97,202

Other long-term liabilities as of June 30, 2017 and 2016 include the accrual of the fee associated with the withdrawal from the American Athletic Conference and other contractual payments. The current portion of other postemployment benefits and other long-term liabilities is included in accounts payable and accrued liabilities in the statements of net position as of June 30, 2017 and 2016.

12. Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by (1) the State Fire and Tornado Insurance Fund (the "Fund"); (2) Sovereign Immunity and the State Board of Claims or, (3) in the case of risks not covered by the Fund and Sovereign Immunity, commercial insurance, or participation in insurance risk retention groups.

The Fund covers losses to property from fire, wind, earthquake, flood and other named perils between $500 and $1,000,000 per occurrence. Losses in excess of $1,000,000 are insured by commercial carriers up to $1.2 billion per occurrence on an actual cash value basis. As a state agency, the University is vested with Sovereign Immunity and is subject to the provisions of the Board of Claims Act, under which the University's liability for certain negligence claims is limited to $200,000 for any one person and $350,000 for multiple claims resulting from a single act of negligence. Claims against educators' errors and omissions and wrongful acts are insured through a risk retention group. There have been no significant reductions in insurance coverage from 2016 to 2017. Settlements have not exceeded insurance coverage during the past three years.

University medical and dental students, residents, and most School of Medicine faculty are insured against medical malpractice by a captive liability insurer. Other faculty, agents, and certain non-physician employees are insured against medical malpractice by commercial insurance. The University also has the benefit of an excess coverage fund established by the Commonwealth of Kentucky.

The University is self-insured for the medical benefits provided to employees. The cost of such self-insured benefits provided during the years ended June 30, 2017 and 2016, respectively, was approximately $60.1 million and $60.0 million, including $4.8 million and $4.2 million accrued for estimated claims incurred but not reported, included in accounts payable and accrued liabilities in the statements of net position.

The following table reconciles the claims liability for the fiscal years ended June 30, 2015, June 30, 2016 and June 30, 2017.

Fiscal year ended June 30,	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
2017	4,731	59,882	(60,336)	4,277
2016	5,825	53,893	(54,987)	4,731
2015	4,976	55,516	(54,667)	5,825

13. Natural Classification

The University's operating expenses by natural classification were as follows for the years ended June 30, 2017 and 2016 (in thousands):

	2017	2016
Salaries and wages	$ 573,481	$ 551,228
Employee benefits	144,510	131,172
Utilities	20,059	20,119
Scholarships and fellowships	34,505	32,875
Depreciation	48,503	51,295
Supplies and other services	250,479	225,189
	$ 1,071,537	$ 1,011,878

14. Retirement Plans

a. Defined Contribution Plan

Permanent, full-time University employees become eligible to participate in a defined contribution plan administered by the University upon completion of one year's service and attainment of age 21. The University of Louisville 403(b) Retirement Plan (Plan) was established by the University and approved by the Board of Trustees. Eligible employees not contributing to the plan are entitled to a 7.5% of base salary contribution on their behalf by the University. The

University also matches up to an additional 2.5% of employee contributions. The plan requires three years of continuous service for employees to vest in employer contributions.

Other information relating to this plan for the years ended June 30, 2017 and 2016 is presented as follows (in thousands):

	2017	2016
Total University payroll	$ 579,095	$ 553,806
Total payroll covered by the plan	555,392	534,099
Employee contributions	30,417	29,615
University contributions	40,539	39,104

As of June 30, 2017 and 2016, the University had no forfeitures or outstanding liability related to the Retirement Plan.

b. Prior Service Defined Benefit Program

Effective July 1, 1977, the University entered into an agreement with Teachers Insurance Annuity Association (TIAA) to fund, over approximately 30 years, the prior service defined benefit program for both currently retired and eligible actively employed participants. This is a single-employer plan. There were no annual required contributions for the years ended June 30, 2017 and June 30, 2016. Subsequent annual contributions under this agreement are subject to periodic actuarial re-evaluations to reflect changes in the consumer price index, interest rates and group experience performance.

The most recent comparison of the accumulated plan benefits and plan net assets, as determined by TIAA, as of June 30, 2017 and 2016 are as follows (in thousands):

	2017	2016
Actuarial present value of non-vested accumulated plan benefits	$ 1,168	$ 1,256
Net assets available for benefits	$ 1,472	$ 1,621
Net pension surplus	$ (304)	$ (365)
Funded ratio	126%	129%

The actuarial present value of plan benefits is non-vested because the plan and benefits provided there under are at all times at the discretion of the University. The net pension surplus represents the amount of net assets available for benefits in excess of the actuarial liability. The assumed rate of return used to determine the present value of accumulated non-vested benefits was 6.0% for each of the years ended June 30, 2017 and 2016, for preretirement and postretirement periods.

15. Postemployment Healthcare Benefits

a. Plan Description

Association and University personnel are eligible for postemployment healthcare benefits as described in The University of Louisville Group Health Plan (Plan), administered by the University. To be eligible for the Plan, a retired employee must be the earlier of the attainment of age 60 with seven years of service in eligible faculty or staff status, or the date that the sum of the employee's age and years of regular service of not less than 80% full-time equivalent at the

University equals or exceeds 75. The Plan is a single-employer plan and the University's Board of Trustees determines the eligibility requirements related to the Plan. The Plan does not issue stand-alone financial reports and is not included in the report of any entity.

b. Funding Policy

The Plan is funded on a pay-as-you-go basis. The contribution requirements of the contributing members are determined by the University's management on an annual basis. During the years ended June 30, 2017 and 2016, the University contributed approximately $1.3 million and $1.9 million, approximately 43% and 66% of total premiums, respectively. Retired Plan members under age 65 receiving benefits contributed approximately $1.7 million and $1.0 million, approximately 57% and 39% of total premiums for the years ended June 30, 2017 and 2016, respectively, through their required monthly contributions according to the schedules below:

2017

	PPO	**Cardinal Care Plan**	**EPO**	**PCA High**	**PCA Low**
Employee	$ 335	N/A	$ 353	$ 281	$ 248
Employee and Spouse	$ 811	N/A	$ 851	$ 692	$ 555

2016

	PPO	**Cardinal Care Plan**	**EPO**	**PCA High**	**PCA Low**
Employee	$ 335	$ 447	$ 353	$ 281	$ 248
Employee and Spouse	$ 811	$ 871	$ 851	$ 692	$ 555

Medicare-eligible retirees receive a monthly benefit of $108 per individual covered. For the years ended June 30, 2017 and 2016, the University contributed $1.0 million and $1.6 million for Medicare-eligible retirees, respectively.

c. Annual Other Postemployment Benefit (OPEB) Cost and Net OPEB Obligation

The University's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB Statement No. 45). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) over a period not to exceed thirty years.

The following table shows the components of the University's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the University's net OPEB obligation (in thousands):

	2017	2016
Normal cost	$ 5,423	$ 5,061
AAL amortization	5,673	5,252
Annual required contribution (ARC)	11,096	10,313
Interest on above	1,497	1,258
Adjustment to ARC	(2,246)	(1,825)
OPEB liability loss (gain)	311	(3,566)
Annual OPEB cost (AOC)	10,658	6,180
Contributions made	(3,007)	(2,437)
Increase in net OPEB obligation	7,651	3,743
Net OPEB obligation - beginning of year	40,742	36,999
Net OPEB obligation - end of year	$ 48,393	$ 40,742

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation were as follows (in thousands):

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	$ 10,658	28%	$ 48,393
2016	6,180	39%	40,742
2015	9,125	35%	36,999
2014	6,817	45%	31,069

d. Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was $95.5 million and $89.7 million and there were no assets, resulting in an unfunded actuarial accrued liability (UAAL) of $95.5 million and $89.7 million as of June 30, 2017 and 2016, respectively. The covered payroll (annual payroll of active employees covered by the plan) was $499.0 million and $478.2 million, and the ratio of the UAAL to the covered payroll was 19%, for the years ended June 30, 2017 and 2016, respectively.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits.

e. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2016, actuarial valuation, the unit credit method actuarial cost method was used. The actuarial assumptions included a 3 percent investment rate of return (net of administrative expenses), which is based on the estimated return on the University's general assets, and an annual healthcare cost trend rate of 8.3 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after 11 years. The gains or losses on the benefit obligation recognized during the fiscal years ended June 30, 2017 and 2016 were due to updates made on expected future health claims and changes made to the retiree life insurance benefit. Expected claims have decreased based on a review of actual claims over the last three years as well as current COBRA rates. The UAAL is being amortized on a straight line basis over 30 years. The remaining amortization period at June 30, 2017 was 20 years.

16. Health Science Center Affiliations and Agreements

a. KentuckyOne Healthcare, Inc. Affiliation, Lease and Operating Agreement

In November 2012, the University, Commonwealth, UMC, and KentuckyOne Health, Inc. (KentuckyOne) amended and restated the UMC land lease and executed a new academic affiliation agreement, superseding the one dated July 1, 2007. The initial term was twenty years, beginning on the Integration Date, which was March 1, 2013. As of June 30, 2017, the academic affiliation agreement was terminated.

The academic affiliation agreement called for a strategic programmatic investment fund and plan. KentuckyOne was to invest $114.5 million in key University clinical service lines and departments and $20.5 million in academic and programmatic investment in clinical services lines at Jewish Hospital and St. Mary's Healthcare, Inc. (Jewish Hospital) facilities. An additional $3.0 million per annum for twenty years was to be made available for research. As of June 30, 2017, the University received $34.4 million and $2.9 million related to the strategic programmatic investments and research initiatives, respectively. As of June 30, 2016, $21.2 million in current advances and $28.4 million in noncurrent advances are represented in the statement of net position. The academic affiliation agreement was terminated June 30, 2017. All deferred funds were recognized in revenue at that time. The agreement called for the payment annually of discretionary funding of $15 million over three years with payment contingent on the achievement of certain performance metrics. During the year ended June 30, 2017, the University received $3.6 million for discretionary purposes to support key statewide areas of focus. The University did not receive discretionary funding during the year ended June 30, 2016.

The academic affiliation agreement also called for KentuckyOne to provide an aggregate $75 million per annum in academic support for the initial term of five years subject to annual adjustments to the Medicare base rate. The academic support payment included funding for certain full-time equivalent resident positions over the term of the affiliation agreement. Funding for the years ended June 30, 2017 and 2016 were $65.8 million and $60.7 million, respectively, and are included in clinical services and practice plan revenues in the statement of revenues, expenses and changes in net position.

Concurrently with the academic affiliation agreement, KentuckyOne entered into a joint operating agreement with UMC, the Hospital's operator prior to March 1, 2013. KentuckyOne agreed to be the sole and exclusive agent acting for and on behalf of UMC to provide the day-to-day management of the University Hospital, with the exception of the Maintained Procedures, as defined in the agreement. The agreement called for KentuckyOne to make annual payments of not less than $7.5 million and not more than $17.5 million based on the ratio of net operating income to budget for KentuckyOne. The accompanying statements of revenues, expenses, and changes in net position include approximately $7.5 million for each of the years ended June 30, 2017 and 2016 in clinical services and practice plan revenues related to the joint operating agreement. The joint operating agreement was terminated June 30, 2017 and management of the University Hospital was returned to UMC as of July 1, 2017.

Concurrently with the academic affiliation agreement and joint operating agreements, the Commonwealth and the University as lessor amended and restated the lease agreement with UMC to lease the Hospital. The annual lease payment is $6.5 million through December 31, 2016. At that time, the annual rent was to escalate by $500,000 and will continue to escalate every five years thereafter up to $8.0 million. Included in the joint operating agreement was a provision that $5.0 million of the annual rent payment flow to the Quality and Charity Care Trust through June 30, 2016 as the Quality and Charity Care Trust was dissolved during the year ending June 30, 2017. The lease provides for additional rent each year to be adjusted annually commensurate with the increase or decrease in the utilities and other operating expenses of the leased property. The University was required to pay KentuckyOne any amounts related to the utilities and other operating expenses collected from third parties. Lease revenue, net of the amounts sent to the Quality and Charity Care Trust, was $8.0 million and $6.8 million for the years ended June 30, 2017 and 2016, and is included in clinical services and practice plan revenues in the statements of revenues, expenses, and changes in net position. Lease expense for the years ended June 30, 2017 and 2016 was $0.8 million and $0.9 million, respectively and is included in public service expense in the statements of revenues, expenses, and changes in net position.

The accompanying statements of net position include approximately $5.3 million and $4.9 million in accounts receivable for the years ended June 30, 2017 and 2016, respectively, representing amounts due from UMC pursuant to the lease agreement.

The above agreements address the patient care needs of the Hospital's inpatients. The University's School of Medicine operates various clinics, which generate patient care revenues from the treatment of outpatients as well as laboratories that serve both inpatients and outpatients.

b. Quality and Charity Care Trust Transfers for Hospital Operations

In November 2014, the University entered into The Revised Quality and Charity Care Trust agreement (Revised Trust Agreement) with the Commonwealth, Jefferson County, the Louisville Metro Government, and UMC for the purpose of providing medically necessary hospital care, both inpatient and outpatient, to indigent patients in the Louisville area. The Quality and Charity Care Trust, Inc. (Trust) received government funds and disbursed them for Trust operations in accordance with the terms of the agreement.

The Trust, funded by the Commonwealth and the local governments, is charged with the obligation to provide for the health care needs of economically disadvantaged persons who have historically been ministered to by the University as a public service in the course of its teaching programs.

The University and the Commonwealth selected UMC, a Kentucky non-profit corporation, as the provider of the healthcare services through the Hospital. Under the November 2012 joint operating agreement, KentuckyOne agreed to manage the Hospital in a manner consistent with the Revised Trust Agreement. Funding of $5.7 million for the year ended June 30, 2016, provided by the Commonwealth, Louisville Metro Government, and the University was paid to UMC as specified in the Trust agreement. This funding is not included in the statements of revenues, expenses and changes in net position as it is a pass-through to UMC. No funding was provided to the Trust for the year ending June 30, 2017. The Trust was dissolved as of June 30, 2017.

c. Norton Healthcare

On December 17, 2015, Norton Healthcare, Inc., (Norton), the University and Commonwealth agreed to a Settlement Agreement, a First Amendment to Lease and a First Amendment to Master Affiliation Agreement, amending the original Lease and Master Affiliation Agreement. These agreements provided for $30.0 million annual support payments from Norton to the University and its affiliates through Individual Agreements for research, academic support, residences and fellowships and related costs. In addition, the agreement stipulates that Norton provide additional financial support to the University of Louisville Pediatrics Department of $24.0 million over eight years and expend at least $35.0 million in facility improvements and other capital expenditures at Kosair Children's Hospital. Payments received by the University and its affiliates are included in clinical services and practice plan revenues in the statements of revenues, expenses, and changes in net position. Funding for the agreement for the years ended June 30, 2017 and 2016 was $20.0 million and $35.0 million, respectively. The Settlement Agreement also included a payment of $8.0 million, received in the year ending June 30, 2016, to the Research Foundation for expenses incurred.

d. Cardiovascular Innovation Institute

In October 2003, the University of Louisville and Jewish Hospital Cardiovascular Innovation Institute (the Institute) was incorporated with the purpose including, but not limited to, the development and operation of a world-class institute to test, clinically evaluate, and develop heart assist devices, biosensors, and related technologies to improve the care for patients with heart disease.

The University entered into a Master Facility Agreement with Jewish Hospital to set forth the principles regarding the facility to support the Institute. The Master Facility Agreement called for a research building to be jointly built by the University and Jewish Hospital on land owned by the University. Jewish Hospital has transferred the use of a portion of the building, through a lease, to the Institute or to the University, for exclusive use by the Institute. The building was completed in December 2006.

17. Leases

The University has entered into operating leases related to academic and research facilities. The University has three operating lease agreements related to the use of athletic facilities. Under these lease agreements, the University's rights have been assigned to the Association.

a. Kentucky State Fair Board

The University has entered into a lease agreement with the Kentucky State Fair Board (KSFB) for use of an athletic building. The University's rights under this agreement have been assigned to the Association. The lease has an initial term of 26 years, ending June 30, 2023. Annual lease payments range from $25,000 to $66,550. Total lease expense for each of the years ended June 30, 2017 and 2016 amounted to approximately $61,000.

b. Central Station, LLC

The Association has entered into a lease agreement with AAF-Louisville, LLC (d/b/a Central Station, LLC), a related party, for use of the Central Station Office Building. The lease has an initial term of 21 years, ending September 30, 2026. Annual lease payments started at approximately $47,000, and are subject to increases based on increases in the CPI. Total lease expenses during the years ended June 30, 2017 and 2016 amounted to approximately $167,000 and $180,000, respectively.

c. Louisville Arena Authority, Inc.

In July 2008, the Association entered into a lease agreement with the Arena Authority. The lease has an initial term of 36 years. Annual lease payments are equal to the greater of 10% of gross ticket sales or a minimum lease amount of $10,000 per game for men's basketball games; the greater of 5% of gross ticket sales or a minimum of $5,000 for any other Association sponsored event; and, as payment for private suites, 12% of net private suite revenue. Total lease expense during the years ended June 30, 2017 and 2016 amounted to approximately $3.4 million and $3.8 million, respectively. Additionally, the lease agreement provides for the Association to purchase parking spaces from the Arena Authority. Total parking expense during each of the years ended June 30, 2017 and 2016 amounted to approximately $0.5 million each year.

Under the terms of the lease, the Association will receive payments from the Arena Authority as follows: (a) 50% of all payments received from third-party concessionaire and catering sales at all University-sponsored events or 25% of the gross proceeds of any Arena Authority owned concessions or catering sales; (b) 50% of all rental/commission payments received in connection with the gift shop and its operations, and 50% of any additional merchandise revenue received from any source other than the gift shop; (c) 50% of all revenue received from the sale of inventory of the permanent signage inside and outside the Arena structure, excluding any signage that is part of the 10% of permanent signage reserved for the Association; (d) 33.3% of all revenue from the sale of inventory on all video boards outside the Arena structure, excluding any video board inventory that is part of the Association's signage. Total lease revenue during the years ended June 30, 2017 and 2016 amounted to approximately $1.4 million and $2.5 million, respectively.

Subsequent to June 30, 2017 the Association completed renegotiating a new lease agreement with the Arena Authority. See Note 20 - Subsequent Events.

d. Future Minimum Lease Payments

The University's annual minimum lease payments are due as follows (in thousands), subject to change with new lease:

For the year ending June 30,	Lease Payment Due
2018	$ 4,123
2019	828
2020	536
2021	538
2022	539
2023-2027	2,152
2028-2032	1,490
2033-2037	1,490
2038-2042	1,490
2043-2047	635
2048-2052	65
2053-2057	65
2058-2062	65
2063-2067	65
2068-2072	13
Future minimum lease payments	$ 14,094

18. Commitments and Contingencies

a. Commitments

At June 30, 2017, the University had approximately $14.5 million in encumbrances outstanding for future expenditures. As part of the entrance into the Atlantic Coast Conference, the Association committed to an unspecified amount of revenue to be withheld.

b. Litigation

The University has been named as defendant in several lawsuits, including several actions initiated by patients involving alleged malpractice. It is the opinion of management and its legal counsel, based in part on the doctrine of sovereign immunity, commercial insurance coverage and other statutory provisions, that the ultimate outcome of litigation will not have a material effect on the future operations or financial position of the University beyond the amounts already provided.

During 1989, the Kentucky Supreme Court ruled that the Board of Claims statute cannot bar lawsuits against employees of the Commonwealth who can be held personally liable for their own negligent acts. Certain of the University's employees have lawsuits pending against them for negligence claims. Any judgments on such claims are not the liability of the University, although the University may settle or pay judgments from the statutory fund established per KRS 156.895 and 164.890 - 164.895, or per liability insurance purchased for its employees and agents.

c. Investigation

On June 15, 2017, the National Collegiate Athletic Association (NCAA) Committee on Infractions imposed penalties on the University of Louisville after the committee found the University responsible for violations of NCAA legislation.

The penalties imposed by the NCAA Committee on Infractions that could have a monetary impact on the Association are the following:

a. Four years of probation;
b. A vacation of basketball records in which student-athletes competed while ineligible from December 2010 and July 2014;
c. Men's basketball scholarship reductions and recruiting restrictions;
d. A fine of $5,000, plus the university must return money received through conference revenue sharing for its appearances in the 2012 to 2015 NCAA Division I Men's Basketball Champion-ships.

The complete report and additional information, including the imposed penalties, may be found online at this link: http://uofl.me/2utS4LB

The Association and University have filed an appeal against the financial penalties and the vacation of records penalty to the NCAA Division I Infractions Appeals Committee. That appeal is currently pending. The University has not recorded a liability for any potential financial penalties due to inability to estimate the penalty during the appeal process.

d. Government Grants

The University is currently participating in numerous grants from various departments and agencies of the federal and state governments. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.

e. Guarantees

A memorandum of understanding dated April 2017 between the Research Foundation and ULP establishes obligations of the Research Foundation in the event ULP does not meet certain requirements under a lease agreement with PMOB, Inc. PMOB, Inc. has a $48.6 million loan with a financial institution to construct a medical office building. ULP entered into a lease with PMOB, Inc. for a majority of the space within the medical office building and to provide $9.5 million of furniture, fixtures and equipment for the leased space. For as long as the loan agreement between PMOB, Inc. and the financial institution remains in effect, the Research Foundation has provided assurance through a guarantee that all of ULP's obligations due to PMOB, Inc. under the lease and any unfunded portion of the leased premise furniture, fixture and equipment will be paid. The Research Foundation's obligation shall not exceed funds received by the Research Foundation for services provided by ULP for clinical services as of the date of the memorandum of understanding.

A memorandum of understanding dated March 2017 between the Research Foundation and ULP establishes the obligation for the Research Foundation to make annual lump sum payments through July 2020 to a lending institution holding debt of ULP for the servicing of ULP scheduled debt payments. The payments made by the Research Foundation are for services rendered by ULP.

19. Recent Accounting Pronouncements

As of June 30, 2017, the following GASB statements were implemented which did not have a financial or disclosure impact on the financial statements.

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. This statement improves the usefulness of information about post-employment benefits other than pensions and is applicable to plans that are administered through trusts.

GASB Statement No. 77, *Tax Abatement Disclosures.* This statement requires governments to provide additional disclosures about tax abatement agreements.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension plans.* This statement addresses a practice issue regarding the scope and applicability of GASB Statement 68, *Accounting and Reporting for Pensions*, to certain multiple- employer defined benefit pension plans.

GASB Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14.* This statement amends the blending requirement for certain component units incorporated as a not-for-profit corporation which the primary government is the sole corporate member.

GASB Statement No. 82, *Pension Issues– An Amendment of GASB Statements No. 67, No. 68 and No. 73.* This statement addresses certain issues that had been raised regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the classification of payments made by employers.

As of June 30, 2017, the GASB has issued the following statements that could be applicable to the University.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements.* The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

GASB Statement No. 83, *Certain Asset Retirement Obligations.* The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

GASB Statement No. 84, *Fiduciary Activities.* The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

GASB Statement No. 85, *Omnibus 2017.* The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

GASB Statement No. 86, *Certain Debt Extinguishment Issues.* The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

GASB Statement No. 87, *Leases.* The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

20. Subsequent Event

The academic affiliation agreement with KentuckyOne Healthcare, Inc. was mutually terminated on June 30, 2017. Concurrently, the joint operating agreement between KentuckyOne Healthcare, Inc. and UMC governing management and operation of the University Hospital and James Graham Brown

Cancer Center also terminated June 30, 2017. On July 1, 2017 UMC returned to managing the University Hospital and entered into a new academic affiliation agreement with the University.

In July 2017 the Association entered into negotiations for Amendments to the Lease Agreement with the Arena Authority, including an additional annual payment of $2.4 million, with no change to the original lease period.

On July 20, 2017 the Association executed an Agreement with Christ Church Cathedral for a ground lease of Churchill Park athletic fields for an initial term of fifty years. Annual payments of $50 thousand per year begin on July 31, 2018 for the first ten years.

On September 26, 2017, the University was informed of a federal investigation into the actions of certain University employees and their recruiting practices related to the men's basketball program. No allegations have been made directly against the University at this time. The outcome of the investigation, and any potential impact on the financial position of the University cannot be estimated at the time of issuance of the audited financial statements.

Subsequent to June 30, 2017, the University terminated the employment contracts of certain individuals employed within the men's basketball program. While the University believes their actions are allowed under the terms of the contracts, as of the date that these financial statements were issued, the University cannot estimate a liability, if any, in relation to these terminations.

21. Component Units

a. Blended Component Units – Combined Condensed Statements

The combining schedules of the University, the Research Foundation and the Association as of June 30, 2017 and 2016, are as follows and on the following pages (in thousands):

Condensed Statements of Net Position

	2017			
	University	Research Foundation	Athletic Association	Total
Current assets	$ 108,580	$ 37,763	$ 44,168	$ 190,511
Capital assets	653,542	61,726	176,676	891,944
Other noncurrent assets	89,536	6,374	106,731	202,641
Total assets	851,658	105,863	327,575	1,285,096
Deferred outflows of resources	5,733	-	1,679	7,412
Current liabilities	71,947	40,527	59,449	171,923
Due to University	(104,284)	-	104,284	-
Other noncurrent liabilities	296,481	15,514	10,940	322,935
Total liabilities	264,144	56,041	174,673	494,858
Deferred inflows of resources	48,579	-	857	49,436
Net investment in capital assets	473,832	61,726	124,758	660,316
Restricted-nonexpendable	-	-	1,633	1,633
Restricted-expendable	31,679	24,465	27,409	83,553
Unrestricted	39,157	(36,369)	(76)	2,712
Total net position	$ 544,668	$ 49,822	$ 153,724	$ 748,214

	2016			
	University	Research Foundation	Athletic Association	Total
Current assets	$ 129,783	$ 49,750	$ 52,709	$ 232,242
Capital assets	637,025	65,989	165,384	868,398
Other noncurrent assets	62,464	719	62,005	125,188
Total assets	829,272	116,458	280,098	1,225,828
Deferred outflows of resources	6,526	-	441	6,967
Current liabilities	86,443	41,822	58,841	187,106
Due to University	(23,288)	-	23,288	-
Other noncurrent liabilities	255,077	12,684	58,262	326,023
Total liabilities	318,232	54,506	140,391	513,129
Deferred inflows of resources	-	-	175	175
Net investment in capital assets	453,709	65,989	113,091	632,789
Restricted-nonexpendable	-	-	1,633	1,633
Restricted-expendable	45,855	21,791	24,362	92,008
Unrestricted	18,002	(25,828)	887	(6,939)
Total net position	$ 517,566	$ 61,952	$ 139,973	$ 719,491

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2017			
	University	Research Foundation	Athletic Association	Total
Student tuition and fees, net	$ 221,626			$ 221,626
Clinical services and practice plan	89,930	$ 245,135		335,065
Grants and contracts	430	89,728		90,158
Facilities and administrative cost recoveries	-	25,064		25,064
Other operating revenue	56,184	3,209	$ 72,756	132,149
Total operating revenues	368,170	363,136	72,756	804,062
Depreciation	35,834	7,072	5,597	48,503
Other operating expenses	515,861	408,591	98,582	1,023,034
Total operating expenses	551,695	415,663	104,179	1,071,537
Operating loss	(183,525)	(52,527)	(31,423)	(267,475)
State appropriations	134,508	-	-	134,508
Gifts	247	886	28,524	29,657
Interest on capital asset-related debt	(7,980)	-	(920)	(8,900)
Other nonoperating revenues	3,895	47,623	351	51,869
Capital appropriations	21,608	-	-	21,608
Capital gifts	168	-	16,832	17,000
Contributions from affiliates, net	52,123	(2,054)	387	50,456
Transfers	6,058	(6,058)	-	-
Total nonoperating revenues	210,627	40,397	45,174	296,198
Change in net position	27,102	(12,130)	13,751	28,723
Net position - beginning of year	517,566	61,952	139,973	719,491
Net position - end of year	$ 544,668	$ 49,822	$ 153,724	$ 748,214

	2016			
	University	Research Foundation	Athletic Association	Total
Student tuition and fees, net	$ 209,503			$ 209,503
Clinical services and practice plan	35,439	$ 233,981		269,420
Grants and contracts	296	103,121		103,417
Facilities and administrative cost recoveries	-	24,611		24,611
Other operating revenues	28,604	3,892	$ 71,335	103,831
Total operating revenues	273,842	365,605	71,335	710,782
Depreciation	38,206	7,914	5,175	51,295
Other operating expenses	464,121	401,670	94,792	960,583
Total operating expenses	502,327	409,584	99,967	1,011,878
Operating loss	(228,485)	(43,979)	(28,632)	(301,096)
State appropriations	142,213	-	-	142,213
Gifts	132	1,491	28,928	30,551
Interest on capital asset-related debt	(7,625)	-	(2,336)	(9,961)
Other nonoperating revenues	2,339	43,641	(4,574)	41,406
Capital appropriations	9,741	-	-	9,741
Capital gifts	(57)	-	9,680	9,623
Voluntary separation plan expense	-	-	-	-
Contributions from affiliates, net	95,728	(4,392)	(902)	90,434
Transfers	7,529	(7,529)	-	-
Total nonoperating revenues	250,000	33,211	30,796	314,007
Change in net position	21,515	(10,768)	2,164	12,911
Net position - beginning of year	496,051	72,720	137,809	706,580
Net position - end of year	$ 517,566	$ 61,952	$ 139,973	$ 719,491

Condensed Statements of Cash Flows

	2017			
	University	**Research Foundation**	**Athletic Association**	**Total**
Cash (used)/provided by:				
Operating activities	$ (178,396)	$ (26,890)	$ (32,517)	$ (237,803)
Noncapital financing activities	83,663	34,416	112,579	230,658
Capital and related financing activities	31,600	(2,877)	(43,781)	(15,058)
Investing activities	8,246	57	1,427	9,730
Net (decrease)/increase in cash and cash equivalents	(54,887)	4,706	37,708	(12,473)
Cash and cash equivalents, beginning of year	130,346	(26,533)	48,036	151,849
Cash and cash equivalents, end of year	$ 75,459	$ (21,827)	$ 85,744	$ 139,376

	2016			
	University	**Research Foundation**	**Athletic Association**	**Total**
Cash (used)/provided by:				
Operating activities	$ (178,230)	$ (49,994)	$ (23,054)	$ (251,278)
Noncapital financing activities	211,998	33,155	45,468	290,621
Capital and related financing activities	(31,864)	(3,809)	(17,386)	(53,059)
Investing activities	18,752	53	(2,282)	16,523
Net increase/(decrease) in cash and cash equivalents	20,656	(20,595)	2,746	2,807
Cash and cash equivalents, beginning of year	109,690	(5,938)	45,290	149,042
Cash and cash equivalents, end of year	$ 130,346	$ (26,533)	$ 48,036	$ 151,849

b. University of Louisville Foundation, Inc. and Affiliates

The University of Louisville Foundation, Inc. (ULF) and Affiliates (collectively, “Foundation”) is a legally separate, tax-exempt component unit of the University, under the provisions of GASB Statement No. 39. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The University does not control the timing or amount of receipts from the Foundation. The majority of resources, or income thereon, which the Foundation holds and invests, is restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

Complete financial statements for the Foundation can be obtained from Foundation Administration at University of Louisville, 215 Central Avenue, Suite 304, Louisville, KY 40292.

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB ASC Topic 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation’s financial information in the University’s financial statements for these differences.

1. Endowment

The Foundation's endowment consists of approximately 1,600 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments (board-designated endowment funds). As required by US GAAP, net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's Board has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), adopted in the Commonwealth of Kentucky in July 2010, as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets, until donor stipulations are fulfilled.

The composition of net assets by type of endowment fund at June 30, 2017 and 2016, was:

	2017			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
	(In Thousands)			
Donor-restricted endowment funds	**$ (25,797)**	**$ 281,436**	**$ 455,738**	**$ 711,377**
Board-designated endowment funds	**69,247**	**–**	**–**	**69,247**
	$ 43,450	**$ 281,436**	**$ 455,738**	**$ 780,624**

	2016			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
	(In Thousands)			
Donor-restricted endowment funds	$ (18,003)	$ 250,711	$ 449,518	$ 682,226
Board-designated endowment funds	56,756	–	–	56,756
	$ 38,753	$ 250,711	$ 449,518	$ 738,982

Changes in endowment net assets for the years ended June 30, 2017 and 2016 were (in thousands):

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	**$ 38,753**	**$ 250,711**	**$ 449,518**	**$ 738,982**
Investment return:				
Investment and endowment income	**1,013**	**3,549**	**-**	**4,562**
Net appreciation	**16,852**	**45,632**	**-**	**62,484**
Net appreciation funds held in trust by others	**-**	**-**	**5,646**	**5,646**
Total investment return	**17,865**	**49,181**	**5,646**	**72,692**
Contributions	**649**	**918**	**3,227**	**4,794**
Appropriations	**(7,368)**	**(27,168)**	**-**	**(34,536)**
Other changes	**(6,449)**	**7,794**	**(2,653)**	**(1,308)**
Endowment net assets, end of year	**$ 43,450**	**$ 281,436**	**$ 455,738**	**$ 780,624**

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 85,602	$ 270,226	$ 436,515	$ 792,343
Investment return:				
Investment and endowment income	3,240	8,696	-	11,936
Net appreciation (depreciation)	(22,922)	4,802	-	(18,120)
Net depreciation funds held in trust by others	-	-	(1,240)	(1,240)
Total investment return	(19,682)	13,498	(1,240)	(7,424)
Contributions	243	1,394	14,483	16,120
Appropriations	(27,410)	(34,407)	-	(61,817)
Other changes	-	-	(240)	(240)
Endowment net assets, end of year	$ 38,753	$ 250,711	$ 449,518	$ 738,982

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2017 and 2016, consisted of (in thousands):

	2017	2016
Permanently restricted net assets – portion of perpetual endowment funds required to be retained permanently by explicit donor stipulations or UPMIFA	**$ 455,738**	$ 449,518
Termporarily restricted net assets – term endowment funds	**$ 7,964**	$ 5,896

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the fair value level that the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. In accordance with US GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated to approximately $25.8 million and $18.0 million at June 30, 2017 and 2016, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after investment of permanently restricted contributions.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds that the Foundation must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds.

Under the Foundation's policies, endowment assets are invested in a manner that is intended to produce results that achieves a minimum net total return which is equal to the Foundation's spending rate plus inflation without the assumption of excessive investment risk. To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within acceptable risk constraints.

The Foundation has a standing policy (the spending policy) of appropriating for expenditure each year a percentage of its endowment fund's average market value over the prior three years through the calendar year-end preceding the year in which expenditure is planned. For the year ended June 30, 2017, the Foundation allocated 5.5% for support to the academic units and allocated an additional 1.98% for overall fundraising efforts. In establishing this policy, the Foundation balances the long-term expected return on its endowment against the level of expenditures required to support the University's goals and objectives. The Foundation will adjust the spending policy for a given year to mitigate adverse market performance on the level of support provided to the University. For the fiscal year ended June 30, 2015, the Board approved the standard spending policy and approved the mandatory re-investment of unspent carryover. This provision is designed to dampen the reduction in allocated spending funds for the fiscal year, without damaging the long-term performance of the endowment.

In March 2017, the Board of the Foundation approved reducing the spend policy from 5.5% to 4.09% for fiscal year 2018 for support to the academic units and allocated an additional

1.42% (previously 1.98%) for overall fundraising efforts of the Foundation as well as strategic priorities identified by the President of the University with the understanding the policy exists to reduce or eliminate the unspent carryover. The spend policy remains based on a three-year moving average of market values as of December 31.

The Foundation has adopted an investment objective whereby the average annual return over the long term should equal the rate of inflation (measured by the three-year moving average of the Gross Domestic Product (GDP) Deflator) plus the average level of spending from total endowment assets. The annual return (loss) for the total endowment assets was 5.4% and (5.5%) in 2017 and 2016, respectively.

This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Included within the endowment are $48.6 million and $85.2 million at June 30, 2017 and 2016, of loans to affiliates of the University.

2. Investments and Investment Income

Investments as of June 30, 2017 and 2016, are as follows (in thousands):

	2017	2016
	(In Thousands)	
Cash equivalents	**$ 5,242**	$ 8,805
Alternative investments:		
Hedge funds	**170,241**	172,270
Investments in partnerships	**368,815**	346,934
Mutual funds:		
Equity	**40,384**	48,328
Fixed income	**50,286**	29,211
Marketable alternatives:		
Domestic marketable equity securities	**36,501**	34,930
Marketable debt securities:		
Agency bonds	**6,426**	–
U.S. Treasury	**5,027**	–
Total investments	**$ 682,922**	$ 640,478

Restricted investments are restricted by bond indenture for payment of debt service and repairs and replacement. Restricted investments as of June 30, 2017 and 2016, are as follows (in thousands):

	2017	2016
Money market mutual funds	**$ 6,100**	$ 2,930
U.S. agency obligations	**-**	1,689
	$ 6,100	$ 4,619

Total investment return for the years ended June 30, 2017 and 2016, is reflected in the consolidated statements of activities and changes in net assets as follows (in thousands):

Total Investment Return

	2017	2016
Dividends and interest	**$ 1,141**	$ 1,313
Endowment income	**2,619**	4,223
Net realized gain on investments	**3,364**	7,668
Net unrealized gain (loss) on investments	**68,032**	(18,058)
	$ 75,156	$ (4,854)

For the years ended June 30, 2017 and 2016, realized gains from alternative investments were approximately $930,000 and $6.1 million, respectively.

The Foundation invests in various securities, which are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the investment amounts reported in the consolidated statements of financial position.

The Foundation's investments do not have a significant concentration of credit risk within any industry or specific institution.

The market risk inherent in certain of the Foundation's investments is primarily the potential loss arising from adverse changes in quoted market prices on equity securities and in interest rates on fixed income securities. In an effort to mitigate this market risk, the Foundation has adopted a policy of maintaining a diverse investment pool through the use of target asset allocation guidelines. These guidelines require that the Foundation's investment pool be made up of a mix of publicly traded fixed income and equity securities, private equities and other nonmarketable securities, and real estate investments.

The major portion of long-term investments is pooled in the total endowment assets, which is the general endowment pool for the Foundation. The total endowment assets is pooled using a market value basis, with each individual fund subscribing to, or disposing of, units on the basis of the market value per unit at the end of the prior calendar month during which the transaction takes place. The investment objectives of the Foundation are to preserve the principal of the endowment funds in both absolute and real terms while maximizing, over the long-term, the total rate of return (yield and appreciation) within reasonable risk parameters.

a. Alternative Investments

The fair value of alternative investments has been estimated using the NAV per share of the investments. Alternative investments held at June 30, 2017 and 2016, consisted of the investments on the following page (in thousands):

	2017			
	Fair Value	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
	(In Thousands)			
Hedge funds	**$ 170,241**	**$ 6,433**	Various from any valuation day to illiquid	Various from 10 to 90 days, if any
Investments in partnership	**368,815**	**63,882**	Various from any valuation day to illiquid	Various from 10 to 90 days, if any

	2016			
	Fair Value	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
	(In Thousands)			
Hedge funds	$ 172,270	$ 3,103	Various from any valuation day to illiquid	Various from 10 to 90 days
Investments in partnership	346,934	76,222	Various from any valuation day to illiquid	Various from 10 to 90 days

3. Disclosures About Fair Value of Assets and Liabilities

The tables on the following pages present the fair value measurements of assets by class recorded at fair value on a recurring basis under ASC 820 at June 30, 2017 and 2016:

	June 30, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In Thousands)			
Cash	**$ 8,632**	**$ –**	**$ –**	**$ 8,632**
Cash equivalents	**5,242**	**–**	**–**	**5,242**
Mutual funds:				
Equity	**40,384**	**–**	**–**	**40,384**
Fixed income	**50,286**	**–**	**–**	**50,286**
Marketable alternatives:				
Domestic marketable equity securities	**36,501**	**–**	**–**	**36,501**
Marketable debt securities:				
Agency bonds	**–**	**6,426**	**–**	**6,426**
U.S. Treasury	**–**	**5,027**	**–**	**5,027**
Total investments	**132,413**	**11,453**	**–**	**143,866**
Funds held in trust by others	**–**	**55,293**	**–**	**55,293**
Restricted investments:				
Cash equivalents	**6,100**	**–**	**–**	**6,100**
Total cash, investments, funds held in trusts by others, and restricted investments	**$ 147,145**	**$ 66,746**	**$ –**	**$ 213,891**
Investments at NAV:				
Hedge funds				**170,241**
Investments in partnerships				**368,815**
				$ 752,947

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Cash	$ 8,595	$ –	$ –	$ 8,595
Cash equivalents	8,805	–	–	8,805
Mutual funds:				
Equity	48,328	–	–	48,328
Fixed income	29,211	–	–	29,211
Marketable alternatives:				
Domestic marketable equity securities	34,930	–	–	34,930
Total investments	121,274	–	–	121,274
Funds held in trust by others	–	50,798	–	50,798
Restricted investments:				
Cash equivalents	2,930	–	–	2,930
Agency bonds	–	1,689	–	1,689
Total restricted investments	2,930	1,689	–	4,619
Total cash, investments, funds held in trusts by others, and restricted investments	$ 132,799	$ 52,487	$ –	$ 185,286
Investments at NAV:				
Hedge funds				172,270
Investments in partnerships				346,934
				$ 704,490

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. The Foundation does not have any assets classified as Level 3 of the fair value hierarchy.

There have been no significant changes in the valuation techniques during the year ended June 30, 2017.

a. Cash Equivalents

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy.

b. Investments

Level 1 securities include cash, equity security and fixed income mutual funds, along with domestic equity securities. If quoted market prices are not available, then fair values are estimated by a third-party pricing service using pricing models, quoted prices of securities with similar characteristics or discounted cash flows, which would be classified as Level 2. Level 2 securities include corporate bonds and U.S. government securities.

c. Funds Held in Trust By Others

Fair value is determined at the market value of the securities held in the beneficial trusts at June 30, 2017 and 2016. The value is determined based on the proportional beneficial interest held in the trust, with the Foundation as the sole beneficiary of the majority of the trusts. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

d. Restricted Investments

Level 1 securities include money market accounts, which are based on quoted market prices in an active market and Level 2 securities include U.S. Treasury and agency bonds. The Level 2 securities are based on a pricing service and use inputs as described above.

4. Guarantees

a. Bonds Payable

ULF is the guarantor of the ULH bonds payable. At June 30, 2017, amounts payable under the guaranty are limited as follows (in thousands):

Residence Hall	**Aggregate limit**	**Annual limit**
Bettie Johnson Hall	$ 16,320	$ 2,877
Kurz Hall	10,855	938

b. Notes Payable

In May 2013, ULF guaranteed $7.5 million of the University of Louisville Physicians, Inc. (ULP), a discretely presented component unit of the University, $15 million line of credit maturing on June 30, 2014. In May 2014, ULF agreed to an extension and first amendment extending the guarantee to November 28, 2014. In April 2016, ULF agreed to an extension and fourth amendment extending the guarantee to December 2016, and included in the amendment was an increase to the line of credit of $18 million. As of June 30, 2016, the principal amount outstanding was approximately $16.4 million. For the fiscal year ended June 30, 2017, ULP refinanced its line of credit and ULF is no longer a guarantor on the loan.

In September 2013, ULF guaranteed $19.9 million of the TNRP notes payable. As of June 30, 2017 and 2016, the outstanding principal related to the notes payable was $19.9 million.

c. Loans

As of June 30, 2016, ULF guaranteed four loans related to certain University student organizations including fraternities and sororities. If the student organization does not meet its scheduled payments, ULF could be called upon to make the payments, as well as collection of expenses and costs. The total amount approved for loans was approximately $1.6 million, with $983,000 and $1.1 million outstanding, as of June 30, 2017 and 2016, respectively.

In December 2010, ULF guaranteed 51% of the outstanding loan of Campus One, LLC. As of June 30, 2017 and 2016, the amount under guarantee was $7.8 million and $8.1 million, respectively.

In February 2015, ULF guaranteed a portion of Pharmacognetics Diagnostic Laboratory, LLC' s (PGxL) line of credit agreement. The line of credit is also guaranteed by PGxl's two founders who are also faculty members at the University of Louisville. The line of credit is secured by the assets of PGxl.

PGxl's line of credit expired September 5, 2016. In November 2016, PGxl filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. In February 2017, ULF entered into a Forbearance Agreement with the bank under which ULF agreed to make certain payments on the line of credit.

In June 2017, PGxl entered into purchase agreement in which PGxl agreed to sell all of its assets to a third party. It is expected that the sale proceeds less administrative costs will be applied to the balance of the line of credit.

As of June 30, 2017, and 2016, the amount under guarantee was $2.5 million and $3.0 million, respectively. As of June 30, 2017 and 2016, ULF recorded a contingent liability related to this guarantee of $1.9 million and is included in other liabilities in the consolidated statements of financial position.

d. Lease Guarantee

In December 2006, the Foundation became the guarantor of payments due to University Faculty Office Building, LLC (UFOB) under the Master Lease agreement between the Medical School Practice Association, Inc. (MSPA) and UFOB. The Foundation has guaranteed the full and prompt payment of all amounts due to UFOB including any damages for default and payments to reimburse UFOB for any costs and expenses incurred by UFOB to cure any default by MSPA. The initial lease term is 15 years, which began in July 2008. The annual lease payments due from MSPA to UFOB are approximately $3.5 million, with an annual inflation of 3%.

5. Funds Held in Trust by Others

The Foundation has been designated by the University as the income beneficiary of various trusts and financial entities which are held and controlled by others. One of these is a perpetual and irrevocable trust known as the University of Louisville Trust (the Trust). It was created in 1983 to receive, administer and invest assets which result from gifts to the Trust. The market value of the Trust was approximately $23.6 and $21.6 million as of June 30, 2017 and 2016, respectively. The Foundation's portion of the market value of the remaining trusts was approximately $31.7 million and $29.2 million as of June 30, 2017 and 2016, respectively. These funds are invested in various equities and income producing assets. For each of the years ended June 30, 2017 and 2016, the Foundation recorded income of $5.6 million and a loss of $1.2 million, respectively, from these trusts and is in changes in funds held in trust on the consolidated statements of activities and changes in net assets.

6. Funds Held in Trust for Others

The Foundation is the custodian of funds owned by the Association. The Association is a separate corporation organized for the purpose of promoting the intercollegiate athletic activities of the University. The Foundation serves in an agency capacity and invests funds on behalf of the Association based on a formal trust agreement. As of June 30, 2017 and 2016, the Foundation held approximately \$25.3 million and \$25.9 million for the Association's investment purposes, respectively.

During the year ended June 30, 2005, the Foundation entered into an agreement with Jewish Hospital & St. Mary's Healthcare, Inc. (Jewish Hospital) whereby the Foundation serves in an agency capacity to invest funds on behalf of Jewish Hospital. Jewish Hospital is a separate corporation organized for the purpose of providing health care services. As of June 30, 2017 and 2016, the Foundation held approximately \$8.2 million and \$8.0 million, respectively, for Jewish Hospital's investment purposes.

During the year ended June 30, 2011, the Foundation was the recipient of endowed funds, the income of which shall be used in support of the Louisville Orchestra. As of June 30, 2017 and 2016, the Foundation held approximately \$0.2 million for the benefit of the Louisville Orchestra.

The Foundation, acting in an agent capacity, does not reflect earnings on investments held in trust for others in the consolidated statements of activities as these earnings are distributed to the owners of the funds.

7. Transactions with ULREF

During 2016, ULF assigned its membership interests in AAF, LMCDC, Nucleus, KYT and PPL to ULREF. No consideration was exchanged or will be transferred for the assignments of membership interests. These assignments resulted in a loss (gain) on deconsolidation in the consolidated statements of activities as shown below.

Included in due from the ULREF in the consolidated statements of position as of June 30, 2017 and 2016, is approximately \$38,000 and \$168,000, respectively, for administrative support charges.

During 2016, ULF's affiliate, ULDC, also assigned its membership interest in a joint venture (Campus Two) to ULREF, for no consideration. Contribution of this investment resulted in an inherent contribution expense of approximately \$5,756,000, which represents the fair value of the investment. This amount has been included in contribution expenses in the consolidated statement of activities for the year ended June 30, 2016.

In addition, ULF contributed capital assets to ULREF through deed transfers for no consideration in 2016. These contributions of capital assets resulted in inherent contribution expenses recognized at fair value in the consolidated statement of activities.

ULREF incurred approximately \$0 and \$364,000 of third-party acquisition-related costs in connection with these transactions during the years ended June 30, 2017 and 2016, respectively. These costs are included in professional services in the consolidated statements of activities and changes in net assets. As a result of the assignments and transfers, ULREF will further its mission to acquire, maintain, improve, leverage, manage, lease and convey real and personal property for the benefit of the University.

For the year ended June 30, 2017, there were no assignments of membership interests or contributed capital assets.

Contributions to ULREF for the year ended June 30, 2017 and 2016, consisted of the following (in thousands):

	2017	2016		
	Contribution Expense	Contributions Expense	Loss (Gain) on Disposal of Capital Assets	Loss (Gain) on Deconsolidation
			(In Thousands)	
Second Street/small lots capital assets	$ –	$ 690	$ 1,439	$ –
Chevron capital assets	–	1,570	3,124	–
Doyle capital assets	–	550	(106)	–
Dulworth capital assets	–	3,100	124	–
Equipment Depot capital assets	–	2,100	1,446	–
Humana Gym capital assets and associated lease	–	700	598	–
Icebreakers capital assets and associated lease	–	1,170	41	–
KDP capital assets and associated lease	–	2,400	(1,237)	–
Lee Street capital assets and associated lease	–	452	113	–
Martco/Byrne capital assets	–	500	861	–
Old World Pasta capital assets	–	2,650	(455)	–
Presidents Home capital assets and associated lease	–	1,789	(981)	–
Ray Avenue Carriage House capital assets	–	877	376	–
Solae capital assets	–	3,600	1,057	–
Third Street Properties capital assets	–	36	81	–
Southern Kitchens capital assets	–	1,700	(321)	–
Campus Two	–	5,756	(3,376)	–
Cardinal Station	–	–	–	8,527
KYT	–	–	–	(19,553)
LMCDC	–	–	–	2,539
Nucleus	–	–	–	7,966
PPL	–	–	–	620
Contribution of cash from the Foundation for Institute for Product Realization, LLC	**1,173**	–	–	–
Contributions from ULREF	**(43)**	–	–	–
Contribution expense for satisfaction of pledge	–	7,000	–	–
	$ 1,130	$ 36,640	$ 2,784	$ 99

In 2017 and 2016, there were approximately $1.2 million and $0.2 million, respectively, of contributions directly to ULREF that did not relate to property transfers or the assignment of membership interests.

In 2016, there were contributions of approximately $0.4 million to Pediatrics Medical Office Building, Inc. (PMOB), of which ULREF was a member until April 2017. These have been excluded from the table above. There were no contributions to PMOB in 2017.

In prior years, certain loans were made to KYT and Nucleus to acquire and improve various properties, pay interest payments on a loan for a certain property acquisition and operate various Nucleus programmatic initiatives. In connection with the assignment of membership interests of KYT and Nucleus, the Foundation entered into a memorandum of agreement effective June 30, 2016 with ULREF, KYT and Nucleus whereas ULREF promises and agrees to pay to the Foundation approximately $28.9 million. The unpaid balances shall bear no interest. ULREF may make payments on the unpaid balance at any time, in whole or in part, without premium or penalty.

For the year ended June 30, 2017, ULF recorded a discount on the receivable from ULREF approximating $4.8 million using a 3% imputed interest rate over a 15-year payback period. This discount is included in other (income) expenses in the consolidated statements of activities and changes in net assets. This discount and the estimated 15-year payback period was developed during the year ended June 30, 2017, as there was more evidence of a reasonable payback period from ULREF. At June 30, 2017 and 2016, the net receivable from ULREF is $24.0 million and $28.9 million and is included in due from the University of Louisville Real Estate Foundation in the consolidated statements of position.

On January 27, 2015, 220 South Preston, LLC (Preston), whose sole member is ULREF, entered into a Master Parking Lease Agreement with the Foundation whereby the Foundation will lease certain parking spaces in the garage from ULREF, and in exchange the Foundation will pay an amount to ULREF that would cause the annual debt service coverage ratio to be not less than 1.25 to 1.00 per month. The term of this agreement began on January 27, 2015, and will continue for a period of not earlier than the maturity date, December 2017, or earlier retirement of the garage construction loan. As of June 30, 2017 and 2016, the Foundation has made payments to Preston totaling $58,670 and $0, respectively.

c. University of Louisville Real Estate Foundation.

The University of Louisville Real Estate Foundation, Inc. and affiliates (collectively, "ULREF") is a legally separate, tax exempt component unit of the University, under the provisions of GASB Statement No. 39. ULREF is a Kentucky not-for-profit corporation formed on November 19, 2014. ULREF's mission is to acquire, maintain, improve, leverage, manage, lease, and convey real and personal property for the benefit of the University. The University of Louisville Foundation, Inc. ("Foundation") has contributed membership interest and capital assets to ULREF for the purpose of furthering the mission of ULREF.

As directed by its Board of Directors, ULREF transfers a portion of its unrestricted resources to support a variety of the University's activities. Although the University does not control the timing or amount of receipts from ULREF, the majority of resources, or income thereon, which the Foundation holds, manages and invests is for the benefit of the University. Because these resources held by ULREF can only be used by, or for the benefit of, the University, ULREF is considered a component unit of the University and is discretely presented in the University's financial statements.

ULREF is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB ASC Topic 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to ULREF's financial information in the University's financial statements for these differences.

Complete financial statements for ULREF can be obtained from Foundation Administration at University of Louisville, 215 Central Avenue, Suite 304, Louisville, KY 40292.

1. Capital Assets

Capital assets at June 30, 2017 and 2016, consist of (in thousands):

	2017	2016
Land and land improvements	$ 56,235	$ 53,653
Buildings	41,731	28,763
Building improvements	1,097	624
Tenant finish	2,703	2,510
Furniture, fixtures and equipment	1,475	1,365
Construction in progress	3,808	15,281
Accumulated depreciation	(4,376)	(1,691)
	$ 102,672	$ 100,505

2. Acquired Lease Intangible Assets and Liabilities

The approximate carrying basis and accumulated amortization of recognized intangible assets and liabilities at June 30, 2017 and 2016, were (in thousands):

	2017		2016	
	Gross Carrying Amount	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Amortized intangible assets and liabilities				
In-place leases	$ 1,268	$ (521)	$ 1,268	$ (244)
Above market leases	$ 3,015	$ (300)	$ 3,015	$ (139)
Tax incremental financing	$ 116,600	$ (7,966)	$ 116,600	$ (3,602)
Below market leases	$ (1,449)	$ 465	$ (1,449)	$ 201

Amortization expense for the year ended June 30, 2017 and 2016, was approximately $4,538,000 and $3,783,000, respectively.

Tax incremental financing (TIF) intangibles were recorded in connection with the transfer of LMCDC membership interest from the Foundation. The value of the intangible was derived by discounting projected future increment payments over the remaining life of the Louisville Life and Health Sciences and University of Louisville Research Park Project TIF agreements. No intangible value was assigned to the Shelbyhurst Research and Technology Park Project.

Of acquired intangibles, there was approximately $0 and $154,000, which was written off in connection with modified terms of a certain amended and restated license agreement for the years ended June 30, 2017 and 2016, respectively.

At June 30, 2017, the amortization for acquired TIF intangibles, in-place leases and above and below market leases, net during the next five years and thereafter, assuming no early lease terminations, is as follows:

	In-Place Leases	**Above Market Leases**	**Tax Incremental Financing**	**Below Market Leases**
2018	$ 238	$ 172	$ 4,364	$ (257)
2019	166	127	4,364	(120)
2020	93	125	4,364	(57)
2021	24	125	4,364	(14)
2022	21	125	4,364	(14)
Thereafter	205	2,041	86,814	(522)
Total	$ 747	$ 2,715	$ 108,634	$ (984)

3. Debt

Debt in the consolidated statements of financial position consists of the following at June 30, 2017 and 2016 (in thousands):

	Description	Fiscal Year of Maturity	2017	2016
Construction Loan Agreement – 220 Preston, LLC	Variable rate based on LIBOR plus 1.5%, with monthly interest-only payments commencing February 2015 and principal payment at maturity	2018	**$ 9,340**	$ 8,272
Note Payable – KYT, LLC	Variable rate based on LIBOR plus 1.95%, with interest-only payments commencing August 2016 and principal payment at maturity	2022	**19,500**	19,500
Line of Credit – ULREF	Variable rate based on LIBOR plus 1.95%, with interest-only payments commencing August 2016 through maturity	2019	**7,000**	31
	Debt		**35,840**	27,803
	Less debt issuance costs		**(93)**	(123)
	Total debt		**$ 35,747**	$ 27,680

Preston has a construction loan agreement with a bank that has a maximum draw available amount of $10.1 million, which is secured by Preston's real estate and assignment of lease. The terms of the agreement require Preston to maintain a debt service coverage ratio of 1.00 to 1.00, which is measured annually on December 31, commencing on December 31, 2016. At June 30, 2017, Preston was in compliance with this debt requirement at June 30, 2017. The principal is due in full on December 31, 2017.

In June 2016, KYT entered into a note payable with a financial institution to refinance $19.5 million borrowed in relation to the purchase of property adjacent to the University in 2008. The principal is due in full on July 2021. The note is collateralized by mortgages on properties and a guarantee from AAF and ULREF. ULREF is subject to certain financial covenants under the terms of the note and is in compliance with such covenants at June 30, 2017.

In June 2016, ULREF entered into a $7.0 million line of credit agreement with a financial institution, which matures on July 1, 2018. The line is collateralized by mortgages and a guarantee from AAF. ULREF is subject to certain financial covenants under the terms of the note beginning with fiscal year ending June 30, 2017 and is in compliance with such covenants at June 30, 2017.

Principal payments on the above obligations due in the next five years and thereafter are as follows (in thousands):

For the year ending June 30,	
2018	$ 9,340
2019	7,000
2020	-
2021	-
2022	19,500
Thereafter	-
	$ 35,840

4. Investment in Preston

In December 2014, ULREF acquired an 80% ownership in Preston through the contribution of land and $1.3 million of cash. NTS acquired a 20% interest in Preston through the contribution of cash of $332,000. ULREF and NTS have entered into an Operating Agreement, a Development Agreement between Preston and NTS Development Company (DevCo), and a Management Agreement between Preston and NTS Management Company (Mgt Co), whereby NTS will develop, manage and operate the parking garage in exchange for a development fee, a property management fee based on gross collected revenue, and an asset management fee. The initial term of the Management Agreement is 10 years and Preston can terminate the agreement without cause upon 190 days written notice at any time and in such case NTS may require ULREF to purchase NTS's interest at a put price as defined in the agreement.

In addition, on January 27, 2015, Preston entered into a Master Parking Lease Agreement with the Foundation whereby the Foundation will lease certain parking spaces in the garage from ULREF, and in exchange will pay to ULREF an amount that would cause the debt service coverage ratio to be not less than 1.25 to 1.00 per month. The term of this agreement began on January 27, 2015, and will continue for a period of not earlier than the maturity date or earlier retirement of the garage construction loan.

As the majority member, ULREF consolidates its 80% interest in Preston.

The following table summarizes the carrying amount of the assets and liabilities of Preston included in the consolidated statements of financial position at June 30, 2017 and 2016 (in thousands):

	2017	2016
Assets		
Cash	**$ 119**	$ 127
Accounts receivable	**10**	–
Other assets	**4**	1
Capital assets, net	**16,552**	16,508
Total assets	**$ 16,685**	$ 16,636
Liabilities		
Accounts payable and accrued liabilities	**$ 93**	$ 1,203
Note payable	**9,340**	8,272
Total liabilities	**$ 9,433**	$ 9,475

5. Leasing Activities

The Real Estate Foundation leases space to tenants under noncancellable operating leases. As of June 30, 2017, the Real Estate Foundation had various leases expiring in one to 10 years, through 2027. These leases generally require the Real Estate Foundation to pay all executory costs (property, taxes, maintenance and insurance).

Rental revenue at June 30, 2017 and 2016, was as follows (in thousands):

	2017	2016
Base minimum rents	**$ 4,230**	$ 2,905
Common area maintenance	**163**	23
	$ 4,393	$ 2,928

Future leasing rent payments due to ULREF during the next five years and thereafter were as follows (in thousands):

For the year ending June 30,	Leasing Payments Due
2018	$ 2,097
2019	1,714
2020	1,332
2021	1,129
2022	711
Thereafter	2,250
Total	$ 9,233

Included in contribution expense on the consolidated statements of activities and changes in net assets are contributions for ULREF properties with free or discounted rents for University tenants. For the years ended June 30, 2017 and 2016, the amount of free or discounted rents recognized as contributions were approximately, $1,302,000 and $840,000, respectively.

6. Acquisitions

During the year ended 2016, ULREF acquired the net assets of AAF, LMCDC, Nucleus, KYT and PPL (collectively Acquirees). The acquisitions were accomplished by ULREF becoming the sole member of the Acquirees by assignment of their membership rights from the Foundation, and its affiliate, to ULREF, and no consideration was exchanged or will be transferred for the acquisitions. As a result of the acquisitions, ULREF will further its mission related to real property for the benefit of the University.

The acquisitions of membership interests resulted in inherent contributions received of approximately $138,541,000, which represents the net recognized amount of the identifiable assets acquired over the liabilities assumed in accordance with ASC 958-805. This amount has been included in contributions in the consolidated statements of activities and changes in net assets. No amounts were recognized from acquisitions of membership interests in 2017.

During 2016, ULREF acquired an investment in the Campus Two joint venture by assignment of membership interest from the Foundation's affiliate, University of Louisville Development Corporation, LLC, to ULREF, for no consideration. Contribution of this investment resulted in an inherent contribution received of approximately $5,755,000, which represents the fair value of the investment. This amount has been included in contributions in the consolidated statement of activities and changes in net assets. No amounts were recognized from acquisitions of joint ventures in 2017.

In addition, ULREF acquired capital assets from the Foundation through deed transfers for no consideration. Certain of these capital assets are accounted for as acquisitions under ASC 958-805, whereby identifiable assets, liabilities and intangibles assets and liabilities are recognized at fair value. The remaining properties are contributions of capital assets and are recognized at their estimated fair values at the date of contribution. Significant capital assets received include Solae property capital assets, Dulworth property capital assets, Old World Pasta capital assets, Kidney Dialysis Property capital assets and associated leases and President's Home and Carriage House property capital assets and associated leases. Additionally, the Bed, Bath & Beyond property was contributed from the Foundation and an unrelated donor.

The acquisitions and contributions of capital assets resulted in inherent contributions received of approximately $31,232,000, which represents the net recognized amount of the identifiable assets acquired over the liabilities assumed. This amount has been included in contributions in the consolidated statements of activities and changes in net assets. There were no amounts recognized from acquisitions and contributions of capital assets in 2017.

ULREF incurred approximately $364,000 of third-party acquisition-related costs in connection with these acquisitions during the year ended June 30, 2016. These costs are included in professional services in the consolidated statements of activities and changes in net assets. No amounts were incurred from acquisition-related costs in 2017.

For the year ended June 30, 2016, ULREF acquisitions and contributions of capital assets included the following recognized amounts of identifiable assets acquired and liabilities assumed (in thousands):

	Date of Acquisition	Cash and Other Assets	Investments in Joint Ventures	Capital Assets	Goodwill and Intangible Assets (Liabilities)	(Other Liabilities)	(Notes Payable)	Net Contribution Revenue
Contributions of membership interests from the Foundation and affiliate								
AAF	9/29/2015	$ 44	$ -	$ 11,301	$ (208)	$ (440)	$ -	$ 10,697
LMCDC	8/31/2015	3,612	353	-	116,600	(1,426)	-	119,139
PPL	9/29/2015	-	-	5,190	(410)	(4,475)	-	305
Nucleus	9/29/2015	2,339	-	13,050	3,186	(10,175)	-	8,400
KYT	6/23/2016	141	-	15,900	24,201	(20,742)	(19,500)	-
Contributions of investment in joint venture from the Foundation								
Campus Two	3/9/2016	-	5,755	-	-	-	-	5,755
Contributions of capital assets from the Foundation								
Second Street/ Small Lots	9/29/2015	-	-	690	-	-	-	690
Bed Bath & Beyond	12/29/2015	-	-	7,000	46	-	-	7,046
Chevron	12/22/2015	-	-	1,570	-	-	-	1,570
Doyle	9/29/2015	-	-	550	-	-	-	550
Dulworth	12/7/2015	-	-	3,100	-	-	-	3,100
Equipment Depot	12/22/2015	-	-	2,100	-	-	-	2,100
Humana Gym	9/29/2015	-	-	700	37	-	-	737
Icebreakers	9/29/2015	5	-	1,170	160	-	-	1,335
KDP	9/29/2015	34	-	2,444	(44)	-	-	2,434
Lee Street	9/29/2015	-	-	452	66	-	-	518
Martco/Byrne	9/29/2015	-	-	500	-	-	-	500
Old World Pasta	9/29/2015	-	-	2,650	-	-	-	2,650
Presidents Home	12/7/2015	-	-	1,789	-	-	-	1,789
Ray Ave	12/7/2015	-	-	877	-	-	-	877
Solae	12/22/2015	-	-	3,600	-	-	-	3,600
Third Street Properties	9/29/2015	-	-	36	-	-	-	36
Southern Kitchens	9/29/2015	-	-	1,700	-	-	-	1,700
		$ 6,175	$ 6,108	$ 76,369	$ 143,634	$ (37,258)	$ (19,500)	$ 175,528

For the year ended June 30, 2017, no amounts of identifiable assets acquired and liabilities assumed were recognized.

Intangible assets and liabilities include in-place leases, above market leases and below market lease as further described in item c.2 of this note, and have a weighted average useful life of approximately 13 years.

d. University of Louisville Physicians, Inc.

University of Louisville Physicians, Inc. (the Organization or ULP) was established in August 2011 and is organized as a private, nonprofit corporation that functions as the corporate structure for the clinical practices of the faculty of the University of Louisville School of Medicine (the School). ULP is organized and operates exclusively for educational, charitable and scientific purposes, within the meaning of Section 501(c)(3) of the Internal Revenue Code (IRC), by: [1] providing professional medical services in a variety of medical specialties and disciplines in accordance with the Organization's charitable mission; [2] strengthening and broadening the range of skills and patient populations available for physicians who are the School's faculty to carry on patient care, teaching and research; and [3] aiding and supporting the School and its clinical departments in the furtherance of their charitable, educational and scientific mission and activities. The physicians providing clinical services through the ULP are organized into clinical departments which are identical to the clinical departments of the School. ULP provides medical care primarily to residents of Louisville and Jefferson County, Kentucky and surrounding areas.

Although the University does not control ULP or the timing of receipts from ULP, because the University and ULP share certain common management and staff, creating a degree of financial integration, ULP is considered a component unit of the University and is discretely presented in the University's financial statements.

Operations began on January 1, 2012, when the first two physician groups transitioned their practices into ULP. Through June 30, 2017, there were seventeen clinical departments integrated into ULP.

Each clinical department was organized as one or more separate legal entities and each was integrated into ULP under a separate transition agreement. Typically, the agreements were structured as follows: ULP purchased certain significant fixed assets of the clinical departments in a manner similar to any other asset purchase and obtained various other employment agreements, licenses, permits, leases and contracts for no purchase price. The clinical departments retained various operating assets including cash, accounts receivable, benefit plan assets and other assets. ULP and each clinical department agreed on the preexisting debts of the clinical departments; some were transferred to ULP, some were retained by the clinical departments and others were paid-off or acquired by ULP and subsequently repaid by the clinical departments.

Complete financial statements for ULP can be obtained from the administrative offices at UofL Physicians, 300 E. Market Street, Louisville, KY 40202.

1. Charity Care

   ULP provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because ULP does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care charges totaled $1.3 million and $1.0 million for the years ended June 30, 2017 and 2016, respectively. Management has estimated its cost incurred to provide charity care to be approximately $0.6 million and $0.5 million for each of the years ended June 30, 2017 and 2016, respectively.

2. Investment in Kentuckiana Medical Reciprocal Risk Retention Group

   KMRRRG is the Organization's carrier for liability insurance coverage and is a reciprocal captive risk retention group.

   The investment in KMRRRG is accounted on the equity method, which as of June 30, 2017 and 2016 was $18.8 million and $16.5, respectively. KMRRRG's income and losses are allocated to each participating subscriber based on each subscriber's pro rata share of annual premiums paid.

   Should ULP withdraw from KMRRRG, a portion of its investment in KMRRRG may, as determined by a Subscribers' Advisory Committee, be retained by KMRRRG to cover the Organization's allocation of losses for up to five years. Any repayment of the Organization's investment by KMRRRG must also be approved by the Kentucky Department of Insurance.

   The investment in KMRRRG is accounted for on the equity method of accounting under which ULP's share of KMRRRG's net income (loss) is recognized in the statements of activities and added to (deducted from) the investment account. Dividends received from KMRRRG are treated as a reduction of the investment account. Management has concluded that the equity method of accounting for this investment is appropriate because it participates in the management of KMRRRG and has the ability to significantly influence the operating and financial policies of KMRRRG and because ULP's 6.12% membership is considered more than a nominal share of the KMRRRG.

3. Net Patient Service Fees Revenue

ULP has agreements with third-party payers that provide for payments at amounts different from its established rates. Contractual adjustments represent the difference between billing at established rates and amounts reimbursed by third-party payers.

A summary of gross and net professional clinical service fee revenue as of June 30, 2017 and 2016 is as follows (in thousands):

	2017	2016
Gross patient service revenue	$ 361,484	$ 343,349
Less provisions for:		
Contractual adjustments under third-party reimbursement programs	(215,034)	(194,926)
Provision for uncollectible accounts	(39,833)	(46,403)
	(254,867)	(241,329)
Net patient service revenue	$ 106,617	$ 102,020

e. OMHS/U of L Cancer Research Center, Inc.

In March 2007, the OMHS/U of L Cancer Research Center, Inc. (the Center) was incorporated for the purposes of including, but not limited to, promotion and implementation of cancer research and drug development projects through, among other things, ownership and operation of a cancer research and treatment center in Owensboro, Kentucky.

Although the joint venture is owned 50% by Owensboro Medical Health System, Inc. and 50% by the University, the University has control of the Board of Directors of the Center. The University has determined that if the financial activity of the Center was material, it should be a discretely presented component unit; however, as of June 30, 2017 and 2016 the Center does not have material operations to be presented.

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress
For Other Postemployment Benefits
(in thousands)

Actuarial Value Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabaility (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
7/1/2016	$ -	95,461	95,461	0%	498,962	19%
7/1/2015	-	89,683	89,683	0%	478,201	19%
7/1/2014	-	89,098	89,098	0%	459,588	19%